Podravka Group Annual Report for 2021

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1 Structure and ownership

Podravka is a joint stock company listed on Zagreb Stock Exchange Prime Market. Podravka Group consists of several affiliated companies owned by Podravka Inc.

This is the Annual report of Podravka Group for 2021.

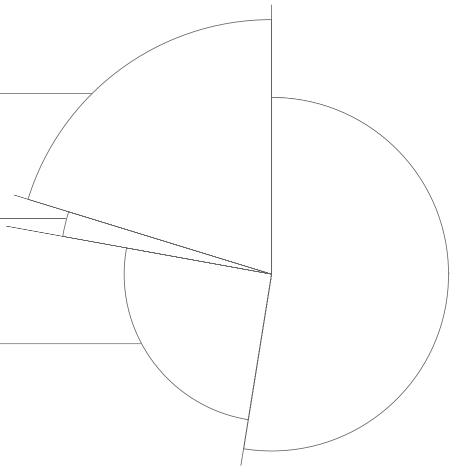
Structure of Podravka Group

PODRAVKA INC.

Name of subsidiary	Ownership interest of Podravka Inc.
Žito Ltd., Ljubljana, Slovenia	100.00%
Podravka Ltd., Ljubljana, Slovenia*	100.00%
Intes Storitve Ltd., Maribor, Slovenia*	100.00%
Šumi bonboni Ltd., Ljubljana, Slovenia*	100.00%
Žito maloprodaja Ltd., Ljubljana, Slovenia*	100.00%
Mirna Inc., Rovinj, Croatia	99.44%
Podravka-Lagris a.s., Dolni Lhota u Luhačovic, Czech Republic	100.00%
Podravka-Polska Sp.z o.o., Warszawa, Poland	100.00%
Podravka-International Kft, Budapest, Hungary	100.00%
Podravka Ltd., Belgrade, Serbia	100.00%
Podravka-Int. Deutschland –"Konar" GmbH, Germany	100.00%
Podravka-International s.r.o., Zvolen, Slovakia***	100.00%
Podravka Ltd., Podgorica, Montenegro	100.00%
Podravka-International Pty Ltd, Silverwater, Australia	100.00%
Podravka EOOD, Sofia *****, Bulgaria	100.00%
Podravka-International s.r.l., Bucharest, Romania	100.00%
Podravka DOOEL, Petrovec, North Macedonia	100.00%
Podravka Ltd., Sarajevo, Bosnia and Herzegovina	100.00%
Podravka USA Inc., New York, USA	100.00%
Podravka Ltd., Moskva, Russia	100.00%
Foodpro Limited, Dar es Salaam, Tanzania****	100.00%
Podravka Gulf Fze, Jebel Ali, Dubai, UAE	100.00%
Belupo Inc., Koprivnica, Croatia	100.00%
Farmavita Ltd. Sarajevo, Vogošća, Bosnia and Herzegovina**	65.00%
Ljekarne Deltis Pharm, Koprivnica, Croatia**	100.00%
Belupo dooel, Skopje, North Macedonia**	100.00%
Belupo s.r.o. Bratislava, Slovakia**	100.00%
Belupo Ltd. Ljubljana, Slovenia**	100.00%

* Podravka Inc. holds these ownership interests indirectly through its subsidiary Žito Ltd.
** Podravka Inc. holds these ownership interests indirectly through its subsidiary Belupo Inc.
*** 25% of ownership interest is held indirectly through the subsidiary Podravka-Lagris a.s., Dolni Lhota u Luhačovic
**** 15% of ownership interest is held indirectly through the subsidiary Podravka-Int. Deutschland – "Konar" GmbH

Ownership structure of Podravka Inc. on December 31st, 2021



* Includes all mandatory and voluntary pension funds managed by the pension companies AZ, ROMF, PBZCO and ERSTE.

** The Restructuring and Sale Centre holds 1,241,504 shares through four accounts, Kapitalni fond Inc. holds 406,842 shares, the Republic of Croatia additionally holds 167,281 shares on a separate account.

Top 10 shareholders of Podravka Inc. on December 31st, 2021

No.	Shareholder	Number of shares	% of ownership
1	PBZ Croatia Osiguranje mandatory pension fund, category B	1,097,644	15.4%
2	AZ mandatory pension fund, category B	917,563	12.9%
3	RSC*** - Croatian Pension Insurance Institute	727,703	10.2%
4	Erste Plavi mandatory pension fund, category B	638,248	9.0%
5	Raiffeisen mandatory pension fund, category B	625,298	8.8%
6	RSC*** - Republic of Croatia	452,792	6.4%
7	Capital Fund	406,842	5.7%
8	Pivac Brothers Meat Industry	226,578	3.2%
9	Republic of Croatia	167,281	2.3%
10	Podravka d.d. - treasury account	105,916	1.5%
	Other shareholders	1,754,138	24.6%
	Total	7,120,003	100.0%

*** RSC - Restructuring and Sale Center

Introductory word from the President of the Management Board of Podravka Inc.

DEAR PODRAVKA GROUP STAKEHOLDERS,

last year we achieved excellent results which is confirmed by sales revenues that reached HRK 4,631.5 million and net profit of HRK 309.2 million. Compared to the year before, sales revenues increased by 2.8%, and profit by 24.2%, which are excellent results given the challenging and adverse circumstances in which they had been achieved. Namely, as the pandemic continued, we were exposed to additional challenges brought by delays in the supply chain, a significant increase in entry prices and inflationary trends, and these results have confirmed our capacity to adequately respond to all the encountered challenges.

Sales revenues grew in both business segments of the Group, Food and Pharmaceuticals. It is especially important to highlight the significance of export revenues, given that Podravka Group exports its products to 70 foreign markets worldwide. Sales revenues outside of Croatia accounted for 68% of total sales revenues last year and were 1.9% higher than in 2020. In addition to continued organic growth, significant profit growth was enabled by further streamlining of operations accompanied with strong control of operating costs. Thanks to that, until the very year end, we managed to absorb the growth of raw material prices through internal reserves without transferring the growing costs to customers and end consumers, respectively.

Last year was also important for Podravka due to the launch of a new investment and development cycle with the aim of ensuring long-term sustainable growth, further development while reducing negative effect to the environment through the use of renewable energy sources and reducing of carbon footprint. All the already started and implemented activities for business improvement are part of the new five-year business strategy which aims to transform Podravka into a genuine Croatian multinational company. For the first time last year, in addition to the new strategy, the Group received an accompanying three-year operational business plan. The strategy sets ambitious goals and growth plans through three development pillars: focusing on selected markets and product categories, increasing business efficiency through technological modernization and digital transformation of production and logistics processes, and acquisitions. In the forthcoming period, we want to bring our brands even closer to consumers so that we can be their reliable and true partner who with a wide selection of high quality products supports and accompanies them in their life habits.

Furthermore, investors have recognized our impressive results and constant efforts for further development. The share price increased and as of 31 December 2021 amounted to HRK 632 which is an increase of 30.3%, whilst market capitalization an increase of 30.3%, whilst market capitalization amounted to HRK 4,429.2 million or 30.6% more than the year earlier.

None of the above would be possible without the diligent work, knowledge and energy of our employees, whom I sincerely thank for their dedication, responsibility and contribution to the results achieved.

Fully aware of the importance of employees for successful business, last year we continued to work on improving their material rights. At the beginning of 2021, salaries, primarily the lowest ones, permanently increased with HRK 21 million invested at annual level. Income growth continued in 2022, with the allocation of HRK 35 million at annual level. This has further strengthened Podravka's image of a desirable employer.

We remain committed to one of our prime targets of attracting new talents and encouraging their further progress. This is also contributed by additional strengthened focus on achieving full equality for women and men working at our company. Podravka has 40% of women on the Management Board and 33% on the Supervisory Board, and with the new organization we are introducing in 2022, the share of women in top management will increase from 24% to 43%. Such a high representation of women in managerial positions places us not only amongst Croatian but also European leaders of gender equality at workplaces. Excellence, knowledge and results remain the prime criteria for advancement, but the diversity of experiences, knowledge, perspectives, work styles and management within our teams allows us to be even more successful in everything we do.

Apart from investing in our employees, the Podravka Group is fully aware of its social responsibility and does not forget its immediate community by supporting and helping the most vulnerable and those in the greatest need. During 2021, aid was provided to residents and institutions in the earthquake-affected areas, the health system shaken by the COVID-19 pandemic, families of lower financial status and to the most vulnerable and the youngest among us.

We have entered the year 2022 with a clear vision and ambitious business and investment plans, but new instabilities and war events in Europe demand extra caution and new adjustments. This requires additional focus and commitment to overcome the challenges that will arise as a result of the war in Ukraine. Nevertheless, we remain determined to fully implement all the outlined business and investment plans.

President of the Management Board of Podravka Inc.
MARTINA DALIĆ, PhD

3 Management Board of Podravka Inc.

PURSUANT TO THE PROVISIONS OF THE ARTICLES OF ASSOCIATION OF PODRAVKA INC., the Management Board consists of three to six members appointed by the Supervisory Board. The Management Board is appointed for a period as determined by the Supervisory Board (not longer than five years) with the option of reappointment. If the president or members of the Management Board are appointed during the term of the existing Management Board, their term lasts until the expiry of the term of the Management Board as a whole. The beginning of the term is as of the date the Management Board members are appointed if not otherwise stipulated in a resolution made by the Supervisory Board.

The members of the Management Board manage the Company's business affairs, and the manner in which the Board operates and the division of tasks amongst the members of the Management Board are regulated by the Rules of Procedure of the Management Board.

The Management Board consists of the president and four members appointed by the Supervisory Board of Podravka Inc.

MANAGEMENT BOARD MEMBERS IN 2021 WERE AS FOLLOWS:

1. Martina Dalić / *president (since 4 February 2021)*
2. Ljiljana Šapina / *member*
3. Davor Doko / *member*
4. Marko Đerek / *member*
5. Hrvoje Kolarić / *member*
6. Marin Pucar / *president (till 6 January 2021)*

Remuneration to Podravka Inc. Management Board members has been determined by a contract concluded with the Company and approved by the Supervisory Board on behalf of the Company. Remunerations for membership in Supervisory Boards of Podravka Group companies were not approved nor paid to the members of the Podravka Inc. Management Board.

During 2021, members of the Management Board of Podravka Inc. were granted 40,000 Company stock options.

During 2021, the Management Board held 57 sessions, with a recorded presence of 99.30%.

BIOGRAPHIES OF THE MANAGEMENT BOARD MEMBERS

MARTINA DALIĆ

President of the Management Board

At its session of 3 February 2021, the Podravka Inc. Supervisory Board unanimously appointed Martina Dalić, PhD, as the new President of the Management Board of Podravka Inc. The mandate of the newly appointed President will last until the expiry of the current mandate of the Management Board on 23 February 2022.

Martina Dalić, PhD, has a wealth of experience in both the private and public sector, as well as in international institutions.

In her career in the public sector, she served as Vice-president of the Government of the Republic of Croatia and Minister of the Economy, Entrepreneurship and Crafts (2016 – 2018), and earlier as Minister of Finance (2010 – 2011), State Secretary (2004 – 2008), and Assistant Finance Minister (1997 – 2000). She began her career in the public sector in the Ministry of Finance in 1995. Furthermore, in 2011 she was elected a Member of the Croatian Parliament and fully completed her parliamentary term until 2015.

She also gained significant experience in the private sector, as the President of the Management Board of Partner Bank Zagreb from 2008 – 2010, and from 2000 to 2004 Chief Economist at Privredna Bank Zagreb, a member of the Intesa Sanpaolo Group.

In the period from 2015 to 2016, she was a permanent advisor on public finance management to the International Monetary Fund in Washington D.C.

From 2005 to 2012, Martina Dalić, PhD also served as the deputy chief negotiator and as a negotiator on the negotiation team for the accession of the Republic of Croatia into European Union membership in four chapters (Customs Union, Taxation, Financial Control and Budgetary and Financial Provisions).

Martina Dalić is a graduate of the Faculty of Economics and Business, University of Zagreb, where she began her professional career as a teaching assistant in the Department of Organisation and Management. She received her Master's degree in 1994 and the title of Doctor of Science in 2012.

She is author of numerous expert and scientific papers.

LJILJANA ŠAPINA
Member of the Management Board

She has been employed at Podravka Inc. since 1984. She gained her rich work experience in various managerial and directorial positions within the company sections Accounting and Finance, Retail, HoReCa Sales, Frozen Program, Markets Joint Affairs and Export Preparation. Since 2012, she worked as a unit manager at Import-export Logistics, and in 2015 she became department head at Import-export Logistics.

She graduated foreign trade at the Faculty of Economics and Business in Zagreb, and in 2012 she received her MA degree from the same Faculty.

DAVOR DOKO
Member of the Management Board

He started his professional career in 2000 in the Assets Management department at Zagrebačka banka as assistant portfolio manager, where he participated in founding the company for managing investment funds at Zagrebačka banka. He joined the AZ obligatory pension fund in 2002, as portfolio manager in charge of managing the shareholding part of the portfolio. As procurator and head portfolio manager at the AZ obligatory pension fund, among other tasks he actively participated in the portfolio management process and managing the investment process. Since 2006, he was Management Board member at Allianz ZB Ltd., a company for managing the obligatory pension fund, in charge of investments. During his term, he invested in numerous companies from the pharmaceutical and food sector and developed good business practices with all the major business banks in the Republic of Croatia and international financial institutions. In the AZ voluntary pension funds as person in charge of investment, he participated and managed all parts of the investment process.

He graduated from the Faculty of Economics and Business at Zagreb University. Over his career he took part in numerous trainings and educational courses and participated at conferences related to investments and the capital market.

MARKO ĐEREK
Member of the Management Board

He started his professional career in 1995 as a researcher in the Research Institute at Pliva where he worked till 2003. Between 1997 and 2002, he was a member of the initial project team for the functional design of the new research centre building in Zagreb. In 2003, he became the manager of the Research Institute at Pliva. Since 2004, he was managing various development projects at the Research Institute at Pliva, and in 2006 he transferred to Pliva's Global Business Development department as corporate products manager. In 2007, he became manager for Pliva's Markets Support.

In 2009, he transferred from Pliva to Hrvatska pošta (Croatian Post) as executive manager for trading. In 2011, he transferred to GlaxoSmithKline as business development manager in charge of South East Europe. In 2013, he took over the position of sales and hospital business manager for South East Europe at Pliva/TEVA where he worked till 2017.

He graduated in 1995 at the Faculty of Chemical Engineering and Technology of the University of Zagreb. In 2004, he received his MA degree in Natural Sciences, Chemistry, at the Faculty of Chemical Engineering and Technology of the University of Zagreb. He also completed his Master of Business Administration (MBA), at the Erasmus – Rotterdam School of Management in Rotterdam.

During his career, he additionally advanced his competences through numerous management and scientific programs and the Acceleration Pool training program at Pliva.

HRVOJE KOLARIĆ
Member of the Management Board

The most important positions in his professional career are director of Pharmaceuticals and Business Development at Bristol Myers Squibb, director of Pharmaceuticals of PharmaSwissa and director of PharmaSwiss Ltd. Croatia. He also managed the business processes related to the cooperation with Belupo in the production of the cardiological line of Pravachol. In his early career he also managed the Pharmaceuticals Department of the Bristol-Myers Squibb Representative Office for Croatia and Bosnia & Herzegovina, and subsequently the allergological and respiratory line of products of the Schering-Plough Representative Office in Croatia. He was appointed as Management Board member at Belupo, in charge of marketing, sales and international markets in 2005 and reappointed in May 2010. Two years later, he was appointed President of the Management Board of Belupo.

He graduated from the Faculty of Pharmaceutical and Biochemical Sciences of the University of Zagreb in 1998. He actively attended numerous education courses to acquire sales and negotiating skills, training for the first management tier, sales efficiency, qualifications in financial matters etc. Apart from receiving his MA in Pharmacy from the Faculty of Pharmacy and Biochemistry, he also received his Master of Business Administration, President module, IEDC, Bled.

