BELUPO d.d. and its Subsidiaries,
Koprivnica

Annual report 31 December 2016

This version of the 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 the report takes precedence over this translation.

1. DESCPRIPTION OF BUSINESS ACTIVITIES

Belupo Pharmaceuticals and Cosmetics Inc. Koprivnica (hereinafter referred to as: Belupo) is a joint stock company whose core business is the production and distribution of drugs, pharmaceuticals, ancillary medicinal substances and other chemical products.

The company number of Belupo is 03805140, PIN 74181493335, and its registered headquarters is at the address: Ulica Danica 5, 48000 Koprivnica.

The share capital of the Company amounts to HRK 410.087.600.00 and is divided into 4,100,876 ordinary registered shares with a nominal value of HRK 100.00 each.

Historical development
An overview of some of the most significant events in the history of the Belupo Group:

Year	EVENT
1970	Podravka began preparations for manufacturing pharmaceutical and chemical products, thus creating conditions to enter into a new strategic business area
1971	The first modern factory for the production of pharmaceuticals was built in Ludbreg
1980	Fast growth and expansion of the production programmes necessitated the construction of a new factory in Koprivnica, where the headquarters is still situated today
1999	Construction of a new factory for solid drugs
2000	Opening of representative offices in Moscow, Prague and Belgrade Belupo - member of the association of manufacturers of generic drugs Golden plaque for the most successful company in the county in the category of large trade companies
2002	Daughter company established in Slovenia with headquarters in Ljubljana Plaque «Golden Marten» for the most successful company in the county in the category of large trade companies
2003	Crystal Bowl for the Event Project of the Year, FESTO 2001, Opatija, Croatia; OTC NEWS Marketing & Creative Award 2002, Copenhagen, Denmark Grand Global The Best In Healthcare Communications Worldwide in 2002, The New York Festivals, New York, USA **GRAND GLOBAL - SOCIAL COMMITMENT** Gold plaque for business excellence of the County Chamber Koprivnica Daughter company established in Slovakia with headquarters in Bratislava

Year	EVENT
2004	Construction of a factory for semi-solid and liquid drugs completed
2005	A new microbiological lab and a new facility for control and quality assurance built Daughter company established in Macedonia, with headquarters in Skopje
2006	Plaque “Golden Marten” for the most successful large company in the Koprivnica – Križevci County Ginkgo – awarded the Croatian Quality symbol
2007	Chain of pharmacies - Pharmacies Deltis Pharm established, which today has 10 pharmacies
2008	Acquisition of majority share in Farmavita - pharmaceutical company in Bosnia and Herzegovina Employer Partner Certificate
2009	“Golden key” for the best Croatian exporters to Bosnia and Herzegovina in 2008. Superbrand for Belupo and Lupocet
2010	Farmavita – Manufacturing licence
2011	Neofen – Trusted Brand 2011 A new blister line in the amount of HRK 13 million
2012	Start of construction of new modern storage facilities Plaque «Golden Marten» for the most successful company in the county in the category of large trade companies
2013	Representative offices established in Poland, the Ukraine and Kazakhstan Start of a new investment cycle of Belupo - construction of two new factories A new warehouse for finished goods for domestic market opened and put into operation
2014	Decision and Licence for the wholesale of pharmaceutical products issued to Belupo Lupocet Best Buy Award Health 2014/2015. Farmavita, the most desirable employer in the pharmaceutical industry in Bosnia and Herzegovina for 2014 Farmavita established a representative office in Priština, Kosovo
2015	Contract on the first phase of construction of the new factory signed. The start of the construction of the main building of the new Belupo factories of the future. Plaque "Golden Marten" for business excellence in 2014, in the category of large Croatian companies. The Faculty of Pharmacy and Biochemistry, University of Zagreb and Belupo signed a Cooperation Agreement and Letter of Support. Farmavita – opening of a new business – storage facility.
2016	Belupo's factories of the future obtained a certificate of occupancy.

Description of the Belupo Group – organisational structure of the Group

GROUP COMPANIES	Belupo Ltd., Slovenia **100% Belupo Inc.**
	Belupo s.r.o., Slovakia **100% Belupo Inc**.
	Belupo dooel. Macedonia **100% Belupo Ltd.**
	Pharmacies Deltis pharm **100% Belupo Ltd.**
	Farmavita Ltd., B&H **65% Belupo Inc.**
REPRESENTATIVE OFFICES of Belupo Inc.	**Moscow, Russia**
	Prague, Czech Republic
	Sarajevo, B&H
	Belgrade, Serbia
	Priština, Kosovo
	Skopje, Macedonia
	Warsaw, Poland
	Kiev, the Ukraine
	Almaty, Kazahstan

Markets of the Belupo Group

In 2016, the Belupo Group realised sales of its products in the Croatian market and in foreign markets.

Through its organisational units, the Group is present in the following foreign markets: in Russia, the Ukraine, Kazakhstan, Slovakia, Slovenia, the Czech Republic, Poland, Bosnia and Herzegovina, Serbia, Montenegro, Kosovo and Macedonia. Sales have also been achieved in Albania, Turkey, Iraq, Denmark and Germany through cooperation with other distributors who are not part of the Group.

The most significant foreign markets are South-Eastern, Central and Eastern Europe - the most significant part of foreign sales was achieved in the markets of Bosnia and Herzegovina and Russia.

South-Eastern Europe

Markets of South-Eastern Europe primarily cover the countries of the Balkan region:

Bosnia and Herzegovina, Macedonia, Serbia, Montenegro and Kosovo.

Central Europe

The largest markets for the Belupo Group in Central Europe are the Czech Republic, Slovakia, Poland and Slovenia.

Eastern Europe

Eastern European markets of the Belupo Group are Russia, the Ukraine and Kazakhstan.

Production programme

Belupo manufactures the following products:

- Prescription drugs
- Non-prescription drugs and products

Belupo has products in its production programme that belong to the following anatomical therapeutic chemical classifications:

A preparations acting on the alimentary tract and metabolism

B preparations acting on blood and blood forming organs

C preparations acting on the cardiovascular system

D preparations for skin treatment - dermatologicals

G preparations acting on the genito-urinary system and sex hormones

J preparations for treating systemic infections

L preparations for treating malignant diseases and immunomodulating agents

M preparations acting on the musculo-skeletal system

N preparations acting on the nervous system

P preparations for treating infections caused by parasites

R preparations acting on the respiratory system

These groups of drugs are produced in a variety of forms such as tablets, capsules, film-tablets, solutions, lotions (in spray form), creams, ointments, gels, syrups, suspensions, pessaries, suppositories, powders and vials.

In 2016, Belupo enriched its product portfolio with another category - food for special medical purposes, i.e. enteral nutrition.

2. THE ASSEMBLY, SUPERVISORY BOARD, MANAGEMENT BOARD, AUDIT COMMITTEE

Company Assembly

The Company Assembly consists of the Management Board of Podravka Inc.

Supervisory Board

President	Zvonimir Mršić
Vice-President	Olivija Jakupec
Member	Ivana Matovina
Member	Branka Perković
Member	Miljenko Ćorić

Management Board

President	Hrvoje Kolarić
Member	Ksenija Punčikar

Audit Committee

President	Iva Brajević
Member	Branka Perković
Member	Senka Laljek

3. BUSINESS ACTIVITIES OF THE BELUPO GROUP IN 2016

Consolidated and unconsolidated statement of comprehensive income for the year ended 31 December 2016

(in thousands of HRK)	Notes	*Group* 2016	*Group* 2015 *Corrected	*Company* 2016	*Company* 2015 *Corrected
Revenue	7	816,944	806,597	592,006	566,579
Cost of goods sold	9a	(388,809)	(382,630)	(255,128)	(227,389)
Gross profit		**428,135**	**423,967**	**336,878**	**339,190**
Other income	8	15,899	1,053	15,880	955
General and administrative expenses	9b	(108,317)	(112,044)	(86,924)	(92,518)
Selling and distribution expenses	9c	(64,388)	(69,201)	(36,492)	(39,840)
Marketing expenses	9d	(158,354)	(161,803)	(137,575)	(142,951)
Other expenses	11	(2,294)	(34,320)	(2,636)	(46,086)
Operating profit		**110,681**	**47,652**	**89,131**	**18,750**
Finance income	13	1,170	445	2,961	2,265
Finance costs	14	(13,572)	(12,128)	(11,378)	(8,671)
Profit before tax		**98,279**	**35,969**	**80,714**	**12,344**
Income tax	15	(21,653)	154,290	(20,417)	158,622
Profit for the year		**76,626**	**190,259**	**60,297**	**170,966**
Other comprehensive income:					
Actuarial gains		66	101	130	99
Foreign operations – foreign currency translation		(640)	(219)	-	-
Total comprehensive income for the year		**76,052**	**190,141**	**60,427**	**171,065**
Profit attributable to:					
The equity holders of the parent		71,138	187,267		
Non-controlling interests		5,488	2,992		
		76,626	**190,259**		
Total comprehensive income attributable to:					
The equity holders of the parent		70,821	187,220		
Non-controlling interests	28	5,231	2,921		
		76,052	**190,141**		

Consolidated statement of financial position as at 31 December 2016

(in thousands of HRK)	**Notes**	*Group* **31 December 2016**	*Group* **2015 *Corrected**	*Company* **31 December 2016**	*Company* **2015 *Corrected**
ASSETS					
Non-current assets					
Intangible assets	17	96,274	97,799	50,161	48,433
Property, plant and equipment	18	808,265	446,772	711,960	345,912
Financial assets	20.23	333	330	13,874	98
Investments in subsidiaries	19	-	-	99,664	99,664
Deferred tax assets	16	145,396	163,971	148,955	169,397
		1,050,268	**708,872**	**1,024,614**	**663,504**
Current assets					
Inventories	21	179,710	155,143	135,181	121,837
Trade and other receivables	22	365,775	342,754	305,288	284,230
Loan receivables	23	-	-	2,898	-
Income tax receivable		3,937	17,543	3,918	17,453
Cash and cash equivalents	24	81,344	86,152	70,875	76,974
		630,766	**601,592**	**518,160**	**500,494**
Total assets		**1,681,034**	**1,310,464**	**1,542,774**	**1,163,998**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	25	410,087	410,087	410,087	410,087
Reserves	26	152,401	69,229	150,342	66,723
Retained earnings	27	257,511	300,921	241,799	296,050
Attributable to the equity holders of the parent		**819,999**	**780,237**	**802,228**	**772,860**
Non-controlling interests	28	44,757	39,526		
		864,756	**819,763**	**802,228**	**772,860**
Non-current liabilities					
Loans and borrowings	29	427,386	157,413	416,622	140,365
Provisions	30	7,392	6,396	6,426	6,062
Deferred tax liability	16	3,332	3,758	-	-
		438,110	**167,567**	**423,048**	**146,427**
Current liabilities					
Trade and other payables	31	291,149	209,166	264,338	174,957
Financial liabilities at fair value through profit or loss	32	914	-	914	-
Loans and borrowings	29	78,694	109,710	48,559	67,000
Income tax payable		1,482	666	-	-
Provisions	30	5,929	3,592	3,687	2,754
		378,168	**323,134**	**317,498**	**244,711**
		816,278	**490,701**	**740,546**	**391,138**
Total shareholders' equity and liabilities		**1,681,034**	**1,310,464**	**1,542,774**	**1,163,998**

4. EVENTS AFTER THE BUSINESS YEAR END

Increase in share capital

On 27 January 2017, the Commercial Court of Varaždin issued a Decision on share capital increase and changes to the Articles of Association of Belupo Inc. for an amount of HRK 69,000,000.00. On 23 December 2016, the General Assembly adopted a Decision to increase the share capital by rights-claims increasing from the amount of HRK 410,087,600.00 to the amount of HRK 479,087,600.00.

On 20 February 2017, the General Assembly made a Decision on the registered capital increase by entering of rights-reecivables in amount HRK 100,000,000.00, which was carried at the Commercial Court on 9 March 2017, so that the share capital was increased from HRK 479,087,600.00 to the amount of HRK 579,087,600.00.

Membership in the Supervisory Board

On 24 February 2017, President of the Supervisory Board Mr Zvonimir Mršić and Member of the Supervisory Board Ms Olivija Jakupec resigned from their functions and membership in the Supervosory Board of the Company.

5. AWARDS AND RECOGNITION IN THE YEAR 2016

Belupo receives Certificate of Appreciation for supporting scientific work of the Academy

April 2016

The President of the Croatian Academy of Medical Sciences, prof. dr. sc. Jasna Lipozenčić presented on 29 March at the Croatian Medical Association a Certificate of Appreciation to Belupo for supporting the scientific work of the Academy. Belupo's CEO, Hrvoje Kolarić, received the Certificate of Appreciation on behalf of the Company. As a long-time supporter of the Academy, Belupo encourages contemporary medical science, a generator of social progress and development, said Hrvoje Kolarić, thanking the members of the Academy.

6. BUSINESS EVENTS THAT HAVE MARKED THE YEAR 2016

Belupo's factories of the future obtain a certificate of occupancy

Exceptional efforts of all contractors, huge engagement of Belupo employees and colleagues from Podravka as professional supervisors, contributed to Belupo being able to carry out technical inspection and to obtain a certificate of occupancy for two new factories of solid, semi-solid and liquid forms of drugs, in accordance with the agreed work schedule. On 23 December 2016, the City of Koprivnica issued a certificate of occupancy that on 29 December became final and legally binding.

The first supplies of drugs from the new production facilities are planned to be placed on the Croatian and 16 other European markets in mid-2017, after obtaining the production licence. The construction of two Belupo factories, in which more than HRK 500 million has been invested, is currently the largest greenfield investment in Croatia. These new Belupo factories of the future, as they are called, will be equipped with the latest technology, which will bring greater competitiveness in pharmaceutical production and increase the existing production capacity 1.5 times. Employment of about a hundred employees with university and secondary school qualifications in the field of pharmacy, chemistry and technical professions is planned. In the years to come, production capacities will be sufficient for the growing needs of expansion into new markets and new production niches.

Technical inspection of the facilities began on 15 December 2016, and the size of investment is boosted by the fact that it lasted five working days during which some sixty participants confirmed that they had not yet participated in such a comprehensive technical inspection. The underlying result is an extensive record specifying not a single deficiency that needed correcting.

Distribution of dividends

On 28 December 2016, the General Assembly voted for the payment of profit to the owner in the amount of HRK 100,000,000.00.

7. RESEARCH AND DEVELOPMENT

During 2016, Belupo's portfolio increased by 5 new products on the Croatian market and 4 new products on foreign markets. Three completely new brands were launched on the Croatian market in the segment of prescription drugs: Lacidipin Belupo from the group of calcium channel blockers - dihydropyridine derivatives, Beloxim as a new antibiotic, and Nutrixa, a new product with which Belupo is entering a new field - enteral nutrition.

In addition to these completely new brands, some existing ones were extended by new doses (Lupocet Flu Forte, Beloderm, Belogent, Bonna ...) or forms (RojazolDerm cream, Fersan Junior). Belupo launched the following new products on the Russian market: Amofin, for the treatment of fungal nail infections and Monlast in two forms, as film coated tablets and chewable tablets. Belupo placed its renowned non-prescription drugs Belmiran DAN, Belmiran SAN and Urosal Lady on the Czech market.

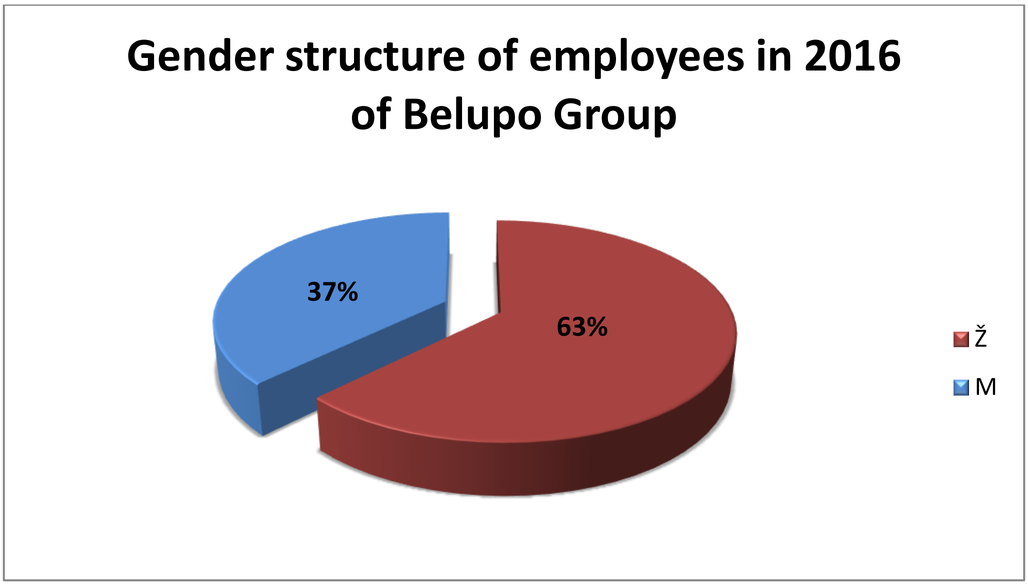
8. EMPLOYEES

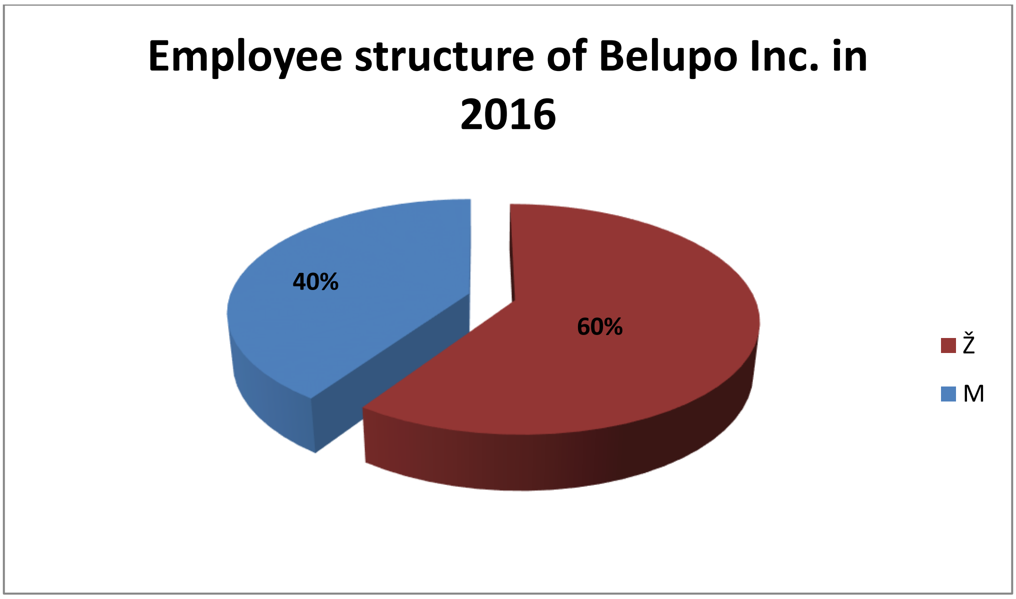
Belupo is a modern and efficient company whose success is based on high quality standards, and these high quality standards are also reflected in our human resource management. Belupo is a pharmaceutical company that cares for people and appreciates their importance, because they are the holders of all the activities and the main factor that gives the company its competitive advantage in the highly demanding market.

