PODRAVKA d.d., Koprivnica

Annual Report and the
Unconsolidated Financial Statements
for the year ended
31 December 2015

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

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PODRAVKA IN 2015
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Important business events

Established a regional office for the Middle East and North Africa

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

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

Examination of organizational climate and job satisfaction

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

Podravka starts merge of meat industry Danica d.o.o.

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

Stimulative severance payments

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

Investors' day

Interested investors, representatives of investment and retirement funds and broker agencies, business analysts participated at Investors Day held at Podravka. Aim of this dynamic, interactive event was to present to the investor community Podravka business results in 2014, positive and negative influences on them and guidelines in business and plans in 2015.

EXPORTERS CLUB IN PODRAVKA

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

CONTROL OVER THE COMPANY MIRNA D.D. ROVINJ

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

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

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

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

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

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

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

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

OPEN INNOVATION DAY

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

THE GENERAL ASSEMBLY SUPPORTED THE RECAPITALIZATION AND ORGANIZED EMPLOYEE STOCK OWNERSHIP

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

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

Basic goals of ESOP program for Podravka are:

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

THE SUBSCRIPTION TO NEW PODRAVKA D.D. SHARES WITHIN THE SHARE CAPITAL INCREASE STARTS

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

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

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

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

SHARE CAPITAL INCREASE PROCEDURE AND ESOP PROGRAM SUCCESSFULLY COMPLETED

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

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

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

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

CONFERENCE KNOWLEDGE IN FOCUS

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

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

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

THE CONSTRUCTION OF NEW BELUPO FACTORIES STARTED

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

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

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

CORPORATE CONFERENCE FOCUSED ON SETTING AMBITIOUS GOALS

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

VEGETA IN NEW PACKAGING AND VIDEO

Vegeta - a brand that follows your each and every move in the kitchen and inspires you to new and exciting dishes, has a new packaging. The most famous Podravka brand and your faithfull companion in every tastfull meal for over the 50 years, these days will be in new packaging design in the stores. New packaging design in the future will be present in more that 50 markets of the world.

Passion for cooking, creativity and freedom to express ourselves in our own way, are the main features of the Vegeta video, in which creation were engaged the most creative minds from all over the region.

Podravka among top 10 Croatian exporters

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

Humanity of Podravka and its employees during refugee crisis

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

Annual gathering of pensioners and jubilarians

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

Non-repayable grants for Kalnik factory

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

New highly educated trainees within the SHAPE program

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

BELUPO PROFIT REINVESTED FOR THE THIRD YEAR IN A ROW

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

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

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

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

I AM ALSO PODRAVKA EMPLOYEE!

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

OPEN DOOR DAYS

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

SWEET HOLIDAYS, EVERYONE!

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

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

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

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

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

REPRESENTATIVES OF THE CANADIAN EMBASSY ZAGREB VISITED PODRAVKA

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

REGISTRY OF VOLUNTARY STEM CELLS DONORS

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

INTERNATIONAL CHARACTER OF LINO ALL-ROUNDER

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

RESEARCH AND DEVELOPMENT PODRAVKA

Support for opening new markets

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

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

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

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

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

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

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

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

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

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

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

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

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

NEW PRODUCTS

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

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

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

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

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

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

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

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

FURTHER DEVELOPMENT OF DIGITAL COMMUNICATION

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

AWARDS AND RECOGNITIONS

Repeated success - Superbrand in Slovakia

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

Vegeta Marinade – Product of the Year in Slovenia

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

Three recognitions for Podravka at the Communications Days

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

Seventeen products receive Superior Taste Award

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

Podravka takes the silver medal at the 24th World Food Fair in Moscow

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

Podravka again receives the recognition Pečat bonity

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

Podravka wins prestigious W³ marketing award

In cooperation with the Adcorp marketing agency, Podravka's company in Sydney came up with a very interesting marketing campaign for various communication platforms based on online marketing, to promote the wide range of Vegeta products on the Australian market. In addition to achieving impressive results, the campaign also took the prestigious silver medal at the W³ Awards competition in the food and beverage category.

Vegeta.hr and Podravka.hr – best websites in 2015

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

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

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

Fourth year in a row – Slovak Superbrands

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

Podravka soups - a wealth of vegetables – Product of the Year in Slovenia

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

BEST PRODUCT AT "PRODEXPO 2016" IN MOSCOW

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

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

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

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

SOCIAL COMMUNITY

PODRAVKA - SOCIALLY RESPONSIBLE PARTNER FOR THE COMMUNITY IN WHICH IT ACTS

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

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

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

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

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

ACTIVITIES IN ENVIRONMENT PROTECTION

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

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

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

In 2015 Podravka was a regular member of the following:

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

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

Most significant accomplishments in 2015

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

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

- The first solar collector was installed for preparation of hot water at location A. Starčevića 32, Koprivnica, aiming to reduce the consumption of natural gas, the primary power source, and thus reduce produced CO_2.
- For management needs, the Management Board procured an electric car Tesla, and also leased two electric cars Mitsubishi i-MiEV, intended

for local driving. Procuring these vehicles with reduced CO_2 emissions, Podravka one again proved how it sets and tracks new trends, and most importantly, it takes care about environment protection and energy efficiency.

- Active participation in activities deriving from obligations defined by EU Emissions Trading System (EU ETS). Plans for tracking green gas emissions have been revised, considering the changes arisen from the fact that Danica d.o.o. was reintegrated to Podravka d.d. Podravka's ETS team consisting of authorised and additionally authorised representatives, contributes with its activities to timely compliance to legal obligations and submits emission units to the EU Register and provides guidelines for purchasing emission units.
- At the location A. Starčevića 32, Koprivnica ESCO model was introduced with the purpose of achieving rational way of water usage
- All power sources are continuously tracked, and more precise tracking of relations between consumption and production of heat energy is introduced
- Pursuant to legislature, appointed Commissioner for waste and Deputy commissioner for waste have attended and successfully completed the program of basic education for waste management
- Sewage system at the location Starčevićeva, Koprivnica was tested for water tightness
- On all locations of Podravka d.d. waste management system advancement was continued, allocating an area for temporary warehousing of waste and by educating the employees.

PODRAVKA MANAGEMENT SYSTEMS AUDITS IN 2015

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

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

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

The audits confirm compliance to the following international standards:

NO.	STANDARD	LOCATIONS	AUTHORISED BODY
1	ISO 9001:2008	PODRAVKA D.D. (ALL LOCATIONS IN CROATIA) DANICA D.O.O., KOPRIVNICA	CERTIFICATION AUTHORITY SGS
2	HACCP COMPLIANT TO CODEX ALIMENTARIUS	PODRAVKA D.D. (ALL LOCATIONS IN CROATIA) DANICA D.O.O., KOPRIVNICA	CERTIFICATION AUTHORITY SGS
3	IFS FOOD, VERSION 6 INTERNATIONAL FEATURED STANDARDS - FOOD	PODRAVKA D.D. HEADQUARTERS, KOPRIVNICA VEGETA AND SOUPS FACTORY, KOPRIVNICA BABY FOOD AND SWEET SPREADS FACTORY, KOPRIVNICA DANICA FACTORY, KOPRIVNICA KALNIK FACTORY, VARAŽDIN VEGETABLE FACTORY, UMAG	CERTIFICATION AUTHORITY SGS
4	BRC, ISSUE 6 (BRITISH RETAIL CONSORTIUM) GLOBAL STANDARD FOR FOOD SAFETY	PODRAVKA D.D. HEADQUARTERS, KOPRIVNICA VEGETA AND SOUPS FACTORY, KOPRIVNICA BABY FOOD AND SWEET SPREADS FACTORY, KOPRIVNICA	CERTIFICATION AUTHORITY SGS
5	FSSC 22000 FOOD SAFETY SYSTEM CERTIFICATION	DANICA D.O.O., KOPRIVNICA	CERTIFICATION AUTHORITY SGS
6	NSF	STUDENAC FACTORY, LIPIK	NSF INTERNATIONAL
7	HALAL	DANICA FACTORY, KOPRIVNICA VEGETA AND SOUPS FACTORY, KOPRIVNICA BABY FOOD AND SWEET SPREADS FACTORY, KOPRIVNICA KALNIK FACTORY, VARAŽDIN FRUIT FACTORY, KOPRIVNICA SNACKS FACTORY, KOPRIVNICA PODRAVSKA KLET RESTAURANT, KOPRIVNICA	HALAL CERTIFICATION CENTER

NO.	STANDARD	LOCATIONS	AUTHORISED BODY
8	KOSHER	KALNIK FACTORY, VARAŽDIN VEGETA AND SOUPS FACTORY, KOPRIVNICA FRUIT FACTORY, KOPRIVNICA SNACKS FACTORY, KOPRIVNICA MILL, KOPRIVNICA	RABI KOTEL DA-DON
9	EQM - EMIRATES QUALITY MARK	STUDENAC FACTORY, LIPIK	ESMA

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

- Kosher certification for Mill, at market request
- auditing for Vegetable Factory, Umag, in compliance with IFS standard
- EQM auditing for Studenac Factory Lipik (Studena and Studenac) by ESME.

SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS BIOGRAPHIES

Podravka Supervisory Board members biographies

DUBRAVKO ŠTIMAC
PODRAVKA SUPERVISORY BOARD PRESIDENT

Dubravko Štimac, Podravka Supervisory Board president graduated in 1992 from the Faculty of Economy and Business at the Zagreb University, where he also received his MA in Organization and Management course. He participated in the Securities Processing Training Program in Now York, organized by the Bank of Now York, and in the Fund Management at City University Business School in London. He started his professional career as an independent sales clerk at Zagrebačka tvornica papira and continued it as an independent officer in foreign trade at PBZ Investholding d.o.o., where he also became the manager of the foreign trade sector. Early 2001 he became the project manager of the retirement reform at Privredna banka Zagreb d.d. From October 2001 he was the Management Board president of PBZ CROATIA osiguranje d.d., the association for managing obligatory retirement fund. In 2006 he was appointed to the position of Supervisory Board member of Podravka, and deputy president in 2012. He is a member of Podravka Remuneration Committee. He has been performing the duties of Supervisory Board president since 24th February 2012.

MATO CRKVENAC
PODRAVKA SUPERVISORY BOARD DEPUTY PRESIDENT

Mato Crkvenac, Podravka Supervisory Board deputy president graduated from the Faculty of Economy and Business, and received his MA from the Institute of Economic Sciences in Belgrade. He received his PhD from the Faculty of Economy in Zagreb. He started his professional career at the Republic Institute for Planning, and five years later he became sector director at the Republic Institute for Economic Movements and Economic Policy. In 1978 he became the general manager at the Republic Institute for Planning and also a member of the Executive Council of the Parliament of SRH and in 1986 he became a representative and deputy chairman of the Parliament of SRH. From 2000 to 2004 he performed the duties of a finance minister in Croatian Government, and afterwards the duties of a representative in Croatian Parliament. At the Faculty of Economy and Business in Zagreb he was an assistant and scientific assistant, and was also elected senior lecturer. Four years later he was elected associate professor and in 1991 as full-time professor. He is a member of Podravka Audit Committee.of Podravka Supervisory Board deputy president since 24th February 2012.

IVO DRUŽIĆ
PODRAVKA SUPERVISORY BOARD MEMBER

Ivo Družić, Podravka Supervisory Board member graduated from the Faculty of Economy in Zagreb in 1973, and received his MA in 1981 and PhD in 1988. He is permanently employed at the Faculty of Economy and Business in Zagreb as a full time professor. He is also the head of the scientific postgraduate study of the Economy and development at the Faculty of Economy and Business in Zagreb. He stayed in Brighton, England at the University of Sussex as a Visiting Fellow in 1990/91, and as Research Fellow at the University of Pittsburgh, USA in 1994. He was also a Visiting

Professor in 1995 at the University of Beijing in China, and in 1997/98 at the University of Pittsburgh. He authored two books and co-authored six (two of which he also edited). He also published 19 scientific papers in magazines with international critical review, 10 papers in Proceedings from international scientific conferences and 18 papers in domestic magazines and proceedings. He has been performing the duty of Supervisory Board member since 23rd February 2012.

MILAN STOJANOVIĆ
PODRAVKA SUPERVISORY BOARD MEMBER

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

IVANA MATOVINA
PODRAVKA SUPERVISORY BOARD MEMBER

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

DINKO NOVOSELEC
PODRAVKA SUPERVISORY BOARD MEMBER

Dinko Novoselec, Podravka Supervisory Board member graduated math at the Faculty of Science in Zagreb, and in 2000 he received his CFA (Chartered Financial Analyst) title, a program organized by an American Association of Investment Professionals (CFA Institute).He started his professional career at the Croatian National Bank on managing foreign reserves. In late 1998 he transferred to Zagrebačka banka as the head of the analytics department, and afterwards he transferred to ZB Invest, the company for managing the investment funds as the Management Board member. Since 2001 he is a Management Board member of Allianz ZB d.o.o., the company that manages AZ mandatory retirement fund, and in April 2003 he was appointed Management Board president of the Allianz ZB, the company for managing the mandatory retirement fund. He is the president of Podravka Audit Committee. HSupervisory Board member since 7th September 2010.

PETAR VLAIĆ
PODRAVKA SUPERVISORY BOARD MEMBER

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

PETAR MILADIN
PODRAVKA SUPERVISORY BOARD MEMBER

Petar Miladin, graduated from Law Faculty in Zagreb and in 1999 he received his MA from Commercial and Companies law. He defended his doctoral dissertation "Payment by remittance" in 2005 at the Law Faculty of the Zagreb University, receiving his PhD in scientific field of law. He is employed at the Law Faculty in Zagreb in 1997 as a junior assistant at the Department for Commercial Law and Companies Law. . He published over twenty scientific works in the area of commercial law, companies law and banking law. He has been performing the duties of Supervisory Board member since 7th September 2010.