MARIN PUCAR
President of the Management Board

He started his professional career at Gavrilović Ltd. food processing industry, transferring to Danica Ltd. – Podravka's meat processing company in 2001, where in 2002 he became its sales, marketing and development manager. In 2003, he was appointed executive manager for the Croatian Market at Podravka Inc. He was a member of the Podravka Inc. Management Board from 2008 to 2012, after which he transferred to Zvečevo Inc. to the position of Management Board member. He was the President of the Management Board of Zvečevo Inc. from 2014 to August 2016.

He graduated from the Faculty of Economics and Business in Zagreb and received his MA in Marketing Theory and Politics. He completed his doctoral thesis in Management on the topic “Brand Expansion Management Strategy in the Croatian Food Processing Industry”.

From 2008 till 2012, he was Supervisory Board member of Danica Ltd. and Belupo Inc. In 2012, he became Management Board member of the Croatian Chamber of Commerce, and its deputy president in 2016. In 2020, he was elected President of the Croatian Employers' Association.

Due to his sudden death on 6 January 2021, Marin Pucar ceased to be the President of the Management Board of Podravka Inc.

4 Supervisory Board of Podravka Inc.

THE SUPERVISORY BOARD OF PODRAVKA INC. HAS NINE MEMBERS, eight of whom are elected by the shareholders at the General Assembly meeting by three-quarter majority of votes, while one member is appointed by the Workers' Council of Podravka Inc. as stipulated by the provisions of the Labour Act. Members of the Supervisory Board are appointed to a four-year term of office. The beginning of the term for every member of the Supervisory Board is as of the day of the election, i.e. their appointment, unless otherwise determined by a decision on the election and appointment, respectively. The Supervisory Board supervises business operations of Podravka Inc. and makes decisions on matters in their domain based on the Law, the Articles of Association of Podravka Inc. and the Rules of Procedure of the Supervisory Board.

PODRAVKA INC. SUPERVISORY BOARD MEMBERS IN 2021 WERE AS FOLLOWS:

1. Želimir Vukina / *President*
2. Luka Burilović / *Deputy President*
3. Marina Dabić / *Member*
4. Tomislav Kitonić / *Member*
5. Ivana Matovina / *Member (till 29 june 2021)*
6. Ivan Ostojić / *Member (from 30 june 2021)*
7. Petar Miladin / *Member*
8. Ksenija Horvat / *Member (Workers' Representative)*
9. Dajana Milodanović / *Member*
10. Krunoslav Vitelj / *Member.*

Since the Supervisory Board does not elect or appoint members of the Supervisory Board, it is not possible to set the percentage of female members of the Supervisory Board as a goal.

The Supervisory Board considers the representation of women at 30% in the existing composition of the Supervisory Board to be satisfactory.

The Supervisory Board aims to reach the 30% representation of women in the Management Board in the next five years.

The Supervisory Board of Podravka Inc. has established *the following committees: the Audit Committee, the Remuneration Committee and the Nomination Committee.*

In the year 2021, *the Audit Committee* was composed of the following members:

1. Ivana Matovina / *President of the Committee*
2. Tomislav Kitonić / *Deputy President*
3. Želimir Vukina / *Member.*

The Remuneration Committee was composed of the following members:

1. Luka Burilović / *President of the Committee*
2. Petar Miladin / *Member*
3. Želimir Vukina / *Member.*

The Nomination Committee was composed of the following members:

1. Želimir Vukina / *President of the Committee*
2. Luka Burilović / *Member*
3. Krunoslav Vitelj / *Member.*

Members of the Supervisory Board of Podravka Inc. are entitled to a monthly fee set in a fixed amount according to the Decision of the General Assembly on determining the remuneration for the work of the members of the Supervisory Board of the Company.

BIOGRAPHIES OF SUPERVISORY BOARD MEMBERS

ŽELIMIR VUKINA

President of the Supervisory Board

Želimir Vukina was elected a member of the Supervisory Board of Podravka Inc. in June 2019. In addition to the position of the President of the Supervisory Board, he is also the President of the Nomination Committee and is a member of the Audit Committee and the Remuneration Committee of Podravka Inc. Since 2012 he has been working in the Law Firm *Vukina i Partneri Ltd.* as a business consultant. Throughout his career, he was the Vice President of the Management Board of Pliva Inc., General Manager of Lura Inc. and a member of the Management Board of Adris Group Inc. He graduated from the Faculty of Economics and Business in Zagreb in 1985, and continued his business studies in the United States, France and Slovenia.

LUKA BURILOVIĆ

Deputy President of the Supervisory Board

Luka Burilović, PhD was elected a member of the Supervisory Board of Podravka Inc. in June 2018, with the beginning of his term of office on 8 September 2018. In addition to the position of Deputy President of the Supervisory Board, he is the President of the Remuneration Committee and a member of the Nomination Committee of Podravka Inc. He has been the President of the Croatian Chamber of Commerce since 2014, a member of the Supervisory Board of HBOR, President of the Croatian National Board of the International Chamber of Commerce, a member of the Board of the Association of European Chambers of Commerce and a member of the Board of the Croatian Academy of Sciences and Arts. He was previously the President of the Management Board of Sladorana Inc., Assistant Minister in the Ministry of Agriculture, Forestry and Water Management and the owner and director of Agrotehna. He was also awarded the Order of the Croatian Danica with the figure of Blaž Lorković for special merits for the economy. After completing the postgraduate specialist study of economics and management at the Faculty of Economics in Osijek, he also completed the postgraduate doctoral study at the same faculty.

KSENIJA HORVAT

Member of the Supervisory Board

Ksenija Horvat was appointed a member of the Supervisory Board of Podravka Inc. in July 2019, by the Workers' Council. She has been the commissioner of the majority trade union in Podravka, the PPDIV trade union and the president of the Workers' Council of Podravka Inc. since 2013. She was the deputy and acting president of the Supervisory Board, and her entire professional career is related to her work at Podravka.

PETAR MILADIN

Member of the Supervisory Board

Petar Miladin was elected a member of the Supervisory Board of Podravka Inc. in June 2018, with the beginning of his term of office on 8 September 2018. He also holds the position of a member of the Remuneration Committee of Podravka Inc. He has been a full time professor at the Faculty of Law, University of Zagreb since 2019, where he was also vice dean. He received his master's degree from the Postgraduate Scientific Study of Commercial Law and Company Law at the Faculty of Law, University of Zagreb in 1999, and at the same faculty he obtained the academic degree of Doctor of Social Sciences, in the field of law in 2005.

IVANA MATOVINA
Member of the Supervisory Board

Ivana Matovina became a member of the Supervisory Board in June 2017, and whose term ended on 29 June 2021. She is the President of the Audit Committee of Podravka Inc. She is a member of the Committee for Financial Reporting Standards and the HANFA Council, and is also the owner and director of Antares Audit Ltd. and Antares Consulting Ltd. since 2011. She worked at KPMG Croatia Ltd. and Cinotti Audit Ltd./Cinotti Consulting Ltd. and was a member of the Management Board of the Croatian Chamber of Auditors. She graduated from the Faculty of Economics and Business in Zagreb in 1996, and in 2000 she became a Certified Public Accountant of Great Britain, while two years later she acquired the title of Croatian Certified Auditor.

KRUNOSLAV VITELJ
Member of the Supervisory Board

Krunoslav Vitelj was elected a member of the Supervisory Board of Podravka Inc. in June 2018, with the beginning of his term of office on 8 September 2018. He is a member of the Nomination Committee of Podravka Inc. Since 2021, he has been the President of the Croatian Chamber of Commerce – Koprivnica County Chamber, and before that he was the Head of the Department of Civil Protection, Fire Protection and Inspection at the Koprivnica-Križevci County Police Administration, Advisor to the President of the Human Resources and Legal Affairs in Podravka. He graduated in 1993 from the Faculty of Economics and Business, University of Zagreb, where he received his master's degree in 1995, and in 2008 he obtained a qualification in corporate governance for members of supervisory and management boards at the Faculty of Economics and Business, University of Zagreb.

DAJANA MILODANOVIĆ
Member of the Supervisory Board

Dajana Milodanović was elected a member of the Supervisory Board of Podravka Inc. in June 2018, with the beginning of her term of office on 8 September 2018. Since 2020, she has been working in the Office for the Development of Service Model and Sales Staff at Hrvatska poštanska banka Inc. She is a member of the City Council of the City of Đurđevac, the County Assembly of the Koprivnica-Križevci County, the President of the Management Board of the kindergarten “Maslačak” Đurđevac, the President of the Supervisory Board of the Municipal Services Đurđevac Ltd. and is the President of the Supervisory Board of the Association of Sports Associations of the City of Đurđevac. She was a member of the Board of Directors of PORA. She graduated in Accounting and Finance at the Faculty of Economics and Business, University of Zagreb in 2004, and in 2011 she obtained the title of Professional Specialist in Economics at the Libertas Business College in Zagreb.

TOMISLAV KITONIĆ
Member of the Supervisory Board

Tomislav Kitonić was elected a member of the Supervisory Board of Podravka Inc. in June 2019. In addition, he is the Deputy President of the Audit Committee of Podravka Inc. Since 2003, he has been a co-owner of the company Bik Ltd. from Čazma, and since 2014 its 100% owner and procurator. In 2012 he became a co-owner of Moslavina proizvodi Ltd. from Siščani. During the period 2015-2016, he was the Appointed Director of Pestova Shpk at the European Bank for Reconstruction and Development (EBRD). He was also the President of the Management Board of Ledo Inc. He graduated from the Faculty of Food Technology and Biotechnology in Zagreb in 1998. He attended the postgraduate study of Business

Management, MBA at the Faculty of Economics and Business in Zagreb and in 2006 he obtained the title of Master of Science, MBA. He continued his professional advancement in Belgium and Slovenia and obtained a qualification for corporate governance for members of supervisory and management boards in Zagreb.

MARINA DABIĆ
Member of the Supervisory Board

Marina Dabić was elected a member of the Supervisory Board of Podravka Inc. in June 2019. She is a full time professor at the Faculty of Economics and Business, University of Zagreb and at the Faculty of Economics, University of Ljubljana. She is the most cited Croatian scientist in the field of (business) economy, the head of international accreditations at the Faculty of Economics and Business, University of Zagreb, co-editor and member of about thirty editorial boards of prestigious world journals. Since 2017, she has been a regular reviewer for Obzor 2020 projects. She is a reviewer for the European Science Foundation and the Flanders Research Foundation (FWO). She is the chief organizer of IEEE-TEMSCON Europe 2021 conferences, and a member of the IEEE-TEM main board. She received the EFMD Award for Improving the Quality of Business Education and won the Phi Beta Delta Award for International Scholars at CSU, Georgia, USA, the Best Article Award at the Academy of International Business 2021 WAIB Award, the Mijo Mirković Award for Scientific Work from the Faculty of Economics and the Coat of Arms of the City of Slavonski Brod for 2017.

IVAN OSTOJIĆ
Member of the Supervisory Board

Ivan Ostojić was elected a member of the Supervisory Board of Podravka Inc. in June 2021, with the beginning of his term of office on 30 June 2021. In 2007 he became a member of the Management Board of Wüstenrot stambene štedionice Inc. Zagreb and is a member of the Supervisory Board of Luka Ploče Inc. Prior to that, he was a member of the Management Board of the Directorate for Supervision of Insurance Companies in the Ministry of Finance of the Republic of Croatia and chairman of the Examination Commission for conducting examinations for authorized insurance intermediaries or agents. He graduated in 1996 from the Faculty of Tourism and Foreign Trade in Dubrovnik and in 2000 received his master's degree from the Faculty of Political Science in Zagreb.

5 Report on the work of the Supervisory Board of Podravka Inc. and its committees

DURING THE YEAR 2021, THE SUPERVISORY BOARD OF PODRAVKA INC. (SUPERVISORY BOARD) ACTED IN THE FOLLOWING COMPOSITION: Želimir Vukina (president), Luka Burilović (deputy president), Marina Dabić, Ksenija Horvat, Tomislav Kitonić, Ivana Matovina (until 29 June 2021), Ivan Ostojić (since 30 June 2021), Petar Miladin, Dajana Milodanović and Krunoslav Vitelj – members of the Supervisory Board.

In accordance with the authorizations determined by the provisions of the Companies Act and the Articles of Association of Podravka Inc., the Supervisory Board continuously supervised the business operations of Podravka Inc. and the Podravka Group during 2021, and through 61 items on the agenda, divided into 13 sessions, four of which were held in writing, made decisions and conclusions. Attendance at Supervisory Board sessions was as follows: Mr. Vukina, Ms. Dabić, Mr. Kitonić, Ms. Matovina, Mr. Ostojić and Mr. Vitelj were present at all sessions of the Supervisory Board while Mr. Burilović was absent from two sessions, and Ms. Horvat, Mr. Miladin and Ms. Milodanović from one session of the Supervisory Board.

In 2021, the Supervisory Board held three meetings with the Management Board of Podravka Inc. At the meeting in March, the Management Board presented the Analysis of Marketing Investments of the Podravka Group for 2019 and 2020 and the Plan of Marketing Activities by Markets and Products for 2021. At the meeting in May, the topic was the Strategic Plan of the Podravka Group for the period 2021-2025, while at the meeting in September, a presentation of the Research and Development of the Podravka Group was held.

In terms of supervising business operations of Podravka Inc., the Supervisory Board discussed all key issues related to the operations of Podravka Inc. and its subsidiaries and regularly received written reports on operations, as well as materials with proposed decisions of the Management Board which, in accordance with the regulations, were respectively considered and decided on.

At the session held in June 2021, the Supervisory Board approved the Strategic Plan of the Podravka Group for the period 2021-2025 and considered the Human Resources Analysis of the Podravka Group.

During the year, the Supervisory Board considered capital investments and approved the significant investments. In September 2021, the Supervisory Board approved the investment in the reconstruction and modernization of the office building at Ante Starčevića 32 in Koprivnica, and at its session in October 2021 approved the construction of a logistics and distribution centre in the business zone Danica in Koprivnica.

Considering that the Supervisory Board was duly reported by the Management Board on all significant business events, business results and the position of Podravka Inc. and the Podravka Group, the Supervisory Board assesses that the cooperation with the Management Board is very good, constructive and efficient.

In order to perform its function more efficiently, the Supervisory Board acts through the following committees: the Audit Committee, the Remuneration Committee and the Nomination Committee.

The Audit Committee consisted of: Ivana Matovina (president), Tomislav Kitonić (deputy president from 15 April 2021) and Želimir Vukina (member). Eight sessions were held, of which three sessions were held in writing. Mr. Vukina was absent from one session of the Audit Committee. The Audit Committee considered and made recommendations to the Supervisory Board for the adoption of the Annual Financial Statements of Podravka Inc. and the Podravka Group and reports on the position of the Company and its subsidiaries for 2020, with reports of the certified auditors Ernst & Young Ltd. and the quarterly financial statements of Podravka Inc. and the Podravka Group in 2021. The Audit Committee also considered and discussed the Annual Report on the Work of Internal Audit for 2020, quarterly reports on the work of Internal Audit in 2021 and Reports on the follow-up of recommended activities from audit projects in 2020 and 2021.

The Nomination Committee consisted of: Želimir Vukina (president), Luka Burilović and Krunoslav Vitelj (members). The Nomination Committee held four sessions attended by all members. At the session held in February 2021, the Nomination Committee unanimously made a recommendation to appoint Martina Dalić, PhD, due to the sudden death and termination of the mandate of the former President of the Management Board, Marin Pucar, PhD. Due to the expiry of the mandate of the member of the Supervisory Board, Ivana Matovina, a unanimous recommendation was given to the Supervisory Board for the election of the candidate Ivan Ostojić as a member of the Supervisory Board at the session in May 2021.