A lot of effort and resources are invested in working conditions, motivation systems, competence development, promotion and remuneration systems, increase of efficiency as well as a host of other programmes that contribute to Belupo's excellence in human resource management.

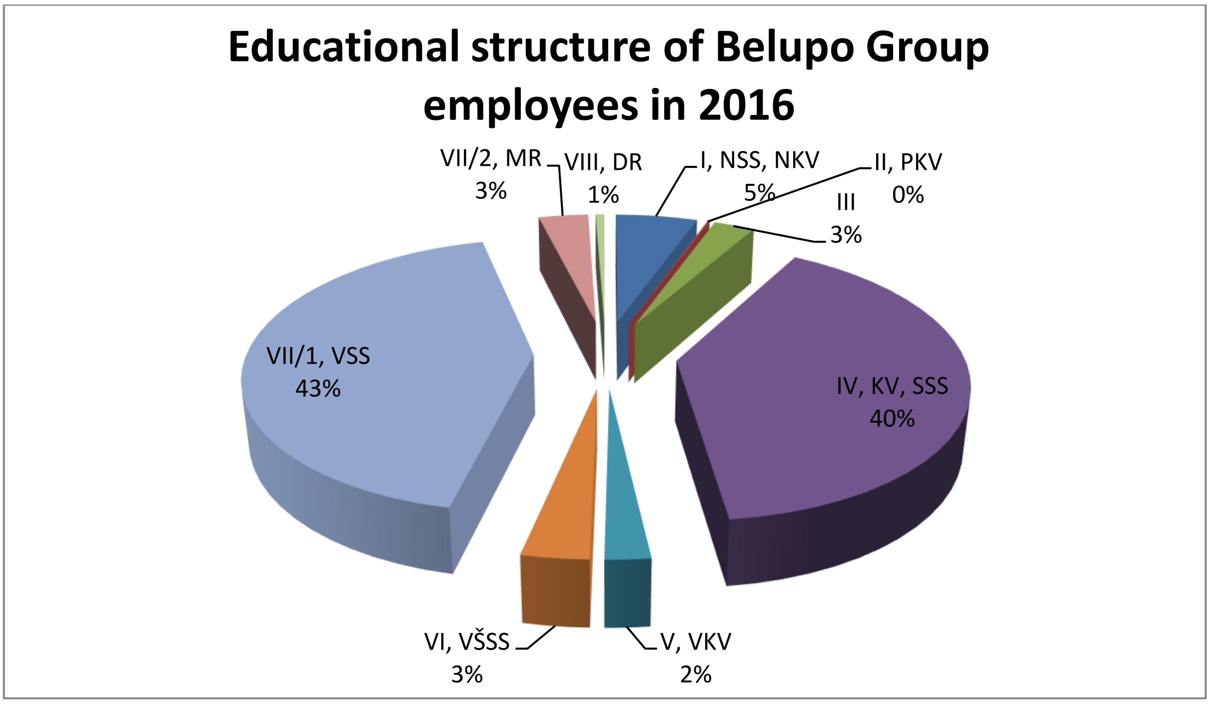
Knowledge is the power with which Belupo successfully faces all challenges of the business environment and we consider investment in knowledge as an investment in business development with manifold returns. We are a team of educated and dedicated professionals who with our enthusiasm, desire for quality and excellence have contributed to the growth of Belupo during all these years.

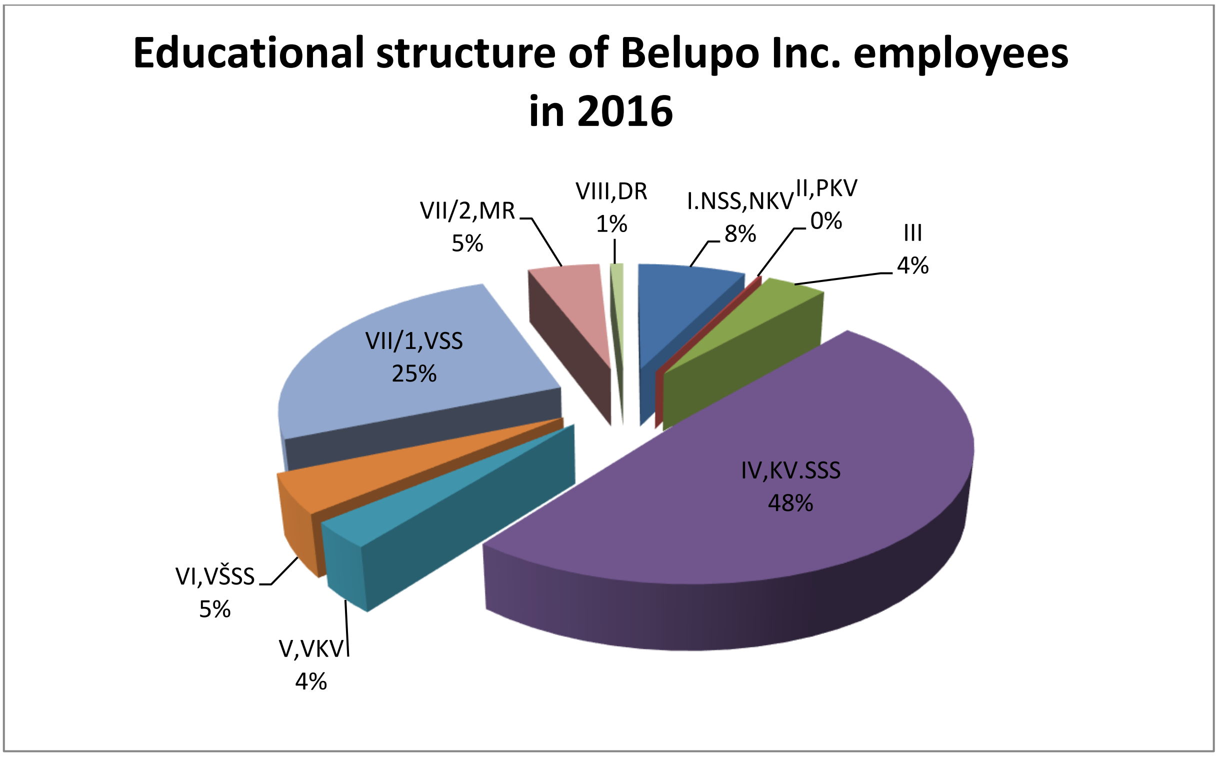
In 2016, the Belupo Group had 1.363 employees and Belupo d.d. employed 1,133 employees. The structure of employees by gender and level of education in the Belupo Group and Belupo d.d. are shown in in on the following page.



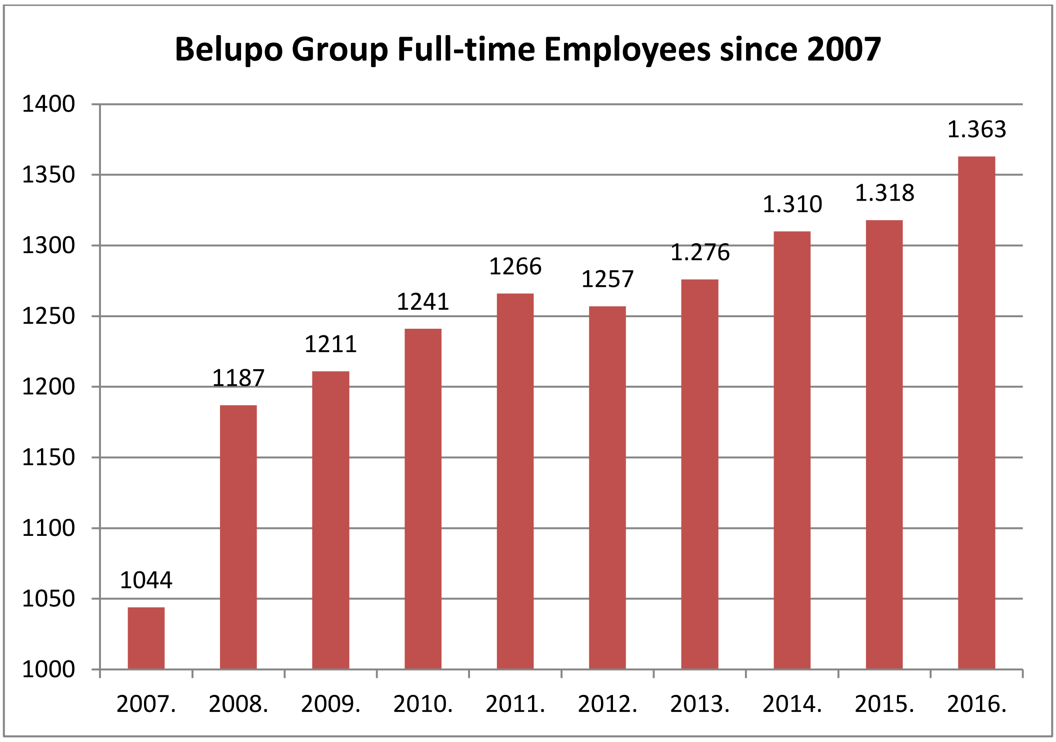


The gender structure of Belupo Group employees constitutes 63% women and 37% men and of Belupo Inc. 60% women and 40% men. Due to such a high proportion of women in the structure of employees, the understanding of sociological, economic and psychological aspects and consequences is extremely important. Belupo encourages motherhood with high maternity incentives and thus maximally supports pregnancy of its employees and emphasises the social importance of the family.


Educational structure of Belupo Group employees in 2016
VII/2, MR 3%
VIII, DR 1%
I, NSS, NKV 5%
II, PKV 0%
III 3%
VII/1, VSS 43%
IV, KV, SSS 40%
VI, VŠSS 3%
V, VKV 2%


Educational structure of Belupo Inc. employees in 2016
VII/2,MR 5%
VIII,DR 1%
I.NSS,NKV 8%
II,PKV 0%
III 4%
VII/1,VSS 25%
IV,KV.SSS 48%
VI,VŠSS 5%
V,VKV 4%

Belupo Group employment trends 2007-2016



During 2016, the development programme "Recipe for Excellence" was conducted. Six highly qualified employees with great potential, eager for additional engagement, and who had joined the programme "Recipe for Excellence" based on an internal invitation and been engaged since September 2015, had been raising their level of business competencies through modules tailored to their individual development needs during the whole of 2016.

The team for the improvement of the organizational climate and satisfaction consisting of employees from different parts of the company and all educational and hierarchical levels continued during 2016 to work on activities that are key to organizational climate improvement.

In the first quarter of 2016, the application of the tool called "360° Turnaround Feedback" continued for the purpose of assessing the development of key company and leadership competencies of executive and middle management. Hence, based on the collected assessments of 56 Belupo managers, guidelines for further development were set.

In the last quarter of 2016, Belupo implemented a competition called "I too am a Podravka employee who contributes to Company success" aimed at implementing and developing better understanding of company values.

In 2016, special focus was put on the initiative competence. Through a public call, all employees could suggest colleagues within whom they recognize they live company values; create trust in relationships, are focused on customer satisfaction, and are also creative, innovative, demonstrate excellence in business and passionately work towards achieving company goals.

With the aim of strengthening managerial competence, an internal training programme "Excellence in Management" for higher executive directors and managers directed towards five key leadership competencies was conducted from June to October 2016. Modules covered the areas of communication, emotional intelligence, personality traits and motivation, teamwork and cooperation, leadership skills and change management, coaching and feedback.

Upon completion of the programme "Excellence in Management", the programme was evaluated by 34 participants providing feedback on programme accomplishment, suggestions for its continuation and running of the same programme for mid-level managers.

9. SAFETY AT WORK

Belupo invests great energy, knowledge and significant resources in activities that promote a health keeping culture.

The Safety at Work Service is in charge of the prevention of accidents at work, the emergence of occupational diseases and other illnesses related to work as well as for the protection of the working environment. Continued implementation of planned activities is aimed at improving the working conditions and controlling the implementation of legal provisions related to safety at work.

Throughout the entire year of 2016, activities of the Safety at Work Service were directed to improving and controlling working conditions in all sectors of Belupo, as well as the education and training of employees. Under the new Regulations on Risk Assessment (Official Gazette NN 71/14), estimates of job risks in 6 sectors and audits of risk assessments for jobs with computers number 4 in 7 sectors were carried out.

Compliance with the basic rules of safety at work was checked through periodic tests of the following:

- machinery and equipment,
- electrical installations,
- testing of the working environment (noise, vibration, lighting, microclimate, chemical hazards of dust and organic solvent vapours).

According to the plan for 2016, testing of the machinery, equipment and working environment was performed in 8 sectors, chemical hazards in 2 sectors and electrical installations in 3 sectors.

Machines, equipment and working environment at the new place of production were tested.

Practical evacuation and rescue drills at Danica 5 and at Savica, Zagreb were performed.

Due to recent changes in the Evacuation Plan in relation to leaders and their deputies, 18 workers were trained to implement evacuation and rescue procedures. Training was conducted by the company Vizor Ltd. from Varaždin.

Four internal controls at the Production of Semi-solid and Liquid Drugs and the Production of Solid Drugs were conducted and the detected deficiencies removed in a very short time, accordingly.

Caring for the health of employees is manifested through various types of medical examinations. A contracted doctor of Occupational Medicine monitors the health of employees for jobs with special working conditions on a permanent basis. Occupational Medicine is also responsible for checking the health of employees who work with computers more than 4 hours a day as well as for special check-ups every 36 months for employees who do not work in specific conditions, but are in contact with raw materials. In accordance with GMP standards, the employer is obliged to provide ophthalmologist examinations for all employees at workplaces where good eyesight is extremely important for the quality of a particular job. Vision and colour distinction was checked at 163 employees during the year 2016, and a total of 432 employees underwent medical examination.

Special attention is paid to timely safety at work training and education of employees, and in 2016 a total of 66 employees underwent such training. In addition to the training of new employees, knowledge of safety at work and fire protection is also assessed. The Safety at Work Service independently conducts training for general safety at work, safety at work in laboratories, offices and work with computers according to the programme approved by the Ministry of Economy, Labour and Entrepreneurship (now the Ministry of Labour and the Pension System).

The Safety at Work Service organised a course in handling hazardous chemicals for 65 employees and 2 persons in charge. The course was held by the Croatian Institute for Toxicology and Anti-doping.

Technical security sheets were prepared for the chemicals in use, organized by the Department of Occupational Safety and the company Vizor Ltd., as authorized under applicable Croatian regulations and laws in compliance with the European REACH directive.

In 2016, six injuries were reported, one of which was not recognized.

- place of work – 3 injuries
- field work – 2 injuries
- coming to work – 1 injury

There was a total of 17 days of sick leave at a cost of HRK 6,806.88.

10. ENVIRONMENTAL PROTECTION

Environmental Activities

In 2016, the training of new employees and revision of all operating instructions describing preparation procedures for all types of waste disposal, continued to be performed regularly.

Waste management

The environment is most often polluted by waste, therefore, proper waste disposal continues to be systematically implemented. Waste is recorded according to working units, separated for recycling and waste designated for thermal processing is properly stored. Preparations for the supervision by authorities in charge of drug manufacturing as well as testing of machines for new production has increased the quantities of technological waste at the location. Efficient waste management enables all the generated waste to be disposed of, recycled or thermally processed in a safe and environmentally responsible manner.

In 2016, Belupo recorded 28 types of waste in a total amount of 260 tons.

Treatment / on total amount	Recycling	Thermal processing	Landfill
Quantity of waste %	61.1 %	34 %	4.9 %

Most of the waste has with adequate management become a secondary raw material, thus supporting the aim to preserve natural resources and reduce the cost of waste disposal at landfills. Technological waste is thermally processed.

Quantities of packaging waste generated from the sales of drugs is regularly reported to the Fund for Environmental Protection and Energy Efficiency and a corresponding fee is paid, accordingly.

Air protection

Great attention is given to air emissions by monitoring the emissions of dust and organic solvents from technological discharges and emissions of NO2, CO, SO2 and CO2 from energy discharges.

In accordance with legal regulations, air emissions from stationary sources of technological plants and from stationary energy sources are regularly measured by authorised institutions.

During 2016, air emissions from the boiler room from gas and light oil as fuel and dust emissions from two discharges at the production of solid drugs and pilot plants were measured. The emission limit values are within allowable limits of which records are kept and the results submitted to the Croatian Environmental Protection Agency, accordingly.

All installed filters for reducing dust emissions into the air are regularly tested, as well as the performance of devices with activated carbon for solvent absorption. Plant operation is automated and regeneration or replacement of activated carbon is made upon its saturation, and computer records of plant operations monitoring also provide for the monitoring of the release of emissions into the atmosphere. Plants that use organic solvents are registered at the Ministry of Environment and Nature Protection and regular keeping of the compulsory register of consumed organic solvents controls the amount of solvent consumption.