KSENIJA HORVAT
PODRAVKA SUPERVISORY BOARD MEMBER

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

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

MARTINKA MARĐETKO-VUKOVIĆ
PODRAVKA SUPERVISORY BOARD MEMBER

Martinka Marđetko-Vuković, Supervisory Board member, holds a degree of safety engineer, and also finished two-year School of Agriculture She started her professional career in Podravka in 1979 as an administrator, and later advanced to the position of planner-analyst. She performed her professional duties in the Economic center at Podravka, and later in Controlling. She is the president of Podravka Independent Union, and also the member of Worker's council, ever since the first worker councils were formed in 1996, when she was vice president. Today she works as works as an adviser to sector director for occupational safety at Human resources. She was elected Supervisory Board member by the company Workers' Council. She was performing the duties of Supervisory Board member since 8th April 2011 till 30th June 2015.

Podravka Management Board members

ZVONIMIR MRŠIĆ
MANAGEMENT BOARD PRESIDENT

Zvonimir Mršić, Management Board president graduated from the Faculty of Political Sciences in Zagreb and completed the FBA (Fundamentals of Business Administration) at the Faculty of Economy and Business, University of Zagreb and a Certified Program for Supervisory Board Members. Among others, he is a member of the Croatian Association of Employers Council, and in October 2014 he was elected deputy president of Croatian Exporters Association (CEA). He joined Podravka in 1990, where until 1998 he built his professional career as the head of and Manager of Public Relations Department. Apart from building his professional career, he also accomplished a very successful political career as a Deputy Mayor of the City of Koprivnica, and later Mayor of Koprivnica in three terms. He has been performing the duties of Management Board president since 24th February 2012.

OLIVIJA JAKUPAC
MANAGEMENT BOARD MEMBER

Olivija Jakupec, Management Board member graduated from the Faculty of Organization and Informatics in Varaždin, Marketing and she also attended international business school Center, Brdo kod Kranja. She stared her professional career in 1992 when she was employed at Podravka as Product manager for Fererro, being in charge of promotion and realization of marketing activities in the Croatian market. A year later she became marketing manager in Podravka's company in Bulgaria, where she worked on founding and registering the company and on promoting activities on the market. In 1997 she was appointed director of Podravka's company in Russia where she also worked on founding a company, setting up business processes within the company on the Russian market. In 2001 she returned to Koprivnica and became Market Communication manager. In 2004 she transferred to Noxe Group and became director of Noxe company in Bosnia and Herzegovina. Since 2007 she worked as assistant director at Jadransko osiguranje branch office in Koprivnica. She has been performing the duties of Management Board member since 24th February 2012.

MIROSLAV KLEPAČ
MANAGEMENT BOARD MEMBER

Miroslav Klepač, Management Board member graduated from the Faculty of Economy and Business at the Zagreb University, Banking and Finance course. He received his MBA from International Business School Bled, Slovenia. He attended numerous international professional seminars in the area of finance, controlling, project management and human resources development. He started his professional career as Finance Associate for CAIB - Investment Bank of Austria Creditantstalt Group at Central and East European markets and on managing mergers and acquisition projects. Since 2000 he worked as T-com (HT d.d.) CEO advisor on financial and operating analyses and activities within the acquisitions group. Two years later he was appointed Controlling director at T Mobile d.o.o., and in 2004 he became executive director at T Mobile d.o.o in charge of strategy. A year later he was appointed Management Board member for Allianz Zagreb d.d. In 2008 he became Management Board member and Chief Financial Officer at Iskon Internet, and in 2009 he became HT Management Board member for Bosnia and Herzegovina, and afterwards Supervisory Board member for that company. He has been performing the duties of Podravka Management Board member since 24th February 2012.

HRVOJE KOLARIĆ
MANAGEMENT BOARD MEMBER

Hrvoje Kolarić, Management Board member, graduated from the Faculty of Pharmaceutical and Biochemical Sciences of the University of Zagreb in 1998, and from International Business School (IEDC) Bled, Slovenia also received the title of Master of Business Administration (MBA). He actively participated in numerous education courses to acquire sales and negotiation skills, training for the first management tier, sales efficiency, qualifications in financial matters etc. In his career, prestigious positions stand out, such as Director of pharmaceutics and business development at Bristol-Myers Squibb and the Director of pharmaceutics of PharmaSwiss d.o.o. and company director of PharmaSwiss d.o.o. Croatia. He also managed the business processes related to cooperation with Belupo in the production of cardiological line of Pravachol. In his early career he also managed the Pharmaceuticals Department of the Bristol-Myers Squibb Representation Office for Croatia and Bosnia-Herzegovina, and subsequently the allergology and respiratory line of products of the Schering-Plough Representation Office in Croatia. In May 2005, he was appointed as Management Board member in Belupo, in charge of marketing, sales and international markets, and has been reappointed in May 2010. Two years later he was appointed Belupo Management Board president. He has been performing the duties of Management Board member since 20th December 2012.

BUSINESS RESULTS

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

IIn 2015, Podravka Inc. recorded sales of HRK 1,870.6 million, which is a 6.5% growth compared to the same period of the previous year. The increase in sales is primarily a result of the increase in sales of the culinary category and the baby food, breakfast foods and other food category.

Total operating expenses of Podravka Inc. in 2015 amounted to HRK 1,794.2 million, which is 9.2% higher than in 2014. The most significant growth was recorded by sales and distribution costs and marketing expenses.

Following the movements of operating income and expenses, the operating profit of Podravka Inc. in 2015 amounts to HRK 91.2 million, while in 2014 it amounted to HRK 130.3 million. The operating result was also affected by the integration of Mirna and Danica in 2015.

In 2015, net finance income of HRK 53.1 million were recorded, while tax liability is negative and increases the net profit by HRK 12.7 million due to, among other things, utilisation of tax losses of the consolidated company Danica. Consequently, in 2015, Podravka Inc. recorded net profit of HRK 157.0 million.

Total assets of Podravka Inc. as at 31 December 2015 amount to HRK 3,259.1 million and compared to the end of 2014 they are higher by 26.2%, as a consequence of the consolidation of companies Mirna and Danica. The most significant change was recorded on non-current tangible assets that increased by 43.9% in the observed period. On the equity and liabilities side, the most significant change was recorded in the item share capital, which increased by 58.5% following the decision on reinvestment of the net profit for 2014 and issuing of 1,700,000 new shares with the nominal value of HRK 220.00 per share. On 3 June 2015, the General Assembly adopted the decision to reinvest net profit for 2014 in a way that a portion of the net profit is used to increase the registered capital of Podravka Inc.

Cash flow from operating activities in 2015 amounted to HRK 92.7 million as a result of the realised operating business and changes in the working capital. Cash flow from investing activities at the same time amounted to negative HRK 533.4 million, primarily due to cash used for the acquisition of equity and debt financial instruments, in relation to the acquisition of the Žito Group. In the same period, cash flow from financing activities amounted to positive HRK 447.4 million, primarily due to receipts from issued 1,700,000 new shares. In 2015, total cash and cash equivalents increased by HRK 6.6 million, and consequently, cash and cash equivalents as at 31 December 2015 amounted to HRK 95.4 million.

Podravka Inc. has classified beverages segment as discontinued operations. Since the date of reclassification, beverages segment hasn't been monitored and analysed as continuing operations. Following pages include key company's business characteristics related to continuing operations.

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

(IN HRKM)	2015	% OF SALES	2014	% OF SALES	CHANGE
SALES REVENUES	**1,781.7**	**100.0%**	**1,668.2**	**100.0%**	**6.8%**
COST OF GOODS SOLD	(1,178.7)	(66.2%)	(1,035.8)	(62.1%)	13.8%
GROSS PROFIT	**603.0**	**33.8%**	**632.3**	**37.9%**	**(4.6%)**
OTHER INCOME	14.8	0.8%	18.1	1.1%	(18.3%)
GENERAL AND ADMINISTRATIVE EXPENSES	(165.0)	(9.3%)	(182.7)	(11.0%)	(9.7%)
SELLING AND DISTRIBUTION COSTS	(178.4)	(10.0%)	(166.1)	(10.0%)	7.4%
MARKETING EXPENSES	(160.8)	(9.0%)	(143.3)	(8.6%)	12.2%
OTHER EXPENSES	(5.0)	(0.3%)	(6.3)	(0.4%)	(20.8%)
OPERATING PROFIT	**108.6**	**6.1%**	**151.9**	**9.1%**	**(28.5%)**
FINANCIAL INCOME	94.4	5.3%	116.8	7.0%	(19.2%)
FINANCIAL EXPENSES	(41.3)	(2.3%)	(45.1)	(2.7%)	(8.4%)
NET FINANCIAL INCOME / (EXPENSES)	**53.1**	**3.0%**	**71.7**	**4.3%**	**(25.9%)**
PROFIT BEFORE TAX	**161.7**	**9.1%**	**223.6**	**13.4%**	**(27.7%)**
INCOME TAX	12.7	0.7%	(0.4)	(0.0%)	(3,392.7%)
NET PROFIT FROM CONTINUOUS OPERATIONS	**174.4**	**9.8%**	**223.2**	**13.4%**	**(21.9%)**

Podravka Inc. recorded HRK 1.7 billion of sales revenues from continuing business operations in 2015, which is 6.8% higher when compared to 2014. Operating profit amounted to HRK 108.6 million in the period under consideration, which is 28.5% lower when compared to the 2014. Net profit from continuous operations reached HRK 174.4 million in 2015, compared to HRK 223.2 million in 2014.

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

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

(IN HRKM)	2015	% OF SALES	2014	% OF SALES	CHANGE
SALES REVENUES	**88.9**	**100.0%**	**87.8**	**100.0%**	**1.2%**
COST OF GOODS SOLD	(57.6)	(64.7%)	(59.1)	(67.3%)	(2.6%)
GROSS PROFIT	**31.4**	**35.3%**	**28.7**	**32.7%**	**9.1%**
OPERATING EXPENSES	(37.3)	(41.9%)	(39.1)	(44.5%)	(4.6%)
OTHER EXPENSES	(11.5)	(12.9%)	(11.2)	(12.7%)	2.4%
OPERATING LOSS	**(17.4)**	**(19.6%)**	**(21.5)**	**(24.5%)**	**(19.2%)**
LOSS BEFORE INCOME TAX	**(17.4)**	**(19.6%)**	**(21.5)**	**(24.5%)**	**(19.2%)**
INCOME TAX	-	-	-	-	-
NET LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS	**(17.4)**	**(19.6%)**	**(21.5)**	**(24.5%)**	**(19.2%)**

Sales revenues from beverage segment in 2015 were slightly above comparable period. At the same time, cost of goods sold dropped by 2.6%, which resulted with 9.1% gross profit improvement. Operating expenses were 4.6% lower, resulting with HRK 17.4 million of operating loss in 2015.

PODRAVKA EXPECTED DEVELOPMENT

ACHIEVING GROWTH

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

Further internationalization of business, preserving position on domestic market, modernization of processes will be the company focus in the upcoming periods. Apart from organic growth, further expansion is expected inorganically - by acquisitions and strategic alliances.

In Food business a strong investment cycle is started, and an additional growth potential is continued in cooperation between two business areas, aiming to achieve synergy.

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

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

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

GENERAL STRATEGIC GOALS

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

Key factors of success

Three pillars of success:

COMPANY STRENGTHS AND VALUES

Employees
Key of Podravka's success are dynamic, creative and successful employees and their knowledge and skills. Creativity, trust, passion, consumer satisfaction and excellence are the key values of Podravka and they make comparative advantage in the market.

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

Podravka's brands and consumer trust
Proof of Podravka's brands power and care for the consumer is the trust that we gained in Croatia, region, Europe and around the world. Consumer trust is necessary for company growth and is a key element for building a successful brand.

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

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

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

PROFITABLE GROWTH

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

Market development
Podravka Group consists of Podravka d.d. and 35 companies, which is a proof of company strength and the quality of service that we provide. The goal of every company and branch office is to actively develop the business and to maintain or achieve leader positions in the market.

Internationalization
Key factor of company development will be further internationalization of business, with a powerful step forward to international markets, which would significantly increase revenues on those markets in the upcoming period.

Business investments
By increasing operating efficiency, additional capital is released, and Podravka intends to invest it into further business. An investment cycle is started along with significant investments in marketing on markets from which future growth is expected.

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

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

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

OPERATING EFFICIENCY

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

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

Restructuring of non-profitable businesses
Podravka continues its restructuring process, with the aim of further regional and international growth and development. After discontinuing low-profitable segments, Podravka showed that it puts focus on profitability by restructuring certain areas of business and thus tries to release the capital intended for investment in more profitable categories.

Purifying the production range
Taking care of the products range Podravka aims to understand the con-

sumer, to provide it with high-quality products, to strengthen own brands and to take care of brand profitability at the same time.

Strategy cascading – clear goals and responsibility
Podravka gives importance to strategy, goals and cascading to lower organization units, introducing into its business a Balanced scorecard solution. This clearly defines individual responsibilities and obligations that need to be fulfilled, in order to realize the goals set.

Generating the base for profitable growth
By using all resources we will actively work on increasing efficiency of the whole Group, by strengthening of internal capabilities and by investing to focus on strategic brands on key markets.

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

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

RISK FACTORS

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

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

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

BRANDS MANAGEMENT

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

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

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

BUSINESS SEGMENTS MANAGEMENT

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

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

In 2015 activities have been initiated which should result in strengthening the presence in the markets of Middle East, China and Africa. That way we wish to show focus on better usability of the potential and available capacities and optimization of the focus on categories and geographic regions to create better grounds for further growth and development of Podravka.

CLIENT RELATIONS MANAGEMENT

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

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

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

MANAGING THE RISKS OF MANAGEMENT AND HUMAN RESOURCES

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

MANAGING THE RISKS OF ECOLOGY, QUALITY ASSURANCE AND PRODUCT SAFETY

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

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

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

FINANCIAL RISKS

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

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

Currency risk
Podravka conducts certain transactions in foreign currencies, and is therefore exposed to fluctuations in exchange rates. The biggest exposure to exchange rate fluctuations during 2015 was in comparison to RUB and RSD.