The Remuneration Committee consisted of: Luka Burilović (president) and Želimir Vukina and Petar Miladin (members). Five sessions were held, attended by all members. The Remuneration Committee considered and determined the proposal of the contents of the Agreement on the performance of duties of the President of the Management Board and the Employment Agreement, the Proposal of the Decision on the payment of bonus salaries to the President and members of the Management Board of Podravka Inc. for business goals achieved in 2020, Proposal of Decision on criteria for rewarding the Management Board of Podravka Inc. for 2021 and the Proposal for the allotment of options for the purchase of shares to the President and members of the Management Board of Podravka Inc. for 2021 and sent them to the Supervisory Board of Podravka Inc. as support for making the appropriate decisions. The Remuneration Committee unanimously made a recommendation to the Supervisory Board to determine the Remuneration Policy.

The Supervisory Board conducted the self-assessment of its effectiveness, profile and composition, as well as the effectiveness and composition of its committees and individual results of members. The evaluation was led by the president of the Supervisory Board without the involvement of external evaluators. The Supervisory Board determined that its entire composition and profile as well as the composition and profile of its committees correspond to the needs and activities of Podravka Inc. The Supervisory Board supports the aspect of diversity with an appropriate level of representation of women in its composition, in which out of a total of nine members, the percentage of women on the Supervisory Board is 30%. The Supervisory Board determined that all members of the Supervisory Board and its committees have the knowledge, skills and professional experience and actively participated in its work, devoting adequate time and making an effective contribution to discussions and decision-making on all issues on the agenda of Supervisory Board sessions and those of its committees. In 2021, no other remuneration, such as travel and other expenses, was paid to the members of the Supervisory Board, except for the remuneration for their work in the Supervisory Board.

6 Key business indicators

Key *figures*

Number of markets where present
> 70

Number of continents where present
5

Number of markets present through subsidiaries & representative offices
22

Average number of employees
> 6,650

Sales revenue
4,631.5 mil. HRK

Compared to 2020
+2.8 %

EBITDA
592.0 mil. HRK

Compared to 2020
+8.3 %

EBITDA margin
12.8 %

Compared to 2020
+64 bb

Normalized EBITDA
607.7 mil. HRK

Compared to 2020
+11.9 %

Normalized EBITDA margin
13.1 %

Compared to 2020
+106 bb

Net profit after MI
309.2 mil. HRK

Compared to 2020
+24.2 %

Net margin after MI
6.7 %

Compared to 2020
+115 bb

Normalized Net profit after MI
304.1 mil. HRK

Compared to 2020
+24.4 %

Normalized Net margin after MI
6.6 %

Compared to 2020
+114 bb

KEY FIGURES

Net debt / Normalized EBITDA 0.8 x	Compared to 2020 -0.6 x
Last share price at end of period 632.0 HRK	Compared to 2020 +30.3 %
Market capitalisation 4,429.2 mil. HRK	Compared to 2020 +30.6 %
Return on average equity 8.8 %	Compared to 2020 +122 bb
Return on average assets 6.3 %	Compared to 2020 +123 bb
Dividend per share 9 HRK	Compared to 2020 –

Key *events*

PODRAVKA GROUP BUSINESS STRATEGY UNTIL 2025 AND THREE-YEAR BUSINESS PLAN

THE STRATEGIC PLAN OF THE PODRAVKA GROUP FOR THE 2021-2025 PERIOD ADOPTED

The Supervisory Board of Podravka Inc. approved in June the Strategic Plan of the Podravka Group (the Strategy) for the 2021 – 2025 period. The Business strategy includes both segments of the Podravka Group, Food and Pharmaceuticals, through three development pillars: focus on selected markets and product categories, increasing business efficiency through technological modernization and digital transformation of production and logistics processes, and acquisitions. The adopted Business strategy of the Podravka Group until 2025 implies investment of around HRK 5 billion in modernization and digitalization of production and logistics processes, marketing and acquisitions, and the main message in the implementation of the Strategy is “Creating a delicious world. Always with a heart.”.

PODRAVKA GROUP THREE-YEAR BUSINESS PLAN 2022-2024 ADOPTED

In December, the Supervisory Board of Podravka Inc. has given its approval to the Management Board for the Podravka Group three-year business plan for the 2022-2024 period. With this, the Podravka Group has, for the first time in its history, received an operational business plan for a three-year period that is based on the previously adopted Strategic Plan to 2025 and a three-year investment, i.e. capital expenditure, plan. The adopted three-year plan follows the guidelines and objectives laid down in the strategy, providing a detailed overview of all business activities of both Podravka Group segments, Food and Pharmaceuticals, that will be implemented in the forthcoming period.

STRONG INVESTMENT CYCLE LAUNCHED

As part of preparatory steps in adopting the Strategy, in April the Supervisory Board gave its consent to the Management Board of Podravka to launch a strong investment cycle. The investment cycle includes the logistics processes optimization, technical and technological modernization, and digital transformation, in order for the Podravka Group to be at the optimal level of development and to be able to adequately respond to market challenges and realisation of sustainable and green transformation of business operations. The investment cycle is one of the bases of the Strategy and the Three-year business plan.

In 2021, a logistics processes optimization project was implemented, during which detailed analyses in the supply chain were carried out and measures to improve the process were identified. Logistics optimization is planned through the investment project in the new logistics and distribution centre, which is one of the largest capital investments included in the three-year business plan. It will enable the consolidation of a larger number of the existing warehouses and thus significantly improve the efficiency of logistics and distribution

KEY EVENTS

processes, improve overall efficiency, and further strengthen the competitiveness of the Podravka Group's operations. In addition, the construction and use of a new logistics and distribution centre will have a positive impact on the environment through the reduction of CO_2 emissions. During 2021, the preparation of technical documentation and obtaining permits was started, and through 2022, construction works will begin in the Danica business zone in Koprivnica.

The technical and technological modernization and digital transformation relate to IT and energy reconstruction and modernization of the office building in Koprivnica. During September, the Supervisory Board gave its final approval to the Management Board and in October the reconstruction works on the office building began. The reconstruction and modernization are carried out in the existing dimensions, with a careful cost management, and are financed from operating cash flow, without further borrowings. The completion is expected in July 2022, and it will contribute to the improvement in working conditions for Podravka's employees, improve the energy efficiency and corporate and IT security of the system.

The Food segment of the Podravka Group is focused on product development and innovation in products and packaging, increasing product availability and adapting products to the needs of different consumer groups. Therefore, in 2021, the Kalnik Factory in Varaždin started modernization, which includes a fruit processing line, an aseptic line and vacuum boilers, a line for filling vegetable sauces and products in squeeze packaging and relocation of the Tetrapak® line from the Umag Vegetable Factory. The project is applied for the Rural Development Program 2014-2020, for the implementation of measure M.4.2.1. Increase in value added to agricultural products and grants in the amount of HRK 19 million were obtained.

Modernization will contribute to increasing sales revenues and reducing production costs, positively affect the quality of raw materials and enable the production of a new range of products, and the completion of works is planned for 2022.

Technological processes modernization has also begun at the Soup and Vegeta Factory in Koprivnica. Thus, in July 2021, the Management Board of Podravka decided on the technological modernization of production and packaging processes of spice cubes (broths). This is an investment that allows almost doubling the total production capacity of this category of products. This exploits the potential for further growth in many markets and enables further development of the range and innovation in products that generate annual sales revenue of over HRK 30 million.

To improve working conditions, reduce production costs and increase sales revenues, in May 2021, a decision was approved to invest in a line to produce extruded products at the Cocktail snacks factory in Koprivnica. During 2021, construction works were completed and the infrastructure for connections was established, while during 2022, works are expected to be completed and a new line put into operation.

Also, funds were approved for the modernization of the plant for processing fruits and vegetables, new technologies and new products of the Kalnik factory, which will affect the quality of raw materials and enable the production of a new range of products.

In Žito, a project to build a flow chamber and automate and expand the packaging plant in the Vrhnika bakery began last year. The flow chamber for raising dough will be put into operation during 2022, as well as the automation and expansion of the packaging plant related to the robotization of

KEY EVENTS

product packaging in cardboard boxes and the automatic transfer of pallets to the refrigerator. Both investments will increase equipment capacity and contribute to reducing labour costs while improving employee working conditions.

Podravka-Lagris a.s. Lhota has invested in poppy seeds stabilization technology. The investment included construction works, electrical installations and poppy seeds stabilization equipment and a poppy seed grinding mill, all of which were completed in the last quarter of 2021. This investment contributed to increasing sales revenue and improving product quality.

In 2021, the other Podravka Group segment, Pharmaceuticals, which includes Belupo, reconstructed the space of the weighing room in the solid drugs factory with the aim of minimizing cross-contamination. The project, completed in the last quarter 2021, included an investment in the space of weighing room for the production of solid drugs, weighing chambers and a facility for washing parts and HVAC system (heating, ventilation, air conditioning) for the renovated space.

CARE FOR EMPLOYEES

DECISIONS TO INCREASE EMPLOYEES' EARNINGS

At the session held on 18th March 2021, the Management Board of Podravka Inc. passed decisions improving the status and position of the Podravka Group's employees. These decisions aimed at increasing employees' earnings were implemented as of 1st April 2021. HRK 21m has been invested in measures to improve employees' rights. This investment in improving the material rights of employees did not affect the efficiency of the Podravka Group's operations as it has been offset by savings at other cost levels (savings through simplification of the organisation, savings on general and administrative expenses and marketing expenses).

The second wave of salary raise within the year, the decision on the additional increase in employees' earnings, was passed on 11th February 2022, and is effective from 1st March of the same year. This increase raises the investment in employee salaries by around HRK 35 million annually. The increase in earnings in the second wave refers to the increase in the performance coefficient by 0.15 for all employees in Podravka Inc. and Mirna Inc. and to the increase in part of the coefficients for skilled and highly skilled workers from 1st March 2022. The increase in part of the coefficients for higher education employees, based on their individual work results, is in force from 1st May 2022. Due to the extension of coefficients range for employees with higher education, an annex to the Podravka Group Collective Agreement was signed.

In total, the Podravka Group invested more than HRK 55 million through two waves of increase in employee earnings. The total average increase in earnings, through both waves of raises, is between HRK 980 and 1,150, or between 18 and 28 percent on average, depending on the education and working conditions of employees.

PODRAVKA INVESTS IN IMPROVING WORKING CONDITIONS IN FACTORIES

With the aim of improving the microclimatic working conditions in Podravka's factories in Koprivnica and Varaždin, the Management Board of Podravka Inc. has adopted a decision on investing in air conditioning and ventilation of these production facilities. This decision was made in accordance with the company's socially responsible business and care for employees, all with the aim to provide the most comfortable working

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conditions in these factories. It is estimated that by the end of 2022, the Baby food and creamy spreads factory, the Cocktail snacks factory, the Danica factory, the Mill factory and the Kalnik factory will be air-conditioned, which will certainly create better and safer working conditions for the employees.

SOCIAL DIALOGUE

During the 2021, the Podravka Group has repeatedly shown how much it values the opinion of its employees. Immediately upon her arrival to the position of President of the Management Board of Podravka Inc., Martina Dalić, PhD, met with union representatives. In July, she participated in regular gatherings of Podravka and Belupo workers at several locations.

During the year, regular contacts were held between the Management Board and other directors and trade union representatives.

On 11th February 2022, an amendment to the Podravka Group Collective Agreement was concluded, signed by all three unions operating in Podravka Inc. Through the agreed amendments, it has been enabled to increase the range of job complexity coefficients based on employees' individual results.

SUSTAINABLE BUSINESS

PODRAVKA WON NEW RECOGNITION "SUSTAINABLE DEVELOPMENT LEADER 2021"

Based on a national survey conducted on a nationally representative sample by the renowned market research agency Hendal, Podravka was recognized by many respondents as a company that has a positive impact on society and the environment and is thus ranked in the TOP 5 companies in Croatia that consumers consider socially and climate responsible.

CONSTRUCTION OF PODRAVKA'S 2.4 MW SOLAR POWER PLANT WITH CO-FINANCING FROM EU FUNDS

Nurturing socially responsible business and respecting the principles of sustainable development, Podravka is continuously considering various opportunities to improve relations with the environment and raise the efficiency of the company's business to a higher level.

In this context, Podravka's solar power plant "Podravka – Danica", with a capacity of 2.4 MW, will be built in the Industrial Zone Danica, in Koprivnica. The solar power plant will produce electricity for own consumption. The expected annual production of this power plant is 3.2 GWh and its construction and commissioning will lead to significant savings in the cost of electricity from conventional sources for Podravka's factories, but also to a positive impact on the environment by reducing CO_2 emissions. Due to the solar power plant, up to 40% of the electricity consumption of the Soups and Vegeta factory, the Baby food factory and the Meat products factory will be from renewable sources.

RELATIONSHIP WITH THE COMMUNITY

Podravka continuously and through all available channels strives to help the community, including through donations. Caring for the needs and the most vulnerable citizen across the country is woven into the company with a heart, while socially responsible business and helping the community are only part of the principles that guide Podravka from year to year.

In addition to continuous cooperation with the Croatian Red Cross, Podravka was among the first companies to organize aid to the victims of the

KEY EVENTS

earthquake that hit the Sisačko-moslavačka county the most, and later, during the holidays, another donation was directed to the same area – presents for the children in the Kindergarten Bubamara from Glina. Also, with as much as 3.5 tons of Šumi candies, Žito delighted children and their families, end users of various organizations, pediatric clinics and covid wards throughout Slovenia.

Podravka Inc. and Handball Club Podravka s.Inc. concluded a new contract. For the first time, a three-year sponsorship agreement was signed that runs from 1st January 2022 to 30th June 2025. The new Sponsorship Agreement provides for a fixed and variable amount of sponsorship. Also, the first league football team Slaven Belupo is still one of the most important promoters of Belupo, so a new three-year agreement was signed with them by Belupo Inc. The new contract was concluded for the period from 1st January 2022 to 31st December 2024, also through a fixed and variable amount of sponsorship.

Also, bearing in mind their importance for the benefit of the community, the support for all other sports clubs and associations that bear Podravka's name continued.

INNOVATION

NUTRITIONAL VALUE OF PRODUCTS

The development of nutritionally balanced food products in accordance with our times and sustainable development, for the benefit of consumers health of all ages is one of the key goals of Podravka, whose product range regularly helps shape quality meals for individuals and families.

Podravka's nutritional strategy is focused on its own product range in the direction of reformulating the composition of a portion of the range in terms of salt, sugar (reduction of 1-3% per product), saturated fats and trans fats, development of new and innovative products with additional and optimal nutrient content that contribute to health, such as proteins, fibers and probiotics, development of products for children, the elderly and people with special dietary needs, providing mandatory and additional information on nutritional quality, educating consumers and employees of Podravka and cooperation with the local community.

PRODUCT INNOVATION AND AWARDS

Guided by such principles, numerous new products have emerged. Žito responded to the trends with a line of protein products and Drožnik bread was created. Lino also joined the protein range with the new Čokolino Protein Power and gluten-free Čokolino was also presented to consumers. Also, for its youngest consumers, Lino has prepared Lino Frutolino BIO ready-made porridges, produced according to strict EU environmental standards.

One of the world's leading trends are plant-based products, which is the result of strengthening global environmental initiatives. Under the O'Plant brand, Podravka launched six herbal drinks based on almonds, oats and rice that are 100% of plant origin, without added sugar and lactose-free, and the range also includes Green Beast Burger – a plant-based burger based on pea protein.

DEVELOPMENT OF A PERSONALIZED CONCEPT FOR THE REDUCTION OF EXCESS WEIGHT IN CHILDREN

In a joint scientific research project, the children's hospital Srebrnjak, Belupo and Podravka will develop a personalized concept for the reduction of excess weight and maintenance of a healthy body weight in the treatment of chronic diseases in children and adults. Overweight and obesity are global public health problems and risk factors for

KEY EVENTS

the development of main chronic non-communicable diseases. The project is fully in line with the Smart Specialization Strategy of the Republic of Croatia and the priorities of Belupo, which has positioned itself as one of the key players in food supplements production.

This project synergistically connects the internal potentials of our two segments, Food and Pharmaceuticals. Nutritional quality and health are at the core and heart of Podravka's and Belupo's business. The value of the project, under the slogan "Food for Health", is HRK 9 million, including a non-refundable HRK 6.8 million from EU funds, and most of the funds will be invested in conducting a clinical study, research and development of new products, patent, but also in hiring new professionals.