In order to protect the air from fluorinated greenhouse gases, record of all cooling systems that use controlled and alternative agents that deplete the ozone layer is regularly updated and servicing and control of permeability is performed by authorised repairers. The regular control of the permeability of controlled substances from refrigeration equipment was carried out in 2016.

Water protection

Water protection is carried out in accordance with the Water Permit for wastewater discharge for the location of Podravka's factories at Danica. Technological and sanitary waters are drained from the Belupo location by a separate sewage where they are mixed with wastewater from other factories and transported to the mechanical and biological treatment plant. Wastewater is regularly analysed at certified laboratories in accordance with legal provisions and the Water Permit. Due to proper handling of hazardous substances and waste not being released into the drainage system, waste waters meet the legal limit values. Storm water does not burden the treatment plant, but is transported by separate sewage into a natural recipient.

During 2016, testing of the wastewater system permeability was performed in accordance with applicable legal regulations.

All disinfection agents are properly recorded. Maintenance and cleaning of the wastewater drainage system is regularly performed. In case of accidental pollution of premises and the internal drainage system, procedures according to the Water Protection Emergency Response Plan, with which all employees are familiar, are followed reducing the risks of water pollution to the lowest possible level.

Control of risks

In order to avoid the possibility of an incident with hazardous substances the Risk Assessment and Operational Plan for Protection and Rescue has been prepared elaborating potential effects on material goods and the possible harm to both employees and the environment resulting from the use of hazardous substance, thus reducing the risk of incident to a minimum.

The quantities of hazardous substances are regularly updated in accordance with new regulations and reported to the Environmental Protection Agency and the State Directorate for Protection and Rescue, accordingly.

Proper handling of hazardous substances and chemicals is an integral part of employee training that reduces the possibility of an incident to a minimum.

Pollutant emission register

All pollution and emissions into the environment are separately reported for all types of waste with the ultimate mode, place of disposal and the calculation of the amount of discharge of emissions into the air and water through the Environmental Pollution Register of the Croatian Environment Agency.

Supervision over the implementation of environmental protection legislation

In 2016, the inspection of the Ministry of Environment and Nature Protection checked the implementation of the environmental protection legislation. Belupo Inc. fully meets all regulations on environmental protection and no certificate of violation was issued.

11. DEVELOPMENT PLAN

The aim of Belupo is to strengthen its existing market positions, both on the Croatian and foreign markets (focus on the markets of Eastern and South-Eastern Europe, export of OTC preparations). We continue the expansion of the product range of drugs within the group of drugs for the treatment of cardiovascular diseases, the dermatological range of products and drugs with effect on the central nervous system, and also plan portfolio diversification of Rx drugs (groups A, L, R) and increased development of synthetic OTC drugs.

The designing and construction of new production capacities in solid, semi-solid and liquid forms will introduce new technological processes and new forms in modern packaging, which will further provide options for better monitoring of changes in focused markets with increased competitive advantage. This will result in even a greater need of staffing development teams, with the ultimate goal of optimizing the time for generic drug release.

12. NEW PRODUCTS IN THE YEAR 2016

The following new products and forms were launched on the market during the year 2016:

LACIDIPIN BELUPO

In the **category of prescription drugs**, Belupo Inc. expanded its cardio portfolio for another drug from the calcium channel blockers group - dihydropyridine derivatives, in the first quarter of 2016. It is lacidipine and it comes to the market under the generic name LACIDIPIN BELUPO. LACIDIPIN BELUPO is applied in the treatment of hypertension alone or in combination with other antihypertensive agents such as beta-blockers, diuretics and ACE-inhibitors. The therapeutic effect of these Belupo drugs is the same, however lacidipine stands out with somewhat better effect on diastolic blood pressure as well as less frequent occurrence of side effects (peripheral edema).

BELOXIM 500 mg

BELOXIM 500 mg film-coated tablets is a new antibiotic in Belupo from the group of cephalosporins II generation, under the generic name cefuroxime. Cefuroxime is used to treat acute streptococcal tonsillitis and pharyngitis, acute bacterial sinusitis, acute otitis media, acute exacerbation of chronic bronchitis, cystitis, pyelonephritis, uncomplicated skin and soft tissue infections and for the treatment of early stages of Lyme disease. So far we have had in the portfolio only a representative of cephalosporins I generation - cephalexin, which for many years has been available on the market under the generic name CEFALEKSIN® BELUPO.

FERSAN JUNIOR

In the first quarter of 2016, the **non-prescription category** of products had been enriched on both the Croatian and Macedonian markets with the liquid food supplement, **FERSAN JUNIOR**. The product contains liposomal iron, intended as a natural complement to iron. LIPOSOME is a hollow microsphere, efficient and innovative carrier for pharmaceuticals, minerals, vitamins and other active substances. The liposome membrane structure corresponds to human cell membranes that facilitate the fusion of liposome with the membrane and enhance the absorption of substances embedded in the liposome. Iron pyrophosphate in **FERSAN JUNIOR** is contained within liposomal structures. As a result of liposomal technology, absorption and bioavailability increases 3.5 times compared to the iron that is not liposomal. **FERSAN JUNIOR** should not be administered to children under the age of 3.

ROJAZOLDERM 20 mg/g krema

The **non-prescription category** had been enriched on the Croatian market in the last quarter of 2016 by **RojazolDerm 20 mg / g cream**, a non-prescription drug from the pharmacotherapeutic group of antifungals for topical use, imidazole derivatives and triazole. (ATC code: D01AC02). RojazolDerm cream is intended for the treatment of fungal skin infections.

Infections can affect the following areas:

- Hands and feet (including "athlete's foot"),
- Torso and groin (including the surface of the skin around the genitals)
- Ear and scalp.

RojazolDerm 20 mg / g cream is marketed in tubes of 20 grams. The drug can be purchased in pharmacies without a prescription.

ENTERAL NUTRITION - NUTRIXA

In the third quarter of 2016, Belupo released a new product to the Croatian market from the Rx programme under the trademark **NUTRIXA, thus entering into a completely new field - enteral nutrition.**

NUTRIXA is high-calorie, high protein liquid food with added fibre for a complete, balanced diet. It is food for special medical purposes, and is intended for patients with or at risk of malnutrition. It can be used as the sole source of nutrition or as a supplement to the diet, and administered only under medical supervision.

NUTRIXA is present on the market in 200 ml containers and in two flavours:

- NUTRIXA – vanilla
- NUTRIXA - chocolate.

The development of the new product portfolio in the field of enteral nutrition results from the synergy potential between Pharmaceuticals and Food, thus supporting the realization of Belupo's strategic goals essential for growth and business development.

New products on the Russian market in the third quarter:

AMOFIN® 50 mg/ml healing nail polish

Amofin is intended for the treatment of fungal nail infections. This drug contains the active substance amorolfine in the form of amorolfinechloride belonging to a group called antifungals. Fungal nail infection usually results in a change of nail colour (white, yellow, or brown), thickened or brittle nails, although the appearance can vary greatly.

MONLAST®

MONLAST® is an antagonist of leukotriene receptor blocking substances called leukotrienes. Leukotrienes cause narrowing and swelling of lung airways as well as allergy symptoms. By blocking leukotrienes MONLAST® eases asthma symptoms, helps control asthma and eases the symptoms of seasonal allergies (also known as hay fever or seasonal allergic rhinitis).

Monlast® has been placed on the Russian market in two forms: **MONLAST® 10 mg film-coated tablets and MONLAST® 4 mg chewable tablets.**

Belupo released the following new products on the Czech market:

BELMIRAN® DAN (Day)

BELMIRAN® DAN tablets contain passionflower (Passiflora incarnata), which contributes to body relaxation.

BELMIRAN® SAN (Sleep)

BELMIRAN® SAN tablets contain valerian (Valeriana officinalis), passionflower (Passiflora incarnata) and hops (Humulus lupulus) that contribute to shortening the time needed for falling asleep and maintaining normal sleep.

UROSAL® LADY

Urosal Lady is a herbal product, designed specifically for women, and intended for preventing and alleviating urinary tract problems such as frequent and painful urination accompanied by a burning sensation. Urosal Lady quickly and effectively removes urinary tract problems, especially those caused by Escherichia coli. A carefully selected combination of herbs contained in Urosal Lady represents an excellent supplement to the prevention and treatment of urinary tract problems.

Urosal Lady acts in an antibacterial and disinfectant way and facilitates complete urination. Urosal Lady is the only herbal product with antibacterial effect in the form of tablets.

13. EXPOSURE AND RISK MANAGEMENT

In 2016, the Group's business operations were marked by a number of factors that influenced the level of risk exposure to unforeseen and negative changes which may have effect on the achievement of Company goals. Therefore, price movements of raw materials and energy on the world market, changes in exchange rates of currencies of countries where we operate, the price movement of capital, the state of the economy in the country and the degree of liquidity, etc. should all be mentioned.

The Group aims to manage the potential risks in a way that they are continuously monitored, promptly defined and their intensity recognised in order to find the best response strategy whilst minimising their negative impact on the Group. Communication between the Board and the management, their understanding of risks from their own field of responsibility and adoption of concrete measures are key elements for protection from unforeseen losses.

The following is an overview of the major risks and activities performed as the Group's response for effective risk management.

Market risk

The fact that most of the raw material for the pharmaceutical industry is purchased on the international market increases the risk of price changes. Contracts are concluded with fixed prices in the longer term, and the prices of raw material for the Company's strategic products are continuously negotiated. The Group does not use forward contracts to manage price risks of pharmaceutical raw material. The Group's sales take place in the domestic and foreign markets, of which each has its own specific pricing regulations on which the Group has no influence. This represents a market risk sought to be avoided by continuous monitoring of changes and business conditions, as well as prompt response to each individual market.

Currency risk

The exposure to foreign currency risk arises from transactions taking place in foreign currencies and are subject to exchange rate fluctuations. The outflows in foreign currencies are mainly denominated in EUR and USD, whilst foreign currency inflows are largely denominated in RUB and EUR. The most significant foreign exchange risk for the Group in 2016 was represented by the large exchange rate volatility of the RUB.

As protection against the currency risk of the RUB the Group used spot and forward foreign exchange transactions (spot and forward contracts), and part of the inflow was used to cover expenses for the Representative Office in Moscow. The Company's Treasury continuously, on a daily basis, monitors the movement of foreign exchange rates and takes appropriate action in agreement with the Management Board.

Interest rate risk

Due to the fact that the Group uses loans with fixed and variable interest rates, the Group is exposed to interest rate risk.

Settlement risk

The Group is exposed to the risk of inability to collect its receivables, both at home and abroad. Collection of receivables from customers at home depends on the dynamics of payment of the CIHI. The balance of trade receivables is continuously monitored and actions implemented as protection from settlement risk. A part of the trade receivables abroad is secured by insurance policies of the Croatian Credit Insurance, Zagreb.

Liquidity risk

The Group faces liquidity risk due to uncertainty of collection, which depends on the dynamics of payment of the CIHI in the domestic market and the situation of individual economies in foreign markets. The Group manages this risk by continuously monitoring cash flow and planning of its activities and in case of unforeseen circumstances has agreed credit lines and reserved funds.

14. VISION, MISSION, KEY VALUES AND STRATEGY

VISION

BELUPO is a pharmaceutical company that achieves more by its distinctive partnership approach. In Central and Eastern Europe we have ensured growth and long-term value for employees, consumers and society as a whole with our selected therapeutic groups.

MISSION

Wealth is the culture of keeping health. Be healthy!

KEY VALUES

With quality as our imperative, we create a desirable working place in a modern organisation with open communication that encourages creativity in everything we do.

COMPANY STRATEGY

The development of new products and increase of sales, both in Croatia and in 16 European export markets is the strategic objective for all Belupo's employees. The strategy of company growth is achieved through a synergy of both organic and inorganic growth – with strong focus on business internationalisation and strengthening of our market position in Croatia.

Hrvoje Kolarić	**Ksenija Punčikar**
President of the Management Board	Member of the Management board

STATEMENT OF MANAGEMENT'S RESPONSABILITIES

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

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company and the Group 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 also responsible for the preparation of the Management report in accordance with the Croatian Accounting Act. The Management report is authorised and signed by the Management Board. The Management Board is responsible for the submission to the Supervisory Board of its Management report together with the consolidated and unconsolidated financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The Annual report that includes the Management report and Financial statements is authorised by the Management Board and signed below to signify this.

Signed on behalf of the Management Board:

Hrvoje Kolarić
President of the Management Board

Ksenija Punčikar
Member of the Management board

Belupo d.d.

Ulica Danica 5
48 000 Koprivnica
Republic of Croatia

12 April 2017

INDEPENDENT AUDITORS' REPORT TO THE OWNERS OF BELUPO d.d.

Opinion

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2016, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the Europien Union ("IFRS as adopted by the EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management report

Management is responsible for the Management report.

In connection with our audit of the financial statements, our responsibility is to read the Management report and, in doing so, consider whether the Management report is materially inconsistent with the financial statements or our knowledge and understanding of the Company and the Group and its environment obtained in the audit, or otherwise appears to be materially misstated, also considering whether the Management Reports include the disclosures required by Articles 21 and 24 of the Croatian Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedures above, we did not detect any material misstatement in Management report and according and in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements; and
- the Management report has been prepared, in all material respects, in accordance with the applicable legal requirements of the Croatian Accounting Act.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS as adopted by the EU 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.

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

INDEPENDENT AUDITORS' REPORT TO THE OWNERS OF BELUPO d.d. (continued)

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company or Group to cease to continue as a going concern.

KPMG

INDEPENDENT AUDITORS' REPORT TO THE OWNERS OF BELUPO d.d. (continued)

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

KPMG Croatia d.o.o.

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

12 April 2017

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

(in thousands of HRK)	Notes	Group 2016	Group 2015 *Corrected	Company 2016	Company 2015 *Corrected
Revenue	7	816,944	806,597	592,006	566,579
Cost of goods sold	9a	(388,809)	(382,630)	(255,128)	(227,389)
Gross profit		**428,135**	**423,967**	**336,878**	**339,190**
Other income	8	15,899	1,053	15,880	955
General and administrative expenses	9b	(108,317)	(112,044)	(86,924)	(92,518)
Selling and distribution expenses	9c	(64,388)	(69,201)	(36,492)	(39,840)
Marketing expenses	9d	(158,354)	(161,803)	(137,575)	(142,951)
Other expenses	11	(2,294)	(34,320)	(2,636)	(46,086)
Operating profit		**110,681**	**47,652**	**89,131**	**18,750**
Finance income	13	1,170	445	2,961	2,265
Finance costs	14	(13,572)	(12,128)	(11,378)	(8,671)
Profit before tax		**98,279**	**35,969**	**80,714**	**12,344**
Income tax	15	(21,653)	154,290	(20,417)	158,622
Profit for the year		**76,626**	**190,259**	**60,297**	**170,966**
Other comprehensive income:					
Actuarial gains		66	101	130	99
Foreign operations – foreign currency translation		(640)	(219)	-	-
Total comprehensive income for the year		**76,052**	**190,141**	**60,427**	**171,065**
Profit attributable to:					
The equity holders of the parent		71,138	187,267		
Non-controlling interests		5,488	2,992		
		76,626	**190,259**		
Total comprehensive income attributable to:					
The equity holders of the parent		70,821	187,220		
Non-controlling interests	28	5,231	2,921		
		76,052	**190,141**		

The accompanying policies and notes form an integral part of these financial statement.

*Corrections of comparable data have been explained in Note *3.21 Changes in accounting policies.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

(in thousands of HRK)	Notes	*Group* 31 December 2016	*Group* 2015 *Corrected	*Company* 31 December 2016	*Company* 2015 *Corrected
ASSETS					
Non-current assets					
Intangible assets	17	96,274	97,799	50,161	48,433
Property, plant and equipment	18	808,265	446,772	711,960	345,912
Financial assets	20.23	333	330	13,874	98
Investments in subsidiaries	19	-	-	99,664	99,664
Deferred tax assets	16	145,396	163,971	148,955	169,397
		1,050,268	**708,872**	**1,024,614**	**663,504**
Current assets					
Inventories	21	179,710	155,143	135,181	121,837
Trade and other receivables	22	365,775	342,754	305,288	284,230
Loan receivables	23	-	-	2,898	-
Income tax receivable		3,937	17,543	3,918	17,453
Cash and cash equivalents	24	81,344	86,152	70,875	76,974
		630,766	**601,592**	**518,160**	**500,494**
Total assets		**1,681,034**	**1,310,464**	**1,542,774**	**1,163,998**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	25	410,087	410,087	410,087	410,087
Reserves	26	152,401	69,229	150,342	66,723
Retained earnings*	27	257,511	300,921	241,799	296,050
Attributable to the equity holders of the parent		**819,999**	**780,237**	**802,228**	**772,860**
Non-controlling interests	28	44,757	39,526		
		864,756	**819,763**	**802,228**	**772,860**
Non-current liabilities					
Loans and borrowings	29	427,386	157,413	416,622	140,365
Provisions	30	7,392	6,396	6,426	6,062
Deferred tax liability	16	3,332	3,758	-	-
		438,110	**167,567**	**423,048**	**146,427**
Current liabilities					
Trade and other payables	31	291,149	209,166	264,338	174,957
Financial liabilities at fair value through profit or loss	32	914	-	914	-
Loans and borrowings	29	78,694	109,710	48,559	67,000
Income tax payable		1,482	666	-	-
Provisions	30	5,929	3,592	3,687	2,754
		378,168	**323,134**	**317,498**	**244,711**
		816,278	**490,701**	**740,546**	**391,138**
Total shareholders' equity and liabilities		**1,681,034**	**1,310,464**	**1,542,774**	**1,163,998**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