Exposure to foreign exchange differences arises not only from subsidiaries doing business in foreign markets, but also the procurement of raw food materials in the international market is greatly performed in EUR and USD. Likewise, Podravka is in majority financed through loans in foreign currencies. The exchange rate of Croatian Kuna remained relatively stable during 2015, where mild depreciation pressure has been under control. This is the consequence of a mild economic recovery, foreign capital inflows and current account balance surplus. Podravka Inc. concluded forward agreements during 2015 with the purpose of managing USD, RUB and HUF currency risk.

Interest rate risk

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

Price risk

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

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

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

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

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

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

Credit risk and risk of refund

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

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

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

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

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

CORPORATE GOVERNANCE

Statement on corporate governance

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

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

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

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

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

Aware of the importance of responsible and ethically founded behaviour of business subjects, Podravka d.d. accepted the Ethics Code in business, obliging to respect ethics principles in all of its business relations and has accepted an obligation to act in compliance to principles of responsibility, truthfulness, efficiency, transparency, quality, working in good faith and

respecting the principles of good business conduct with partners, business and social environment and own employees.

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

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

General Assembly

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

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

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

Supervisory Board

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

PODRAVKA SUPERVISORY BOARD MEMBERS OF IN 2015:

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

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

The Audit Committee members were:
Dinko Novoselec – president of the Committee
Mato Crkvenac – member
Petar Vlaić – member
Ivana Matovina – member.

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

The Audit Committee held six sessions in 2015.

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

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

Remuneration Committee held two sessions in 2015.

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

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

Management Board

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

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

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

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

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

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

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

PODRAVKA MANAGEMENT BOARD MEMBERS IN 2015:

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

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

CORPORATE GOVERNANCE CODE

Annual questionnaire

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

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

COMPANY HARMONIZATION TO THE PRINCIPLES OF CORPORATE GOVERNANCE CODE

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

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

   Yes ☑ No ☐

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

   Yes ☑ No ☐

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

   Yes ☑ No ☐

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

   Yes ☑ No ☐

SHAREHOLDERS AND GENERAL MEETING

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

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

   Yes ☐ No ☑

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☐ No ☑

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

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☐ No ☑

In 2015 the Company did not pay any dividends.

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

Yes ☐ No ☑

In 2015 the Company did not pay any dividends.

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

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

Yes ☑ No ☐

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

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

Yes ☑ No ☐

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

Yes ☐ No ☑

There were no such legal actions..

MANAGEMENT AND SUPERVISORY BOARD

Please provide the names of management board members and their functions

Zvonimir Mršić (presidenf of the Management Board), **Olivija Jakupec** (member of the Management Board), **Miroslav Klepač** (member of the Ma-

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

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

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

    Yes ☑ No ☐

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

    Yes ☑ No ☐

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

    Yes ☑ No ☐

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

    Yes ☑ No ☐

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

    Yes ☐ No ☑

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

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

Yes ☑ No ☐

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

Yes ☐ No ☑

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

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

Yes ☑ No ☐

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

Yes ☐ No ☑

There were no such transactions.

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

Yes ☐ No ☑

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

Yes ☐ No ☑

There is no such contract or agreement.

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

Yes ☐ No ☑

There is no such contract or agreement.

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

Yes ☐ No ☑

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

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☐ No ☑
Internal audit function exists.

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☑ No ☐

AUDIT AND MECHANISMS OF INTERNAL AUDIT

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

53. Does the company have an external auditor?

Yes ☑ No ☐

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

Yes ☐ No ☑

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

Yes ☑ No ☐

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

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

Yes ☐ No ☑

There is no obligation of submitting requested information.

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

Yes ☑ No ☐

TRANSPARANCY AND THE PUBLIC OF ORGANIZATION OF BUSINESS

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

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☐ No ☑

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

Yes ☑ No ☐

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

Yes ☑ No ☐

COMPANY SECURITIES

TURNOVER, VOLUME AND PRICE MOVEMENT OF PODRAVKA'S SHARE

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

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

PODRAVKA SHARE TURNOVER AND VOLUMES PER QUARTERS IN 2015

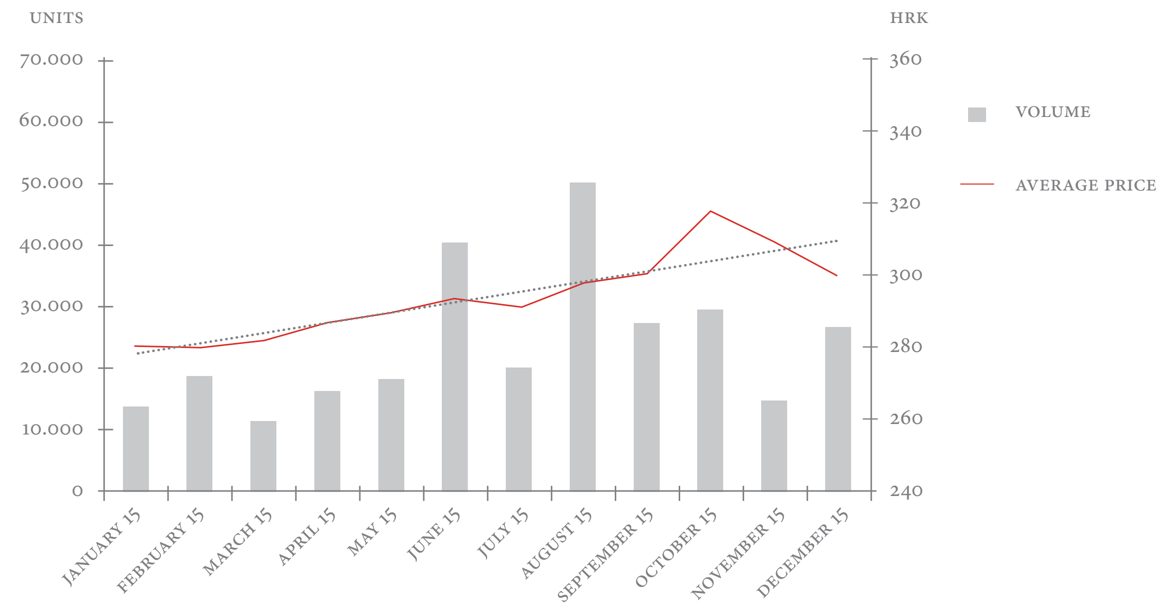
	2015		2014	
PERIOD	TURNOVER (HRK)	VOLUME	TURNOVER (HRK)	VOLUME
I QUARTER	18,120,072	61,019	33,532,617	119,513
II QUARTER	32,535,496	104,433	25,538,697	88,063
III QUARTER	50,125,904	156,371	36,425,008	114,085
IV QUARTER	29,009,901	98,931	18,975,991	64,057
TOTAL	129,791,374	420,754	114,472,313	385,718

SOURCE: ZSE

In 2015, the average daily price[1] of the Podravka's share was HRK 318.8 and it was 7.4% higher when compared to the comparative period. Closing price of Podravka's share as at 31 December 2015 was HRK 334.0, which is 13.8% higher when compared to 31 December 2014.

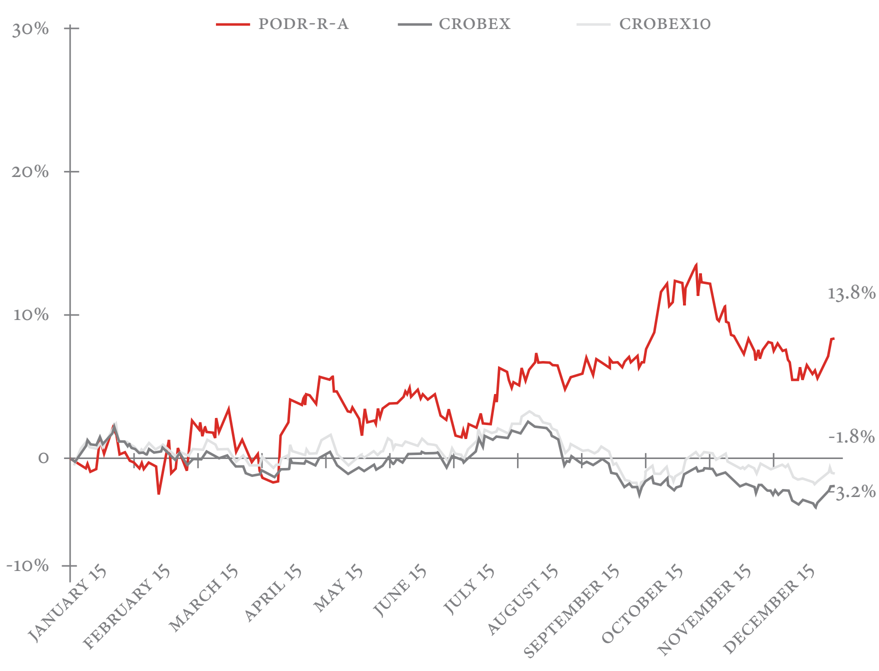
1 Average daily price calculated as the weighted average of average daily prices in the period, where the weight is daily volume.

VOLUME AND AVERAGE PRICE MOVEMENT OF PODRAVKA'S SHARE



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

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

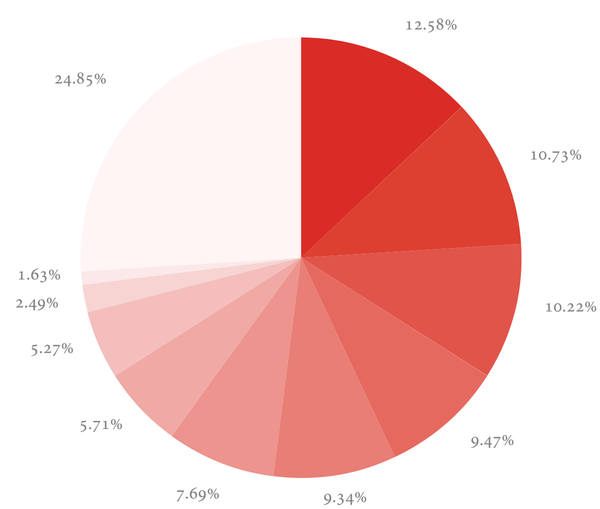


STOCK MARKET INDICES Podravka share has been listed in four indices of the Zagreb Stock Exchange – CROBEX, CROBEX10, CROBEXnutris and CROBEXtr – and in foreign STOXX® indices.

ANALYST RECOMMENDATIONS AS AT 26 FEBRUARY 2016

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

OWNERSHIP STRUCTURE



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

*State Property Management Administration

TREASURY ACCOUNT STATUS

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

Statement of Management's responsibilities

The Management Board of Podravka d.d. ("the Company") is required to prepare the unconsolidated financial statements for each financial year which give a true and fair view of the financial position of the Company and of the results of its operations and 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 Company and to prevent and detect fraud and other irregularities.

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

The Management Board is responsible for the preparation of the annual report pursuant to legal and regulatory requirements specified in Article 18 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia) and for submission to the Supervisory Board of its annual report together with the annual unconsolidated financial statements, following which the Supervisory Board is required to approve the annual unconsolidated financial statements for submission to the General Assembly of Shareholders for adoption.

The consolidated financial statements of the Company and its subsidiaries (together referred to as "the Group") and the annual report on the Group are published separately and issued simultaneously with these annual unconsolidated financial statements.

The annual report on the Company and the unconsolidated financial statements were authorised by the Management Board on 22 March 2016 for issue to the Supervisory Board and are signed below to signify this.

Zvonimir Mršić President of the Management Board	Miroslav Klepač Member of the Management Board

PODRAVKA
PREHRAMBENA INDUSTRIJA, d.d.
KOPRIVNICA 2

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

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

Report on the unconsolidated financial statements

We have audited the accompanying separate financial statements of Podravka d.d. ("the Company"), which comprise the unconsolidated statement of financial position as at 31 December 2015, the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2015, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union**.**

Report on other legal and regulatory requirements

Pursuant to legal and regulatory requirements as applicable for reporting periods ending 31 December 2015, the management has prepared the annual report set out on pages 1 to 74. The management is responsible for the preparation and content of the annual report in accordance with Article 18 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia). Our responsibility is to report on the consistency of the information in the annual report with the audited financial statements based on procedures we considered appropriate to perform in accordance with Article 17 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia). The information given in the accompanying annual report is consistent with the financial statements set out on pages 77 to 139.