NEW COOLINARIKA WON THE MIXX AWARD FOR THE BEST WEBSITE

In addition to the launch of the new site at the beginning of the year, the most important event for Coolinarika was the MIXX award (best digital projects in the field of marketing communications) for the best website in the Best Website category.

Coolinarika has undergone a conceptual change that meets the challenge of the digital age and the needs of users and has continued to provide answers to questions about what and how to cook today. Through the smart algorithm Taste Machine, the so-called taste profile is created for each user, by following their movement through the website, allowing personalization of content through understanding the needs of individuals. Coolinarika has also become adapted for mobile devices as a natural response to the needs of smartphone users. Simple, fast and smart application that meets all the culinary needs of visitors with a personalized approach deserved to become the owner of the valuable MIXX statue.

INCREASING THE QUALITY AND SECURITY OF THE SUPPLY CHAIN OF PRIMARY RAW MATERIALS

Due to the extreme climatic conditions in the recent years, it is not possible to produce enough high-quality raw materials that would be healthy and affordable. However, the Podravka Group is actively working to increase the quality and security of the supply chain of primary raw materials by taking certain adaptation measures, such as installing irrigation systems on production areas, building a system of drainage of excess rainwater from endangered production areas, reducing pesticides and fertilizers in agriculture, etc.

Also, in 2021, for the first time, the production of cucumbers (1.17 ha) and peppers (3.5 ha) was organized, which resulted in positive changes in production, from a higher number of seasonal workers, the introduction of new production technologies, irrigation and mechanization. At the same time, Podravka's tomato processing factory in Umag was actively working on the purchase and processing of tomatoes – around 1.9 million seedlings on an area of more than 100 hectares. In parallel with the expansion of vegetable production (cucumbers, peppers, peas and beets), cereals (wheat, corn, rye) and oilseeds (oilseed rape) were also sown. These increases in own production are the direction in which the Podravka Group is going and wants to go, and the current expansion of production has created the conditions for further growth and development.

PODRAVKA SHARE WON ZAGREB STOCK EXCHANGE AWARD

Share of Podravka Inc. was declared the "Top Turnover Stock" at the 10^{th} Zagreb Stock Exchange

KEY EVENTS

Awards for 2021. This category considers statistical indicators during the year and share turnover on the capital market. Zagreb Stock Exchange awards are a recognition of excellence and a further incentive for successful business of participants in the capital market.

EVENTS AFTER THE BALANCE SHEET DATE

SUPERVISORY BOARD OF PODRAVKA APPOINTED NEW MANAGEMENT BOARD UNDER THE CONTINUED LEADERSHIP OF MARTINA DALIĆ

At the session of the Podravka Inc. Supervisory Board held on 4th February 2022, the decision was made to appoint the next Management Board that will be led in the five-year mandate by Martina Dalić, PhD, the current President of the Management Board of Podravka Inc. The new Management Board mandate began on 24th February 2022. Previous Board members Davor Doko and Ljiljana Šapina received a new mandate. The new Management Board members are Milan Tadić, until the appointment Podravka's Head Director for the Adria Region, and Ivan Ostojić, arriving from the position of a member of the Management Board of Wüstenrot stambena štedionica and member of the Podravka Supervisory Board, and whose mandate will begin as of 1st July 2022

The decision on the new Management Board of Podravka Inc. was adopted almost a month before the expiration of the mandate of the previous Management Board, which confirms the focus of the Supervisory Board on continuous improvement of the quality of corporate governance and the success of the current leadership of the President of the Management Board Martina Dalić, PhD.

INFORMATION ON IMPACT OF THE RUSSIAN-UKRAINIAN CRISIS ON PODRAVKA GROUP BUSINESS OPERATIONS

The Podravka Group generates less than 6.5% of sales revenue annually in the markets of Russia and Ukraine. Most of the receivables from customers on the Russian market, incurred to date, are insured.

The Group has made an assessment of the potential impact of changes in the exchange rate of the Russian ruble on items of outstanding receivables and liabilities. Recalculated value of the same items of receivables and liabilities at the exchange rate of the Russian ruble is about 30% lower than the value of these items at the date of the financial statements.

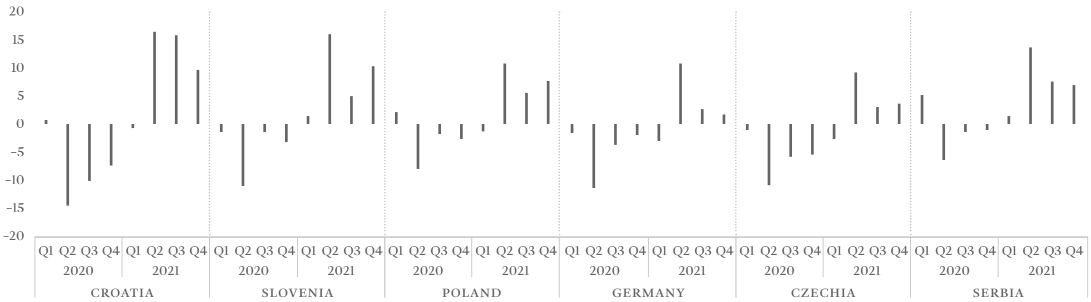
The Podravka Group will feel the negative consequences of the Russia-Ukraine crisis, as well as the sanctions imposed on Russia, but their scope and intensity cannot be estimated or quantified at the moment. The development of events is continuously monitored, the risks and possibilities of their mitigation are assessed. The Group exposure to Russia and Ukraine does not require any adjustments to these financial statements as at 31 December 2021, and is not expected to jeopardize the business continuity.

About the environment in which *the Podravka Group operates*

THE YEAR 2021 CONFIRMED POSITIVE ECONOMIC EXPECTATIONS and brought hope for continued global economic growth, despite uncertainty due to the deteriorating epidemiological situation and the emergence of new variants of the COVID-19 virus. Global recovery did not bypass the key markets of the Podravka Group. At the same time, the different intensity and dynamics of the introduction of epidemiological measures and the degree of closure affected the business conditions and consumers were not able to have the usual access to our products.

Thanks to a good tourist season and growing personal consumption, but also stronger exports, last year, the Croatian economy recorded a faster recovery than the EU average and returned to pre-pandemic levels. The more favourable epidemiological situation and the introduction of milder measures and restrictions to combat the pandemic have certainly contributed to this. The economic situation in the neighbouring countries of the Adria region has also been encouraging. Slovenia, like Croatia, has seen a faster recovery than the EU average. For most Central and Eastern European countries, reliance on manufacturing and processing economies has been key to surviving the 2020 economic shock and the respective recovery.

Real GDP growth rates in selected countries in 2020–2021 (%)



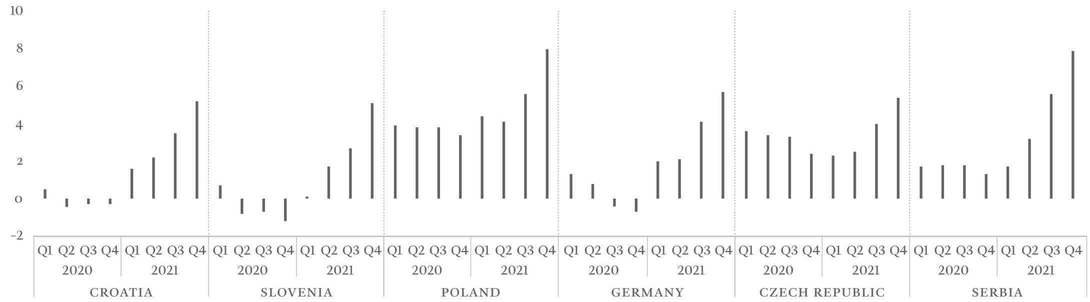
(Source: https://ec.europa.eu/eurostat)

ABOUT THE ENVIRONMENT IN WHICH THE PODRAVKA GROUP OPERATES

However, certain negative macroeconomic effects caused by the pandemic continued and even intensified in 2021. Stronger and longer-lasting inflationary pressures have emerged in all European economies. The recovery in demand was affected by an unexpectedly strong rise in food and energy prices. In addition to price pressure due to the recovery in demand, there was also pressure on the supply side, primarily driven by disruptions in global supply chains. The prices of raw materials, packaging, transport and energy have been growing continuously.

The Podravka Group is making maximum efforts to increase business efficiency and optimize costs in order to amortize the strong growth of raw material prices with internal reserves as much as possible.

Inflation in selected countries in 2020-2021 (%)



(Source: https://ec.europa.eu/eurostat)

7 Podravka Group profile

Company name and headquarters location:
Podravka Inc., Ante Starčevića 32, 48 000 Koprivnica.

1947

Wolfbrothers'·work-shop for processing fruit becomes socially owned under the name Podravka.

1952

Production of condiments and dehydrated and sterilised vegetables begins.

1957

Production of famous Podravka soups starts.

1958

Production of meat products starts.

1959

Vegeta, universal food season-ing

1970

Product on of baby food starts.

1972

Pharmaceutical company Belupo founded and start of drug produc-tion.

1993

Podravka privatized and registered as a shareholding company.

2015

Acquisition of the Slovenian food company Žito.

2017

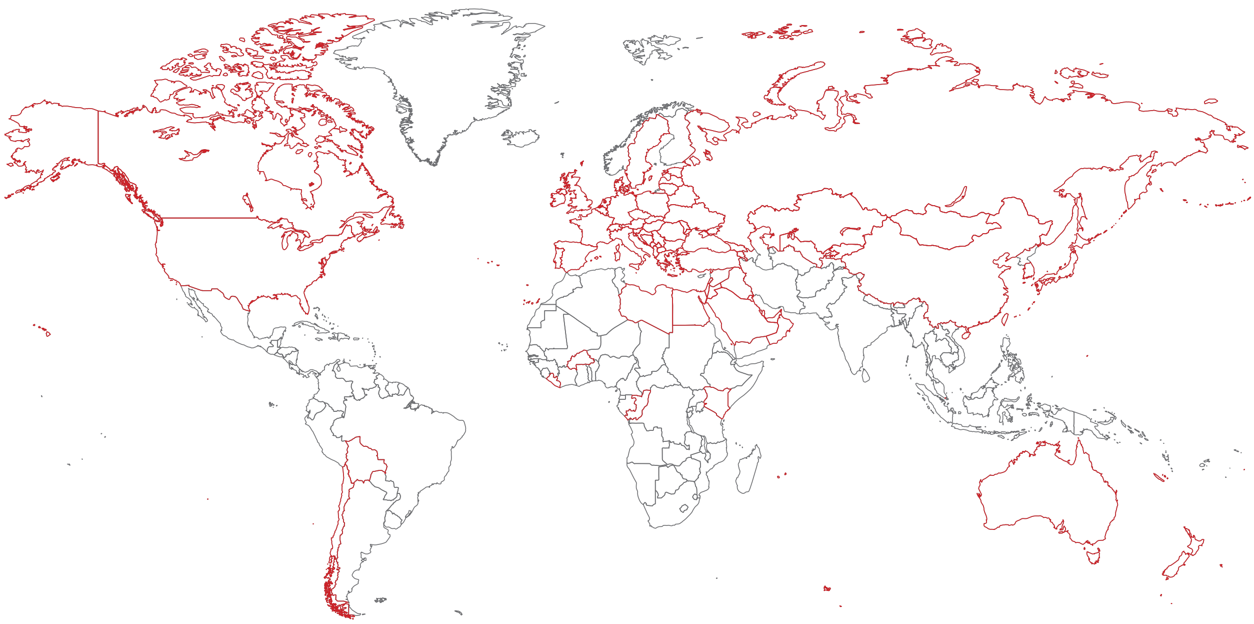
New pharmaceutical factory built, the largest greenfield investment in the history of the Podravka Group.

2021

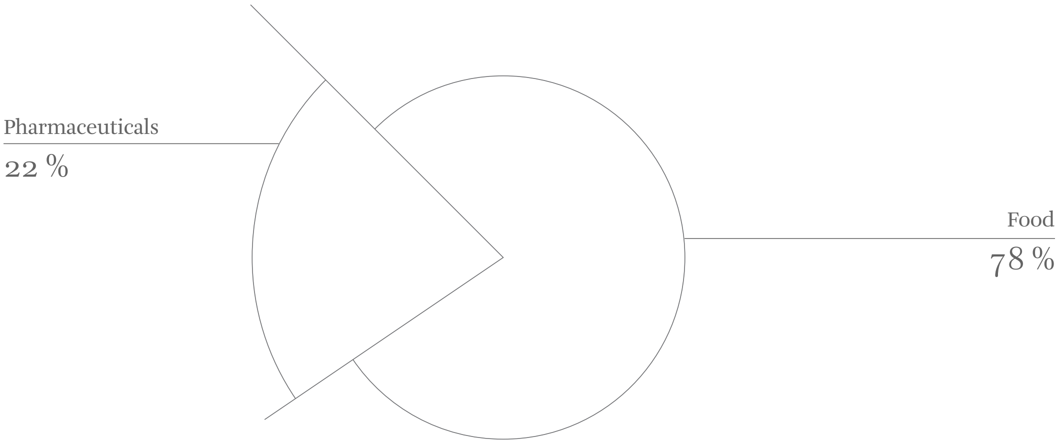
Business Strategy until 2025 adopted.

PRESENCE OF PODRAVKA GROUP PRODUCTS

Podravka Group products are present in more than 70 countries in the world



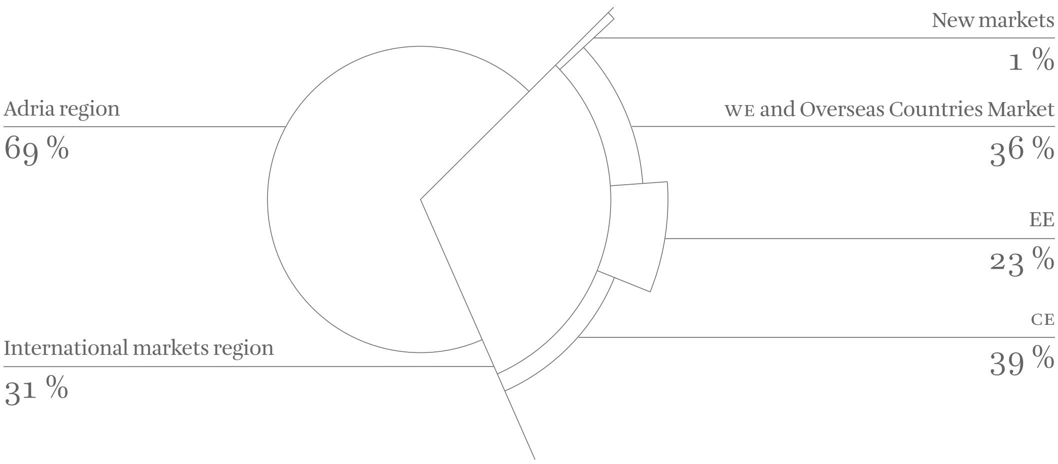
Podravka Group sales revenues by *segments*::



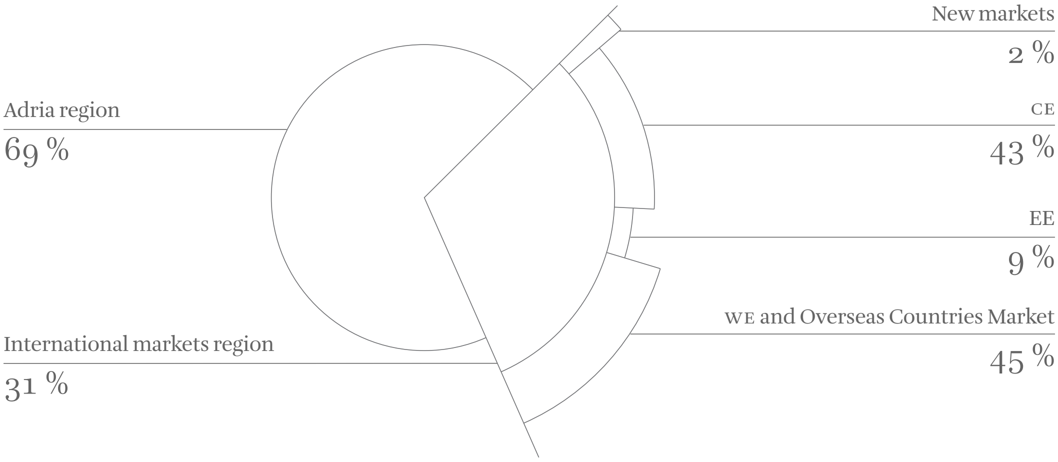
In accordance with the strategic goal to strengthen business internationalization, business operations at market level are organized through the following market regions:

- *Adria region* includes Croatia, Slovenia, Bosnia and Herzegovina, Northern Macedonia, Serbia, Montenegro, Kosovo, Bulgaria, Greece and Albania.
- *International markets* include Poland, Czech Republic, Slovakia, Hungary, Romania, Germany, Austria, Russia, USA, Australia and other countries.