Group (in thousands of HRK)	**Notes**	**Share capital**	**Other reserves**	**Retained earnings ***	**Attributable to the equity holders of the parent**	**Non-controlling interests**	**Total**
Balance at 1 January 2015.		**290,101**	**60,613**	**243,672**	**594,386**	**36,605**	**630,991**
Profit for the year		-	-	187,267	187,267	2,992	190,259
Other comprehensive income		-	(47)	-	(47)	(71)	(118)
Total comprehensive income		**-**	**(47)**	**187,267**	**187,220**	**2,921**	**190,141**
Transfer to other reserves	26	-	7,355	(7,355)	-	-	-
Transactions with owners recognized directly in capital							
Increase of share capital	27	119,986	-	(53,663)	66,323	-	66,323
Dividend declared	27	-	-	(69,000)	(69,000)	-	(69,000)
Capital premium		-	1,308	-	1,308	-	1,308
Total Transactions with owners recognized directly in capital		-	1,308	(69,000)	(67,692)	-	(1,369)
Balance at 31 December 2015.		**410,087**	**69,229**	**300,921**	**780,237**	**39,526**	**819,763**
Balance at 1 January 2016.		**410,087**	**69,229**	**300,921**	**780,237**	**39,526**	**819,763**
Profit for the year		-	-	71,138	71,138	5,488	76,626
Other comprehensive income		-	(317)	-	(317)	(257)	(574)
Total comprehensive income		**-**	**(317)**	**71,138**	**70,821**	**5,231**	**76,052**
Transfer to other reserves	26	-	14,548	(14,548)	-	-	-
Increase of share capital	27	-	69,000	-	69,000	-	69,000
Transactions with owners recognized directly in capital							
Dividend declared	27	-	-	(100,000)	(100,000)	-	(100,000)
Capital premium	26	-	(59)	-	(59)	-	(59)
Total Transactions with owners recognized directly in capital		-	(59)	(100,000)	(100,059)	-	(100,059)
Balance at 31 December 2016.		**410,087**	**152,401**	**257,511**	**819,999**	**44,757**	**864,756**

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

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2016

Company (in thousands of HRK)	Notes	Share capital	Other reserves	Retained earnings *	Total
Balance at 1 January 2015.		**290,101**	**57,961**	**255,102**	**603,164**
Profit for the year		-	-	170,966	170,966
Other comprehensive income		-	99	-	99
Total comprehensive income		-	99	170,966	171,065
Transfer to other reserves	26	-	7,355	(7,355)	-
Transactions with owners recognized directly in capital					
Dividend declared	27	-	-	(69,000)	(69,000)
Increase of share capital	27	119,986	-	(53,663)	66,323
Capital premium		-	1,308	-	1,308
Total Transactions with owners recognized directly in capital		119,986	1,308	(122,663)	(1,369)
Balance at 31 December 2015.		**410,087**	**66,723**	**296,050**	**772,860**
Balance at 1 January 2016.		**410,087**	**66,723**	**296,050**	**772,860**
Profit for the year		-	-	60,297	60,297
Other comprehensive income		-	130	-	130
Total comprehensive income		**-**	**130**	**60,297**	**60,427**
Transfer to other reserves	26	-	14,548	(14,548)	-
Transactions with owners recognized directly in capital					
Dividend declared	27	-	-	(100,000)	(100,000)
Increase of share capital	27	-	69,000	-	69,000
Capital premium	26	-	(59)	-	(59)
Total Transactions with owners recognized directly in capital		**-**	**68,941**	**(100,000)**	**(31,059)**
Balance at 31 December 2016.		**410,087**	**150,342**	**241,799**	**802,228**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Group		Company	
(in thousands of HRK)	**2016**	**2015**	**2016**	**2015**
Profit for the year	**76,626**	**190,259**	**60,297**	**170,966**
Depreciation of property, plant and equipment	29,111	28,525	22,885	22,513
Depreciation of intangible assets	12,472	11,628	8,440	7,625
Impairment loss on intangible assets	-	11,050	-	-
Impairment loss on property, plant and equipment	1,907	-	1,907	-
Impairment loss on investments in subsidiaries	-	-	-	22,847
Loss/(gain)on sale of property, plant and equipment	379	(738)	725	(641)
Interest expense and Other financial expenses	9,902	11,232	7,770	7,833
Foreign exchange difference	1,688	(470)	2,019	(53)
Income tax	21,653	(154,290)	20,417	(158,622)
	153,738	**97,196**	**124,460**	**72,468**
Increase/ (decrease) in provisions	3,425	(2,478)	1,452	(2,997)
Change in inventories	(24,567)	(16,924)	(13,344)	(16,330)
Change in trade and other receivables	(35,606)	60,491	(35,331)	55,976
Change in trade and other payables	53,662	16,026	60,942	19,409
Cash generated from Operations	**150,652**	**154,311**	**138,179**	**128,526**
Interest paid	(6,318)	(7,832)	(4,067)	(4,314)
Income tax received/(paid)	10,885	(1,645)	13,535	875
Net cash generated from Operations	**155,219**	**144,834**	**147,647**	**125,087**
Cash flow from investing activities				
Acquisition of property, plant and equipment	(394,039)	(132,169)	(391,583)	(131,245)
Proceeds from the sale of property, plant and equipment	913	1,355	495	1,113
Acquisition of intangible assets	(11,497)	(7,480)	(10,645)	(6,580)
Proceeds from sale of financial assets	251,484	237,785	251,484	224,764
Acquisition of financial assets	(251,758)	(238,270)	(251,758)	(225,249)
Loans and deposits given	-	(607)	(17,272)	(22)
Naplata danih zajmova	-	-	720	-
Interest received	314	445	314	421
Dividend received	-	-	1,688	1,844
Net cash generated used in investing activities	**(404,583)**	**(138,941)**	**(416,557)**	**(134,954)**
Cash flow from financing activities				
Proceeds from borrowings	607,713	105,958	542,864	52,426
Repayment of borrowings	(363,157)	(145,546)	(280,053)	(75,000)
Proceeds from share capital	-	53,508	-	53,508
Net cash generated from financing activities	**244,556**	**13,920**	**262,811**	**30,934**
Net increase in cash and cash equivalents	**(4,808)**	**19,813**	**(6,099)**	**21,067**
Cash and cash equivalents at beginning of the year	86,152	66,339	76,974	55,907
Cash and cash equivalents at end of the year	**81,344**	**86,152**	**70,875**	**76,974**

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

NOTE 1 – GENERAL INFORMATION

Belupo lijekovi i kozmetika d.d., Koprivnica ("the Company") is a joint stock company incorporated in Croatia. The principal activity of the Company and its subsidiaries ("the Group") is manufacture and distribution of drugs, pharmaceutical products, cosmetics, auxiliary medical preparations and other chemicals.

The Group is headquartered in Koprivnica, at the address Danica 5, Republic of Croatia.

Corporate governance and management

General Assembly

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

Supervisory Board

President	Zvonimir Mršić
Vice President	Olivija Jakupec
Member	Ivana Matovina
Member	Branka Perković
Member	Miljenko Ćorić

Management Board

President	Hrvoje Kolarić
Member	Ksenija Punčikar

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

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

The financial statements were approved by the Managent Board on 12 April 2017.

(ii) Basis of measurement

The consolidated financial statements and unconsolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values.

(iii) Functional and presentation currency

The Group maintains its accounting records in the Croatian language, in Croatian kuna and in accordance with Croatian law and the accounting principles and practices observed by enterprises in Croatia. The accounting records of the Croatian and foreign subsidiaries are maintained in accordance with regulations effective in those jurisdictions.

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

(iv) Use of estimates and judgements

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 IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 5.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Basis of consolidation

The consolidated financial statements incorporate the financial statements of Belupo d.d. ("the Company") and entities controlled by the Company (its subsidiaries) as at and for the year ended 31 December 2016. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

Subsidiaries

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

Business combinations

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

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

Transactions eliminated on consolidation

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

Investments in subsidiaries

Subsidiaries are entities in which the Company has the power, directly or indirectly, 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 benefits from its activities.

Investments in subsidiaries are recognized at cost and subsequently at cost less impairment losses. Testing of investments in subsidiaries for impairment is conducted on an annual basis.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group’s activities. Revenue is shown, net of value-added tax, returns, rebates and discounts, costs of listing and various promotional and marketing activities that form an integral part of purchase contracts.

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

Sales of products and trade goods – wholesale

Group manufactures and sells its own products in the wholesale market. Sales of goods are recognised when Group has delivered the products to the wholesaler, the wholesaler has full discretion over the price to sell, and there is no unfulfilled obligation that could affect the wholesaler’s acceptance of the products.

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

Products are sold with discounts and customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specific in the sales contracts, net of estimated discounts and returns at the time of sale. Accumulated experience is used to estimate the discounts and returns. The discounts are assessed based on anticipated annual purchases.

Sales of products and goods – retail

Sales of goods sold in retail stores are recognised when the Group sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in distribution costs. The Group does not operate any customer loyalty programmes.

Sales of services

Sales of services 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.

Financial 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)

3.3. Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of fair value of the leased property 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 statement of comprehensive income over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

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

3.4. Foreign currencies

Transactions and balances in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and items that are measured based on historical cost in a foreign currency are not translated using new exchange rates.
Non-monetary assets and liabilities that are measured based on a histroical cost in a foreign currency are translated using the exchange rate at the date of transaction.
As at 31 December 2016 the official exchange rate for EUR 1 and USD 1 was HRK 7.557787 and HRK 7.168536 respectively (31 December 2015: HRK 7.635047 and HRK 6.991801, respectively).

(i) Group companies

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

Income and expense items and cash flows of foreign operations that have a functional currency different from the presentation currency are translated into the Company's presentation currency at rates approximating the foreign exchange rates ruling at the dates of transactions (average exchange rates for the month) and their assets and liabilities are translated at the exchange rates ruling at the year end.

All resulting exchange differences are recognised in a separate component of equity.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. 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 statement of comprehensive income over the period of the borrowings using the effective interest method.

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

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

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

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

3.6. Share-based payments

Share-based payments refer to equity instruments of the owner, Podravka d.d., provided by the Group to its employees. The Group accounts for the transaction with its employees as cash-settled, irrespective of how the subsidiary obtains the equity instruments to satisfy its obligations to its employees.
For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in the statement of comprehensive income for the period.

3.7. Government grants

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Dividends

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

3.9. 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 liability, and to account for temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of an asset or liability in a transaction other than a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled companies it is probable that the situation will not change in the near 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 in effect at the reporting date.
Deferred tax assets are recognized for unused tax losses, unused tax credits and temporary tax differences in the extent that it is probable that future taxable profits will be available to neutralize them. Deferred tax assets are reduced to the extent that it is no longer likely to be available as tax relief. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax liabilities and assets, and if they relate to taxes that accounted for 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 are realized simultaneously.

(iii) Tax exposures

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

(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 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 of the debtor, including VAT.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Property, plant and equipment

Property, plant and equipment is included in the statement of financial position at historical cost less accumulated depreciation and provision for impairment, where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

Buildings	10 to 50 years
Equipment	2 to 30 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical 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.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount, and are recognised within line item 'other gains – net in the statement of comprehensive income.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Intangible assets

Distribution rights, registration files and registration

Distribution rights, rights of registration files use and registration have a finite useful life and are carried at cost less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method to allocate the cost of distribution rights, rights to use registration files and registrations over their estimated useful lives.

Pharma rights

Other rights 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.

Software and licences

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.

Computer software and licences	2 to 10 years
Rights of registration files use, distribution rights and registration	5 to 15 years
Development costs	10 years

Internally-generated intangible assets - research and development costs

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Intangible assets (continued)

Internally-generated intangible assets - research and development expenditure (continued)

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 statement of comprehensive income 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 losses, on the same basis as intangible assets that are acquired separately.

3.12. Impairment of property, plant and equipment and intangible assets

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

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

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

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

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 as income, 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 in accordance with the relevant Standard containing requirements for revaluation of the underlying asset(s).

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. Inventories

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

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

Trade goods are carried at the lower of purchase cost and selling price (less applicable taxes and margins).

Low valued inventory and tools are expensed when put into use.

3.14. 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. An impairment allowance for trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade receivable may be impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at the date of initial recognition.

3.15. 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 statement of financial position.

3.16. Share capital

Share capital consists of ordinary shares

3.17. Employee benefits

(i) Pension obligations and post-employment benefits

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Employee benefits (continued)

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits 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 the average expected rate of return on investment in government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit or loss.

(iv) Long-term employee benefits

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

(v) Short-term employee benefits

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

(vi) Share-based compensation

The Group operates a cash-settled share-based compensation plan for shares of the owner, Podravka d.d. 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). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest (become exercisable). At each reporting date, the estimates of the number of options that are expected to become exercisable are revised as well as the estimation of the fair value of the liability since these are cash-settled share based payments. The impact of the revision to original estimates, if any, is recognised in the statement of comprehensive income over the remaining vesting period, with a corresponding adjustment to liabilities.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Provisions

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

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

3.19. 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’, ‘investments held to maturity’, ‘available-for-sale financial assets’ and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Financial assets (continued)

Financial assets at fair value through profit or loss (continued)
A financial asset other than a financial asset held for trading may be designated as at financial assets 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 Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at fair value through profit and loss.

Financial assets 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 dividend or interest earned on the financial asset. Fair value is determined in the manner described in notes.

Investments held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 6. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in statement of comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in statement of comprehensive income for the period.

Dividends on available-for-sale equity instruments are recognised in statement of comprehensive income when the Group’s right to receive the dividends is established.

The fair value of available-for-sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 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 impairment.

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 and 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 available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Financial assets (continued)

Impairment of financial assets (continued)

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.

In respect of available-for-sale equity securities, impairment losses 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 losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

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

3.20. Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

A financial liability is classified as held for trading if:

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

A financial liability other than a financial liability held for trading may be designated as at financial assets 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 liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as financial liabilities at fair value through profit or loss.

Financial liabilities as financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in notes.

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Contracts on financial guarantee

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

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

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

Derecognition of financial liabilities

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21. Changes in accounting policies

i. Since 1 January 2016, the Group and the Company have changed their policy of sales revenue disclosure. Certain benefits and approvals granted to buyers for various promotional and marketing activities have so far been shown within marketing costs. Given that such activities are defined within sales agreements and are reported with the aim of generating sales revenue, since 2016, the Group and the Company have decided to consider such benefits as sales revenue deductions thereby accepting the general practice of other companies within the sector of consumer goods sales.

ii. Since 1 January 2016, the Group and the Company have changed their policy of disclosing foreign exchange rate differences incurred in transactions with customers and suppliers in order to adjust to the manner of disclosure in the reports of its sole shareholder.

The policy change of recognizing revenue and exchange rate differences on customers and suppliers has no impact on the net results of the Group and the Company. Based on the above changes, reclassifications for the year 2015 are as follows:

Group	**2015 Previously reported**	**Restatement**	**2015 Restated**
		(in thousands of HRK)	
Revenue	807,263	(666)	806,597
Gross profit	**424,633**	**(666)**	423,967
Marketing expenses (i)	49,001	(666)	48,335
Other expenses	-	23,258	23,258
Finance costs (ii)	23,258	(23,258)	-
Net profit	**190,259**	**-**	**190,259**

Company	**2015 Previously reported**	**Restatement**	**2015 Restated**
		(in thousands of HRK)	
Revenue	567,245	(666)	566,579
Gross profit	**339,856**	**(666)**	339,190
Marketing expenses (i)	42,815	(666)	42,149
Other expenses	-	23,231	23,231
Finance costs (ii)	23,231	(23,231)	-
Net profit	**170,966**	**-**	**170,966**

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED ("IFRS")

4.1. Issued and not yet adopted standards and interpretations

Certain standards, amendments and interpretations of existing standards are issued that are applicable but not mandatory for the period ending 31 December 2016 and/or have not been adopted by the European Union and as such have not been applied in the preparation of these financial statements. These standards are not expected to have any significant impact on the financial statements of the Group and the Company. An overview follows:

a) IRFS 15 Revenue based on customer agreements

IFRS 15 establishes a comprehensive framework for determining the manner and timing of revenue recognition. It replaces the existing revenue recognition guidelines, including IAS 18 Revenue, IAS Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 is effective for annual periods starting on or after 1 January 2018, with permitted earlier application. This new standard is not expected to have any significant impact on the consolidated financial statements of the Company. The Group has already implemented accounting policy changes and partially applied provisions of the new IFRS 15.

b) IRFS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with permitted earlier application. The Group plans to apply IFRS 9 from 1 January 2018. This new standard is not expected to have any significant impact on the Group's consolidated financial statements since the carrying amount of financial assets and liabilities is approximately equal to their fair value.

c) IFRS 16 Leases

IFRS 16 introduces a single lessee accounting model. The lessee acknowledges the right to use assets which represents the right to use the basic assets and lease liabilities that represent the obligation of lease payment. There are exceptions to short-term leases and leases of low value items. The lessor's accountancy remains similar to the existing standard – that is, the lessees continue to classify leases as financial or operating.

The standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities subject to *IFRS 15 Revenues from customer contracts* on or before the date of first application of IFRS 16. For now, the most significant identified impact is that the Group will recognize new assets and liabilities under operating leases for transport and IT equipment.

d) Disclosure initiatives (Amendments to IAS 7)

Amendments require disclosures that allow users of financial statements to assess changes in liabilities arising from financial activities, including changes that arise both from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017 with permitted earlier application.

This new initiative is not expected to have any significant impact on the consolidated financial statements of the Group.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements in applying accounting policies

The preparation of financial statements in accordinance with IFRS required to make judgements, estimates and assumptions about the carrying amounts of assets, liabilities, revenues and costs. Actual results may differ from these estimates.

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

(i) Recognition of deferred tax assets

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.

(ii) Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During the year 2016, the directors determined that the useful life is the same as the original estimate.

(iii) Actuarial estimates used in determining the retirement bonuses

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.

(iv) Impairment test for investments in subsidiaries and pharma rights

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

	Pharma rights *(in HRK thousand)*
Total	36,025

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.

The key assumptions underlying the projections of future cash flows

- revenue average growth rate in the period from 2017-2021 of 2.50%
- savings and optimize consumption, reduce the cost of central services
- improve the conditions of purchase with suppliers

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(iv) Impairment test for investments in subsidiaries and pharma rights(continued)

In cash flows beyond the five year period have been extrapolated with a terminal growth rate of 2% while the net present value of future cash flows was calculated using discount rates based on the weighted average cost of capital of 8.29% after tax (for assets which generate the majority of revenue on the Croatian market).

In 2016, the Group had no costs for impairment of the value of intangible assets – pharma rights.

(In 2015. the Group provided an impairment test of intangible assets – pharma rights in the amouth 11,050 thousand HRK.)