KPMG

KPMG Croatia d.o.o. za reviziju **22 March 2016**

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

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

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

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of HRK)	*Note*	2015	2014
Continuing operations			
Revenue from sales	*8*	1,781,674	1,668,156
Cost of goods sold	*11*	(1,178,672)	(1,035,843)
Gross profit		**603,002**	**632,313**
Other income	*9*	14,756	18,069
General and administrative expenses	*11*	(164,978)	(182,717)
Selling and distribution costs	*11*	(178,417)	(166,133)
Marketing expenses	*11*	(160,785)	(143,336)
Other expenses	*10*	(5,026)	(6,345)
Operating profit		**108,552**	**151,851**
Finance income	*13*	94,395	116,782
Finance expenses	*14*	(41,267)	(45,053)
Net finance income		**53,128**	**71,729**
Profit before tax		**161,680**	**223,580**
Income tax	*15*	12,677	(385)
Net profit for the year from continuing operations		**174,357**	**223,195**
Discontinued operations			
Loss from discontinued operations (net of tax)	*7*	**(17,385)**	**(21,521)**
Total profit		**156,972**	**201,674**
Other comprehensive income:			
Actuarial gain (net of deferred tax)		(49)	-
Total comprehensive income		**156,923**	**201,674**

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

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of HRK)	***Note***	**31 Dec 2015**	**31 Dec 2014**
ASSETS			
Non-current assets			
Intangible assets	*16*	122,818	131,250
Property, plant and equipment	*17*	829,595	696,008
Investments in subsidiaries	*18*	791,518	372,392
Deferred tax assets	*15*	50,633	36,966
Non-current financial assets	*19*	100,042	80,234
Total non-current assets		**1,894,606**	**1,316,850**
Current assets			
Inventories	*20*	358,558	322,089
Trade and other receivables	*21*	705,613	640,991
Financial assets at fair value through profit and loss	*22*	215	-
Cash and cash equivalents	*23*	95,414	88,785
Non-current assets held for sale	*24*	204,676	214,007
Total current assets		**1,364,476**	**1,265,872**
Total assets		**3,259,082**	**2,582,722**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	*25*	1,683,871	1,062,160
Reserves	*26*	166,353	73,128
Reserves for reinvested profit	*26*	-	108,400
Retained earnings	*27*	100,150	94,176
Total equity		**1,950,374**	**1,337,864**
Non-current liabilities			
Borrowings	*29*	634,832	694,687
Provisions	*30*	31,667	30,539
Total non-current liabilities		**666,499**	**725,226**
Current liabilities			
Trade and other payables	*31*	363,111	329,127
Financial liabilities at fair value through profit or loss	*28*	2,469	2,752
Borrowings	*29*	251,301	167,159
Provisions	*30*	25,328	20,594
Total current liabilities		**642,209**	**519,632**
Total liabilities		**1,308,708**	**1,244,858**
Total liabilities and shareholders' equity		**3,259,082**	**2,582,722**

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

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of HRK)	**Share capital**	**Reserve for treasury shares**	**Legal reserves**	**Reinvested profit reserve**	**Other reserves**	**Retained earnings**	**Total**
As at 1 January 2014	**1,061,182**	**21,762**	**-**	**-**	**-**	**51,366**	**1,134,310**
Comprehensive income							
Profit for the year	-	-	-	-	-	201,674	201,674
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	**1,061,182**	**21,762**	**-**	**-**	**-**	**253,040**	**1,335,984**
Transactions with owners recognised directly in equity							
Effect of merger of subsidiaries	-	-	-	-	-	902	902
Fair value of share-based payment transactions	978	-	-	-	-	-	978
Allocation from retained earnings	-	45,842	2,569	-	2,955	(51,366)	-
Transfer to reinvested profit reserve	-	-	-	108,400	-	(108,400)	-
Total transactions with owners recognised directly in equity	**978**	**45,842**	**2,569**	108,400	**2,955**	**(158,864)**	**1,880**
As at 31 December 2014	**1,062,160**	**67,604**	**2,569**	**108,400**	**2,955**	**94,176**	**1,337,864**
Comprehensive income							
Profit for the year	-	-	-	-	-	156,972	156,972
Actuarial losses (net of deferred tax)	-	-	-	-	(49)	-	(49)
Other comprehensive income	-	-	-	-	(49)	-	(49)
Total comprehensive income	**-**	**-**	**-**	**-**	**(49)**	**156,972**	**156,923**
Transactions with owners recognised directly in equity							
Share capital increase through issue of new shares (note 25 (i))	506,394	-	-	-	-	-	506,394
Share capital increase from reinvested profits (note 25 (ii))	108,400	-	-	(108,400)	-	-	-
Allocation from retained earnings (note 26 (i))	-	80,000	10,084	-	3,190	(93,274)	-
Purchase of treasury shares	(5,899)	-	-	-	-	-	(5,899)
Excersize of options	4,156	-	-	-	-	-	4,156
Fair value of share-based payment transactions (note 33)	8,660	-	-	-	-	-	8,660
Effect of merger of subsidiary (note 37)	-	-	-	-	-	(57,724)	(57,724)
Total transactions with owners recognised directly in equity	**621,711**	**80,000**	**10,084**	**(108,400)**	**3,190**	**(150,998)**	**455,587**
As at 31 December 2015	**1,683,871**	**147,604**	**12,653**	**-**	**6,096**	**100,150**	**1,950,374**

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

UNCONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of HRK)	*Note*	2015	2014
Profit before tax		**144,295**	**202,059**
Depreciation and amortization		84,204	76,458
Impairment of assets held for sale		12,080	13,637
Remeasurement of financial assets and liabilities at FVTPL		(498)	43
Dividend income		(80,504)	(110,000)
Share-based payment transactions		8,660	978
Gain on disposal of property, plant, equipment and intangibles		(239)	(414)
(Gain)/loss on disposal of assets held for sale		(864)	1,767
Impairment (write-off) of loans and interest receivable		-	1,500
Impairment losses on trade receivables		529	1,373
(Decrease)/increase in provisions		2,153	824
Interest income		(8,237)	(6,782)
Interest expense		34,612	43,343
Impairment of investments		-	200
Foreign exchange differences		(4,921)	1,667
		191,270	**226,653**
Changes in working capital:			
(Increase)/decrease in inventories		14,929	(42,798)
(Increase)/decrease in receivables		(103,422)	2,393
Increase/(decrease) in payables		38,895	25,000
Cash generated from operations		**141,672**	**211,248**
Income tax paid		(14,403)	(161)
Interest paid		(34,593)	(45,370)
Net cash from operating activities		**92,676**	**165,717**
Cash flows from investing activities			
Incorporation and acquistion of subsidiaries	*18*	(433,271)	(2)
Increase of investments in subsidiaries		(56,357)	(375)
Purchase of equity instruments		-	(1,413)
Purchase of property, plant, equipment and intangibles		(101,631)	(113,749)
Purchase of assets held for sale		(3,733)	(81,380)
Proceeds from sale of property, plant, equipment and intangibles		868	1,979
Proceeds from sale of assets held for sale		3,959	301
Loans given		(59,299)	(30,371)
Proceeds from loans given		102,909	61,883
Interest received		7,691	11,405
Dividends received		-	25,000
Net cash from investments in money market funds		2,386	-
Net cash acquired through merger of subsidiary	*37*	3,033	2,398
Net cash from investing activities		**(533,445)**	**(124,324)**
Cash flows from financing activities			
Proceeds from borrowings		292,765	885,236
Repayment of borrowings		(350,654)	(910,752)
Purchase of treasury shares		(5,899)	-
Sale of treasury shares		4,792	-
Receipts from issue of new ordinary shares	*25*	506,394	-
Net cash from financing activities		**447,398**	**(25,516)**
Net increase of cash and cash equivalents		**6,629**	**15,877**
Cash and cash equivalents at beginning of year		88,785	72,908
Cash and cash equivalents at the end of year	*23*	**95,414**	**88,785**

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

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

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

The Company's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in note 25.

Corporate governance and management

General Assembly

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

President	Jakša Barbić

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

Supervisory Board

Members of the Supervisory Board in 2015:

President	Dubravko Štimac
Deputy president	Mato Crkvenac
Member	Ivana Matovina
Member	Milan Stojanović
Member	Petar Vlaić
Member	Dinko Novoselec
Member	Petar Miladin
Member	Martinka Marđetko-Vuković (until 30 June 2015)
Member	Ivo Družić
Member	Ksenija Horvat (from 1 July 2015)

Management Board during 2015:

President	Zvonimir Mršić
Member	Olivija Jakupec
Member	Miroslav Klepač
Member	Hrvoje Kolarić

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

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

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

These financial statements were authorised for issue by the Management Board on 22 March 2016.

(ii) Basis of measurement

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

(iii) Functional and presentation currency

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Investments in subsidiaries

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

Investments in subsidiaries are accounted for initially at cost and subsequently at cost less impairment losses. Investments in subsidiaries are tested annually for impairment (see note 5(vii)).

3.2 Non-current assets held for sale and discontinued operations

Non-current assets held for sale

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

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

Discontinued operations

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Revenue recognition

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

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

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

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

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

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

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

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

(iii) Revenue from services

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

(iv) Finance income

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Leases

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

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

Sale and leaseback transactions

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Foreign currency transactions

Transactions and balances in foreign currencies

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

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

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

3.6 Borrowings and borrowing costs

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Government grants

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

3.8 Dividends

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

3.9 Segment reporting

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Taxation

(i) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax assets and liabilities

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

(iii) Tax exposures

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

(iv) Value added tax (VAT)

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Property, plant and equipment

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

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

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

Buildings	10 to 50 years
Equipment	3 to 30 years

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Intangible assets

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

Brands and distribution rights

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

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

Computer software

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

Internally-generated intangible assets - research and development expenditure

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Impairment of non-financial assets

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease of the underlying asset.

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

3.14 Inventories

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Trade receivables

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

3.16 Cash and cash equivalents

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

3.17 Share capital

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

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

3.18 Employee benefits

(i) Pension obligations and post-employment benefits

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

(ii) Termination benefits

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

(iii) Regular retirement benefits

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Employee benefits (continued)

(iv) Long-term employee benefits

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

(v) Short-term employee benefits

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

(vi) Share-based compensation

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

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

3.19 Provisions

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Financial assets

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

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Financial assets (continued)

Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Financial assets (continued)

Impairment of financial assets (continued)

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

Derecognition of financial assets

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

3.21 Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

A financial liability is classified as held for trading if:

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial liabilities and equity instruments issued by the Company (continued)

Other financial liabilities

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

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

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

Contracts on financial guarantee

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

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

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

Derecognition of financial liabilities

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

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2015 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. It is not expected that these standards will have a significant effect on the unconsolidated financial statements of the Company.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements in applying accounting policies

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

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

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

(i) Deferred tax assets recognition

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

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

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see note 30).

(iii) Consequences of certain legal actions

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

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

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

Where the Company is a plaintiff in a particular court case, any economic benefits expected to flow to the Company as a result are recognised only when virtually certain which is generally as at the date of inflow of these economic benefits. Provisions for the Company's obligations arising legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 3.19 and 30).

(iv) Recoverability of trade and other receivables

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

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

Critical judgements in applying accounting policies (continued)

(iv) Recoverability of trade and other receivables (continued)

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

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

(v) Impairment testing for brands and rights

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

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

Brands

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

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

Accordingly, the discount rate used in the impairment tests amounted to 9.28% for brands where the dominant market is Poland and 10.01% for brands where the dominant market is Croatia.

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

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

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

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

During 2015 and 2014, there were no impairment losses with respect to production facilities other than those related to discontinued operations as explained below.

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

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

(vii) Impairment of investments in subsidiaries

The Company annually performs impairment tests for investments in subsidiaries where indications for exist, based on the results of a static analysis of the Company's exposure compared to the net assets of the subsidiary. For investments identified as such, the Company estimates the recoverable amount and compares it with the carrying amount. The calculation of the recoverable amount is generally based on five year business plans for the respective subsidiaries which the Company developed bearing in mind its corporate and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories etc.) with respect to the applicable business segment and the analysis of its competitors. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period ranging from 1% to 2%. Cash flows created from such plans are discounted using the discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for brands as the weighted average cost of capital for the respective market and industry (in case of investments in subsidiaries in Croatia where the Company has the most significant exposure this discount rate amounted to 10.01%).

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(vii) Impairment of investment in subsidiaries (continued)

As a result of the impairment tests performed, the Company incurred no impairment losses with respect to investment in subsidiaries during 2015 and 2014. The sensitivity analysis indicates that an impairment loss with respect to the investment in subsidiary Podravka Lagris a.s. amounting to HRK 3,916 thousand would occur if the terminal growth rate decreases by 50 basis points (assuming an unchanged weighted average cost of capital), while an increase in the weighted average cost of capital by 50 basis points would result in an impairment loss in the amount of HRK 7,996 thousand (assuming an unchanged terminal growth rate).

NOTE 6 – DETERMINATING FAIR VALUES

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

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

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

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

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

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

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

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

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

- note 7: Discontinued operations
- note 19: Non-current financial assets
- note 22: Financial assets at fair value through profit or loss
- note 24: Non-current assets held for sale
- note 28: Financial liabilities at fair value through profit and loss
- note 33: Share-based payments

NOTE 7 – DISCONTINUED OPERATIONS

Based on the Management Board decision from 2013, the Company initiated the process of discontinuation of the Beverages business segment in order to improve operational activities, reduce operating costs and strengthen innovation and competitiveness of the Company in its key business areas. At the reporting dates, the Company classified the Beverages segment as discontinued operations in accordance with IFRS 5. Notwithstanding the fact that the disposal of these assets was not completed due to unfavourable market conditions, the Company continues to actively enforce and carry out the adopted disposal plan and with a view to realising the sale as early as possible. The Company received an offer with respect to the sale of the entire Beverages segment which is still under review as at the date of the approval of these financial statements, but which did not indicate impairment of the assets classified as held for sale below their carrying amount reported as at 31 December 2015. The Company expects to finalise the disposal during 2016.

During 2015, the Company recognised an impairment loss from discontinued operations amounting to HRK 11,454 thousand (see note 5(vi)). The impairment loss is presented within other expenses from discontinued operations.

Statement of comprehensive income for discontinued operations is as follows:

	Discontinued operations	
(in thousands of HRK)	**2015**	**2014**
Revenue from sales	88,919	87,827
Cost of goods sold	(57,566)	(59,081)
Gross profit	**31,353**	**28,746**
Operating expenses	(37,284)	(39,082)
Other expenses	(11,454)	(11,185)
Operating loss	**(17,385)**	**(21,521)**
Loss before income tax	**(17,385)**	**(21,521)**
Income tax	-	-
Net loss for the year	**(17,385)**	**(21,521)**
Other comprehensive income	-	-
Total comprehensive loss	**(17,385)**	**(21,521)**

Statement of cash flow for discontinued operations is:

(in thousands of HRK)	**2015**	**2014**
Net cash from operating activities	(6,435)	(5,982)
Net cash from investing activities	(1,602)	(1,288)
	(8,037)	**(7,270)**

NOTE 7 – DISCONTINUED OPERATIONS (CONTINUED)

Disposal group held for sale

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

	2015	**2014**
	(in thousands of HRK)	
Investment in Studenac d.o.o.	20	20
Land and buildings	29,885	32,056
Equipment	25,664	33,499
Finished goods	4,933	4,275
	60,502	**69,850**

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

Fair value measurement

Land and buildings within the disposal group are measured at fair value less costs to sell due to the fact that their fair value was lower than the carrying amount upon classification as held for sale. The Company has performed fair value measurement at the classification date and regularly reviews whether an update of the fair value measurement is required. Management has made an estimate that no new circumstances occurred during 2015 that would require a new fair value measurement.

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

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

(i) Fair value hierarchy

Fair value measurement of the disposal group related to land and buildings in the amount of HRK 29,885 thousand is categorised, in accordance with inputs used in estimating the fair value, as level 3 (see note 6).