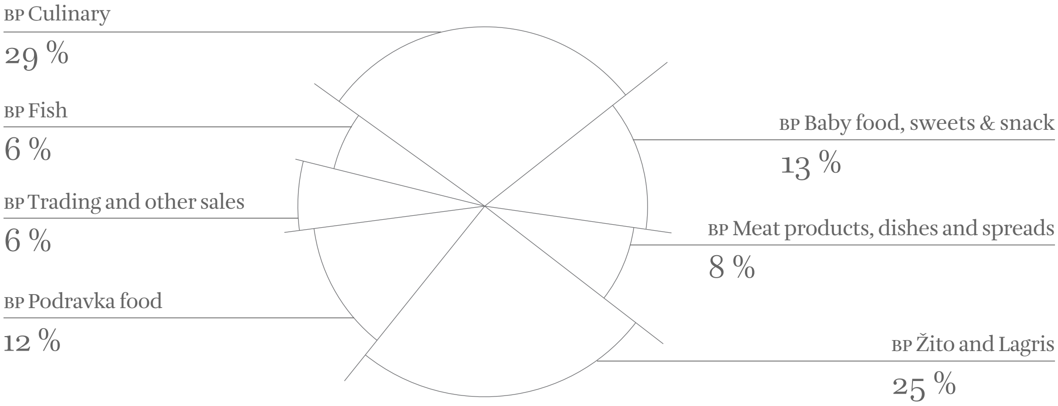
Podravka Group sales revenues by *markets:*



Food sales revenues by markets:

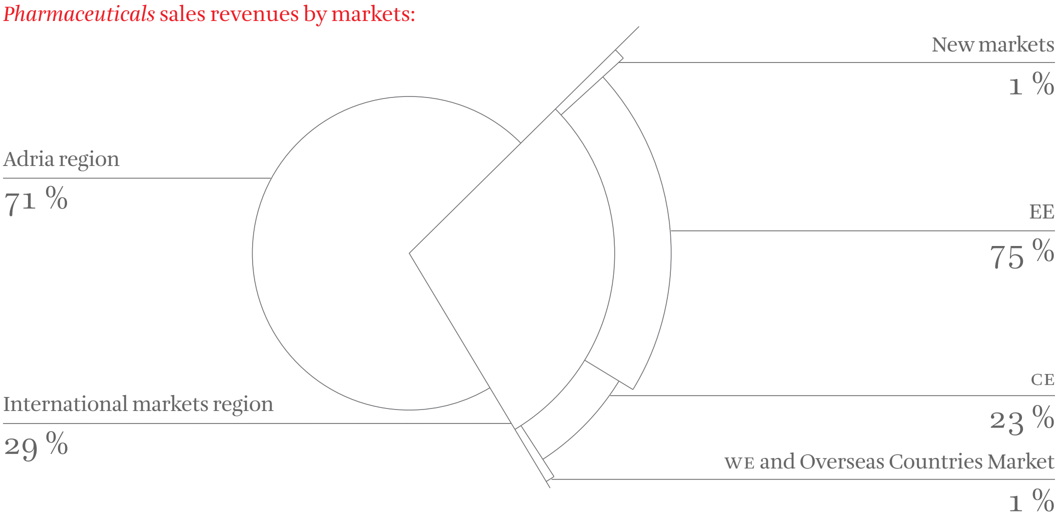


Food sales revenues by business units



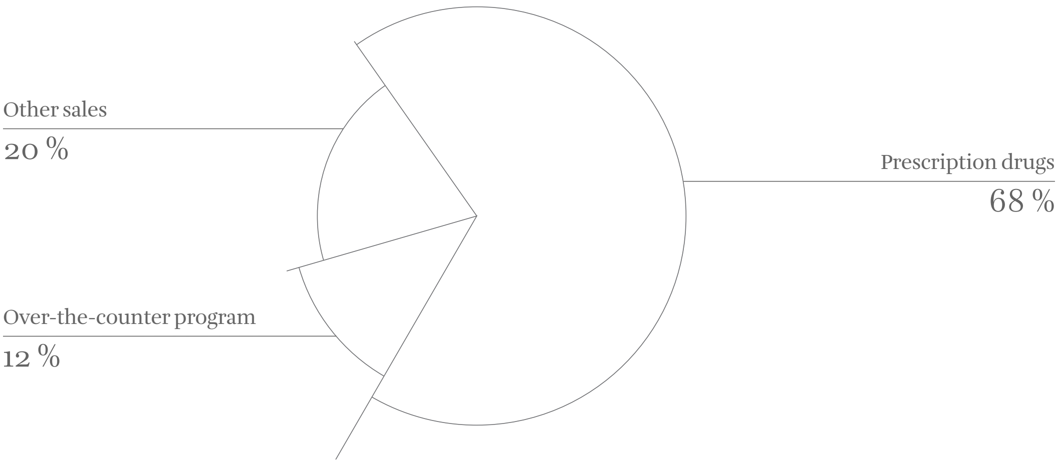
The business operations of the Food segment can be monitored through the operations of business units related to individual product groups. Business units manage the development, marketing, life cycle and market positioning of key food categories and product groups.

Pharmaceuticals sales revenues by markets:



The business operations of the Pharmaceuticals segment can be monitored through the following product groups:

Pharmaceuticals sales revenues by categories:



ABOUT BRANDS – FOOD

VEGETA is Podravka's most renowned and strongest brand and for more than 60 years it has been closely following every move made in our consumers' kitchens giving them the freedom to prepare the most delicious meals for themselves, their family and friends. Over the past six decades, the product range has been adapting to consumer needs and has expanded significantly, so today, on shelves around the world you can find not only universal seasoning, but also special food supplements, mixes, monospices, bouillons, soups, ready-made meals, vegetable spreads and many more under the Vegeta brand.

A large selection of FANT seasoning mixes will turn every culinary attempt into a success. Fant seasoning mixes answer the everyday question of "*What to cook today?*", making even the most complicated meals easy to prepare and ensuring an excellent taste every time. The wide range of products offers a variety of dishes, from traditional to new, modern suggestions that include vegetarian and classical dishes and various options for preparing international dishes.

The MAESTRO brand of monospices has been an inspiration for culinary creativity for more than 30 years, thus continuing the over 60 year old tradition of spice production. With a wide range of spices, herbs and blends, everyone can become a maestro in their own kitchen.

Homemade taste is the key value of PODRAVKA SOUPS. They are extremely easy to prepare, provide a quality meal in just minutes, and yet leave enough space for your own creativity. Podravka soups constantly follow the latest trends in nutrition and for over 60 years consumers have been finding their favourite flavours within a wide and diverse range of clear and cream soups. For those who need an even faster solution without cooking, an assortment of instant FINI-MINI soups meets the demands of modern, well-informed consumers.

Convenience of preparation and excellent taste are characteristics of TALIANETTA pasta, which allow consumers to prepare a delicious and nutritious meal in just a few minutes. Talianetta is a response to the growing consumer demand for semi-finished and instant dishes, offering quick and easy, high quality solutions for a single meal or a side dish.

The LINO WORLD reveals a rich, diverse and wonderful world of flavours and delicious and healthy products carefully prepared for happy and healthy growth. As a reliable manufacturer of baby food for over 50 years, Podravka offers a wide range of *baby food* that provides all the ingredients necessary for a child's growth and development. *Čokolino*, a synonym for baby food, has always been associated with a carefree childhood, joy, happiness and moments of relaxation. Listening to the wishes and needs of consumers, the range of baby food, amongst other things, also offers a gluten-free solution. This includes *Lino cereals* for children with Lino Choco caramel flakes and Lino Honey rings, and in addition to its own gluten-free variant, Čokolino also comes in a protein version.

LINO LADA cream spreads are characterized by the largest selection of flavours, excellent quality and various packaging. Today, Lino Lada can be found in five different flavours and eleven different types of packaging, of which the most innovative is the new “on the go” 100% recyclable packaging with a spoon. Thanks to its innovation and continuous investment in brand building, Lino Lada is today not only at the very top of the cream spread market in Croatia but in the Adria region as well, and the demand for Lino Lada is quickly expanding to other international markets.

DOLCELA offers a wide range of high quality products for every sweet occasion. Always modern, creative and practical, constantly acquainting consumers with the world's most delicious desserts and new ways of use, regardless of whether it requires simple and fast or advanced and independent preparation, the end result is always delight.

The KVIKI brand has been providing tasty crispy snacks for more than 45 years and thus, cheering up many consumers. The range offers a large selection of salty baked and not fried snacks, which ensures fullness of taste and recognizable quality, while carefully selected raw materials guarantee the quality of the final products. In the last few years, Kviki has prepared various innovative surprises, so consumers can enjoy not only the salty, but also the sweet assortment of Kviki CHOCO #LOLS.

PODRAVKA TOMATO is an indispensable ingredient in every, but especially in the Mediterranean cuisine that perfectly compliments a whole range of culinary ingredients. Healthy and natural tomato products contribute to health, enable creativity in preparing quick and convenient meals and enable enjoying Mediterranean tastes and aromas in every occasion all year round.

PODRAVKA FRUIT products have been prepared for the past 70 years from top quality fruits. The recipes of the leader products, such as rosehip, mixed fruit or plum jam, are today identical to the original recipes, guaranteeing the well-known full taste of fruit and the most natural sweet pleasure.

Trends say that the future of nutrition is in products based on vegetables and legumes. PODRAVKA

VEGETABLES in sterilized or pickled assortments preserve the best nutritional values. The products are very practical, ready for consumption throughout the year and can be used for different versions of salads, side dishes, stews and sandwiches.

The perfect texture and proven taste make PODRAVKA CONDIMENTS, chutney, mustard, ketchup and horseradish, ideal additions to a wide variety of dishes. There is no doubt that Podravka's delicious and aromatic condiments are a *must have* product in every kitchen. Not only do they have special gastronomic value, but some products carry a real treasure of nutrients rightfully attributing them as super food.

Just like fruits, condiments and Podravka vegetables are the best of nature and therefore the company takes special care that its fully recyclable packaging is environmentally suitable, which is especially important for a cleaner future.

PODRAVKA is the undisputed market leader in the category of READY-MADE MEALS AND SAUCES. Homemade taste and top quality, as well as quick and easy preparation are the main features of a wide range of ready to serve meals, amongst which *Beef goulash* is the most distinguished and labelled "*Genuine Croatian Quality*". In addition to ready-made dishes in cans, in 2021 Podravka launched a completely new line of highly desirable Mediterranean flavours on the markets of Croatia and the Adria region: *Podravka ready-made dishes in trays.* Podravka Ready-made meals are top products that continue to evoke the most decisive emotions associated with taste, family meals and the warmth of home for many generations.

PODRAVKA PÂTÉ has been the favourite choice of consumers since 1958. Podravka *Chicken pâté,* popularly called "*Retrica*", in addition to its recognisable design, is also special because it preserves a real treasure of tastes thanks to the excellent quality of its ingredients. In 2020, Podravka launched a new generation of *Podravka chicken pâtés* made from the best ingredients as a result of carefully following global food trends and observing consumer desires for high quality and natural food, especially during the pandemic. These new pâtés are made from the best ingredients. For those who want economical solutions, Piketa pâtés in different flavours and packings are the right choice.

The taste and quality of PODRAVKA LUNCHEON MEAT brings back overwhelming emotions aroused by precious tastes of the so-called "*comfort food*" from our childhood. For more than 60 years, it has been an excellent protein meal for all generations, whether served as a cold cut, an addition to salads or grilled, and due to its practical packaging, it is the favourite choice to pack for an outdoor picnic, hiking or just a trip to the beach.

Knowledge, experience, dedication and passion are woven into the creation of PODRAVKA SEMI-DURABLE AND DURABLE DRIED MEAT PRODUCTS AND SAUSAGES. A high proportion of meat makes these products a valuable source of protein, and high quality raw materials and a carefully selected combination of spices ensure each product fosters the familiar taste and aroma. Whether you choose products from Podravka's wide range of traditional flavours in a new design in Podravka's recognizable red colour, or you prefer modern flavours of the MAJSTOR (MASTER) brand, top quality products are guaranteed. In addition, in 2021, Podravka added a meatless category to its range in the form of increasingly popular meatless plant-based products. This innovation is the work of Podravka's culinary expertise, which guarantees the best quality.

ZLATO POLJE is a synonym for modern cuisine with products such as rice, pasta, mashed potatoes, oatmeal, semolina and breakfast cereals. Through its wide range, Zlato polje offers special products for the whole day, whether it is breakfast cereals full of natural ingredients and vitamins or a side dish suitable for lunch. And, healthy and tasty mill products are a perfect choice for a light dinner.

ŽITO fresh bakery products cover the segments of semi-baked bread (toast), fresh bread and pastries. The secret of these products is a combination of tradition and innovation in the use of excellent ingredients, which preserves the best of Slovenian culinary tradition combined with modern technologies.

LAGRIS is a well-known Czech brand that has been combining naturalness and tradition for 30 years. Within its wide and diverse range, it offers rice, legumes, poppy seed, potato-based products, healthy lifestyle products, gluten-free flours and bread mixes. Lagris' high quality is ensured by certified high standards in production. The products are stored using unique technology in controlled conditions, which perfectly preserves the quality and original flavours of the products.

1001 CVET has been a favourite regional tea brand for half a century. It is renowned for using only the best raw materials from nature and preparing from them unique tea blend flavours which you can enjoy every moment of the day.

With a hundred years of experience, GORENJKA is a synonym for high quality chocolate products with the finest cocoa. All chocolate lovers are delighted with Gorenjka's rich assortment of milk and dark chocolates for eating and cooking and other products such as mini rolls, slices and rice chocolate.

Toffees, jelly, gums, hard filled sweets – both children and adults will enjoy ŠUMI sweets. The sweets are distinguished by a high content of natural fruit juice, vitamins and minerals. They contain no artificial colours or flavours, and the 145-year-old tradition inspires confidence. Herbal sweets are made according to the original recipe, which is characterized by a combination of sophisticated herbs and natural fruit juice extract.

The NATURA brand is a synonym for products grown in an environment-friendly manner, and BIO NATURA are carefully selected organic products. Ingredients from the untouched parts of nature ensure a healthy and safe diet.

A rich assortment of fish products under the EVA and MIRELA brands are prepared from the best parts of the fish, led by the queen of the Adriatic, Adriatic sardines. The extraordinary temperature and salinity of the Adriatic Sea guarantee the top taste and balanced nutritional value of Adriatic sardines. The Eva brand range also includes tuna, mackerel, Baltic fish, fish pate and salads. Eva and Mirela products are full of valuable nutrients, prepared in a completely natural way, which makes them an ideal part of a modern balanced diet.

ABOUT BRANDS – PHARMACEUTICALS-BELUPO:

BELUPO has products in the Croatian market in the status of Rx medicines, OTC synthetic and herbal medicines, food supplements, disinfectants and enteral nutrition. Belupo is present in 12 of the current 14 ATC categories and is the leader in the Croatian prescription drug market regarding to pieces sold and the financial leader in the non-prescription drug market according to IMS data for 2021. Belupo is present in international markets with almost all its brands present in the domicile market, however, the product portfolio varies from market to market.