In 2016, the Company had no costs for impairment of the value of intangible assets - pharma rights.

(In 2015. Company provided an impairment test of shares in Ljekarne Deltis Pharm in amount of 22,847 thousand HRK)

(v) Impairment of trade receivables

The Group regulary checks the collectability of each of the receivable separately and if there are indicators that the receivable is not collectable, the Group records impairment allowance no matter of the past due period.

NOTE 6 – DETERMINATION OF FAIR VALUES

The Company has a system of controls in the context of a fair value measurement, which includes the overall responsibility of the Management Board and Finance functions related to the monitoring of all significant fair value measurement, consultation with outside experts and, in the context of the above, reporting on the same bodies in charge of corporate management.

The fair values are measured in relation to the information collected from third parties, in which case Management Board and Finance function assessed the extent to which evidence gathered from third parties provided that the above estimates of fair value meet the requirements of IFRSs, including the level of the fair value hierarchy in which to these estimates should be classified.

All significant issues related to the assessment of fair value reporting to the Supervisory and Audit Committee.

The fair values are categorized into different levels in the fair value hierarchy based on the input variables used in the valuation techniques as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or commitments.
- Level 1 - inputs that are not quoted prices included within Level 1 that are the input variables for assets or liabilities that are visible either directly (eg., as prices) or indirectly (eg, derived from prices)
- Level 3 - inputs for the asset or liability that are not based on observable market data (input variables that are not visible).

NOTE 6 – DETERMINATION OF FAIR VALUES (continued)

The Company has made the following significant estimates of fair value in the context of preparing the financial statements, which are further explained in the notes:

(i) Share-based payments

The fair value of the employee share purchase plan is measured using Black-Scholes model. Measurment inputs include the share price on the measurment date, expected volatility (based on an evaluation oft he histroical volatility oft he Comapy's share price, particulary over the histroical 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 transaction are not takne into account in determining fair value.

(ii) Trade and other receivables

The fair values oft rade receivables and otehr receivables are setimated at the present value of future cash flows, discounted at the market rate of interest at the measurmetn date. Short-term receivables with no stated interest rate are mesured at the orginal inovice amount if effect of dicounting is immaterial. Fair value is determned at inital recognition and, for disclosure purposes, at each annual reporting date.

(iii) Non-derivative financial liabilities

Fair value, at intial recognition and for diclosure purposes, is calculated based on the present value of future principal and intereswt cash flows, discounted at the market rate of interest at the measurment date.

NOTE 7 – REVENUE

	Group		*Company*	
	2016	**2015 Restated**	**2016**	**2015 Restated**
	(in thousands of HRK)		*(in thousands of HRK)*	
Revenue from sales	808,593	798,933	589,085	563,661
Revenue from services	8,351	7,664	2,921	2,918
	816,944	**806,597**	**592,006**	**566,579**

During 2016, the Group and the Company changed their policy of disclosing sales revenue as described in Note 3.21. The total reclassification effect of the Group in 2016 amounts to HRK 682 thousand (2015: HRK 666 thousand). The total reclassification effect of the Company in 2016 amounts to HRK 682 thousand (2015: HRK 666 thousand).

NOTE 8 – OTHER INCOME

	Group		*Company*	
	2016	**2015 Restated**	**2016**	**2015 Restated**
	(in thousands of HRK)		*(in thousands of HRK)*	
Income from liabilities write off	27	1	-	-
Gain / (loss) on sale of property, plant and equipment - ne	-	738	-	641
Government grants	179	79	179	79
Foreign exchange gains on receivables and payables	15,372	-	15,380	-
Other income	321	235	321	235
	15,899	**1,053**	**15,880**	**955**

NOTE 9a – COST OF GOODS SOLD

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Material and cost of goods sold	268,747	278,028	160,061	136,941
Staff costs	66,185	59,775	62,599	56,246
Depreciation and amortisation	19,405	18,102	17,038	16,011
Energy	9,655	10,716	8,679	9,450
Other	24,817	16,009	6,751	8,741
	388,809	**382,630**	**255,128**	**227,389**

NOTE 9b – GENERAL AND ADMINISTRATIVE EXPENSES

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Staff costs	60,799	66,964	48,991	57,621
Services	21,085	18,631	17,576	14,601
Depreciation and amortisation	8,766	9,133	7,150	7,379
Other	17,667	17,316	13,207	12,917
	108,317	**112,044**	**86,924**	**92,518**

NOTE 9c - SELLING AND DISTRIBUTION EXPENSES

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Includes:				
Staff costs	32,492	34,024	18,176	19,471
Depreciation and amortisation	7,132	7,481	1,837	2,152
Provision for trade receivables, net	4,007	8,838	1,149	4,659
Energy	2,212	2,523	1,574	1,801

NOTE 9d – MARKETING EXPENSES

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Includes:				
Staff costs	56,453	56,665	50,781	51,846
Depreciation and amortisation	6,280	5,437	5,300	4,596
Raw materials and supplies and spare parts	3,644	4,246	3,138	3,726

NOTE 10 – EXPENSES BY NATURE

	Group		*Company*	
	2016	**2015 *Corrected**	**2016**	**2015 *Corrected**
	(in thousands of HRK)		*(in thousands of HRK)*	
Raw materials and supplies and cost of goods sold	317.707	313,564	185,777	165,323
Staff costs	215.929	217,428	180,547	185,184
Advertising and promotion	49,337	48,335	40,636	42,149
Depreciation and amortisation	41,583	40,153	31,325	30,138
Services	38,578	35,640	32,797	28,943
Entertainment	18,152	20,899	14,441	15,500
Rental costs	8,180	8,930	5,834	6,790
Transport	8,396	8,064	8,101	7,727
Telecommunication	2,237	2,556	1,671	1,992
Other taxes and contributions	2,782	2,698	2,245	2,262
Provisions for trade receivables, net	4,007	8,838	1,149	4,659
Insurance premiums	2,686	2,878	2,138	2,687
Per diems and travelling expenses	6,647	6,224	5,375	5,197
Other expenses	3,647	9,471	4,083	4,147
	719,868	**725,678**	**516,119**	**502,698**

NOTE 11 – OTHER EXPENSES

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Interest expense on trade payables	8	12	4	8
Impairment loss on intangible assets	-	11,050	-	-
Impairment loss on property, plant and equipment	1,907	-	1,907	-
Impairment loss on investments in subsidiaries	-	-	-	22,847
Loss on disposal of property, plant, equipment	372	-	718	-
Foreign exchange gains on receivables and payables	-	23,258	-	23,231
Other expenses	7	-	7	-
	2,294	**34,320**	**2,636**	**46,086**

NOTE 12 – STAFF COSTS

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Salaries	202,598	201,100	172,103	171,624
Transportation	2,676	2,613	2,277	2,221
Unused vacation and jubilee awards	2,123	577	742	673
Termination benefits	221	7,803	140	7,784
Other	8,311	5,335	5,285	2,882
	215,929	**217,428**	**180,547**	**185,184**

NOTE 12 – STAFF COSTS (continued)

As at 31 December 2016, the number of staff employed by the Group was 1,363 (2015: 1,318 employees).

In 2016 the Group has accrued early retirement in the amount of HRK 221 thousand (2015: 7,785 thousand for 26 employees), paid to early retirement in the amount of HRK 547 thousand to 5 employees (2015: 7,785 thousand to 26 employees) and paid retirement benefits in the amount of HRK 62 thousand to 3 employees (2015: HRK 19 thousand to one employee).

As at 31 December 2016, the number of staff employed by the Company was 1,133, of which 230 were employed in representative offices (2015: 1,098 employees, of which 218 were employed in representative offices).

In 2016 the Company has accrued early retirement in the amount of HRK 140 thousand for one employee (2015: 7,785 thousand for 26 employees), paid to early retirement in the amount of HRK 466 thousand to 3 employees (2015: 10,453 thousand to 44 employees).

NOTE 13 – FINANCE INCOME

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Interest on related party loans	-	-	104	-
Interest on deposits, receivables and other finance income	334	445	333	421
Guarantee fee	836	-	836	-
Dividends	-	-	1,688	1,844
	1,170	**445**	**2,961**	**2,265**

NOTE 14 – FINANCE COSTS

	Group		*Company*	
	2016	**2015 *Corrected**	**2016**	**2015 *Corrected**
	(in thousands of HRK)		*(in thousands of HRK)*	
Interest expense on borrowings and finance lease	8,774	9,439	6,639	6,040
Other financial expenses	1,275	1,758	1,215	1,700
Unrealized loss on forward contracts	914	-	914	-
Exchange rate differences on loans and financial assets	2,609	931	2,610	931
	13,572	**12,128**	**11,378**	**8,671**

During 2016, the Company and the Group had investments on which interest expenses were capitalized in facilities and equipment in the amount of HRK 3,797 thousand (2015: 0), using the estimated capitalization rate 3.96%.

Other financing costs relate to the costs of allocated options in the employee stock ownership program in the capital increase of the parent company by a public offering of new ordinary shares (for details, see Note 26), and the cost of bank charges and fees for guarantees on received loans.

NOTE 15 – INCOME TAX EXPENSE

Income tax expense comprises the following:

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Current tax	3,529	2,409	-	-
Deferred tax	18,124	(156,699)	20,417	(158,622)
Tax expense	**21,653**	**(154,290)**	**20,417**	**(158,622)**

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Profit before taxation	98,279	35,969	80,714	12,344
Income tax 20%	19,656	7,194	16,143	2,469
Effects of non-deductible expenses	3,764	4,339	2,980	3,375
Investment tax credit recognized as deferred tax assets	-	(163,717)	-	(163,717)
Effects of non-taxable income and other incentives	(1,227)	(1,098)	(384)	(749)
Effect of the change in tax rates on the deferred taxes	1,232	-	1,678	-
Effect of different tax rates	(1,772)	(1,008)	-	-
Tax expense	**21,653**	**(154,290)**	**20,417**	**(158,622)**
Effective tax rate	*22%*	*-429%*	*25%*	*-1285%*

In November 2016, a new law on income tax was announced in the Republic of Croatia, according to which, from January 2017, the income tax rate decreased from 20% to 18%. In accordance with the International Accounting Standard, the Group and the Company have recognized deferred tax assets and liabilities as at 31 December 2016 at a tax rate of 18%, i.e. at the rate at which the asset or liability will be realized in the future.

NOTE 16 – DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets-Group

2016	Opening balance	Recognized in statement of comprehensive income	Recognised in equity	Closing balance
Trade and other payables	2,132	1,862	(25)	3,969
Inventories	2,130	493	-	2,623
Intangible assets	4,608	(461)	-	4,147
Trade and other receivables	754	(530)	-	224
Unutilised tax losses carried forward	-	527	-	527
Tax incentives for capital investment	154,347	(20,441)	-	133,906
	163,971	**(18,550)**	**(25)**	**145,396**

Tax incentives for capital investment

Tax breaks for investment are considered incentives resulting from government incentives that the Company and the Group provide tax relief income tax or other taxes specified in future periods, and are linked to the construction or acquisition of certain assets and / or implementation of certain activities and / or satisfaction certain specific conditions stipulated by relevant regulations for investment incentives by the competent authorities. Tax incentives for investments are initially recognized as deferred tax assets and income tax in the amount lower than the maximum authorized height exemptions and deductions for the amount that it is estimated that it will be able to achieve the Group during the term of the incentive measures. Deferred tax assets recognized as a result of tax credits for investments reversed during the period of the incentive measures, that is, until the expiration of benefits (if the same specified) subject to the availability of tax obligations in the coming years as a result of the use of incentives may reduce.

Based on the Act to the encouraging investment and improving the investment environment, in March 2015, the Company obtained the status of the incentive measure. By confirming the Ministry of Economy, the Company approved the use of tax incentives in support of the eligible costs of new employment linked to investment projects and incentives for capital investment costs of the project within the permitted amount of tax relief for investments of 163,717 thousand HRK for which the Company will have the ability to reduce future tax obligations arising from income tax and / or receiving cash amount as a stimulus for employment in the framework of the investment project. The Company stated tax relief for investments has the right to use in the next 10 years from the date of approval by the relevant authorities. For investments in the amount of HRK equivalent of over 3 million EUR, the recipient of incentive measures tax liability is reduced as a whole, provided that a minimum of 15 new jobs linked to the investment. The investments are subject to the supervision of the competent institutions and the Company may not reduce the number of new jobs (related to the conditions of incentives) in addition to other conditions, in the period of using the incentive measures, with a minimum period of 5 years.

If the terms of the tax incentives do not realize, the Company will have for the entire period for which it approved funds have an obligation to return the funds derived from the use of the tax advantage increased by statutory interest on arrears. Internal projections of the Company for the next period indicate the realization of taxable profits and meet the criteria for the realization of support for the eligible costs of new jobs associated with the investment in accordance with the decision of the Ministry of Economy. The projections indicate that future taxable profit will be sufficient for the use of tax incentives in its entirety.
Based on the assessment of efficiency tax credits by the Board, the financial statements for 2015. The Company and the Group are initially recognized the entire amount approved tax relief as deferred tax assets and tax revenue. In 2016, the tax relief was used in the value of calculated current corporation tax in the amount of HRK 20,280 thousand and in the amount of HRK 161 thousand as incentives for workers employed at the new production site (in 2015, in the value of calculated current corporation tax in the amount of HRK 9,370 thousand). In the coming years deferred tax assets related to tax relief in the amount of 133,906 thousand HRK will be used in accordance with the availability of the tax liability that the Company will be able to reduce on the basis of incentives and / or the extent to which the Company will receive sums of money as incentives for employment within investment project.

NOTE 16 – DEFERRED TAX ASSETS AND LIABILITIES (continued)

Deferred tax assets-Group (continued)

2015	Opening balance	Recognized in statement of comprehensive income	Recognised in equity	Closing balance
Trade and other payables	2,871	(713)	(26)	2,132
Inventories	1,844	286	-	2,130
Intangible assets	2,245	2,363	-	4,608
Trade and other receivables	768	(14)	-	754
Tax incentives for capital investment	-	154,347	-	154,347
	7,728	**156,269**	**(26)**	**163,971**

Deferred tax liability-Group

2016	Opening balance	Recognized in statement of comprehensive income	Closing balance
Intangible assets	716	(119)	597
Property, plant and equipment	3,042	(307)	2,735
	3,758	**(426)**	**3,332**

2015	Opening balance	Recognized in statement of comprehensive income	Closing balance
Intangible assets	1,023	(307)	716
Property, plant and equipment	3,165	(123)	3,042
	4,188	**(430)**	**3,758**

Deferred tax assets-Company

2016	Opening balance	Recognized in statement of comprehensive income	Recognised in equity	Closing balance
Trade and other payables	2,540	865	(25)	3,380
Inventories	1,507	450	-	1,957
Investment in subsidiaries	10,750	(1,075)	-	9,675
Trade and other receivables	253	(216)	-	37
Tax incentives for capital investment	154,347	(20,441)	-	133,906
	169,397	**(20,417)**	**(25)**	**148,955**

NOTE 16 – DEFERRED TAX ASSETS AND LIABILITIES (continued)

Deferred tax assets-Company (continued)

In November 2016, a new law on income tax was announced in the Republic of Croatia, according to which, from January 2017, the income tax rate decreased from 20% to 18%. In accordance with the International Accounting Standard, the Company has recognized the deferred tax assets as at 31 December 2016 at a tax rate of 18%, i.e. at the rate at which the assets will be realized in the future. Based on the change in tax rates, The Company reported an additional tax expense in the amount of HRK 1,678 thousand.

2015	Opening balance	Recognized in statement of comprehensive income	Recognised in equity	Closing balance
Trade and other payables	2,851	(286)	(25)	2,540
Inventories	1,069	438	-	1,507
Investments in subsidiaries	6,181	4,569	-	10,750
Trade and other receivables	699	(446)	-	253
Tax incentives for capital investment	-	154,347	-	154,347
	10,800	**158,622**	**(25)**	**169,397**

NOTE 17 –INTANGIBLE ASSETS

Group:

(in thousands of HRK)	Software and licences	Distribution rights, right of registration file use and registration	Pharma rights	Development costs	Assets under construction	Total
Cost						
At 1 January 2015	**23,444**	**109,545**	**59,065**	**15,111**	**15,267**	**222,432**
Effects of movements in exchange rates	(3)	(25)	-	-	(1)	(29)
Additions	-	-	-	-	7,480	7,480
Transfers	262	8,456	-	569	(9,287)	-
Disposals and write offs	(43)	(179)	-	-	(475)	(697)
At 31 December 2015	**23,660**	**117,797**	**59,065**	**15,680**	**12,984**	**229,186**
Accumulated amortisation						
At 1 January 2015	**(17,664)**	**(75,316)**	**(11,991)**	**(3,951)**	**-**	**(108,922)**
Effects of movements in exchange rates	2	5	1	-	-	8
Charge for the year	(1,325)	(8,749)	-	(1,554)	-	(11,628)
Disposals and write offs	43	162	-	-	-	205
Inpairment loss	-	-	(11,050)	-	-	(11,050)
At 31 December 2015	**(18,944)**	**(83,898)**	**(23,040)**	**(5,505)**	**-**	**(131,387)**
Carrying amount at 31 December 2015	**4,716**	**33,899**	**36,025**	**10,175**	**12,984**	**97,799**
Cost						
At 1 January 2016	**23,660**	**117,797**	**59,065**	**15,680**	**12,984**	**229,186**
Effects of movements in exchange rates	(13)	(79)	-	-	(5)	(97)
Additions	-	-	-	-	11,497	11,497
Transfers	899	5,274	-	-	(6,173)	-
Disposals and write offs	-	(963)	-	-	(42)	(1,005)
At 31 December 2016	**24,546**	**122,029**	**59,065**	**15,680**	**18,261**	**239,581**
Accumulated amortisation						
At 1 January 2016	**(18,944)**	**(83,898)**	**(23,040)**	**(5,505)**	**-**	**(131,387)**
Effects of movements in exchange rates	8	29	-	-	-	37
Charge for the year	(1,380)	(9,524)	-	(1,568)	-	(12,472)
Disposals and write offs	-	515	-	-	-	515
Inpairment loss	-	-	-	-	-	-
At 31 December 2016	**(20,316)**	**(92,878)**	**(23,040)**	**(7,073)**	**-**	**(143,307)**
Carrying amount at 31 December 2016	**4,230**	**29,151**	**36,025**	**8,607**	**18,261**	**96,274**

Intangible assets under construction relates to the capitalized costs of drug development and acquired registration dossiers for which the approval of the Agency for Health Care is in progress.