(ii) Valuation techniques and significant inputs

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

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

NOTE 8 – REVENUE FROM SALES

	2015	2014
	(in thousands of HRK)	
Revenue from sale of products and merchandise	1,724,171	1,612,424
Revenue from services	57,503	55,732
	1,781,674	**1,668,156**

NOTE 9 – OTHER INCOME

	2015	2014
	(in thousands of HRK)	
Grant income	2,099	993
Interest income relating to trade receivables	1,127	4,103
Revenue from the sale and leaseback transaction	8,813	8,813
Profit on disposal of property, plant, equipment and intangibles (note 16 & 17)	239	414
Income from reversal of legal provision	1,614	2,480
Foreign exchange gains on receivables and payables	-	1,266
Gain on disposal of assets held for sale	864	-
	14,756	**18,069**

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

Interest income relating to trade receivables relates to statutory penalty interests collected by the Company.

Revenue from the sale and leaseback transaction relates to the leaseback of production facilities in Umag for which deferred income amounting to HRK 6,609 thousand is outstanding as at 31 December 2015 (note 31) and which is expected to be realised by 30 September 2016.

NOTE 10 - OTHER EXPENSES

	2015	2014
	(in thousands of HRK)	
Interest expense relating to trade payables	169	426
Trade foreign exchange differences	4,231	-
Impairment of investments	-	200
Impairment loss on assets held for sale (note 24)	626	2,452
Loss on disposal of assets held for sale	-	1,767
Other	-	1,500
	5,026	**6,345**

NOTE 11 – EXPENSES BY NATURE

	2015	2014
	(in thousands of HRK)	
Raw material, supplies and energy	658,132	583,480
Staff costs	369,324	379,282
Cost of goods sold	295,374	272,438
Advertising and promotion	122,989	113,838
Depreciation and amortisation	84,204	76,458
Services	79,884	63,031
Changes in value of inventory	4,311	(21,371)
Rental costs	13,708	17,170
Transport	13,891	12,779
Taxes and contributions independent of operating results	8,400	7,868
Impairment of trade and other receivables	529	1,373
Bank charges	2,154	1,966
Packaging waste disposal fee	1,888	2,109
Daily allowances and other business travel expenses	8,207	7,322
Telecommunications	3,886	4,299
Entertainment	5,493	5,334
Other expenses	10,478	653
Total cost of good sold, selling and distribution expenses, marketing expenses and general and administrative costs	**1,682,852**	**1,528,029**

NOTE 11 – EXPENSES BY NATURE (CONTINUED)

Following table shows the reconciliation of costs of goods sold:

	2015	2014
	(in thousands of HRK)	
Raw material and supplies	684,287	582,767
Cost of goods sold	295,013	272,563
Staff costs	170,096	163,569
Depreciation and amortisation	47,770	44,033
Production services	18,708	12,571
Taxes and contributions independent of operating results	8,937	8,370
Other expenses (transport, rent, education etc.)	11,427	11,051
	1,236,238	**1,094,924**
Cost of goods sold - discontinued operations	57,566	59,081
Cost of goods sold - continued operations	**1,178,672**	**1,035,843**

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

	2015	2014
	(in thousands of HRK)	
Cost of goods sold	47,770	44,033
Marketing expenses	900	1,136
Selling and distribution costs	18,904	9,568
General and administrative expenses	16,630	21,721
	84,204	**76,458**

Staff costs allocated to each function are as follows:

	2015	2014
	(in thousands of HRK)	
Cost of goods sold	159,755	153,821
Marketing expenses	22,101	19,173
Selling and distribution costs	93,691	87,711
General and administrative expenses	93,777	118,577
	369,324	**379,282**

NOTE 12 – STAFF COSTS

	2015	2014
	(in thousands of HRK)	
Salaries	328,591	316,144
Termination benefits	17,571	43,315
Transportation	5,442	5,219
Share options (note 33)	2,005	978
Other employee benefits	15,715	13,626
	369,324	**379,282**

As at 31 December 2015 the number of staff employed by the Company was 3,422 (2014: 2,884). The increase in the number of employees is primarily a result of the merger of the subsidiary Danica d.o.o. during 2015 (see note 37).

In 2015 a total of HRK 12,518 thousand was paid with respect to termination benefits for 101 employees and another HRK 12,873 thousand was accrued and will be paid in the beginning of 2016 (2014: HRK 34,409 thousand paid out for 261 employees).

NOTE 13 – FINANCE INCOME

	2015	2014
	(in thousands of HRK)	
Interest on related party loans	7,374	5,875
Interest on term deposits	340	665
Remeasurement of financial assets and liabilities at FVTPL	215	-
Dividends income from related parties	80,504	110,000
Net foreign exchange gain on borrowings	4,863	-
Other interest	816	242
Unrealized gains on swap contracts	283	-
	94,395	**116,782**

Dividend received refers to income on the basis of declared dividends in subsidiary Belupo d.d.

NOTE 14 – FINANCE EXPENSES

	2015	2014
	(in thousands of HRK)	
Interest expense and similar charges	34,612	43,343
Unrealized loss on swap contracts	-	43
Net foreign exchange loss on borrowings	-	1,667
Other financial expenses	6,655	-
	41,267	**45,053**

During 2015 the benchmark interest rates remained at low levels resulting in reduction of loan related interest expense.

Due to the significant exposure to interest rate risk inherent to floating rate borrowings, the Company hedges the interest rate risk with respect to the syndicated loan facility using derivative financial instruments (interest rate swap) - for details see note 28.

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

Other financial expenses relate to the cost of allocated options in the employee stock ownership program through process of increase of share capital by public offering of new ordinary shares. For details see notes 25 and 33 (ii).

NOTE 15 – INCOME TAX

Tax expense/(income) consists of:

	2015	2014
	(in thousands of HRK)	
Current income tax	-	-
Deferred tax expense/(benefit)	(12,677)	385
	(12,677)	**385**

Reconciliation of the effective tax rate

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

	2015	2014
	(in thousands of HRK)	
Profit before taxation	**144,295**	**202,059**
Tax calculated at 20% (2014:20%)	28,859	40,412
Non-taxable income	(13,800)	(22,030)
Non-deductible expenses	1,443	2,618
Tax incentives (research and development, education and other)	(685)	(425)
Temporary differences and tax losses not recognised as deffered tax assets	-	5,447
Utilisation of temporary differences previously not recognised as deferred tax assets	(1,622)	(6,247)
Tax incentive for reinvested profit	-	(19,390)
Utilisation of tax losses previously not recognised as deferred tax assets	(14,731)	-
Recognition of previously unrecognized temporary differences and tax losses	(12,141)	-
Tax expense/(income) recognised in the statement of comprehensive income	**(12,677)**	**385**
Effective tax rate	**-9%**	**0%**

Unused tax losses

During 2015 in the process of merging its subsidiary Danica d.o.o., the Company acquired tax losses of the merged subsidiary. Since the legal conditions for utilization of the tax losses were met upon merger, most of the losses were utilised while a deferred tax asset was recognised for the unused portion of the losses as the Company estimates that those will be utilized in the period up to 2020 when they expire. Unused tax losses at 31 December 2015 amounted to HRK 15,363 thousand (2014: HRK 17,427 thousand).

Unused tax losses (gross) at the reporting date were as follows:

	2015	2014
	(in thousands of HRK)	
Unused tax losses available untill 2015	-	394
Unused tax losses available untill 2017	-	5,581
Unused tax losses available untill 2019	-	11,452
Unused tax losses available untill 2020	15,363	-
	15,363	**17,427**

NOTE 15 – INCOME TAX (CONTINUED)

Deferred tax assets arose from the following:

2015	Opening balance	Recognised in profit or loss	Merged	Recognised directly in equity	Closing balance
	(in thousands of HRK)				
Basis:					
Intangible assets	20,183	-	-	-	20,183
Non-current assets held for sale	10,820	1,709	-	-	12,529
Provisions	3,162	1,984	451	12	5,609
Inventory	1,768	2,147	527	-	4,442
Financial assets	-	501	-	-	501
Share based payments	-	2,547	-	-	2,547
Deferred income	-	1,321	-	-	1,321
Receivables	-	429	-	-	429
Unutilised tax losses carried forward	1,033	2,039	-	-	3,072
	36,966	**12,677**	**978**	**12**	**50,633**

2014	Opening balance	Recognised in profit or loss	Merged	Recognised directly in equity	Closing balance
	(in thousands of HRK)				
Basis:					
Intangible assets	20,183	-	-	-	20,183
Non-current assets held for sale	6,273	4,547	-	-	10,820
Provisions	3,273	(111)	-	-	3,162
Inventory	2,532	(764)	-	-	1,768
Investments	4,057	(4,057)	-	-	-
Unutilised tax losses carried forward	1,033	-	-	-	1,033
	37,351	**(385)**	**-**	**-**	**36,966**

During 2015, the Company re-evaluated the potential for utilization of certain existing temporary differences for which deferred tax assets had not been previously recognized based on the uncertainty of their utilization. In view of the changed circumstances, the Company recognized deferred tax assets in the amount of HRK 9,945 thousand relating to temporary differences for which deferred tax assets were not previously recognized and an additional HRK 2,196 thousand with respect to tax losses.

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

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

NOTE 16 – INTANGIBLE ASSETS

(in thousands of HRK)	**Software**	**Distribution rights**	**Brands**	**Investments in progress**	**Total**
Cost					
At 1 January 2014	155,366	12,000	169,239	2,986	339,591
Additions	-	-	-	51,006	51,006
Transfer from property, plant and equipment	-	-	-	422	422
Transfers	5,925	29,410	11,789	(47,124)	-
Merger of subsidiaries	249	-	-	-	249
Transfer to property, plant and equipment	(258)	-	-	-	(258)
Disposals	(348)	-	-	-	(348)
At 31 December 2014	**160,934**	**41,410**	**181,028**	**7,290**	**390,662**
Accumulated amortisation					
At 1 January 2014	(128,349)	(12,000)	(100,916)	-	(241,265)
Charge for the year	(11,753)	(6,535)	-	-	(18,288)
Disposals	348	-	-	-	348
Merger of subsidiaries	(249)	-	-	-	(249)
Transfer to property, plant and equipment	42	-	-	-	42
At 31 December 2014	**(139,961)**	**(18,535)**	**(100,916)**	**-**	**(259,412)**
Carrying amount					
As at 31 December 2014	**20,973**	**22,875**	**80,112**	**7,290**	**131,250**
Cost					
At 1 January 2015	160,934	41,410	181,028	7,290	390,662
Additions	-	-	-	13,006	13,006
Transfer from property, plant and equipment	-	-	-	15	15
Transfers	7,514	-	438	(7,952)	-
Merger of subsidiary (note 37)	195	-	-	-	195
Transfer to subsidiaries	-	-	-	(16)	(16)
Disposals	(892)	-	-	(115)	(1,007)
At 31 December 2015	**167,751**	**41,410**	**181,466**	**12,228**	**402,855**
Accumulated amortisation					
At 1 January 2015	(139,961)	(18,535)	(100,916)	-	(259,412)
Merger of subsidiary (note 37)	(195)	-	-	-	(195)
Charge for the year	(8,572)	(9,803)	(2,947)	-	(21,322)
Disposals	892	-	-	-	892
At 31 December 2015	**(147,836)**	**(28,338)**	**(103,863)**	**-**	**(280,037)**
Carrying amount					
As at 31 December 2015	**19,915**	**13,072**	**77,603**	**12,228**	**122,818**

Accumulated amortization and impairment losses include a total of HRK 100,916 thousand relating to accumulated impairment losses (2014: HRK 100,916 thousand).

Intangibles in progress mostly relate to licence agreements.

During 2015 there were no impairment losses relating to brands. A more detailed description of the approach and methods used in impairment testing is provided in note 5(v). During 2014 the Company acquired the brand Piketa relating to the "Meat and meat products" segment together with the associated distribution rights which relate to the acquired brand as well as to a part of the other assortment in the segment. The total value of the transaction amounted to HRK 41,199 thousand of which HRK 11,789 thousand was allocated to the brand while HRK 29,410 thousand was allocated to the distribution rights based on internally estimated future cash flows and sales plans. During 2015, the Company changed the useful life of the Piketa brand from indefinite to finite and accordingly recognises an amortisation charge over a period of four years while the distribution right continues to be amortised over the contractual life of 3 years.

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Equipment and fittings	Assets under construction	Total
Cost				
At 1 January 2014	1,287,722	852,150	45,253	2,185,125
Additions	-	-	62,743	62,743
Transfers	2,586	40,211	(42,797)	-
Merger of subsidiaries (ii)	9,777	75	-	9,852
Transfer to intangible assets	-	-	(422)	(422)
Transfer from intangible assets	-	258	-	258
Transfer to non current assets held for sale (i)	-	-	(1,288)	(1,288)
Transfer from assets held for sale (i)	1,380	1,063	-	2,443
Disposals	(535)	(18,333)	(3,613)	(22,481)
At 31 December 2014	**1,300,930**	**875,424**	**59,876**	**2,236,230**
Accumulated depreciation				
At 1 January 2014	(824,587)	(664,202)	(2,850)	(1,491,639)
Charge for the year	(28,579)	(29,591)	-	(58,170)
Merger of subsidiaries (ii)	(9,113)	(57)	-	(9,170)
Disposals	539	17,527	2,850	20,916
Transfers from intangible assets	-	(42)	-	(42)
Transfer from non current assets held for sale (i)	(1,380)	(737)	-	(2,117)
Reversal of impairment losses	-	-	-	-
At 31 December 2014	**(863,120)**	**(677,102)**	**-**	**(1,540,222)**
Carrying amount				
As at 31 December 2014	**437,810**	**198,322**	**59,876**	**696,008**
Cost				
At 1 January 2015	1,300,930	875,424	59,876	2,236,230
Additions	-	-	82,170	82,170
Transfers	9,789	54,533	(64,322)	-
Merger of subsidiaries (ii)	382,855	177,867	925	561,647
Transfer from related companies	-	4,057	2,677	6,734
Transfer to related companies	(1,311)	(24)	(303)	(1,638)
Transfer to intangible assets	-	-	(15)	(15)
Transfer to non current assets held for sale (i)	(1,397)	(171)	(1,548)	(3,116)
Transfer from assets held for sale (i)	-	811	-	811
Disposals	(42)	(15,427)	(80)	(15,549)
At 31 December 2015	**1,690,824**	**1,097,070**	**79,380**	**2,867,274**
Accumulated depreciation				
At 1 January 2015	(863,120)	(677,102)	-	(1,540,222)
Charge for the year	(29,505)	(33,377)	-	(62,882)
Merger of subsidiaries (ii)	(310,166)	(140,360)	-	(450,526)
Transfer from related companies	-	(278)	-	(278)
Transfer to related companies	-	15	-	15
Transfer from assets held for sale (i)	-	(436)	-	(436)
Transfer to non current assets held for sale (i)	1,133	148	-	1,281
Disposals	40	15,329	-	15,369
At 31 December 2015	**(1,201,618)**	**(836,061)**	**-**	**(2,037,679)**
Carrying amount				
As at 31 December 2015	**489,206**	**261,009**	**79,380**	**829,595**

There are no impairment losses included within the total amount of accumulated depreciation.