Belupo's portfolio of medicines is well known amongst business partners, patients and consumers, and is being constantly enriched with new products in view of market trends.

The BELOSALIC brand (lotion, spray and ointment) is the best-selling brand in Belupo's portfolio, and it is also the best-selling drug in the markets of Russia, Ukraine, Kazakhstan and Poland. The Belosalic brand, due to its active substances, belongs to the group of topical corticosteroids, and is classified as a strong corticosteroid.

The BELOGENT brand also includes drugs that contain active substances from the group of strong corticosteroids, as well as the antibiotic gentamicin. Belogent is used for skin diseases that respond to topical treatment with corticosteroids, and the cream and ointment are Belupo's best-selling prescription drugs in the markets of the Czech Republic, Slovakia and Macedonia.

Drugs under the NORMABEL brand contain the active substance diazepam and come in the form of tablets and as a solution for injections. Normabel tablets are used in the treatment of anxiety, insomnia associated with anxiety, muscle spasm and cerebral spasticity. They are also used as an adjunct to treatment for some types of epilepsy (e.g. myoclonus) and for sedation in minor diagnostic and therapeutic procedures.

The IRUZID brand are drugs in tablets that are used in the treatment of high blood pressure. This well-known brand from the cardio segment is the best-selling prescription drug in Belupo's portfolio on the B&H market.

Looking at Belupo's over-the-counter portfolio, in 2021, as in the past two years, the best-selling OTC brand in the Croatian market was the LUPOCET brand. Belupo is both the pieces sold and financial leader in the ATC group N where the Lupocet brand is located, as well as in the ATC group M where with the Neofen brand in the Croatian over-the-counter market, according to IMS data for 2021.

The NEOFEN brand (tablets and gel for adults and syrup and suppositories for children) based on ibuprofen is the best-selling Belupo OTC brand in the B&H market, and also in the Slovenian market, but under the name Ibubel. It contains the active substance ibuprofen, except in the Neofen combo product where the active substances are ibuprofen and paracetamol. Neofen tablets relieve pain, reduce inflammation and lower fever, while the gel is used to treat rheumatic pain, muscle pain, back pain, sprains, strains and neuralgia.

8

Business results and Shares

Business results

INTRODUCTION NOTES

The situation caused by COVID-19 disease positively impacted the sales revenues trends in 2020 when a prominent effect of stockpiling of food and pharmaceutical products by customers was recorded in almost all markets in which the Podravka Group is present. Increased demand in 2020 significantly contributed to sales revenues of both business segments and almost all business units and categories, but this impact could not be clearly distinguished from the impact of regular demand for products. In 2021, the epidemiological situation also had a significant impact in most countries in which the Podravka Group operates, especially in the Adria region (mostly in Croatia), which is different from the one recorded in 2020. Negative impact on sales revenues in the first three months of 2021 comes from the introduced strict epidemiological measures such as lockdown (in all countries where Podravka Group operates) and curfew (for instance in Slovenia, Czech Republic, Germany), reduced store opening hours, restrictions on the number of customers in stores, limited movement of people, closure of the Gastro channel (includes HoReCa customers, institutional customers, industrial customers, etc.), difficult access to health care facilities, reduced number of diagnostic procedures and consequently, lower levels of prescription drugs prescribed. The positive impact on sales revenues in the reporting period comes from the easing of measures which began in May and a significant easing in the third quarter, which gave a boost to the tourist season and the arrival of foreign guests in Croatia. Positive trends continued until the end of 2021 since there was no new lockdown, as was the case in the comparative period. The successful tourist season, easing of epidemiological measures in the countries where the Podravka Group is present with its range, opening of the Gastro channel in Croatia and abroad and the absence of strict epidemiological measures in the fourth quarter positively reflected on the movements of sales revenues, but this effect cannot be clearly estimated or quantified.

The share of Gastro channel sales of the Adria region in total sales revenues of the Podravka Group increased from 7.0% in the comparative period to 8.4% in the reporting period. The share of Gastro channel sales in 2021 on international markets in total sales revenues of the Podravka Group increased to 1.6% in the reporting period compared to 1.2% in the comparative period.

In the reporting period, the Podravka Group received subsidies based on difficult business conditions due to the situation caused by COVID-19 disease in Serbia and in Slovenia in the total net amount of HRK 1.1m. The Podravka Group used the possibility of recognizing deferred tax in the amount of HRK 0.6 million in the Czech Republic, based on a law passed by the Czech government as part of a package of measures related to the COVID-19 disease pandemic. The situation caused by COVID-19 disease did not give rise to new financial risks.

Podravka Group calculates EBITDA in a way that EBIT was increased by depreciation and amortization

BUSINESS RESULTS

and value adjustments of non-current assets, while normalized EBITDA is calculated in a way that normalized EBIT was increased by depreciation and amortization. For transparency purposes, in addition to the reported operating results, the Podravka Group also presents normalized operating results, without the effect of items treated by management as one-off items. The overview and explanation of value adjustments of non-current assets used in the calculation of EBITDA, overview and explanations of items treated by management as one-off items and the overview of methodology of calculation of normalized result are provided in the "Additional tables for 2021" section.

Decimal differences are possible due to rounding.

BUSINESS RESULTS

SALES REVENUES BY SEGMENT

IN 2021

Sales revenues by segment

(in HRK millions)	2020	2021	Δ	%
Food	3,527.0	3,601.3	74.2	2.1%
Own brands	3,319.7	3,379.9	60.2	1.8%
*Other sales**	207.3	221.4	14.0	6.8%
Pharmaceuticals	976.2	1,030.3	54.1	5.5%
Own brands	785.8	820.3	34.5	4.4%
Other sales	190.4	210.0	19.5	10.3%
Podravka Group	4,503.2	4,631.5	128.3	2.8%
Own brands	4,105.4	4,200.2	94.8	2.3%
*Other sales**	397.8	431.3	33.5	8.4%

* Includes the new line of plant-based milk products.

Movements of revenues of the Food segment (2021 compared to 2020):

- *Own brands* recorded HRK 60.2m (+1.8%) higher sales, where the increase in sales of business units Culinary, Podravka Food and Baby food, sweets and snacks successfully cancelled out lower sales of other business units in the comparative period,
- *Other sales* recorded HRK 14.0m (+6.8%) higher sales, primarily as a result of the increase in trade goods sales in the markets of Croatia, Benelux and Slovenia,
- Overall, the *Food segment* recorded HRK 74.2m (+2.1%) higher sales.

Movements of revenues of the Pharmaceutical segment (2021 compared to 2020):

- *Own brands* recorded HRK 34.5m higher sales (+4.4%), as a result of sales increase of prescription drugs, primarily in the markets of Russia, Bosnia and Herzegovina and Slovenia,
- *Other sales* recorded HRK 19.5m (+10.3%) higher revenues, due to the increase in trade goods sales in the market of Bosnia and Herzegovina,
- Overall, the *Pharmaceuticals segment* recorded HRK 54.1m (+5.5%) higher sales revenues.

Movements of the Podravka Group revenues (2021 compared to 2020):

- Podravka Group's *own brands* recorded an increase in sales of HRK 94.8m (+2.3%),
- The revenues of *other sales* are HRK 33.5m (+8.4%) higher,
- Overall, the *Podravka Group* sales revenues are HRK 128.3m (+2.8%) higher.

BUSINESS RESULTS

SALES REVENUES BY BUSINESS UNIT AND CATEGORY IN 2021

Sales revenues by business unit and category

(in HRK millions)	2020	2021	Δ	%
BU Culinary	1,003.1	1,047.0	43.8	4.4%
BU Baby food. sweets & snacks	460.8	473.4	12.6	2.7%
BU Podravka food	403.1	440.3	37.2	9.2%
BU Žito and Lagris	926.2	902.9	(23.3)	(2.5%)
BU Meat products	305.4	304.0	(1.4)	(0.5%)
BU Fish	221.0	212.4	(8.6)	(3.9%)
Prescription drugs	665.9	697.1	31.2	4.7%
Non-prescription programme	119.8	123.2	3.4	2.8%
Other sales	397.8	431.3	33.5	8.4%
*Other sales Food**	207.3	221.4	14.0	6.8%
Other sales Pharmaceuticals	190.4	210.0	19.5	10.3%
Podravka Group	4,503.2	4,631.5	128.3	2.8%

*Includes the new line of plant milk products.

Movements of revenues by business unit and category (2021 compared to 2020):

- The *Culinary business unit* recorded HRK 43.8m (+4.4%) higher sales, primarily due to Universal seasonings and Soups categories sales increase. Significant revenue growth was recorded in the Adria region and the Western Europe and Overseas region,
- The *Baby food, sweets and snacks business unit* recorded a sales increase of HRK 12.6m (+2.7%), due to sales increase of the categories Creamy spreads, Baby food and Snacks. The business unit recorded a sales increase in all regions,
- The *Podravka food business unit* recorded HRK 37.2m (+9.2%) higher sales, following the increase in sales of the Flour, Condiments, and Vegetables categories. Sales revenues grow in most regions, primarily in the Adria region,
- The *Žito and Lagris business unit* records HRK 23.3m (-2.5%) lower sales than in the comparative period, mainly as a result of lower sales in the categories private labels, Confectionery and Basic Food, primarily in the markets of the Western Europe and Overseas region and the Central Europe region,
- The *Meat products, meals and spreads business unit* recorded a sales decrease of HRK 1.4m (-0.5%), primarily due to lower sales of the Other meat products, Luncheon meat and Pâtés categories. Central Europe region sales increase mitigated the sales decrease of the majority of regions,
- The *Fish business unit* in the observed period recorded HRK 8.6m (-3.9%) lower sales than in the comparative period, primarily due to sales decrease of the Tuna category in the Adria region,
- The *Prescription drugs category* recorded HRK 31.2m (+4.7%) higher sales, primarily due to dermatological drugs sales increase. The greatest contribution to the increase in sales revenues was made by the markets of Russia, Bosnia and Herzegovina and Slovakia,
- The revenues of the *Non-prescription programme category* are HRK 3.4m (+2.8%) higher, as a result of sales increase of the herbal products subcategory in the Croatian market,

BUSINESS RESULTS

- The *Other sales category* recorded HRK 33.5m (+8.4%) higher sales. In the Food segment, other sales grew by HRK 14.0m (+6.8%) mainly due to the increase in trade goods sales in the Croatian market. In the Pharmaceuticals segment, other sales grew by HRK 19.5m (+10.3%), primarily due to higher trade goods sales in the market of Bosnia and Herzegovina.

BUSINESS RESULTS

SALES REVENUES BY REGION

IN 2021

Sales revenues by region

(in HRK millions)	2020	2021	Δ	%
Adria	3,111.5	3,218.5	107.0	3.4%
Food	2,409.9	2,482.0	72.1	3.0%
Pharmaceuticals	701.6	736.5	34.9	5.0%
WE and Overseas region	505.0	512.4	7.5	1.5%
Food	502.8	508.7	5.9	1.2%
Pharmaceuticals	2.2	3.7	1.6	72.0%
Central Europe	558.4	553.8	(4.6)	(0.8%)
Food	495.2	486.8	(8.4)	(1.7%)
Pharmaceuticals	63.2	67.0	3.8	6.1%
Eastern Europe	313.3	326.6	13.3	4.2%
Food	105.9	105.4	(0.5)	(0.5%)
Pharmaceuticals	207.4	221.2	13.8	6.7%
New markets	15.0	20.1	5.1	34.2%
Food	13.2	18.4	5.2	39.4%
Pharmaceuticals	1.8	1.8	(0.1)	(3.4%)
Podravka Group	4,503.2	4,631.5	128.3	2.8%

Movements of revenues by region (2021 compared to 2020):

- The *Adria region* recorded a sales increase of HRK 107.0m (+3.4%) relative to the comparative period. Food segment revenues increased by HRK 72.1m (+3.0%), primarily due to sales increase of the business units Culinary and Podravka food. Pharmaceuticals segment revenues are HRK 34.9m higher (+5.0%), due to higher demand and sales of trade goods and Prescription drugs compared to the same period of the previous year,
- Revenues of the *Western Europe and Overseas region* grew by HRK 7.5m (+1.5%) in the reporting period. The Food segment recorded revenue growth of HRK 5.9m (+1.2%), due to sales increase of almost all business units, with the largest absolute growth generated by the business units Culinary, Podravka Food, and Baby food, sweets and snacks. Pharmaceuticals segment revenues are HRK 1.6m higher (+72.0%) due to Prescription drugs sales increase,
- The *Central Europe region* recorded HRK 4.6m (-0.8%) lower revenues. The Food segment recorded HRK 8.4m lower sales (-1.7%), where the sales increase of the business units Podravka Food, Meat products, meals and spreads, and Baby food, sweets and snacks was unable to cancel out lower sales of other business units and trade goods. The Pharmaceuticals segment recorded sales increase of HRK 3.8m (+6.1%), primarily due to sales increase of Prescription drugs and Non-prescription programme,
- In the reporting period, revenues of the *Eastern Europe region* are HRK 13.3m higher (+4.2%). The Food segment recorded a revenue decrease of HRK 0.5m (-0.5%) and lower sales of a portion of

BUSINESS RESULTS

business units was recorded. The Pharmaceuticals segment recorded a sales increase of HRK 13.8m (+6.7%), due to the increase in sales of Prescription drugs,

- The *New markets region* recorded a sales growth of HRK 5.1m (+34.2%) as a result of Food segment sales increase of HRK 5.2m (+39.4%), primarily due to the sales increase of Universal seasonings and Creamy spreads. Sales revenues of the Pharmaceuticals segment are HRK 0.1m (-3.4%) lower than in the comparative period due to lower sales of Prescription drugs.

BUSINESS RESULTS

PROFITABILITY OF THE FOOD SEGMENT IN 2021

Profitability of Food segment

(in HRK millions)	2020	2021	Δ	%
Sales revenue	3,527.0	3,601.3	74.2	2.1%
Gross profit	1,191.1	1,193.6	2.5	0.2%
EBITDA*	388.1	381.3	(6.8)	(1.8%)
EBIT	232.7	221.2	(11.5)	(4.9%)
Net profit after MI**	181.8	202.4	20.5	11.3%
Gross margin	33.8%	33.1%		-63 bb
EBITDA margin	11.0%	10.6%		-42 bb
EBIT margin	6.6%	6.1%		-46 bb
Net margin after MI	5.2%	5.6%		+46 bb

*EBITDA is calculated in a way that EBIT was increased by depreciation and amortization and value adjustments of non-current assets; normalized EBITDA is calculated in a way that normalized EBIT was increased by depreciation and amortization. ** MI are minority interests.

Profitability of Food segment — normalized

(in HRK millions)	2020	2021	Δ	%
Sales revenue	3,527.0	3,601.3	74.2	2.1%
Gross profit	1,191.1	1,195.6	4.5	0.4%
EBITDA*	387.3	396.1	8.8	2.3%
EBIT	232.0	242.6	10.6	4.6%
Net profit after MI	181.1	194.9	13.8	7.6%
Gross margin	33.8%	33.2%		-57 bb
EBITDA margin	11.0%	11.0%		+2 bb
EBIT margin	6.6%	6.7%		+16 bb
Net margin after MI	5.1%	5.4%		+28 bb

*EBITDA is calculated in a way that EBIT was increased by depreciation and amortization and value adjustments of non-current assets; normalized EBITDA is calculated in a way that normalized EBIT was increased by depreciation and amortization.

1 Obtained as used volumes of raw materials and supplies in 1-12 2021*prices in 1-12 2021 – used volumes of raw materials and supplies in 1-12 2021*prices in 1-12 2020.