NOTE 17 –INTANGIBLE ASSETS (continued)

Company:

(in thousands of HRK)	Software and licences	Rights of registration file use and registration	Development costs	Assets under construction	Total
Cost					
At 1 January 2015	**20,813**	**56,289**	**15,111**	**14,762**	**106,975**
Additions	**-**	**-**	**-**	**6,580**	**6,580**
Transfers	**103**	**7,769**	**569**	**(8,441)**	**-**
Disposals and write offs	**(43)**	**(179)**	**-**	**(402)**	**(624)**
At 31 December 2015	**20,873**	**63,879**	**15,680**	**12,499**	**112,931**
Accumulated amortisation					
At 1 January 2015	**(16,221)**	**(36,905)**	**(3,951)**	**-**	**(57,077)**
Charge for the year	(1,064)	(5,007)	(1,554)	-	**(7,625)**
Disposals and write offs	42	162	-	-	**204**
At 31 December 2015	(17,243)	(41,750)	(5,505)	-	**(64,498)**
Carrying amount at 31 December 2015	**3,630**	**22,129**	**10,175**	**12,499**	**48,433**
Cost					
At 1 January 2016	**20,873**	**63,879**	**15,680**	**12,499**	**112,931**
Additions	**-**	**-**	**-**	**10,645**	**10,645**
Transfers	**833**	**4,496**	**-**	**(5,329)**	**-**
Disposals and write offs	**-**	**(963)**	**-**	**(29)**	**(992)**
At 31 December 2016	**21,706**	**67,412**	**15,680**	**17,786**	**122,584**
Accumulated amortisation					
At 1 January 2016	**(17,243)**	**(41,750)**	**(5,505)**	**-**	**(64,498)**
Charge for the year	**(1,098)**	**(5,774)**	**(1,568)**	**-**	**(8,440)**
Disposals and write offs	**-**	**515**	**-**	**-**	**515**
At 31 December 2016	**(18,341)**	**(47,009)**	**(7,073)**	**-**	**(72,423)**
Carrying amount at 31 December 2016	**3,365**	**20,403**	**8,607**	**17,786**	**50,161**

Intangible assets under construction relates to the capitalized costs of drug development and acquired registration dossiers for which the approval of the Agency for Health Care is in progress.

NOTE 18 – PROPERTY, PLANT AND EQUIPMENT

Group:

(in thousands of HRK)	Land and buildings	Equipment	Assets under construction	Total
Cost				
At 1 January 2015	**448,108**	**510,972**	**28,548**	**987,628**
Effects of movements in exchange rates	(166)	(113)	172	(107)
Additions	-	10	145,708	145,718
Transfers	16,079	30,575	(46,654)	-
Disposals and write offs	-	(5,668)	-	(5,668)
At 31 December 2015	**464,021**	**535,776**	**127,774**	**1,127,571**
Accumulated amortisation				
At 1 January 2015	**(257,779)**	**(400,108)**	**-**	**(657,887)**
Effects of movements in exchange rates	25	45	-	70
Charge for the year	(10,253)	(18,272)	-	(28,525)
Disposals and write offs	-	5,543	-	5,543
Inpairment loss	-	-	-	-
At 31 December 2015	**(268,007)**	**(412,792)**	**-**	**(680,799)**
Carrying amount at 31 December 2015	**196,014**	**122,984**	**127,774**	**446,772**
Cost				
At 1 January 2016	**464,021**	**535,776**	**127,774**	**1,127,571**
Effects of movements in exchange rates	(647)	(345)	(7)	(999)
Additions	-	22	394,017	394,039
Transfers	130	9,749	(9,879)	-
Disposals and write offs	-	(4,195)	-	(4,195)
At 31 December 2016	**463,504**	**541,007**	**511,905**	**1,516,416**
Accumulated amortisation				
At 1 January 2016	(268,007)	(412,792)	-	(680,799)
Effects of movements in exchange rates	103	170	-	273
Charge for the year	(10,114)	(18,997)	-	(29,111)
Disposals and write offs	-	3,393	-	3,393
Inpairment loss	-	(1,907)	-	(1,907)
At 31 December 2016	**(278,018)**	**(430,133)**	**-**	**(708,151)**
Carrying amount at 31 December 2016	**185,486**	**110,874**	**511,905**	**808,265**

Land and buildings of the Group in the amount of 137,353 thousand HRK (2015.: 161,204 thousand HRK) have been pledged as collateral for loan liabilities of Belupo Group and as a guarantee for the loan liabilities of the parent company Podravka d.d.

Assets under construction is largely relates to investments in new production capacity.

NOTE 18 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company:

(in thousands of HRK)	Land and buildings	Equipment	Assets under construction	Total
Cost				
At 1 January 2015	**360,437**	**476,158**	**10,667**	**847,262**
Additions	-	-	144,060	144,060
Transfers	58	27,624	(27,682)	-
Disposals and write offs	-	(4,300)	-	(4,300)
At 31 December 2015	**360,495**	**499,482**	**127,045**	**987,022**
Accumulated amortisation				
At 1 January 2015	**(240,734)**	**(382,111)**	**-**	**(622,845)**
Charge for the year	**(7,375)**	**(15,138)**	**-**	(22,513)
Disposals and write offs	**-**	**4,248**	**-**	4,248
Inpairment loss	**(248,109)**	**(393,001)**	**-**	(641,110)
At 31 December 2015	**(496,218)**	**(786,002)**	**-**	**(1,282,220)**
Carrying amount at 31 December 2015	**(135,723)**	**(286,520)**	**127,045**	**(295,198)**
Cost				
At 1 January 2016	**360,495**	**499,482**	**127,045**	**987,022**
Additions	**-**	**-**	**391,583**	391,583
Transfers	**100**	**7,374**	**(7,474)**	-
Disposals and write offs	**-**	**(2,501)**	**-**	(2,501)
At 31 December 2016	**360,595**	**504,355**	**511,154**	**1,376,104**
Accumulated amortisation				
At 1 January 2016	(248,109)	(393,001)	-	(641,110)
Charge for the year	(7,096)	(15,789)	-	(22,885)
Disposals and write offs	-	1,758	-	1,758
Inpairment loss	-	(1,907)	-	(1,907)
At 31 December 2016	**(255,205)**	**(408,939)**	**-**	**(664,144)**
Carrying amount at 31 December 2016	**105,390**	**95,416**	**511,154**	**711,960**

Assets under construction were mostly related to new production capacities in Belupo d.d.

On 31 December 2016, buildings and land of the Company with a net book value of 101,191 thousand HRK have been pledged as collateral for credit liabilities and credit obligations of the parent company Podravka d.d. (2015: 107,212 thousand HRK)

NOTE 19 - INVESTMENTS IN SUBSIDIARIES

Name of subsidiary	Country	Ownership interest in %		Principal business
		2016	2015	
Farmavita d.o.o., Sarajevo	Bosnia and Herzegovina	65	65	Distribution of pharmaceuticals
Ljekarne Deltis Pharm, Koprivnica	Croatia	100	100	Drugstore
Belupo d.o.o., Ljubljana	Slovenia	100	100	Distribution of pharmaceuticals
Belupo s.r.o., Bratislava	Slovakia	100	100	Distribution of pharmaceuticals
Belupo d.o.o.el, Skopje	Macedonia	100	100	Distribution of pharmaceuticals
Carrying amount of the investment		**99,664**	**99,664**	

During 2016, the Company has not reduced the value of investment in subsidiary Ljekarne Deltis Pharm (2015: the Company has reduced the value of investment in subsidiary Ljekarne Deltis Pharm in the amount of 22,847 thousand HRK).

NOTE 20 – NON-CURRENT FINANCIAL ASSETS

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings	-	-	13,767	-
Deposits	108	103	107	98
Other	225	227	-	
	333	**330**	**13,874**	**98**

The fair value of non-current financial assets approximates the carrying amounts, as the contracted interest rates reflect market rates.

NOTE 21 – INVENTORIES

	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Finished goods	120,741	107,962	91,587	78,539
Raw materials and supplies	54,930	43,033	39,555	39,190
Work in progress	4,039	4,148	4,039	4,108
	179,710	**155,143**	**135,181**	**121,837**

During 2016, the Group has recognized the impairment loss for the total amount of 1,916 thousand HRK (2015: 1,363 thousand HRK abolished impairment). The impairment losses are included in the income statement under "*Cost of goods sold*".

During 2016, the Company has recognized the impairment loss for the total amount of 2,067 thousand HRK expensed (2015: 2,189 thousand HRK abolished impairment), which refers to the test result of damaged stock and stock which has passed the expiration date. The impairment losses are included in the income statement under "Cost of goods sold".

NOTE 22 – TRADE AND OTHER RECEIVABLES

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Trade receivables	396,561	366,228	275,991	241,115
Less: Provisions for impairment	(42,943)	(40,303)	(28,113)	(28,180)
Net trade receivables	***353,618***	***325,925***	***247,878***	***212,935***
Advances given to suppliers	4,521	5,085	4,505	5,068
Trade receivables from related parties	365	380	46,391	56,806
Prepaid expenses and other receivables from related parties	846	-	914	-
Other receivables	6,425	11,364	5,600	9,421
Total current receivables	**365,775**	**342,754**	**305,288**	**284,230**

Movements in the provision for impairment of trade receivables are as follows:

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	40,303	31,471	28,180	23,521
Collected	(17)	(3)	(7)	(3)
Impairment loss recognised	4,024	8,840	1,156	4,662
Amounts written-off	(1,367)	(5)	(1,216)	-
At 31 December	**42,943**	**40,303**	**28,113**	**28,180**

Impairment loss on trade receivables and reversal of impairment loss on trade receivables is included within *'Selling and distribution costs'*.

Ageing analysis of trade receivables past due but not impaired:

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Undue	291,382	261,049 -	242,760	206,838
0-90 days	44,589	47,688	34,330	31,248
91-180 days	14,297	8,234	12,094	13,799
181-360 days	3,715	9,334	5,085	17,856
	353,983	**326,305**	**294,269**	**269,741**

NOTE 22 – TRADE AND OTHER RECEIVABLES (continued)

Other receivables consist of the following:

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Net VAT receivable	1,219	5,378	1,024	5,378
Prepaid expenses	4,514	5,448	4,031	3,575
Receivables from employes	481	317	452	291
Other receivables	211	221	93	177
	6,425	**11,364**	**5,600**	**9,421**

NOTE 23 – RECEIVABLES ON LOANS GRANTED

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings				
Loans to related parties	-	-	(13,767)	-
Total non-current borrowings	**-**	**-**	**(13,767)**	**-**
Current borrowings				
Loans to related parties	-	-	(2,898)	-
Total current borrowings	**-**	**-**	**(2,898)**	**-**
Total loans	**-**	**-**	**(16,665)**	**-**

NOTE 24 – CASH AND CASH EQUIVALENTS

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Cash at bank	78,646	84,885	68,305	75,794
Cash in hand	136	108	9	21
Deposits	2,562	1,159	2,561	1,159
	81,344	**86,152**	**70,875**	**76,974**

Cash on bank accounts refers to transaction accounts at commercial banks with an average interest rate of 0.23%.

Deposits refer to deposits at commercial banks with maturity up to three months carrying a variable interest rate ranging from 0.3% to 7.31%.

NOTE 25 – SHARE CAPITAL

The share capital of the Company amounts to HRK 410,087,600.00 and consists of 4,100,876 ordinary shares, with a nominal value of HRK 100 each, all held by Podravka d.d., Koprivnica.
On 23 December 2016, the General Assembly made a decision to increase the share capital by entering the rights-claims in the amount of HRK 69,000,000.00. The Commercial Court of Varaždin on 27 January 2017 issued a Decision on the increase of the share capital and change of provisions of the Articles of Association of Belupo d.d. in the amount of HRK 69,000,000.00 (2015: the Company registered an increase in share capital in the amount of HRK 119,986,400.00). The amount of HRK 189,738 thousand is recognized within the share capital in respect of reinvested earnings from previous periods. If changes in this share capital occur in the coming periods, the tax relief could be reversed, which could potentially result in a tax expense and liability, accordingly.

Dividend distribution

On 28 December 2016, the General Assembly declared a dividend of HRK 100,000,000.00, respectively 24.38 HRK per share. As at 31 December 2016 this amount was unpaid. In accordance with the new provisions of the Accounting Act, the Company will consider Article 19 of the Accounting Act when making the decision on the distribution of profits, according to which a company that at the balance sheet date has a profit available to the members shall first allocate it to Other reserves from gains to cover unrecognized development costs reported in assets. The Company and the Group as at 31 December 2016 have reported development costs in the total amount of HRK 17,080 thousand.

NOTE 26 –RESERVES

Group

(in thousands of HRK)	**Legal reserves**	**Other reserves**	**Translation reserves**	**Total**
At 1 January 2015	10,407	47,760	2,446	60,613
Exchange differences	-	-	(148)	(148)
Aktuarski dobici	4,304	3,051	-	7,355
Actuarial gains	-	101	-	101
Capital profit	-	1,308	-	1,308
At 31 December 2015	**14,711**	**52,220**	**2,298**	**69,229**
At 1 January 2016	**14,711**	**52,220**	**2,298**	**69,229**
Exchange differences	-	-	(383)	(383)
Transfer to reserves	6,000	77,548	-	83,548
Actuarial gains	-	66	-	66
Capital profit	-	(59)	-	(59)
At 31 December 2016	**20,711**	**129,775**	**1,915**	**152,401**

NOTE 26 –RESERVES (continue)

Company

(in thousands of HRK)	Legal reserves	Other reserves	Total
At 1 January 2015	10.201	47.760	57.961
Transfer to reserves	4.304	3.051	7.355
Actuarial gains	-	99	99
Capital profit	-	1.308	1.308
At 31 December 2015	**14.505**	**52.218**	**66.723**
At 1 January 2016	**14.505**	**52.218**	**66.723**
Transfer to reserves	6.000	77.548	83.548
Actuarial gains	-	130	130
Capital profit	-	-59	-59
At 31 December 2016	**20.505**	**129.837**	**150.342**

The legal reserve is required under Croatian Law according to which the Company is crequired to build up legal reserves to a minimum of twentieth part (5%) of the profit for the year until the total reserve reaches five precent (5%) of the share capital. Reserves are non-distributable.

Other reserves mainly comprise statutory reserves recorded in accordance with the Company's Articles of Association. Company Statute does not define distributivity of these reserves (Companies Act - Statutory reserves may be used only for the purposes prescribed by the Articles of Association). However, these reserves can be distributed based on the General assembly's decision for the purposes prescribed by the law. Capital gains within Other reserves in the amount of 1,248 thousand HRK relates to the employee stock ownership program, explained below.

Translation reserve relates to foreign exchange differences on foreign operations.

Employee stock ownership program (ESOP program)

In accordance with the decision of the General Assembly of the parent company Podravka d.d. of 3 June 2015, a program of organized employee stock ownership (ESOP program) has been launched at the level of the Podravka Group which consists of Podravka dd, Danica doo, Belupo dd and Ljekarne Deltis Pharm. ESOP program includes giving rights to workers in the primary subscription and payment of shares in the share capital increase of the parent company Podravka dd public offering, conducted in June 2015. The program also includes a system of rewarding employees who have acquired shares in the first round of registration in such a way that if a worker-shareholder retains all such acquired shares for two years, he will receive one additional share for every ten acquired, or if they are retained for three years, awarded him two additional shares for each ten acquired.

As part of the ESOP there were 14,534 shares enrolled in 2015., relating to workers of Belupo Group. The fair value of the shares at the date of issue amounted to HRK 300 and exercise price of additional shares is also 300 HRK.

As at 31 December 2016 as part of the ESOP there were 13,871 shares enrolled, which relate to workers of Belupo Group.

The cost of additional shares under the ESOP is recognized under financial costs.

NOTE 27– RETAINED EARNINGS

	Group		Company	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	**300,921**	**243,672**	**296,050**	**255,102**
Transfer to other reserves	(8,548)	(3,051)	(8,548)	(3,051)
Transfer to legal reserves	(6,000)	(4,304)	(6,000)	(4,304)
Profit for the year	71,138	187,267	60,297	170,966
Share capital increase from reinvested profit	-	(53,663)	-	(53,663)
Dividend declared	(100,000)	(69,000)	(100,000)	(69,000)
At 31 December	**257,511**	**300,921**	**241,799**	**296,050**

During 2016, the General Assembly approved a dividend in the amount of HRK 100,000 thousand which was not settled on 31 December 2016 (2015: approved dividend of HRK 69,000 thousand which will be registered in the Company's share capital in 2017).

NOTE 28 – NON-CONTROLLING INTEREST

	2016	**2015**
	(in thousands of HRK)	
At 1 January	39,526	36,605
Share in profit / (loss) for the year	5,231	2,921
At 31 December	**44,757**	**39,526**

Non-controlling interest arose on the acquisition of a 65% equity share in Farmavita d.o.o. Sarajevo in 2008.

Shortened financial statements for Farmavita d.o.o. Sarajevo are presented below.

Statement of financial position	**2016**	**2015**
Non-current assets	71,606	74,255
Current assets	132,316	128,712
Current liabilities	(78,654)	(103,930)
Non-current liabilities	(24,715)	(17,259)
Net assets	**100,553**	**81,778**
Statement of comprehensive income or loss for the year		
Revenue from sale	183,917	197,846
Profit or loss after tax	19,510	12,374
Other comprehensive income or loss	(257)	(71)
Total comprehensive income or loss for the year	**19,253**	**12,303**
Statement of cash flows		
Net increase / (decrease) in cash and cash equivalents	1,523	1,158

NOTE 29 - LOANS AND BORROWINGS

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings				
Related party borrowings	-	88,000	-	88,000
Foreign banks and banks in Croatia	426,500	68,893	416,622	52,365
Finance lease obligations	886	520	-	-
	427,386	**157,413**	**416,622**	**140,365**
Current borrowings				
Related party borrowings	-	22,000	-	22,000
Foreign banks and banks in Croatia	77,880	87,052	48,559	45,000
Finance lease obligations	814	658	-	-
	78,694	**109,710**	**48,559**	**67,000**
Total borrowings	**506,080**	**267,123**	**465,181**	**207,365**

Group:
Bank borrowings of HRK 506,080 thousand HRK (2015: HRK 157,123 thousand) are secured by mortgages over the land and buildings of the Group.