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

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

(i) Transfer to and from assets held for sale

During 2015 the Company transferred property, plant and equipment with a carrying amount of HRK 1,835 thousand to assets held for sale (2014: HRK 1,288 thousand). In addition, the Company transferred equipment with a carrying amount of HRK 375 thousand from assets held for sale as the equipment will be used in the Company's production facilities (2014: HRK 326 thousand).

(ii) Merger of companies

During 2015 the Company merged its subsidiary Danica d.o.o. and in this process acquired property, plant and equipment with a carrying amount of HRK 111,121 thousand (2014: through the merger of five subsidiaries acquired property, plant and equipment with a carrying amount of HRK 682 thousand). For details, see note 37.

Mortgaged assets

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

Land and buildings of the Company with a carrying amount of HRK 371,281 thousand (2014: HRK 313,151 thousand) are pledged as collateral against the Company's borrowings.

Assets held under finance leases

The Company has property, plant and equipment under the finance lease agreement as follows:

	2015	**2014**
	(in thousands of HRK)	
Cost of capitalised finance leases	2,200	-
Accumulated depreciation	(1,027)	-
Carrying value	**1,173**	**-**

During 2015 with the acquisition of a subsidiary, the company acquired the equipment under finance leases in the net amount of HRK 1,173 thousand. During 2014 within property, plant and equipment the Company had no assets acquired under finance leases.

NOTE 18 – INVESTMENTS IN SUBSIDIARIES

Name of subsidiary	Country	Ownership interest in% 2015	Ownership interest in% 2014	Equity share in thousands of HRK 2015	Equity share in thousands of HRK 2014	Principal activity
Žito d.d., Ljubljana (i)	Slovenija	86.80	-	424,597	-	Sale and distribution of food and beverages
Belupo d.d., Koprivnica	Croatia	100.00	100.00	224,153	157,830	Production and distribution of pharmaceuticals
Lagris a.s., Lhota u Luhačovic	Czech Republic	100.00	100.00	68,754	68,754	Rice production and sale
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100.00	100.00	49,717	49,717	Seasonings manufacture and sale
Vegeta Podravka Limited, Dar es Salaam (iii)	Tanzania	85.00	-	6,829	-	Sale and distribution of food and beverages
Podravka-International Kft, Budapest	Hungary	100.00	100.00	5,343	5,343	Sale and distribution of food and beverages
Mirna d.d., Rovinj (ii)	Croatia	84.24	-	4,252	-	Fish processing and production
Podravka d.o.o., Ljubljana	Slovenia	100.00	100.00	1,925	1,925	Sale and distribution of food and beverages
Podravka Gulf Fze, Jebel Ali, Dubai (iii)	UAE	100.00	-	1,845	-	Sale and distribution of food and beverages
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100.00	100.00	1,068	1,068	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen	Slovakia	75.00	75.00	1,034	1,034	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100.00	100.00	1,029	1,029	Sale and distribution of food and beverages
Podravka-International Pty Ltd, Sydney	Australia	100.00	100.00	801	801	Sale and distribution of food and beverages
Podravka-International s.r.l., Bucharest	Romania	100.00	100.00	84	84	Sale and distribution of food and beverages
Podravka d.o.o., Skopje	Macedonia	100.00	100.00	42	42	Sale and distribution of food and beverages
Podravka d.o.o., Sarajevo	Bosnia & Herz.	100.00	100.00	40	40	Sale and distribution of food and beverages
Podravka-International Inc. Wilmington	USA	100.00	100.00	3	3	Sale and distribution of food and beverages
Podravka d.o.o., Moskva	Russia	100.00	100.00	2	2	Sale and distribution of food and beverages
Podravka d.o.o., Belgrade	Serbia	100.00	100.00	-	-	Sale and distribution of food and beverages
Danica d.o.o., Koprivnica (iv)	Croatia	-	100.00	-	84,720	Meat processing and production
Sana d.o.o., Hoče	Slovenia	100.00	100.00	-	-	Wafers
				791,518	**372,392**	

(i) During 2015, through two purchase transactions the Company acquired 308,820 shares of Žito d.d., which represents 86.80% of the share capital of Žito d.d. As of 31 December 2015, the Company held 86.80% of the share capital and 96.80% of the voting rights since Žito d.d. holds 35,579 of its treasury shares.

NOTE 18 – INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(ii) During 2014, the Company acquired the shares of Mirna d.d. but due to significant legal uncertainties did not gain control of the mentioned company. During 2015, all the uncertainties were eliminated and the Company acquired control of Mirna d.d. and by the end of 2015 purchased additional shares. On the reporting date the Company held 84.24% of shares capital of Mirna d.d.

(iii) During 2015, the Company incorporated subsidiaries Podravka Gulf FZE based in Dubai and Podravka Vegeta Limited in Tanzania.

(iv) During 2015, the Company merged subsidiary Danica d.o.o. thus increasing the Company's assets by HRK 205,741 thousand. At the same time, the merger had a negative impact on the Company`s equity in the amount of HRK 57,724 thousand (note 37).

NOTE 19 – NON-CURRENT FINANCIAL ASSETS

	2015	2014
	(in thousands of HRK)	
Loans to related companies	95,481	73,250
Loans to third parties	2,959	4,103
Deposits and other	1,591	1,468
Other investments	11	1,413
	100,042	**80,234**

Loans to related parties relate to long-term portion of loans to the subsidiaries Belupo d.d. in the amount of HRK 88,000 thousand, Podravka Gulf FZE Dubai, Vegeta Podravka Limited Tanzanija and Podravka d.o.o., Belgrade in the amount of HRK 7,481 thousand (HRK 73,250 thousand with respect to Danica d.o.o. and Belupo d.d. in 2014) (see note 34).

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

Fair value measurement

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

NOTE 20 – INVENTORIES

	2015	2014
	(in thousands of HRK)	
Raw materials and supplies	138,433	117,406
Work in progress	44,585	27,484
Finished goods	120,477	109,764
Merchandise	55,063	67,435
	358,558	**322,089**

During 2015, the Company recognized impairment losses on inventory in the net amount of HRK 10,736 thousand (2014: HRK 3,820 thousand of income from reversal of impairment), which mainly relate to impairment of spare parts. The movement in inventory impairment provision is included in the statement of comprehensive income in line item ‘Cost of goods sold’.

NOTE 21 – TRADE AND OTHER RECEIVABLES

	2015	2014
	(in thousands of HRK)	
Trade receivables	325,812	256,099
Accumulated impairment losses on receivables	(109,603)	(81,966)
Net trade receivables	**216,209**	**174,133**
Related party trade receivables	290,348	251,626
Receivable for dividend	69,000	110,000
Loans and interest receivable from related parties	49,421	54,673
Loans receivable	90	1,752
Bills of exchange received	645	476
Advances to suppliers	20,454	30,665
Prepaid expenses	40,102	8,375
Net VAT receivable	-	5,106
Receivables from employees	1,322	568
Other receivables	18,022	3,617
	705,613	**640,991**

Loans given to related parties include short term loans and current portion of long term loans given to related parties (refer to note 34).

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

	2015	2014
	(in thousands of HRK)	
At 1 January	81,966	82,426
Balance brought forward on merger	32,556	7,850
Increase	529	1,373
Amounts collected	(1,364)	(2,034)
Written off as uncollectible	(4,084)	(7,649)
At 31 December	**109,603**	**81,966**

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

Ageing analysis of trade receivables that are not impaired:

	2015	2014
	(in thousands of HRK)	
Undue	352,818	298,395
Up to 90 days	117,278	111,528
91-180 days	27,287	15,256
181-360 days	9,174	580
	506,557	**425,759**

NOTE 22 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

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

In 2015 the Company used forward contracts with commercial banks with the primary intention of managing the fluctuation of the exchange rates of the Russian ruble and the US dollar with respect to the purchase and sale of these foreign currencies. The positive fair value of these instruments as at 31 December 2015 amounted to HRK 215 thousand.

The nominal value of forward exchange contracts at 31 December 2015 amounted to HRK 5,043 thousand with a maturity between 5 February 2016 and 4 May 2016.

Gains and losses in fair value of forward exchange contracts are recognized and recorded in the income statement, under "financial income / expenses net”.

Fair value measurment

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

NOTE 23 – CASH AND CASH EQUIVALENTS

	2015	2014
	(in thousands of HRK)	
Cash in banks	95,393	88,731
Cash in hand	21	54
	95,414	**88,785**

Cash in banks refers to transaction accounts at commercial banks bearing an average interest rate ranging from 0.01% to 0.6%.

NOTE 24 – NON CURRENT ASSETS HELD FOR SALE

	2015	2014
	(in thousands of HRK)	
Land and buildings	142,817	142,116
Equipment	1,357	2,041
Disposal group held for sale (*note 7*)	60,502	69,850
	204,676	**214,007**

Land and buildings

Out of total land and buildings held for sale, the amount of HRK 134,908 thousand relates to property in Rijeka (2014: HRK 131,175 thousand). The remainder of land and buildings held for sale is mainly related to land in Poreč and property in Koprivnica for which the Company is still seeking a buyer and expects to sell during 2016.

Fair value measurement

Land and buildings held for sale in the amount of HRK 61,437 thousand are measured at fair value less costs to sell due to the fact that this value was lower than the carrying value upon classification as held for sale. The Company performed a fair value measurement at the classification date and regularly reviews if the measurement needs to be revised. During 2015, management estimated that no new circumstances occurred that would require a new fair value measurement of non-current assets held for sale to be performed.

Fair value measurement is classified, according to inputs used in fair value measurement, as level 3 (see note 6). The following table summarizes the valuation methods and techniques as well as significant inputs used in measuring the fair value:

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

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

(i) Equipment held for sale

Equipment held for sale relates to the equipment that the Company intended to sale due to the discontinuation of operations the equipment is related to. At the date of classification as assets held for sale, the Company internally estimated the amount recoverable through the sale of this equipment. During 2015, the Company recognized additional impairment losses relating to equipment in the amount of HRK 626 thousand (2014: HRK 2,452 thousand). The Company expects to sell the equipment in 2016.

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

(ii) Disposal group held for sale

Disposal group held for sale relates to assets held for sale which are part of discontinued operations. During 2015, the Company recognised an impairment loss of the respective assets in the amount of HRK 11,454 thousand (2014: HRK 11,185 thousand). The Company expects to sell these assets during 2016 and at the reporting date is in process of reviewing a purchase offer which does not indicate a potential impairment. For more details on the disposal group held for sale relating to discontinued operations see note 7.

NOTE 25 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
		(in thousands of HRK)			
At 1 January 2014	*5,242,492*	**1,084,001**	**44,785**	**(67,604)**	**1,061,182**
Fair value of share based payments	-	-	978	-	978
At 31 December 2014	*5,242,492*	**1,084,001**	**45,763**	**(67,604)**	**1,062,160**
At 1 January 2015	*5,242,492*	**1,084,001**	**45,763**	**(67,604)**	**1,062,160**
Issue of new shares (i)	*1,700,000*	374,000	132,394	-	**506,394**
Increase of capital from reinvested profits (ii)	-	108,400	-	-	**108,400**
Purchase of treasury shares (iii)	*18,000*	-	-	(5,899)	**(5,899)**
Exercise of options (iii)	*(18,000)*	-	(2,638)	6,794	**4,156**
Fair value of share based payments (iii)	-	-	8,660	-	**8,660**
At 31 December 2015	*6,942,492*	**1,566,401**	**184,179**	**(66,709)**	**1,683,871**

As at 31 December 2015, the Company's share capital amounted to HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 177,511 relates to treasury shares (2014: HRK 1,084,001 thousand and 5,420,003 shares out of which 177,511 relates to treasury shares). Nominal value of one share amounts to HRK 220. All issued shares are fully paid in.

(i) The issue of new shares

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

As part of the increase of share capital, the Company launched an employee stock ownership program whereby employees of certain companies of the Podravka Group in Croatia had the right of primary subscription of shares as part of the share capital increase with an option of gaining additional shares depending on meeting the conditions for holding of shares over the next three years. The employee stock ownership program is described in more detail in note 33.

(ii) Capital increase from reinvested profits

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

(iii) Share-based payments

During 2015, the Company purchased 18,000 of its own shares for allocation under the stock option plan for employees. During the year the Company also issued additional options to employees under the stock option plan for employees, but also as part of the employee stock ownership (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 33(ii) to the unconsolidated financial statements.

NOTE 25 – SHARE CAPITAL (CONTINUED)

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

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

NOTE 26 – RESERVES

	Reserves for treasury shares	**Legal reserves**	**Reinvested profit reserve**	**Other reserves**	**Total**
(in thousands of HRK)					
At 1 January 2014	21,762	-	-	-	21,762
Coverage of losses	45,842	2,569	-	2,955	51,366
Transfer from retained earnings	-	-	108,400	-	108,400
At 31 December 2014	**67,604**	**2,569**	**108,400**	**2,955**	**181,528**
At 1 January 2015	67,604	2,569	108,400	2,955	181,528
Allocation of profits (i)	80,000	10,084	-	3,190	93,274
Share capital increase (note 25(ii))	-	-	(108,400)	-	(108,400)
Actuarial loss (net of deferred tax)	-	-	-	(49)	(49)
At 31 December 2015	**147,604**	**12,653**	**-**	**6,096**	**166,353**

The legal reserve is required under Croatian law according to which the Company is committed to build up legal reserves to a minimum of 5% of the profit for the year until the total reserve reaches 5% of the share capital. Both legal reserves and reserves for treasury shares are non-distributable. Other reserves mainly relate to (non-distributable) reserves required by the Company's statute and actuarial gains and losses related to the assessment of long-term provisions for employee benefits.