Normalized profitability of the Food segment (2021 compared to 2020)

- In 2021, the Food segment recorded an increase in *gross profit* of HRK 2.5m (+0.2%), while the gross margin realised was 33.1%. In the reporting period, negative trends in prices of raw materials and supplies were recorded if compared to 2020. The estimated effect of movements in prices of raw materials and supplies in 2021 amounted to negative HRK 16.7m[1] compared to 2020, primarily related to grains and mill products, and fats and oils,
- Reported *operating profit* (EBIT) is HRK 11.5m (-4.9%) lower than in the comparative period, while normalized operating profit is HRK 10.6m (+4.6%) higher. In addition to the impact above the gross profit level, the positive effect comes from savings

BUSINESS RESULTS

on marketing expenses and movements in foreign exchange differences on trade receivables and trade payables (HRK +3.5m in 1-12 2021; HRK -10.4m in 1-12 2020),

- Reported **n***et profit after minority interests* is HRK 20.5m higher (+11.3%), while normalized net profit after minority interests is HRK 13.8m higher (+7.6%) compared to 2020. In addition to the impact above the EBIT level, net profit was positively impacted by foreign exchange differences on borrowings (HRK +1.1m in 1-12 2021; HRK -2.7m in 1-12 2020) and lower finance costs. Following the effect of deferred tax, the tax cost is HRK 25.5m lower.

BUSINESS RESULTS

PROFITABILITY OF THE PHARMACEUTICAL SEGMENT IN 2021

Profitability of Pharmaceuticals segment

(in HRK millions)	2020	2021	Δ	%
Sales revenue	976.2	1,030.3	54.1	5.5%
Gross profit	468.3	484.5	16.2	3.5%
EBITDA*	158.6	210.7	52.2	32.9%
EBIT	99.7	144.1	44.4	44.6%
Net profit after MI	67.1	106.9	39.7	59.2%
Gross margin	48.0%	47.0%		-94 bb
EBITDA margin	16.2%	20.5%		+421 bb
EBIT margin	10.2%	14.0%		+378 bb
Net margin after MI	6.9%	10.4%		+350 bb

*EBITDA is calculated in a way that EBIT was increased by depreciation and amortization and value adjustments of non-current assets; normalized EBITDA is calculated in a way that normalized EBIT was increased by depreciation and amortization.

Profitability of Pharmaceuticals segment — normalized

(in HRK millions)	2020	2021	Δ	%
Sales revenue	976.2	1,030.3	54.1	5.5%
Gross profit	465.5	484.5	19.1	4.1%
EBITDA*	155.7	211.5	55.8	35.8%
EBIT	92.9	146.9	54.0	58.2%
Net profit after MI	63.3	109.2	45.9	72.5%
Gross margin	47.7%	47.0%		-65 bb
EBITDA margin	16.0%	20.5%		+458 bb
EBIT margin	9.5%	14.3%		+475 bb
Net margin after MI	6.5%	10.6%		+411 bb

*EBITDA is calculated in a way that EBIT was increased by depreciation and amortization and value adjustments of non-current assets; normalized EBITDA is calculated in a way that normalized EBIT was increased by depreciation and amortization.

Normalized profitability of the Pharmaceuticals segment (2021 compared to 2020):

- The Pharmaceuticals segment recorded HRK 16.2m (+3.5%) higher reported *gross profit* and HRK 19.1m (+4.1%) higher normalized gross profit. The reported gross margin was 47.0%, which is lower than in the comparative period, due to the increase in the share of trade goods in sales revenues,
- Reported *operating profit* (EBIT) is HRK 44.4m (+44.6%) higher, while normalized is HRK 54.0m (+58.2%) higher. In addition to the impact above the gross profit level, EBIT was positively affected by

BUSINESS RESULTS

the movements in foreign exchange differences on trade receivables and trade payables (HRK +9.9m in 1-12 2021; HRK -35.5m in 1-12 2020),

- Reported *net profit after minority interests* is HRK 39.7m (+59.2%) higher, while normalized is HRK 45.9m (+72.5%) higher. In addition to the impact above the EBIT level, net profit after minority interests was positively impacted by movements in foreign exchange differences on borrowings (HRK +0.0m in 1-12 2021; HRK -1.4m in 1-12 2020) and lower finance costs. The higher level of pre-tax profit resulted in the increase in tax cost of HRK 9.0m.

BUSINESS RESULTS

PROFITABILITY OF THE PODRAVKA GROUP IN 2021

Profitability of the Podravka Group

(in HRK millions)	2020	2021	Δ	%
Sales revenue	4,503.2	4,631.5	128.3	2.8%
Gross profit	1,659.4	1,678.1	18.7	1.1%
EBITDA*	546.7	592.0	45.3	8.3%
EBIT	332.3	365.3	33.0	9.9%
Net profit after MI	248.9	309.2	60.3	24.2%
Gross margin	36.8%	36.2%		-62 bb
EBITDA margin	12.1%	12.8%		+64 bb
EBIT margin	7.4%	7.9%		+51 bb
Net margin after MI	5.5%	6.7%		+115 bb

*EBITDA is calculated in a way that EBIT was increased by depreciation and amortization and value adjustments of non-current assets; normalized EBITDA is calculated in a way that normalized EBIT was increased by depreciation and amortization.

Profitability of the Podravka Group — normalized

(in HRK millions)	2020	2021	Δ	%
Sales revenue	4,503.2	4,631.5	128.3	2.8%
Gross profit	1,656.6	1,680.2	23.6	1.4%
EBITDA*	543.1	607.7	64.6	11.9%
EBIT	324.8	389.5	64.7	19.9%
Net profit after MI	244.4	304.1	59.7	24.4%
Gross margin	36.8%	36.3%		-51 bb
EBITDA margin	12.1%	13.1%		+106 bb
EBIT margin	7.2%	8.4%		+120 bb
Net margin after MI	5.4%	6.6%		+114 bb

*EBITDA is calculated in a way that EBIT was increased by depreciation and amortization and value adjustments of non-current assets; normalized EBITDA is calculated in a way that normalized EBIT was increased by depreciation and amortization.

Normalized profitability of the of the Podravka Group (2021 compared to 2020):

- In the observed period, the Podravka Group recorded HRK 18.7m (+1.1%) higher reported *gross profit*, while normalized gross profit was HRK 23.6m (+1.4%) higher. Cost of goods sold increased by 3.9%, while the reported gross margin was 36.2%,
- Reported *operating profit* (EBIT) is HRK 33.0m (+9.9%) higher, while normalized is HRK 64.7m (+19.9%) higher. In addition to the impact above the gross profit level, the increase in operating profit was impacted by lower costs of marketing investments and favourable movements in foreign exchange differences on trade receivables and trade payables

BUSINESS RESULTS

(HRK +13.5m in 1-12 2021; HRK -45.9m in 1-12 2020),

- Reported *net profit after minority interests* is HRK 60.3m higher (+24.2%), while normalized is HRK 59.7m higher (+24.4%). In addition to the impact above the EBIT level, net profit after minority interests was positively impacted by movements in foreign exchange differences on borrowings (HRK +1.2m in 1-12 2021; HRK -4.1m in 1-12 2020) relative to the comparative period, and lower finance costs. The tax cost is HRK 16.4m lower due to the effects of deferred tax in the Food segment.

BUSINESS RESULTS

PODRAVKA GROUP'S OPERATING EXPENSES STRUCTURE

Podravka Group — reported

(in HRK millions)	2020	2021	Δ	%
Cost of goods sold	2,843.8	2,953.4	109.6	3.9%
General and administrative expenses*	335.9	346.1	10.2	3.0%
Selling and distribution costs	592.6	619.4	26.9	4.5%
Marketing expenses	377.4	373.8	(3.7)	(1.0%)
Other income (expenses), net*	21.2	(26.5)	(47.6)	(225.0%)
Total operating expenses	4,170.9	4,266.2	95.3	2.3%

Podravka Groupa — normalized

(u milijunima kuna)	2020	2021	Δ	%
Cost of goods sold	2,846.6	2,951.4	104.7	3.7%
General and administrative expenses*	331.7	330.5	(1.2)	(0.4%)
Selling and distribution costse	592.6	619.4	26.9	4.5%
Marketing expenses	377.4	373.8	(3.7)	(1.0%)
Other income (expenses), net*	30.1	(33.0)	(63.1)	(209.8%)
Total operating expenses	4,178.4	4,242.0	63.6	1.5%

Cost of goods sold in the observed period increased by 3.9% relative to the comparative period due to a higher level of sales realized, the structure of sales, improved material rights of employees and movements in prices of raw materials and supplies (estimated negative impact in the Food segment of HRK 16.7m[1], primarily from grains and mill products, and fats and oils). On the normalized level, cost of goods sold increased by 3.7%.

In 2021, *general and administrative expenses* grew by HRK 10.2m higher (+3.0%) following the improved material rights of employees and other expenses relative to the comparative period. On the normalized level, general and administrative expenses decreased by HRK 1.2m (-0.4%).

In the observed period, *selling and distribution costs* are HRK 26.9m (+4.5%) higher than in the comparative period, primarily as a result of improving material rights of employees, higher costs of transportation services and other expenses.

In 2021, *marketing expenses* (which include expenses of marketing investments and expenses of marketing department) are HRK 3.7m lower (-1.0%) than in the comparative period. In the Food segment, marketing expenses decreased by HRK 8.0m (-3.6%), while in the Pharmaceuticals segment they are HRK 4.3m (+2.8%) higher.

Other expenses (income), net amounted to HRK -26.5m (positive impact), while in the comparative period they amounted to HRK +21.2m (negative impact), mainly due to positive movements in foreign exchange differences on trade receivables and trade payables, which amounted to HRK +13.5m in 2021, while in the comparative

1 Obtained as used volumes of raw materials and supplies in 1-12 2021*prices in 1-12 2021 – used volumes of raw materials and supplies in 1-12 2021*prices in 1-12 2020.

period they amounted to HRK -45.9m. This item also includes value adjustments that amount to HRK +8.6m in the reporting period, while in the comparative period they amounted to HRK -3.9m and are provided in the “Additional tables for 2021” section.

BUSINESS RESULTS

KEY CHARACTERISTICS OF THE PODRAVKA GROUP'S FINANCIAL POSITION

Compared to 31 December 2020, *property, plant and equipment* of the Podravka Group are HRK 15.8m or -0.7% lower, due to the regular depreciation of the current period.

Inventories of the Podravka Group are HRK 46.7m (-4.8%) lower than as at 31 December 2020, as a result of the decrease in inventories of both business segments in the reporting period.

Trade and other receivables of the Podravka Group are HRK 53.1m (+5.5%) higher than as at 31 December 2020, in line with the regular operations of both segments in the reporting period.

Cash and cash equivalents of the Podravka Group at the end of the observed period are HRK 18.6m lower (-35.8%) compared to 31 December 2020. This is explained in the "Key characteristics of the cash flow of Podravka Group" section.

As at 31 December 2021, *long-term and short-term borrowings* of the Podravka are HRK 284.5m lower than as at 31 December 2020. In the observed period, long-term debt is lower by HRK 161.5m due to regular repayment of borrowings and pre-payment of a portion of, borrowings. Short-term debt is lower by HRK 123.1m as a result of regular repayment of borrowings.

Trade and other payables of the Podravka Group are HRK 23.6m or -4.3% lower compared to 31 December 2020. The movement is primarily a result of regular operations in the reporting period.

As at 31 December 2021, the total debt of the Podravka Group related to borrowings and other interest-bearing financial liabilities amounted to HRK 493.8m, of which HRK 139.7m relates to long-term borrowings, HRK 258.9m to short-term borrowings, HRK 95.2m to liabilities for right-of-use assets, while financial liabilities at fair value through profit or loss amounted to HRK 0.04m. The *average weighted cost of debt* on all the stated liabilities as at 31 December 2021 was 1.2%, while if right-of-use assets are excluded it was 0.9%.

Net debt decrease as at 31 December 2021 relative to the comparative period is a result of the repayment of a portion of borrowings compared to 31 December 2020. Normalized EBITDA increase with the decline in net debt led to a lower net debt to normalized EBITDA ratio. Normalized EBIT increase with the decrease in interest expense has driven the rise in the interest coverage ratio (Normalized EBIT / Interest expense).

BUSINESS RESULTS

1
Financial debt: long-term and short-term borrowings + liabilities for right-of-use assets + financial liabilities at fair value through profit or loss.

2
Net debt: Financial debt – Cash and cash equivalents.

3
Equity to assets ratio: total shareholder's equity / total assets.

Debt indicators — reported

(in HRK millions)	2020	2021	Δ	%
Financial debt[1]	785.2	493.8	(291.4)	(37.1%)
Cash and cash equivalents	51.9	33.3	(18.6)	(35.8%)
Net debt[2]	733.3	460.5	(272.8)	(37.2%)
Interest expense	11.5	6.8	(4.6)	(40.4%)
Net debt / EBITDA*	1.3	0.8	(0.6)	(42.0%)
EBIT / Interest expense**	28.9	53.3	24.4	84.4%
Equity to assets ratio[3]	69.4%	75.3%		+589 bb

*Normalized: Net debt / normalized EBITDA
**Normalized: normalized EBIT / Interest expense.

Debt indicators — normalized

(in HRK millions)	2020	2021	Δ	%
Financial debt[1]	785.2	493.8	(291.4)	(37.1%)
Cash and cash equivalents	51.9	33.3	(18.6)	(35.8%)
Net debt[2]	733.3	460.5	(272.8)	(37.2%)
Interest expense	11.5	6.8	(4.6)	(40.4%)
Net debt / EBITDA*	1.4	0.8	(0.6)	(43.9%)
EBIT / Interest expense**	28.3	56.9	28.6	101.1%
Equity to assets ratio[3]	69.4%	75.3%		+589 bb

*Normalized: Net debt / normalized EBITDA
**Normalized: normalized EBIT / Interest expense.

BUSINESS RESULTS

KEY CHARACTERISTICS OF CASH FLOW OF PODRAVKA GROUP

(in HRK millions)	2020	2021	Δ
Net cash flow from operating activities	384.5	517.1	132.6
Net cash flow from investing activities	(186.9)	(156.4)	30.5
Net cash flow from financing activities	(201.3)	(379.2)	(177.9)
Net increase / (decrease) of cash and cash equivalents	(3.7)	(18.6)	(14.8)

In 2021, *net cash flow from operating activities* was positive HRK 517.1m as a result of operating business and dynamics of movements in the working capital.

Net cash flow from investing activities in the reported period amounted to negative HRK 156.4m, primarily as a result of cash capital expenditures amounting to HRK 170.3m. The most significant *capital expenditures* in 2021 were related to:

- investment in the fruit processing line, aseptic line and vacuum boilers, which ensures business continuity and increases productivity,
- investment in vegetable sauces production line, which creates preconditions for new products production and increases the existing vegetable processing capacity,
- investment in the line for the production of extruded products in the Cocktail snacks factory in order to increase capacities,
- investment in the reconstruction of the weighing room in the solid drugs factory of Belupo Inc., which ensures a compliance with regulatory requirements and consequently the business continuity,
- investment in the construction of a system for fumigation of raw materials, which ensures continuity and safety of production,
- investment in IT and energy renovation of the Office building with the aim to increase energy efficiency and improve working conditions,
- investment in the Tetra Pak line relocation from the Umag factory to the Kalnik factory, which will result in the consolidation of vegetable-based products production,
- replacement of the ammonia pipeline and transition of the cooling system to glycol in the Danica factory, which ensures business continuity,
- investment in the improvement of poppy seeds production technology in the Lagris factory in the Czech Republic, aimed at improving business and operating revenue growth.

All the above capital expenditures are expected to positively impact the operating profitability increase.

In 2022, *expected capital expenditures* amount to HRK 500.0m, in 2023 expected capital expenditures are also at a level of approximately HRK 500.0m, while in the 2024-2025 period expected capital expenditures amount to HRK 250.0m.

In 2021, *net cash flow from financing activities* amounted to negative HRK 379.2m, mainly as a result of repayment of borrowings and dividend distribution. The difference in relation to the repayment of borrowings in the balance sheet primarily relates to foreign exchange differences.

BUSINESS RESULTS

ADDITIONAL TABLES FOR 2021

VALUE ADJUSTMENTS AND CALCULATION OF REPORTED AND NORMALIZED EBITDA

EBITDA is calculated in a way that EBIT was increased by depreciation and amortization and value adjustments to non-current assets. The table below presents value adjustments to non-current assets in the reporting and the comparative period.