During 2016, the Group recorded a financial activity or payment and receipt of loans with and without the use of money. Total transactions on loans received amounted to HRK 607,713 thousand (2015: HRK 0), while the total cash loan repayment amounted to HRK 363,156 thousand (2015: HRK 0). Total non-cash transactions by loans received amounted to HRK 173,331 thousand (2015: HRK 180,734 thousand), while total non-cash loan repayments amounted to HRK 27,000 thousand (2015: HRK 70,585 thousand). These non-cash transactions are excluded from the Cash Flow Statement.

Company:
Bank borrowings of HRK 465,181 thousand HRK (2015: HRK 97,365 thousand) are secured by mortgages over the land and buildings of the Company (2015: bank borrowings of HRK 97,365 thousand are secured by mortgages over the land and buildings of the Company).
During 2016, the Company recorded a financial activity or payment and receipt of loans with and without the use of money Total cash transactions on loans received amounted to HRK 542,864 thousand (2015: HRK 0), while total cash loan repayment amounted to HRK 280,053 thousand (2015: HRK 0). Total non-cash transactions on loans received amounted to HRK 173,331 thousand (2015: HRK 180,000 thousand), while total non-cash loan repayments amounted to HRK 27,000 thousand (2015: HRK 70,000 thousand). These non-cash transactions are excluded from the Cash Flow Statement.
Borrowing terms and conditions
During 2015, the Company and the co-debtor, Pharmacies Deltis Pharm, concluded a Loan Agreement with HBOR in the total amount of HRK 304,000 thousand for a term of 7 years, with a grace period of one year. According to the above-mentioned HBOR loan, the Company is obliged to meet the following borrowing terms and conditions stated in the Agreement:

a) Notify HBOR before paying loans within the Podravka Group, and in other cases a prior approval of HBOR is necessary for loan payments.
b) In the event of non-payment of a loan obligation or if the share of capital and reserves of the Company falls below 30.00% of the balance sheet value, the Company shall not pay the profits without prior consent of HBOR.
   If the Company acts contrary to this point, HBOR is entitled to terminate the Loan Agreement.

During 2016, the Company, Podravka d.d. and Žito d.d. have concluded a Loan Agreement with the EBRD in the total amount of EUR 123,000 thousand for a term of 7 years.

The Company used EUR 38,550 thousand of the above amount, of which EUR 36,249 thousand for refinancing all short and long-term loans, except HBOR's loans, and EUR 2,301 thousand for the approval of long-term loans to the associated company, Farmavita d.d.

NOTE 29 - LOANS AND BORROWINGS (continued)

The Group's financial lease obligations are as follows:

	Minimum lease payments		Finance costs		Present value of minimum lease payments	
	2016	2015	2016	2015	2016	2015
	(in thousands of HRK)					
Up to one year	881	704	67	46	814	658
From one to five years	920	537	34	17	886	520
Less: future finance charges	**-**	**(63)**	**-**	**63**		
Present value of minimum lease payments	**1,801**	**1,178**			**1,700**	**1,178**
Included in financial statements in:						
Current borrowings					814	658
Non-current borrowings					886	520
					1,700	**1,178**

The exposure of the Group's borrowings to interest rate changes based on the contractual repricing dates at the reporting dates are as follows:

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Up to 6 months	50,931	94,771	24,279	56,000
6 – 12 months	27,763	14,939	24,280	11,000
1 – 5 years	311,266	136,956	300,502	121,871
More than 5 years	116,120	20,457	116,120	18,494
	506,080	**267,123**	**465,181**	**207,365**

The repayment schedule of non-current borrowings is as follows:

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Between 1 and 2 years	79,718	48,968	75,126	42,000
Between 2 and 5 years	231,548	87,988	225,376	79,871
More than 5 years	116,120	20,457	116,120	18,494
	427,386	**157,413**	**416,622**	**140,365**

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

	2016			**2015**		
	HRK	**EUR**	**Other**	**HRK**	**EUR**	**Other**
	%	**%**	**%**	**%**	**%**	**%**
Non-current borrowings						
Banks in Croatia	-	3	-	4	3	-
Banks in foreign countries	-	1.49	4.87	-	-	5.26
Finance lease obligations	-	-	6.23	-	-	5.99
Current borrowings						
Banks	-	-	4.8	2.47	-	5.04

NOTE 29 - LOANS AND BORROWINGS (continued)

The carrying amounts of long-term borrowings with fixed interrest rate approximate their fair values. The carrying amounts of short-term borrowings approximate their fair values, and the discounting effect is not significant because of the short-term nature of the borrowings.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
HRK	-	175,000	-	175,000
BAM	40,899	59,758	-	-
EUR	465,181	32,365	465,181	32,365
	506,080	**267,123**	**465,181**	**207,365**

Many of the borrowings are denominated in HRK. Therefore, the effect of changes in the foreign exchange rates would not have a significant impact on the amount of the borrowings.
The Group has the following unused loan facilities:

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Variable rate facilities:				
Expiring within one year	318,288	366,766	300,899	360,961
	318,288	**366,766**	**300,899**	**360,961**

Group:
Total unused credit facilities of HRK 318,288 thousand include HRK 118,705 thousand HRK (EUR 15,706 thousand) unused credit lines under the Agreement on the investment loan of 30.10.2015. year between the bank and the user limit Belupo d.d .

Company:
Total unused credit facilities of HRK 300,899 thousand include HRK 118,705 thousand HRK (EUR 15,706 thousand) unused credit lines under the Agreement on the investment loan of 30.10.2015. year between the bank and the user limit Belupo d.d .

NOTE 30 – PROVISIONS

Group

(in thousands of HRK)	**Jubilee awards and retirement benefits**	**Termination benefits**	**Unused holidays**	**Bonuses**	**Share based payments**	**Total**
Non-current	5,197	-	-	-	1,199	6,396
Current	367	467	1,244	1,514	-	3,592
At 31 December 2015	**5,564**	**467**	**1,244**	**1,514**	**1,199**	**9,988**
Increase of provision	1,184	-	2,097	3,560	729	7,570
Utilised during the year	(405)	(467)	(1,244)	(1,513)	(608)	(4,237)
At 31 December 2016	**6,343**	**-**	**2,097**	**3,561**	**1,320**	**13,321**
Non-current	6,072	-	-	-	1,320	7,392
Current	271	-	2,097	3,561	-	5,929
	6,343	**-**	**2,097**	**3,561**	**1,320**	**13,321**

Company

(in thousands of HRK)	**Jubilee awards and retirement benefits**	**Termination benefits**	**Unused holidays**	**Bonuses**	**Share based payments**	**Total**
Non-current	4,863	-	-	-	1,199	6,062
Current	367	467	1,138	782	-	2,754
At 31 December 2015	**5,230**	**467**	**1,138**	**782**	**1,199**	**8,816**
Increase of provision	484	-	1,239	2,176	729	4,628
Utilised during the year	(337)	(467)	(1,138)	(781)	(608)	(3,331)
At 31 December 2016	**5,377**	**-**	**1,239**	**2,177**	**1,320**	**10,113**
Non-current	5,106	-	-	-	1,320	6,426
Current	271	-	1,239	2,177	-	3,687
	5,377	**-**	**1,239**	**2,177**	**1,320**	**10,113**

NOTE 31 – TRADE AND OTHER PAYABLES

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of		*(in thousands of*	
Trade payables	139,969	98,187	118,445	68,882
Trade payables due to related parties	21,877	7,864	21,880	7,850
Other payables	129,303	103,115	124,013	98,225
	291,149	**209,166**	**264,338**	**174,957**

At 31 December 2016, the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.

Other payables include the following:

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Salaries and other liabilities to employees	14,709	20,902	11,527	18,355
Dividend declared and payable (related party)	100,000	69,000	100,000	69,000
Accrued interest on borrowings from Podravka (related party)	-	68	-	68
Interest on borrowings from banks	1,849	799	1,721	553
Deferred income	4,163	4,413	4,162	4,402
Contributions and other taxes payable	1,435	1,327	13	42
Value Added Tax	268	678	-	-
Other	6,879	5,928	6,590	5,805
	129,303	**103,115**	**124,013**	**98,225**

NOTE 32 – FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Forward contracts	914	-	914	-
	914	**-**	**914**	**-**

NOTE 33 – RETIREMENT BENEFIT PLANS

Defined benefit plan

According to the Collective Agreement, the Group and the Company have an obligation to pay jubilee awards, retirement and other benefits to employees. The Group operates defined benefit schemes for qualifying employees.

The Group and the Company pays pension contributions on behalf of its employees in accordance with applicable legal regulations. These contributions form the basis of social benefits payable out of the Croatian national pension fund to Croatian employees upon their retirement.

The present value of the defined benefit obligation, 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:

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
Discount rate	2.80%	4.10%	2.80%	4.10%
Fluctuation rate	4.78%	4.36%	4.78%	4.36%
Average expected remaining working life (years)	21	19	21	19

The amounts recognised in the statement of comprehensive income in respect of the defined benefit plan:

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Current service cost	313	272	278	258
Interest expense	149	201	139	196
Other actuarial adjustments	707	6	67	7
Benefits paid	(390)	(484)	(337)	(395)
	779	**(5)**	**147**	**66**

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

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	5,564	5,569	5,230	5,164
Current service cost	313	272	278	258
Interest expense	149	201	139	196
Benefits paid	(390)	(484)	(337)	(395)
Other actuarial adjustments	707	6	67	7
At 31 December	**6,343**	**5,564**	**5,377**	**5,230**

NOTE 34 – FINANCIAL INSTRUMENTS

34.1. Capital risk management

Net debt to equity ratio (Gearing ratio)

Belupo Group reviews the capital structure on an semi-annual basis.
As part of this review, the Group considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the reporting date was as follows:

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Debt (long and short-term borrowings)	506,080	267,123	465,181	207,365
Cash and cash equivalents	(81,344)	(86,152)	(70,875)	(76,974)
Net debt	424,736	180,971	394,306	130,391
Equity	864,756	819,763	802,228	772,860
Net debt to equity ratio	*49.12%*	*22.08%*	*49.15%*	*16.87%*

Debt is defined as long and short-term borrowings. Equity includes all capital and reserves.

34.2. Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition. The basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed within notes.

34.3. Categories of financial instruments

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Financial assets				
Trade and other receivables	360,408	337,669	299,869	279,162
Cash and cash equivalents	81,344	86,152	70,875	76,974
Other financial assets	333	330	13,874	98
	442,085	**424,151**	**384,618**	**356,234**
Financial liabilities				
Borrowings	504,380	265,945	465,181	207,365
Trade and other payables	186,986	135,753	160,176	101,555
Liabilities for finance lease	1,700	1,178	-	-
Liabilities at fair value through profit or loss	914	-	914	-
	693,980	**402,876**	**626,271**	**308,920**

NOTE 34 – FINANCIAL INSTRUMENTS (continued)

34.4. Financial risk management objectives

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

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

The significant risks, together with the methods used to manage these risks, are described below. In 2016 the Group used derivatives in order to potentially manage exchange rate fluctuations of the Russian Ruble. The Group does not use any derivatives to manage its risks or for speculative purposes.

34.5. Market risk

Commodity risk management (price risk)

Volatility in the prices of bulk pharmaceuticals is a pervasive element of the Group's business environment. The Purchase function has been centralised, which in itself provides the Group the status of a reputable customer on the market, with a fine starting position to negotiate prices. Fixed rate, long-term framework agreements are entered into, with the terms and conditions defined in line with the market trends.

Market risk exists due to the fact that the sales prices are regulated by the State, and Belupo is not able to exercise any influence in forming the prices.

Sales function based risk

The Group does not use any forward agreements to manage its exposure to the risk of fluctuation in bulk pharmaceutical prices.

NOTE 34 – FINANCIAL INSTRUMENTS (continued)

34.6. Foreign exchange risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. During the year 2016 the Group used a forward contract with Raiffeisen Bank Zagreb in order to potentially manage exchange rate fluctuation of the Russian Ruble. Loss on fair value of the forward contract on 31 December 2016 amounted to HRK 914 thousand and is included within financial liabilities at fair value through profit or loss.

The nominal value of foreign currency forward contracts at 31 December 2016, amounts to HRK 9,462 thousand (2015: 0) and are related to Belupo d.d. with maturity on 30 march 2017, 28 April 2017, 30 May 2017 and 30 June 2017.

Gains and losses arising from changes in market value of foreign currency forward contracts are recognized in the statement of comprehensive income under ‘net financial income/costs’.

The carrying amounts of the Group’s foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Group				*Company*			
	Liabilities		**Assets**		**Liabilities**		**Assets**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
	(in thousands of HRK)				*(in thousands of HRK)*			
BAM	53,180	75,569	89,928	100,076	-	-	-	-
EUR	332,544	26,249	87,300	60,218	328,665	21,432	130,908	102,936
USD	1,541	1,426	652	7	1,534	1,426	652	-
RUB	-	-	69,335	60,621	-	-	69,335	60,621
Other currencies	368	258	3,308	3,051	305	227	1,130	560

Foreign currency sensitivity analysis

The Group is mainly exposed to the fluctuations in the exchange rate of the Croatian Kuna to the Euro, the US dollar, the BAM and Russian ruble RUB, since the most of the trading in bulk pharmaceuticals on the international market is done in Euros, US dollars, BAMs and RUBs.

The following table details the Group’s sensitivity to a 1.0 % decrease in 2016 in the Croatian HRK against the relevant foreign currencies (2015: 1.0% decrease). The sensitivity rates below are used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of a reasonably likely change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for percentage change in foreign currency rates. 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 the Croatian HRK changes by above mentioned percentage against the relevant currency. For a reverse proportional change of the Croatian HRK against the relevant currency, there would be an equal and opposite impact on profit and other equity.

The exposure to the fluctuations in exchange rates is mainly attributable to the borrowings, trade payables and receivables and receivables from related companies denominated in EUR, BAM, USD and RUB.

NOTE 34 – FINANCIAL INSTRUMENTS (continued)

34.6. Foreign exchange risk management (continued)

	Group				*Company*			
	EUR impact		**USD impact**		**EUR impact**		**USD impact**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
	(in thousands of HRK)				*(in thousands of HRK)*			
Profit	2,452	340	9	-	815	815	9	-
Loss	-	-	-	(14)	-	-	-	(14)

	BAM impact		**RUB impact**		**BAM impact**		**RUB impact**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
	(in thousands of HRK)				*(in thousands of HRK)*			
Profit	-	245	-	606	-	-	-	606
Loss	(367)	-	(693)	-	-	-	(693)	-

34.7. Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. Part of the Group's borrowings are at variable rates.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date For variable interest rates, the analysis was prepared in such a way as to calculate the effect of a reasonably possible increase in interest rates on borrowings with variable interest rates on the expected contractual cash flows of such borrowings in relation to those calculated using the interest rate applicable at the end of the current reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of a reasonably likely change in interest rates.

NOTE 34 – FINANCIAL INSTRUMENTS (continued)

34.7. Interest rate risk management (continue)

Interest rate sensitivity analysis

The estimated effect of a reasonably possible change in interest rates on the Group's and Company's result before tax for the reporting period is as follows:

Group as at 31 December 2016	Contractual cash flows	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
	(in thousands of HRK)				
At current interest rates	531,112	86,293	85,710	242,124	116,985
At current interest rates + 50 basis points	539,149	88,627	87,647	245,600	117,275
Effect of increase of interest rate by 50 bp	**(8,037)**	**(2,334)**	**(1,937)**	**(3,476)**	**(290)**

Group as at 31 December 2015	Contractual cash flows	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
	(in thousands of HRK)				
At current interest rates	253,970	84,318	53,856	94,963	20,833
At current interest rates + 50 basis points	256,621	85,297	54,521	95,919	20,884
Effect of increase of interest rate by 50 bp	**(2,651)**	**(979)**	**(665)**	**(956)**	**(51)**

Company as at 31 December 2016	Contractual cash flows	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
	(in thousands of HRK)				
At current interest rates	488,492	55,128	80,774	235,605	116,985
At current interest rates + 50 basis points	496,314	57,333	82,669	239,037	117,275
Effect of increase of interest rate by 50 bp	**(7,822)**	**(2,205)**	**(1,895)**	**(3,432)**	**(290)**

Company as at 31 December 2015	Contractual cash flows	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
	(in thousands of HRK)				
At current interest rates	198,789	47,696	46,214	86,058	18,821
At current interest rates + 50 basis points	201,115	48,503	46,810	86,935	18,867
Effect of increase of interest rate by 50 bp	**(2,326)**	**(807)**	**(596)**	**(877)**	**(46)**

NOTE 34 – FINANCIAL INSTRUMENTS (continued)

34.8. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a „Credit Risk Management Procedure“, which it applies in dealing with customers, and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Customers are classified into risk groupings based on the financial performance indicators and own trading records, and appropriate credit risk mitigation measures are taken for each risk class.

Customers are classified mainly on the basis of official financial statements of customers and credit ratings supplied by independent rating agencies, and the Group's history of trading with each customer.

The Group's exposure and the credit ratings of its counterparties are continuously monitored, and credit exposure is controlled by counterparty limits that are reviewed at least annually.

The Group transacts with pharmaceutical wholesellers and drugstores in Croatia and abroad.

The maximum concentration of credit risk is related to wholesalers. The Group has no significant credit exposures that would not be covered by collateral.

34.9. Liquidity risk management

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

Liquidity and interest rate tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities presented in the statement of financial position.
The tables have been drawn up based on the undiscounted cash flows of financial liabilities on maturity. The table includes both interest and principal cash flows.
The liquidity risk analysis presented below does not indicate any likelihood of liquidity shortfall of the Group for a shorter period.