(i) Allocation of profits

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

NOTE 27 – RETAINED EARNINGS

The movement in retained earnings is as follows:

	2015	2014
	(in thousands of HRK)	
At 1 January	**94,176**	**51,366**
- profit for the year (after tax)	156,972	201,674
- transfer to reserves	(93,274)	(51,366)
- effect of merger of subsidiary (note 37)	(57,724)	902
- transfer to reinvested profit reserve	-	(108,400)
At 31 December	**100,150**	**94,176**

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

NOTE 28 – FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Detailed overview of the interest rate swaps is as follows:

31 Dec 2015	Nominal amount of loan under IRS '000 EUR	Loan liability under IRS '000 EUR	Fair value of IRS '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part of interest rate per IRS
SWAP 1 - EBRD	25,671	20,540	1,637	17.09.2014	16.08.2019	3M EURIBOR	0.40%
SWAP 2 - EBRD	25,671	20,540	832	06.02.2015	16.08.2019	3M EURIBOR	0.19%
	51,342	**41,080**	**2,469**				

31 Dec 2014	Nominal amount of loan under IRS '000 EUR	Loan liability under IRS '000 EUR	Fair value of IRS '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part of interest rate per IRS
SWAP - Tranche A	-	-	221	16.11.2012	16.12.2015	3M EURIBOR	0.50%
SWAP - Tranche B	-	-	1,771	16.11.2012	16.12.2015	3M EURIBOR	0.63%
SWAP - EBRD (A+B)	25,671	24,645	760	17.9.2014	16.8.2019	3M EURIBOR	0.40%
	25,671	**24,645**	**2,752**				

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

In 2014 the Company entered into interest rate swap agreement whereby it fixed interest expense for the 35% of the principal of the syndicated loan from the EBRD for the period from 16 December 2015 until maturity of the loan. During 2015, the Company entered into another interest rate agreement whereby it fixed interest rate expense for an additional 35% of the principal of the syndicated loan with EBRD. Effectively, the Company fixed interest rate expenses for a total of 70% of the principal of the syndicated loan at the reporting date and at the date of approval of these financial statements as shown in the table above.

Fair value measurement

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

NOTE 29 – BORROWINGS

	2015	2014
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	275,936	243,913
Banks abroad	358,508	449,612
Finance leases	388	1,162
	634,832	**694,687**
Current borrowings		
Banks in Croatia	160,718	76,559
Banks abroad	89,554	89,864
Finance leases	1,029	736
	251,301	**167,159**
Total borrowings	**886,133**	**861,846**

During 2014, the Company has refinanced a significant portion of the debt with the new long-term syndicated loan from EBRD and three commercial banks in the total amount of HRK 559,417 thousand with final maturity on August 16, 2019.

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

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

Bank borrowings in the amount of HRK 608,133 thousand (2014: HRK 719,475 thousand) are secured by mortgages over the Company's land and buildings with a carrying amount of HRK 371,281 thousand (2014: HRK 313,151 thousand) and by mortgages over assets of subsidiaries with a carrying amount of HRK 94,062 thousand (note 17).

The finance lease liabilities are as follows:

	Minimum lease payments		Finance cost		Present value	
	2015	2014	2015	2014	2015	2014
			(in thousands of HRK)			
Up to 1 year	1,064	810	(35)	(74)	1,029	736
Between 1 and 5 years	396	1,190	(8)	(28)	388	1,162
After 5 years	-	-	-	-	-	-
Total	**1,460**	**2,000**	**(43)**	**(102)**	**1,417**	**1,898**

	2015	2014
Included in the unconsolidated financial statements within:		
Current borrowings	1,029	736
Non-current borrowings	388	1,162
	1,417	**1,898**

NOTE 29 – BORROWINGS (CONTINUED)

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

	2015	2014
	(in thousands of HRK)	
Between 1 and 2 years	249,714	142,301
Between 2 and 5 years	381,187	555,138
Over 5 years	6,400	-
	637,301	**697,439**

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

	2015		2014	
	HRK	EUR	HRK	EUR
Non-current borrowings				
Banks in Croatia	3.99%	3.89%	3.97%	3.58%
Banks abroad	-	2.50%	-	2.33%
Finance leases	-	3.80%	-	4.08%
Current borrowings				
Banks	3.39%	1.95%	3.88%	-

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

	2015	2014
	(in thousands of HRK)	
Croatian kuna	364,514	307,064
EUR	524,088	557,534
	888,602	**864,598**

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

The Company has the following undrawn borrowing facilities:

	2015	2014
	(in thousands of HRK)	
Floating rate:		
- expiring within one year	75,920	63,483
	75,920	**63,483**

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

NOTE 30 – PROVISIONS

(in thousands of HRK)	Jubilee awards	Unused holiday	Retirement benefits	Termination benefits and bonuses	Legal cases	Total
As at 31 December 2014:						
Non-current	6,794	-	7,667	-	16,078	30,539
Current	1,347	4,868	-	14,216	163	20,594
	8,141	**4,868**	**7,667**	**14,216**	**16,241**	**51,133**
Increase/(decrease) in provisions	1,280	3,720	731	23,382	(1,614)	27,499
Utilised during the year	(1,564)	(4,868)	-	(18,914)	-	(25,346)
Effect of merger of subsidiary (note 37)	1,314	1,133	940	132	190	3,709
At 31 December 2015	**9,171**	**4,853**	**9,338**	**18,816**	**14,817**	**56,995**
As at 31 December 2015:						
Non-current	7,675	-	9,338	-	14,654	31,667
Current	1,496	4,853	-	18,816	163	25,328
	9,171	**4,853**	**9,338**	**18,816**	**14,817**	**56,995**

(i) Legal cases

Legal provisions relate to a number of legal proceedings initiated against the Company which stem from regular commercial activities and court cases including former employees. The expenses relating to the provisions are included in the unconsolidated statement of comprehensive income within 'Administrative expenses'. Based on the expert opinion of legal advisers, management believes that the outcome of these legal proceedings will not give rise to any significant losses beyond the amounts provided as at 31 December 2015.

(ii) Termination benefits and bonuses

As at 31 December 2015, the Company recognised HRK 5,943 thousand with respect to provisions for bonuses to key management (2014: HRK 5,310 thousand). Furthermore, during 2015 the Company recognized an expense in the amount of HRK 12,873 thousand relating to payment for early retirement benefits to 98 employees based on a formal workforce restructuring plan that will be paid during 2016.

(iii) Jubilee awards and regular retirement benefits

According to the Collective Labour Agreement the Company has an obligation to pay jubilee awards, retirement and other benefits to its employees. In accordance with the respective agreement, the employees are entitled to a regular retirement benefit (without stimulating retirement benefit) in the net amount of HRK 10 thousand, of which HRK 2 thousand are taxable. No other post-retirement benefits are provided. The present values of these liabilities, the related current service cost and past service cost were measured using the projected credit unit method.

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

	Estimate 2015	2014
Discount rate	3.80%	3.80%
Fluctuation rate	9.46%	9.36%
Average expected remaining working lives (in years)	22	22

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

	2015		2014	
(in thousands of HRK)	Jubilee awards	Retirement benefits	Jubilee awards	Retirement benefits
At 1 January	8,141	7,667	8,595	7,771
Effect of merger of subsidiary (note 37)	1,314	940	-	-
Current service cost	431	340	373	285
Interest expense	320	329	284	270
Actuarial (gains) / losses	529	62	165	(659)
Benefits paid	(1,564)	-	(1,276)	-
At 31 December	**9,171**	**9,338**	**8,141**	**7,667**

NOTE 31 – TRADE AND OTHER PAYABLES

	2015	2014
	(in thousands of HRK)	
Trade payables	286,358	214,401
Related party payables	11,671	50,437
Other liabilities	65,082	64,289
	363,111	**329,127**

As at 31 December 2015 and 31 December 2014 the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.

Other payables include the following:

	2015	2014
	(in thousands of HRK)	
Salaries and other benefits to employees	35,359	28,770
Deferred income (sale and leaseback)	6,609	15,422
Other accrued expenses	11,074	10,139
Package waste disposal fee payable	2,423	2,931
Accrued interest	3,446	3,350
Taxes, contributions and other duties payable	2,317	1,765
Dividends payable	676	677
Net VAT payable	287	-
Other payables	2,891	1,235
	65,082	**64,289**

NOTE 32 – RISK MANAGEMENT

Financial risk management

Categories of financial instruments are as follows:

	2015	2014
	(in thousands of HRK)	
Financial assets		
Trade receivables (including bills of exchange received)	507,202	426,235
Cash and cash equivalents	95,414	88,785
Long-term loans	98,440	77,353
Long-term deposits	1,591	1,468
Short-term loans	49,511	56,425
	752,158	**650,266**
Financial assets at fair value through profit and loss		
Forward contracts	215	-
	752,373	**650,266**
Financial liabilities at amortised cost		
Financial lease liabilities	1,417	1,898
Borrowings	884,716	859,948
Trade and interest payables	301,475	268,188
	1,187,608	**1,130,034**
Financial liabilities at fair value through profit and loss		
Interest swap	2,469	2,752
	1,190,077	**1,132,786**

Fair value of financial instruments

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

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

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

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

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

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

Financial liabilities relating to the interest rate swaps are measured at fair value as explained in note 28.

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Capital risk management

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

	2015	2014
	(in thousands of HRK)	
Debt (long- and short-term borrowings)	886,133	861,846
Cash and cash equivalents	(95,414)	(88,785)
Net debt	790,719	773,061
Equity	1,950,374	1,337,864
Net debt to equity ratio	41%	58%

Debt is defined as long-term and short-term borrowings and bonds. Equity includes all capital and reserves of the Company. Besides monitoring the ratio of net debt to equity, the Company also monitors the ratio of consolidated operating profit before depreciation and amortization (EBITDA) and debt as part of its compliance with the terms of the syndicated loan agreement (see note 29). As at 31 December 2015 the Company was within the defined ratio.

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

Credit risk management

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

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

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 collected from several sources (financial statements, credit ratings etc.). The Group's exposure and the credit ratings of its counterparties are continuously monitored and credit exposure is controlled by counterparty limits that are reviewed at least annually.

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

The Company does not have significant credit risk exposures which are not covered by instruments of insurance and which have not been reflected in its assessment of impairment allowance as at 31 December 2015.

NOTE 32 – RISK MANAGEMENT (continued)

Financial risk management (continued)

Liquidity risk management

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

Liquidity risk analysis

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

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

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

as at 31 December 2015	**Net book value**	**Contracted cash flow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Interest rate swap	**2,469**	2,469	-	2,469	-
Trade and interest payables	**301,475**	301,475	301,475	-	-
	303,944	303,944	301,475	2,469	-
Interest bearing liabilities:					
Financial lease liabilities	**1,417**	1,460	1,064	396	-
Loans and borrowings	**884,716**	940,499	274,953	665,546	-
	886,133	941,959	276,017	665,942	-
	1,190,077	1,245,903	577,492	668,411	-
Non-interest bearing assets:					
Trade receivables (including bills of exchange)	**507,202**	507,202	507,202	-	-
Forward contracts	**215**	215	215	-	-
Cash and cash equivalents	**95,414**	95,414	95,414	-	-
	602,831	602,831	602,831	-	-
Interest bearing assets:					
Long-term and short-term loans	**147,951**	156,009	53,796	102,213	-
Long-term deposits	**1,591**	1,591	-	1,591	-
	149,542	157,600	53,796	103,804	-
	752,373	760,431	656,627	103,804	-

NOTE 32 – RISK MANAGEMENT (continued)

Financial risk management (continued)

Liquidity risk management (continued)

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

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management (continued)

Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. A large majority of the Company's borrowings are at variable rates. The Company uses the interest rate swap for managing interest rate risk (note 28).

Exposure to changes in interest rates on borrowings and loans (excluding the part of loans covered with the interest rate swap agreement at the reporting date) in accordance with the agreed dates of changes in interest rates is as follows:

	2015	**2014**
	(in thousands of HRK)	
EURIBOR based bank loans	193,760	364,067
MF bill of exchange based loans*	26,583	7,917
EURIBOR based finance leases	1,417	1,898
	221,760	**373,882**

**Ministry of Finance bill of exchange*

Interest rate sensitivity analysis

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

as at 31 December 2015	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
		(in thousands of HRK)			
At currently applicable interest rates	**231,480**	108,941	35,949	86,590	-
At currently applicable interest rates + 50 basis points	**233,318**	109,788	36,453	87,077	-
Effect of increase of interest rate by 50 basis points	**(1,838)**	**(847)**	**(504)**	**(487)**	**-**

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

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

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Operational risk management

Market risks

(i) Price risk

The Company's 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 Company manufactures, therefore, it is subject to fluctuations of prices on the raw materials markets, whose impact cannot always be mitigated through the sale price for the buyer.

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

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

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

(ii) Currency risk

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

	Liabilities		**Assets**	
	2015	**2014**	**2015**	**2014**
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	562,031	638,706	329,781	254,399
USA (USD)	3,887	11,539	26,946	14,262
Russia (RUB)	-	-	14,325	166
Australia (AUD)	-	-	11,660	17,261
Other currencies	-	609	3,491	7,836
	565,918	**650,854**	**386,203**	**293,924**

Foreign currency sensitivity analysis

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

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

Exchange rate risk is arising from business operations of subsidiaries in foreign markets and the purchase of food raw materials in the international market which is done in Euro and US dollar. Also, the Company has a significant part of the borrowings denominated in foreign currencies. During 2015, the Croatian Kuna exchange rate remained stable and the slow sliding of average exchange rate to higher levels for the whole year has stopped. During 2015 Podravka d.d. has entered into forward contracts related to the USD, RUB and HUF for the purpose of active control and minimization of exchange rate risk.

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

(ii) Currency risk (continued)

Currency risk analysis was prepared on the basis of the official exchange rates of foreign currencies analysed according to the Croatian National Bank, which were as follows:

	31 Dec 2015	31 Dec 2014
EUR	7.6350470	7.6614710
USD	6.9918010	6.3021070
AUD	5.1005730	5.1464170
RUB	0.0960000	0.1050000

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

	EUR exposure		USD exposure	
	2015	2014	2015	2014
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	(2,323)	(3,843)	231	27

	RUB exposure		AUD exposure	
	2015	2014	2015	2014
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	143	2	117	173

(iii) Sales function based risks

The Company generates approximately 53.3% (2014: 53.4%) of its revenue on the domestic market, whereas around 46.7% (2014: 46.6%) of the sales are generated on international markets, mainly through related entities. The Company determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets which at the same present the most significant function based risk.

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

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

NOTE 33 – SHARE-BASED PAYMENTS

(i) Employee share options

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

All the terms and conditions apply, unless circumstances arise as provided in each of the contracts applicable to the periods that implies an early termination of a mandate, breach of contractual provisions, relocation within the company, etc., in which case such an option generally becomes exercisable within six months from the occurrence of any of the circumstances described above.

The following share-based payment arrangements were effective in the current and comparative reporting periods:

Date of issue	Number of options	Vesting terms	Contracted vesting period
Options granted to key management			
As at 31 December 2010	4,000	Employment until contracted vesting period	31.12.2016
	4,000	Employment until contracted vesting period	31.12.2016
As at 31 December 2011	4,000	Employment until contracted vesting period	31.12.2016
	4,000	Employment until contracted vesting period	31.12.2016
As at 24 February 2012	1,000	Employment until contracted vesting period	31.12.2016
As at 24 February 2012	1,000	Employment until contracted vesting period	31.12.2016
As at 24 February 2012	16,000	Employment until contracted vesting period	31.12.2017
As at 3 January 2013	2,000	Employment until contracted vesting period	31.12.2016
As at 23 December 2013	18,020	Employment until contracted vesting period	31.12.2018
As at 23 December 2013	5,300	Employment until contracted vesting period	18.7.2017
As at 23 December 2013	5,300	Employment until contracted vesting period	31.12.2017
As at 1 January 2014	2,000	Employment until contracted vesting period	31.12.2018
As at 9 October 2014	2,500	Employment until contracted vesting period	31.12.2018
As at 3 January 2013	2,000	Employment until contracted vesting period	31.12.2017
As at 9 October 2014	4,500	Employment until contracted vesting period	31.12.2019
As at 28 December 2014	21,444	Employment until contracted vesting period	31.12.2019
As at 31 December 2015	28,089	Employment until contracted vesting period	31.12.2020
As at 31 December 2015	2,000	Employment until contracted vesting period	31.12.2018
Total	**127,153**		

NOTE 33 – SHARE-BASED PAYMENTS (CONTINUED)

(i) Employee share options (continued)

Fair value measurement

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

Input variables for calculation of fair value:

Share option programme for key management	**2015**	**2014**
Fair value at grant date in kuna	83	78
Share price in kuna at grant date (weighted average)	281	265
Exercise price in kuna	281	276
Expected volatility (weighted average)	22%	24%
Expected life (weighted average in years)	4.4	4.5
Expected dividends	0%	0%
Risk-free interest rate (based on government bonds)	5.51%	5.21%

Expense recognised in profit or loss	**2015**	**2014**
	(in HRK thousands)	
Equity-settled share-based payment transactions	2,005	978

The exercise price of share options for key management falls within the range HRK 218 to HRK 319. Movement in the number of share options and respective exercise prices is as follows:

	2015		**2014**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Outstanding at 1 January	135,278	276	108,620	273
Exercised	(18,000)	-	-	-
Expired	(20,214)	-	(17,000)	-
Granted	30,089	281	43,658	265
At 31 December	**127,153**	**281**	**135,278**	**276**
Exercisable at 31 Dec	**127,153**		**135,278**	

As at 31 December 2015, there are 127,153 of outstanding options (2014: 135,278 options). During 2015, 18,000 options were exercised (2014: -).

The weighted average exercise price of outstanding options at the year-end is HRK 281 (2014: HRK 276).

The weighted average remaining validity of options is 4.4 years at year end (2014: 4.5 years).

NOTE 33 – SHARE-BASED PAYMENTS (CONTINUED)

(ii) Employee Stock Ownership Program

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

A total of 88,475 shares were registered in ESOP, of which 73,941 shares are related to the Company (including Danica d.o.o.). The fair value of the shares at the date of issue amounted to HRK 300 and exercise price of additional shares was also HRK 300. The Company recognized HRK 6,655 thousand of expense based on ESOP within other financial expenses.

NOTE 34 – RELATED PARTY TRANSACTIONS

Transactions with subsidiaries

REVENUE

Sales revenue

	Revenue from sale of products and merchandise		**Revenue from services**	
	2015	**2014**	**2015**	**2014**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company:				
Podravka d.o.o., Sarajevo	141,588	146,709	2,125	1,630
Podravka d.o.o., Ljubljana	100,751	95,635	2,245	2,457
Podravka d.o.o., Belgrade	71,468	60,674	1,749	703
Podravka-Int.Deutschland-"Konar" GmbH	59,923	51,151	433	219
Podravka d.o.o.e.l., Skopje	46,759	41,061	383	443
Podravka-International Pty Ltd, Sydney	32,842	34,236	173	168
Podravka d.o.o., Podgorica	29,818	30,878	773	710
Danica d.o.o., Koprivnica	7,906	14,773	17,904	18,277
Podravka-International Inc. Wilmington	43,605	37,389	404	277
Podravka-Polska Sp.z o.o., Kostrzyn	70,978	51,346	991	2,785
Podravka-International kft, Budapest	16,655	14,824	497	746
Podravka-International s r.o., Zvolen	16,143	15,340	479	445
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	14,247	12,193	1,209	1,104
Ital-Ice d.o.o., Poreč	-	-	-	30
Belupo d.d., Koprivnica	-	1,975	15,263	15,997
Mirna d.d., Rovinj	2,387	-	1,380	-
Vegeta Podravka Limited, Dar es Salaam	1,598	-	39	-
Podravka Gulf Fze, Jebel Ali	1,636	-	33	-
Podravka d.o.o., Moskva	22,734	-	7	-
Žito d.d., Ljubljana	10	-	-	-
Total related party sales	**681,048**	**608,184**	**46,087**	**45,991**

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

Investment revenue

	2015	2014
	(in thousands of HRK)	
Interest income	7,374	5,875
Dividends from subsidiaries	69,000	110,000
Income from other long-term investments	11,504	-
	87,878	**115,875**

EXPENSES

Remuneration to the Management Board members and executives

Remuneration to the Management board and executives were as follows:

	2015	2014
	(in thousands of HRK)	
Salaries	25,060	23,430
Termination benefits	-	1,281
Share-based payments (note 33)	2,005	978
	27,065	**25,689**

Key management of the Company comprises the Management Board and executive directors and consists of 31 persons (2014: 28 persons).

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

LOANS RECEIVABLE

Loans receivable

	2015	2014
	(in thousands of HRK)	
At beginning of year	127,623	89,157
Increase during the year	143,214	119,460
Repayments received	(79,137)	(80,143)
Other changes – write-offs	(47,918)	(920)
Foreign exchange difference	410	69
At end of year	**144,192**	**127,623**
Maturity: within one year	(48,711)	(54,373)
Non-current loans receivable	**95,481**	**73,250**

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

LOANS RECEIVABLE (CONTINUED)

Loans receivable (continued)

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

	Interest rate	2015	2014
		(in thousands of HRK)	
Belupo d.d., Koprivnica	3% p.a.	110,000	75,000
Danica d.o.o., Koprivnica	7% p.a.	-	52,043
Mirna d.d., Rovinj	3% p.a.	14,375	-
Podravka Gulf FZE, Dubai	3% p.a.	6,992	-
Vegeta Podravka Limited, Tanzania	3% p.a.	3,111	-
Podravka-International USA Inc., Wilmington	3% p.a.	643	580
Podravka d.o.o., Belgrade	3% p.a.	7,635	-
LCC Podravka Russia	3% p.a.	1,436	-
		144,192	**127,623**

The effective interest rate is 3.00 % p.a.

The maturity of long-term loans is as follows:

	2015	2014
	(in thousands of HRK)	
Between 1 and 2 years	25,496	19,160
Between 2 and 5 years	69,985	54,090
	95,481	**73,250**

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

TRADE RECEIVABLES AND PAYABLES

	Current trade receivables		Current trade payables	
	2015	**2014**	**2015**	**2014**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company:				
Podravka d.o.o., Sarajevo	71,285	78,140	-	-
Danica d.o.o., Koprivnica	-	17,956	-	45,883
Podravka d.o.o., Belgrade	63,916	34,940	136	733
Podravka d.o.o., Ljubljana	33,124	30,113	8	8
Podravka d.o.o., Podgorica	19,648	20,089	10	-
Belupo d.d., Koprivnica	7,850	14,076	380	547
Podravka d.o.o.e.l., Skopje	13,172	12,829	(14)	164
Podravka-International Inc. Wilmington	11,185	10,965	175	507
Podravka-International Pty Ltd, Sydney	10,687	10,859	-	-
Podravka-Polska Sp.z o.o., Kostrzyn	19,986	7,675	20	850
Podravka-Int.Deutschland-„Konar“ GmbH	5,447	4,870	1,261	52
Podravka-International kft, Budapest	1,967	2,567	-	40
Podravka-International s r.o., Zvolen	1,474	2,382	1	-
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	1	1,401	4,387	1,653
Podravka d.o.o., Moscow	12,822	-	-	-
Mirna d.d., Rovinj	14,134	-	4,527	-
Vegeta Podravka Limited, Dar es Salaam	1,906	-	-	-
Podravka Gulf Fze, Jebel Ali	1,537	-	676	-
Žito d.d., Ljubljana	207	-	21	-
Podravka-International s.r.l., Bucharest	-	-	83	-
Total related party receivables and payables	**290,348**	**248,862**	**11,671**	**50,437**

OTHER RECEIVABLES

Other interest receivables from related parties

	2015	**2014**
	(in thousands of HRK)	
Belupo d.d., Koprivnica	68	-
Danica d.o.o., Koprivnica	-	300
Mirna d.d., Rovinj	536	-
Podravka International USA Inc., Wilmington	40	-
Vegeta Podravka Limited, Tanzania	37	-
Podravka Gulf FZE, Dubai	17	-
Podravka d.o.o., Beograd	9	-
LCC Podravka Russia	3	-
	710	**300**

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

GUARANTEES AND WARRANTIES

	2015	2014
	(in thousands of HRK)	
Danica d.o.o., Koprivnica	-	78,710
Belupo d.d., Koprivnica	351,832	76,127
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	28,261	27,645
Podravka d.o.o., Sarajevo	7,807	7,834
Podravka d.o.o., Belgrade	3,981	3,498
Podravka d.o.o., Ljubljana	1,565	1,303
Podravka-International S.R.L., Bucharest	2,298	1,039
Podravka - International Kft, Budapest	764	766
Mirna d.d., Rovinj	2,000	-
	398,508	**196,922**

RELATIONS WITH OTHER RELATED PARTIES

	2015	2014
	(in thousands of HRK)	
Receivables from Mirna d.d. Rovinj	-	2,764
Investment in Mirna d.d. Rovinj	-	1,413
	-	**4,177**

During 2015, Mirna d.d. became a subsidiary of Podravka d.d.

RECEIVABLE FOR DIVIDEND

	2015	2014
	(in thousands of HRK)	
Belupo d.d., Koprivnica	69,000	110,000
	69,000	**110,000**

NOTE 34 – CONTINGENT LIABILITIES

	2015	2014
	(in thousands of HRK)	
Guarantees – third parties	22,689	8,407
Guarantees – related parties	398,508	196,922
	421,197	**205,329**

Guarantees mainly relate to the potential liability of the Company on the basis of declaration of solidary guarantee of the main shareholder of Žito d.d. issued in favour of minority shareholders, of Customs Authorities' guarantee, guarantees for concession contract for the extraction of drinking water and mineral water, guarantees for transit procedures, and partly relate to performance guarantees given to customers. With respect to guarantees and warranties granted, contingent liabilities have not been recognised in the unconsolidated statement of financial position as management estimated that, as at 31 December 2015 and 2014, it is not probable that they will result in liabilities for the Company.

NOTE 36 – COMMITMENTS

In 2015, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 40,667 thousand (2014: HRK 6,595 thousand), which are not yet realised or recognised in the statement of financial position.

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

	2015	**2014**
	(in thousands of HRK)	
Up to 1 year	7,726	10,842
From 1 to 5 years	11,697	7,268
	19,423	**18,110**

NOTE 37 – MERGER OF SUBSIDIARIES

On October 1, 2015, the Company merged subsidiary Danica d.o.o. The merger was carried out by carrying values. Assets and liabilities of the subsidiary in the merger were as follows:

(in thousands of HRK)	**1 Oct 2015**
Non-current assets	
Non-current financial assets	76
Property, plant and equipment	111,121
Deferred tax assets	978
	112,175
Current assets	
Inventory	52,056
Trade and other receivables	38,477
Cash and cash equivalents	3,033
	93,566
TOTAL ASSETS	**205,741**
Non-current liabilities	
Borrowings	32,779
Provisions	2,197
	34,976
Current liabilities	
Trade and other payables	80,868
Borrowings	61,389
Provisions	1,512
	143,769
TOTAL LIABILITIES	**178,745**
NET ASSETS	**26,996**

In accordance with the reported net assets of the merged subsidiary, the merger had the following effect on the capital and reserves of the Company:

(in thousands of HRK)	**1 Oct 2015**
Carrying amount of investment in subsidiary	84,720
Net assets of subsidiary upon merger	26,996
Effect of merger on equity	**57,724**