NOTE 34 – FINANCIAL INSTRUMENTS (continued)

34.9. Liquidity risk management (continue)

Liquidity and interest rate tables (continue)

The following tables detail the Group's remaining contractual maturity for its financial liabilities presented in the statement of financial position.
The tables have been drawn up based on the undiscounted cash flows of financial liabilities on maturity. The table includes both interest and principal cash flows.
The liquidity risk analysis presented below does not indicate any likelihood of liquidity shortfall of the Group for a shorter period.

Group

Group as at 31 December 2016	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Interest rate swap	**914**	914	914	-	-
Trade and interest payables	**186,986**	186,986	186,986	-	-
	187,900	187,900	187,900	-	-
Interest bearing liabilities					
Financial lease liabilities	**1,700**	1,800	878	922	-
Borrowings	**504,380**	544,577	88,000	336,248	120,329
	506,080	546,377	88,878	337,170	120,329
	693,980	734,277	276,778	337,170	120,329
Non-interest bearing assets:					
Trade receivables (including bills of exchange)	**360,408**	360,408	360,268	140	-
Forward contracts	-	-	-	-	-
Cash and cash equivalents	**81,344**	-	-	-	-
	441,752	360,408	360,268	140	-
Interest bearing assets:					
Long-term loans	-	-	-	-	-
Long-term deposits	**108**	-	-	108	-
Short-term loans	-	-	-	-	-
	108	-	-	108	-
	441,860	360,408	360,268	248	-
Net liquidity	**(252,120)**	**(373,869)**	**83,490**	**(336,922)**	**(120,329)**

The Group's non-interest bearing liabilities up to one month comprise mainly trade payables of HRK 88,336 thousand (2015: HRK 51,910 thousand) and amounts due to employees of HRK 14,709 thousand (2015: HRK 20,209 thousand).

NOTE 34 – FINANCIAL INSTRUMENTS (continued)

34.9. Liquidity risk management (continued)

Liquidity and interest rate tables (continue)

Company

Group as at 31 December 2015	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Interest rate swap	-	-	-	-	-
Trade and interest payables	**135,753**	135,753	135,715	38	-
	135,753	135,753	135,715	38	-
Interest bearing liabilities					
Financial lease liabilities	**1,178**	1,240	703	537	-
Borrowings	**265,945**	284,851	115,483	149,680	19,688
	267,123	286,091	116,186	150,217	19,688
	402,876	421,844	251,901	150,255	19,688
Non-interest bearing assets:					
Trade receivables (including bills of exchange)	**337,669**	337,669	336,442	1,227	-
Forward contracts	-	-	-	-	-
Cash and cash equivalents	**86,152**	-	-	-	-
	423,821	337,669	336,442	1,227	-
Interest bearing assets:					
Long-term loans	-	-	-	-	-
Long-term deposits	**108**	108	-	108	-
Short-term loans	-	-	-	-	-
	108	108	-	108	-
	423,929	337,777	336,442	1,335	-
Net liquidity	**21,053**	**(84,067)**	**84,541**	**(148,920)**	**(19,688)**

NOTE 34 – FINANCIAL INSTRUMENTS (continued)

34.9. Liquidity risk management (continued)

Liquidity and interest rate tables (continued)

Company as at 31 December 2016	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Interest rate swap	**914**	914	914	-	-
Trade and interest payables	**160,176**	160,176	160,176	-	-
	161,090	161,090	161,090	-	-
Interest bearing liabilities					
Financial lease liabilities	-	-	-	-	-
Borrowings	**465,181**	503,477	57,638	325,510	120,329
	465,181	503,477	57,638	325,510	120,329
	626,271	664,567	218,728	325,510	120,329
Non-interest bearing assets:					
Trade receivables (including bills of exchange)	**299,869**	299,869	299,869	-	-
Forward contracts	-	-	-	-	-
Cash and cash equivalents	**70,875**	-	-	-	-
	370,744	**299,869**	**299,869**	-	-
Interest bearing assets:					
Long-term loans	**16,665**	18,095	3,296	12,593	2,206
Long-term deposits	**107**	-	-	107	-
Short-term loans	-	-	-	-	-
	16,772	18,095	3,296	12,700	2,206
	387,516	317,964	303,165	12,700	2,206
Net liquidity	**(238,755)**	**(346,603)**	**84,437**	**(312,810)**	**(118,123)**

The Company's non-interest bearing liabilities up to one month comprise mainly trade payables of HRK 81,812 thousand (2015: HRK 44,927 thousand) and amounts due to employees of HRK 11,527 thousand (2015: HRK 18,355 thousand).

Interest bearing liabilities include short-term and long-term borrowings and finance lease obligations.

NOTE 34 – FINANCIAL INSTRUMENTS (continued)

34.9. Fair value of financial instruments (continued)

Liquidity and interest rate tables (continued)

Company as at 31 December 2016	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Interest rate swap	-	-	-	-	-
Trade and interest payables	**101,555**	101,555	101,555	-	-
	101,555	101,555	101,555	-	-
Interest bearing liabilities					
Financial lease liabilities	-	-	-	-	-
Borrowings	**207,365**	223,297	72,032	131,577	19,688
	207,365	223,297	72,032	131,577	19,688
	308,920	324,852	173,587	131,577	19,688
Non-interest bearing assets:					
Trade receivables (including bills of exchange)	**279,162**	279,162	279,162	-	-
Forward contracts	-	-	-	-	-
Cash and cash equivalents	**76,974**	-	-	-	-
	356,136	279,162	279,162	-	-
Interest bearing assets:					
Long-term loans	-	-	-	-	-
Long-term deposits	**98**	98	-	98	-
Short-term loans	-	-	-	-	-
	98	98	-	98	-
	356,234	279,260	279,162	98	-
Net liquidity	**47,314**	**(45,592)**	**105,575**	**(131,479)**	**(19,688)**

NOTE 34 – FINANCIAL INSTRUMENTS (continued)

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

Financial instruments held to maturity in the normal course of operations are carried at the lower of cost and the net amount less 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. The fair value of a financial instruments is the one quoted on the securities market or obtained using the discounted cash flow method.

At 31 December 2016 the carrying amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair market values due to the short-term nature of those assets and liabilities.

34.10.1 Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into 3 Levels depending on the fair value:

Group and Company

	Level 1	Level 2	Level 3	Total
	(in thousands of HRK)			
	31 December 2016			
Financial liabilities at fair value through profit or loss				
Derivative financial instruments – forward contracts	-	914	-	914
Liabilities for share based payments (cash settled)	-	1,320	-	1,320

In 2016, the Company used forward contracts with commercial banks with the primary purpose of controlling the fluctuation of the Russian ruble exchange rate with respect to foreign currency sales and purchase in that currency, the negative fair value of which on 31 December 2016 was HRK 914 thousand.

The nominal value of currency forward contracts as at 31 December 2016 amounts to HRK 9,462 thousand with maturity during the period form 30 March 2017 to 30 June 2017.

Gains and losses recognized as changes in the market value of currency forward contracts are recorded in the Statement of Comprehensive Income under “Financial income / net costs”.

Measurement of fair value

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

NOTE 34 – FINANCIAL INSTRUMENTS (continued)

34.10. Fair value of financial instruments (continued)

34.10.1 Fair value measurements recognised in the consolidated statement of financial position (continued)

	Level 1	Level 2	Level 3	Total
	(in thousands of HRK)			
	31 December 2015			
Financial assets at fair value through profit or loss				
Derivative financial instruments – forward contracts	-	-	-	-
Financial liabilities at fair value through profit or loss				
Liabilities for share based payments (cash settled)	-	1,199	-	1,199

NOTE 35 – SHARE BASED PAYMENTS

Employee share options

Options for the purchase of Podravka d.d. shares are granted to key management of Belupo d.d. The exercise price of the granted option equals the weighted average share price of Podravka d.d. shares per the Zagreb Stock Exchange in the year for which the option is granted. The vesting period normally starts from 1 January for the year for which the option is granted. 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 three years or six months from the occurrence of any of the circumstances described above.

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

Option series	Number of options	Grant date	Vesting conditions	Expiry date	Exercise price	Fair value at the grant date
31 Dec 2014	2,000	2014	in accordance with performance and labor contract	31 Dec 2019	296.59	293.47
31 Dec 2014	6,307	2014	in accordance with performance and labor contract	30 Jun 2017	296.59	293.47
31 Dec 2015	2,000	2015	in accordance with performance and labor contract	30 Jun 2018	318.79	334.01
31 Dec 2015	6,938	2015	in accordance with performance and labor contract	31 Dec 2020	300.00	334.01
31 Dec 2016	7,146	2016	in accordance with performance and labor contract	31 Dec 2021	348.67	377.50
	24,391					

NOTE 35 – SHARE BASED PAYMENTS (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:

	Series 31 Dec 2016 Period less than 2,5 years	Series 31 Dec 2016 Period less than 5 years	Series 31 Dec 2015 Period less than 2,5 years	Series 31 Dec 2015 Period less than 5 years
The fair value of options at the date of issue in HRK	-	119.20	66.71	122.77
Grant date share price (in HRK and lipas)	-	377.50	334.01	334.01
Exercise price (in HRK and lipas)	-	348.67	318.79	300.00
Expected volatitlity (%)	-	0.18	0.16	0.19
Option life (years)	-	5	2.5	5.00
Risk-free interest rate (%)	0.00%	4.88%	5.57%	6.13%

Expense recognized in profit or loss	2016	2015
	(in thousands of HRK)	
Share based payment transactions	729	707
Utilised during the year	(608)	(1,336)
	121	**(629)**

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

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at the beginning of the year	24,545	288.66	30,607	296.56
Granted during the year	7,146	348.67	8,938	304.21
Unused / transfered options	-	-	-	-
Unused / transfered options	-	-	-	-
Exercised during the year	(7,300)	260.62	(15,000)	284.72
Balance at year end	**24,391**	-	**24,545**	-

As at 31 December 2016 there were 7,146 (2015: 8,398) options granted whose vesting period starts at 1 January 2017.

In 2016, the option series 2014 were used (a total of 7,300 options) (2015:the options series 2010, 2011, 2012 in total of 15,000 were used).

NOTE 36 – RELATED PARTY TRANSACTIONS

Name of subsidiary	Country	Ownership interest in % 2016	Ownership interest in % 2015	Principal business
Farmavita d.o.o., Sarajevo	Bosnia and Herzegovina	65	65	Distribution of pharmaceuticals
Ljekarne Deltis Pharm, Koprivnica	Croatia	100	100	Drugstore
Belupo d.o.o., Ljubljana	Slovenia	100	100	Distribution of pharmaceuticals
Belupo s.r.o., Bratislava	Slovakia	100	100	Distribution of pharmaceuticals
Belupo d.o.o.el, Skopje	Macedonia	100	100	Distribution of pharmaceuticals
Carrying amount of the investment		**99,664**	**99,664**	

Related party transactions include business transactions within the Podravka Group companies. Items resulting from these transactions included in the statement of comprehensive income and balances included in the statement of financial position as at 31 December 2016 and 31 December 2015, are as follows:

REVENUE

Income from sales of goods and merchandise and services:

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Podravka d.d., Koprivnica	1,705	1,411	1,683	1,399
Other related companies	-	191	72,816	66,432
	1,705	**1,602**	**74,499**	**67,831**

Company's income from related parties is as follows:

	Income from sales of goods and merchandise		**Income from sales of services**	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company inside the Belupo Group:				
Farmavita d.o.o, Sarajevo	28,656	24,114	46	65
Belupo d.o.o., Bratislava	22,815	23,328	308	294
Belupo d.o.el, Skopje	9,718	7,310	29	32
Belupo d.o.o., Ljubljana	9,599	8,114	171	179
Ljekarne Deltis Pharm, Koprivnica	1,176	2,342	298	468
Company outside the Belupo Group:				
Podravka d.d., Koprivnica	-	-	1,683	1,399
Danica d.o.o., Koprivnica	-	-	-	186
	71,964	**65,208**	**2,535**	**2,623**

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

EXPENSES

	Group		*Company*	
Remuneration to key management	**2016**	**2015 *Corrected**	**2016**	**2015 *Corrected**
	(in thousands of HRK)		*(in thousands of HRK)*	
Salaries	7,777	8,552	7,777	8,552
	7,777	**8,552**	**7,777**	**8,552**
Operating expenses outside Belupo Group:				
Podravka d.d., Koprivnica	16,610	15,624	16,255	15,254
Danica d.o.o., Koprivnica	-	1	-	1
Podravka d.o.o., Ljubljana	178	162	-	-
Podravka d.o.o.el., Skopje	45	46	-	-
Podravka d.o.o., Sarajevo	(1)	-	-	-
Žito d.d., Ljubljana	-	18	-	-
Operating expenses inside Belupo Group:	-	-	-	-
Ljekarne Deltis Pharm, Koprivnica	-	-	(106)	(12)
Farmavita d.o.o., Sarajevo	-	-	(16,679)	(6,353)
Belupo s.r.o., Bratislava	-	-	279	129
Belupo d.o.o., Ljubljana	-	-	-	7
Belupo d.o.o.el., Skopje	-	-	-	9
	16,832	**15,851**	**(251)**	**9,035**
Finance costs				
Podravka d.d., Koprivnica	4,254	4,011	4,254	4,011
	4,254	**4,011**	**4,254**	**4,011**
Total expenses	**21,086**	**19,862**	**4,003**	**13,046**

LOANS AND BORROWINGS

Company

	Effective interest rate		**Borrowings**	
	2016	**2015**	**2016**	**2015**
			(in thousands of HRK)	
Podravka d.d., Koprivnica	-	3.00%	-	110,000
			-	**110,000**

INVESTMENT REVENUE

Company and Group	**2016**	**2015**
	(in thousands of HRK)	
Interest income (Farmavita)	104	-
Income from guarantee fees (Podravka)	836	-
Dividend income	1,688	1,844
	2,628	**1,844**

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

TRADE RECEIVABLES

	Group		*Company*	
	Short-term trade receivables for goods and services		**Short-term trade receivables for goods and services**	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company inside the Belupo Group:				
Farmavita d.o.o., Sarajevo	-	-	28,692	42,195
Ljekarne Deltis Pharm, Koprivnica	-	-	12,395	6,397
Belupo d.o.o.el., Skopje	-	-	3,618	3,616
Belupo s.r.o., Bratislava	-	-	-	1,796
Belupo d.o.o., Ljubljana	-	-	1,331	2,428
Company outside the Belupo Group:				
Podravka d.d., Koprivnica	365	380	355	374
Total trade receivables – Group entities	**365**	**380**	**46,391**	**56,806**

Additionaly, during 2016 the General assembly declared a dividend in the amount of HRK 100,000 thousand that remained unpaid on 31 December 2016 (in 2015: 69,000 thousand HRK that remained unpaid as at 31 December 2015).

TRADE LIABILITIES

	Group		*Company*	
	Short-term trade payables for goods and services		**Short-term trade payables for goods and services**	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company inside the Belupo Group:				
Farmavita d.o.o., Sarajevo	-	-	-	53
Ljekarne Deltis Pharm, Koprivnica	-	-	4	5
Belupo s.r.o., Bratislava	-	-	87	36
Belupo d.o.o., Ljubljana	-	-	-	*7*
Company outside the Belupo Group:				
Podravka d.d., Koprivnica	21,877	7,850	21,789	7,749
Podravka d.o.o.el., Skopje	-	14	-	-
Total trade payables – Group entities	**21,877**	**7,864**	**21,880**	**7,850**

NOTE 36 – RELATED PARTY TRANSACTIONS (continued)

Given guarantees and warranties

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Podravka d.d., Koprivnica	865,803	819,859	865,803	819,859
Farmavita d.o.o., Sarajevo	-	-	36,782	41,850
Mirna d.d., Rovinj	24,673	2,000	24,673	2,000
	890,476	**821,859**	**927,258**	**863,709**

NOTE 37a – CONTINGENT LIABILITIES

For guarantees and warranties contingent liabilities are not reported in the statement of financial position as at 31 December, as the discretion of the Board of the Group as at 31 December 2016 and 2015 no contingent liability will arise for the Group and the Company.

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
Podravka d.d. - revolving loan guarantee	355,000	188,893	355,000	188,893
Podravka d.d. - corporate guarantees	488,130	518,061	488,130	518,061
Podravka d.d. - guarantee	22,673	112,905	22,673	112,905
Farmavita d.o.o. - corporate guarantee	-	-	36,782	41,850
Mirna d.d. - revolving loan guarantee	24,673	2,000	24,673	2,000
	890,476	**821,859**	**927,258**	**863,709**

NOTE 37b – CAPITAL COMMITMENTS

Group:

As at 31 December 2016, the Group had contracted and unrealized liabilities in the amount of HRK 41,826 thousand, most of which are related to the construction of a new factory in Belupo d.d. (31 December 2015: HRK 163.9 million for investments in Belupo d.d.).

Company:

As at 31 December 2016 the Company had capital commitments in the amount of HRK 41,826, most of which are related to construction of a new factory in Belupo dd (December 31, 2015: HRK 162.6 million for investments).

NOTE 37b – CAPITAL COMMITMENTS (continued)

Contracted payment of operating lease commitments for the use of means of transport is as follows:

	Group		*Company*	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
1 year or less	2,774	2,411	2,532	2,411
One to five years	6,550	5,757	5,884	5,757
	9,324	**8,168**	**8,416**	**8,168**

NOTE 38 – EVENTS AFTER THE BALANCE SHEET DATE

Share capital increase

On 27 January 2017, an increase of share capital in the amount of HRK 69 million was registered in the Register of Companies. Also, based on the Decision of the Company Assembly of 20 February 2017, the share capital is increased from the obligation to pay dividends in the amount of HRK 100 million. On 9 March 2017, according to the Decision of the Commercial Court, the share capital in the Register of Companies increased for the afore mentioned HRK 100 million.

Membership in the Supervisory Board of the Company

On 24 February 2017, the Chairman of the Supervisory Board, Zvonimir Mršić, and the member of the Supervisory Board, Olivija Jakupec, filed an irrevocable resignation on the said functions and membership in the Supervisory Board of the Company.