Value adjustments		2020			2021	
(in HRK millions)	Group	Food	Pharma	Group	Food	Pharma
Production line equipment*	0.1	0.1	–	–	–	–
Intangible assets*	–	–	–	7.7	6.6	1.1
Tangible assets*	–	–	–	0.9	–	0.9
Reversal of impairment**	(4.0)	–	(4.0)	–	–	–
Total	(3.9)	0.1	(4.0)	8.6	6.6	2.0

Reffered to above value adjustments: *Note 10 – Other expenses, **Note 9 – Other revenues.

Reported EBITDA calculation		2020			2021	
(in HRK millions)	Group	Food	Pharma	Group	Food	Pharma
Reported EBIT	332.3	232.7	99.7	365.3	221.2	144.1
+depreciation and amortization	218.2	155.3	62.9	218.2	153.5	64.7
+value adjustment	(3.9)	0.1	(4.0)	8.6	6.6	2.0
Reported EBITDA	546.7	388.1	158.6	592.0	381.3	210.7

Normalized EBITDA calculation		2020			2021	
(in HRK millions)	Group	Food	Pharma	Group	Food	Pharma
Normalized EBIT	324.8	232.0	92.9	389.5	242.6	146.9
+depreciation and amortization	218.2	155.3	62.9	218.2	153.5	64.7
+value adjustment	–	–	–	–	–	–
Normalized EBITDA	543.1	387.3	155.7	607.7	396.1	211.5

BUSINESS RESULTS

ONE-OFF ITEMS IN 2021 AND 2020

One-off items in 2021 and 2020 In 2021, the Food segment incurred HRK 1.8m costs of severance payments for employees on longterm sick leaves, HRK 2.0m of costs of write-offs of raw materials and packaging, HRK 6.6m of impairment of intangible assets, HRK 9.8m of provisions for estimated potential risks, HRK 0.4m of income from reversal of impairment of receivables, and HRK 1.7m of cost related to the process of closing a subsidiary in Africa.

A positive effect comes from deferred tax asset in the amount of HRK 25.1m as a result of the revaluation of recoverability of tax on the basis of losses on financial assets, based on the court judgement finality.

All the above is treated by the company's management as one-off items.

The Pharmaceuticals segment recorded HRK 2.5m costs of severance payments for employees and the gain on sale of property in the amount of HRK 1.6m, cost of impairment of intangible assets in the amount of HRK 1.1m and cost of impairment of tangible assets in the amount of HRK 0.9m, treated by the company's management as one-off items.

The estimated impact of these one-off items on tax of Food is HRK 3.8m (decreases it) and includes tax effect of the reduction of Podravka Inc. stake in the company Foodpro Limited Tanzania (HRK -0.6m) and the tax effect of value adjustment to the investment in the company Podravka Poland (HRK -0.3m), while the impact on tax of Pharmaceuticals is HRK 0.4m (decreases it).

In 2020, the Food segment incurred HRK 4.2m costs of severance payments for employees on long-term sick leaves, HRK 0.1m of costs from value adjustments to equipment under construction, HRK 5.3m of income from reversal of impairment of receivables, and HRK 0.2m of cost related to the process of closing a subsidiary in Africa, treated by the company's management as one-off items.

As at 31 December 2020, the Pharmaceuticals segment analysed the value of its rights for operating pharmacies using the discounted cash flow method and comparable market transactions method. Both methods indicate a higher fair value, or market value, than the one recorded in business books, and in accordance with the analysis, the reversal of impairment of rights for operating pharmacies in the amount of HRK 4.0m (pre-tax) was recognised. This amount is treated as one-off item for the reporting period, as well as income of HRK 2.8m related to returns for defective raw materials received in 2018, and HRK 1.7m of charge for early repayment of a borrowing.

The estimated impact of these one-off items on tax of Food is HRK 0.05m (decreases it) and includes tax effect of the reduction of Podravka Inc. stake in the company Foodpro Limited Tanzania (HRK -0.4m) and the tax effect of value adjustment to a loan given by Podravka Inc. to a related company (HRK +0.2m). The estimated impact of these one-off items on tax of Pharmaceuticals is HRK 1.3m (increases it).

BUSINESS RESULTS

NORMALIZATION OF THE PROFIT AND LOSS STATEMENT BY SEGMENTS

Reported and normalized profitability		2020			2021	
(in HRK millions)	Group	Food	Pharma	Group	Food	Pharma
Reported gross profit	1,659.4	1,191.1	468.3	1,678.1	1,193.6	484.5
+revenues from return of raw materials	(2.8)	–	(2.8)	–	–	–
+write-off of raw materials and packaging	–	–	–	2.0	2.0	–
Normalized gross profit	1,656.6	1,191.1	465.5	1,680.2	1,195.6	484.5
Reported EBITDA	546.7	388.1	158.6	592.0	381.3	210.7
+revenues from return of raw materials	(2.8)	–	(2.8)	–	–	–
+write-off of raw materials and packaging	–	–	–	2.0	2.0	–
+severance payments	4.2	4.2	–	4.2	1.8	2.5
+reversal of impairment of receivables	(5.3)	(5.3)		(0.4)	(0.4)	–
+cost related to the process of closing subsidiary in Africa	0.2	0.2		1.6	1.6	–
+provision for estimated potential risks	–	–	–	9.8	9.8	–
+gain on sale of property	–	–	–	(1.6)	–	(1.6)
Normalized EBITDA	543.1	387.3	155.7	607.7	396.1	211.5
Reported EBIT	332.3	232.7	99.7	365.3	221.2	144.1
+normalizations above EBITDA level	(3.6)	(0.8)	(2.8)	15.6	14.8	0.9
+product line equipment	0.1	0.1	–	–	–	–
+intangible assets	–	–	–	7.7	6.6	1.1
+tangible assets	–	–	–	0.9	–	0.9
+reversal of impairment	(4.0)	–	(4.0)	–	–	–
Normalized EBIT	324.8	232.0	92.9	389.5	242.6	146.9
Reported Net profit after MI	248.9	181.8	67.1	309.2	202.4	106.9
+normalizations above EBIT level	(7.5)	(0.7)	(6.8)	24.2	21.4	2.8
+pre-payment fee	1.7	–	1.7	–	–	–
+effect of deferred tax asset	–	–	–	(25.1)	(25.1)	–
*+estimated impact of normalization on taxes**	1.3	(0.0)	1.3	(4.3)	(3.8)	(0.4)
Normalized Net profit after MI	244.4	181.1	63.3	304.1	194.9	109.2

* Includes tax effect of reduction of Podravka Inc. stake in the company Foodpro Limited Tanzania (HRK -0.6m) and the tax effect of value adjustment to investment in company Podravka Poland (HRK -0.3m).

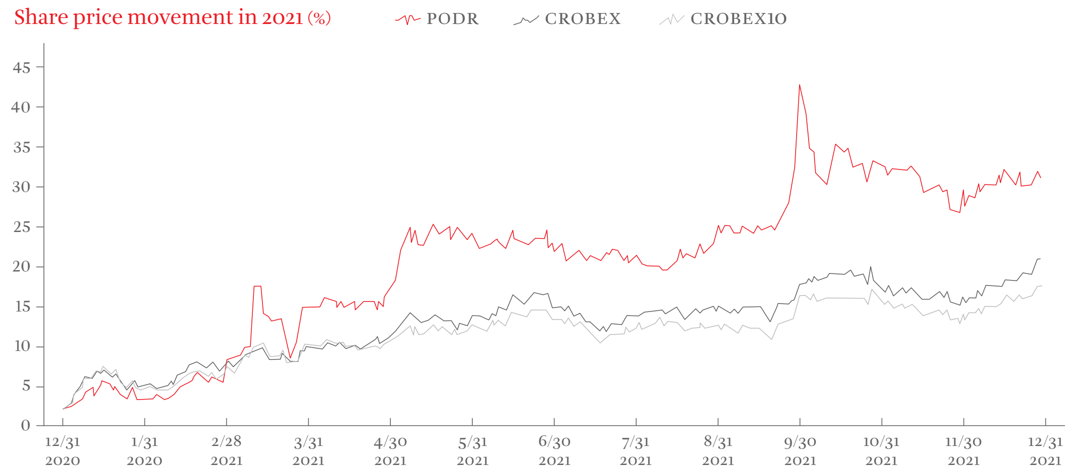
Shares

SHARE IN 2021

Podravka Inc. has a stable ownership structure where the most significant stake is held by the Republic of Croatia and domestic pension funds. A total of 7,120,003 shares have been issued at nominal price of HRK 220.0 per share. As at 31 December 2021, the Republic of Croatia holds 25.5% stake, and domestic pension funds (mandatory and voluntary) hold a total of 50.8% stake. Podravka Inc. has 1.5% of treasury shares. As at 31 December 2021, Supervisory Board members owned 16 shares of Podravka Inc., while Management Board members owned 1,170 shares of Podravka Inc.

Podravka Inc.'s shares have been listed on the Prime Market of the Zagreb Stock Exchange and in eight Zagreb Stock Exchange indices (CROBEX, CROBEX10, CROBEXtr, CROBEX10tr, CROBEXprime, CROBEXplus, CROBEXnutris i ADRIAprime).

Share price movement in 2021 (%)



SHARES

(closing price in HRK; closing points)	31 December 2020	31 December 2021	%
PODR	485,0	632,0	30,3%
CROBEX	1.739,3	2.079,4	19,6%
CROBEX10	1.087,8	1.262,3	16,0%

In the reporting period, the price of Podravka's share recorded a double-digit growth of 30.3% compared to the end of 2020, while the comparable CROBEX and CROBEX10 stock indices increased by 19.6% and 16.0%, respectively.

Performance in the Croatian capital market in 2021

(in HRK; in units)*	2020	2021	%
Weighted average daily price	413.3	589.2	42.6%
Average daily number of transactions	14	13	(0.5%)
Average daily volume	1.277	1.488	16.5%
Average daily turnover	527,877.8	876,746.7	66.1%

* Weighted average daily price calculated as the weighted average of average daily prices in the period, where the weight is daily volume. Daily volume weight is calculated as a ratio between daily volume and total volume in the reported period. Formula: Weighted average daily price in the reported period = Σ average daily price*(daily volume/total volume in the reported period). Other indicators calculated as the average of average daily transactions/volume/turnover in the reported period. Block trades are excluded from the calculation.

At the annual level, the weighted average daily price of Podravka's share recorded a significant increase of 42.6% relative to the comparative period. Compared to 2020, the average daily volume increased by 16.5%, the average daily turnover increased by 66.1%, while the average daily number of transactions is 0.5% lower.

SHARES

Valuation

(in HRK millions; last price and earnings per share in HRK)*	2020	2021	%
Last price	485.0	632.0	30.3%
Weighted average number of shares[1]	6,992,087	7,008,269	0.2%
Market capitalization[2]	3,391.2	4,429.2	30.6%
EV[3]	4,179.4	4,953.0	18.5%
Normalized earnings per share[4]	35.0	43.4	24.1%
EV / sales revenue	0.9	1.1	15.2%
EV / normalized EBITDA	7.7	8.2	5.9%
EV / normalized EBIT	12.9	12.7	(1.2%)
Last price / normalized earnings per share ratio (P / E)	13.9	14.6	5.0%

*Note: all indicators are calculated in a way that income statement items are calculated at the level of the last 12 months, while balance sheet items are taken at the period end.

[1] The weighted average number of shares is calculated on the basis of previous 12 months period by dividing the sum of the weighted number of shares of each individual month by the total number of calendar days in the previous 12 months. The weighted number of shares on a monthly basis is calculated by reducing the total number of issued shares by the amount of treasury shares and multiplying the difference by the number of days of that month.

[2] Market Capitalization: Last price * Weighted average number of shares.

[3] Enterprise value: Market Capitalization + Net debt + Minority interests.

[4] Normalized earnings per share is calculated in a way that normalized Net income after minority interests is divided with weighted average number of shares. Normalized Net income after minority interests include the last 12 months period.

9

Innovations, activities, awards and recognitions

Research *and development*

Own research and constant development are both an organizational tradition and a competitive advantage of the Podravka Group. Therefore, in 2021, research and development activities continued in all segments of the Group in order to enable the production of high quality, innovative, healthy and environmentally safe products.

Podravka's project "Development of innovative products from by-products during vegetable processing" continued, for the purpose of transferring to a new business concept of circular bioeconomy. The project started in 2020 and is planned to finish in 2022. It includes research into the use of the beneficial parts of the by-product (produced during the processing of peppers into conventional products) to obtain new ingredients / higher value-added products and propose a technologically and industrially feasible solution for its efficient extraction. The second goal is to examine the biogas potential from the total waste of the Kalnik Factory in Varaždin for obtaining energy from alternative sources. The project is co-financed from the European Regional Development Fund in the amount of HRK 3,055,545.56, which is 60% of the total project value. So far, six new *plant-based* products have been developed as part of the project, and a technological solution has been developed for the extraction of beneficial by-products (pepper seeds and lodge seeds) during pepper processing. In addition, a corporate website was created, two scientific and professional papers published, and team members participated in international conferences and fairs.

In 2021, Žito completed the implementation of the three-year research project "Elimination of antibiotics from the food chain" (ABFREE). The activities were carried out in accordance with the guidelines of the smart specialization strategy. The paper emphasized on the processing of legumes, which are an important source of plant proteins and are increasingly becoming a part of our diet.

Last year, the company Podravka-Lagris a.s. started developing two new technologies. The first relates to the thermal treatment of raw materials to extend the durability of products and quality assurance, and the second to the development of technology for grinding raw materials for gluten-free flours.

Belupo Inc. continued to develop new drugs, mostly from the dermatological group, then solid forms from the groups of drugs with anti-inflammatory and anti-rheumatic effects, drugs with effects on the cardiovascular system, antidiabetics and drugs for the urinary system. In addition, in accordance with the Podravka Group strategy, an implementation action plan was devised with precisely scheduled initiatives in order to improve product development.

Professional and scientific activity of employees within the Research and Development Department is visible at the level of the entire Podravka Group. Thus, experts from Podravka's Research and Development published their papers in scientific and professional journals and participated as panelists and

RESEARCH AND DEVELOPMENT

lecturers at conferences, congresses and gatherings in the field of nutrition.

Žito Ltd. and experts from its Research and Development Department cooperate with various higher education organizations in the field of food and nutrition (BIC Ljubljana, IC Piramida Maribor) and with the Biotechnical Faculty in Ljubljana. The cooperation is reflected in student internships, work on the strategy of the long-term development program for schools and monitoring quality assurance in higher education.

Žito Ltd., as a large consumer of buckwheat, is included in the Advisory board of the project "Locally grown buckwheat grain for the production of high quality food products", funded by the Slovenian Research Agency and the Ministry of Agriculture, Forestry and Food.

Under the auspices of the Ministry, there is a special Interdepartmental working group for food transformation in which Žito actively participates as a representative of the Slovenian industry. The main task of the working group is to monitor and direct activities to reformulate and improve the composition of food products.

For the second year in a row, Žito Ltd. participated in the preparation of the Catalogue of food products of improved composition, prepared by the Chamber of Commerce of Slovenia in cooperation with the National Institute of Public Health and the Ministry of Health within the national program *Dober tek Slovenija* (*Bon appetit Slovenia*) and the project "*Odloči se za* (*Choose*)". The suitability of food products for inclusion in the catalogue was based on the composition of each product and assessed by a special expert committee.

Experts from Podravka-Lagris a.s. are participating in the international scientific project: "Invasive mechanisms of economically important harmful storage insects that threaten Chinese and European international trade and phytosanitary technology systems for their control", as part of "Inter-Excellence" within the "Inter-Action" program.

New *products*

FOOD

The Podravka Group strives to offer its customers what they desire and what they need by closely following new trends. Thus, in 2021, the Food segment launched many new products from different categories, all in accordance with the requirements of both the market and consumers.

TRENDS: PLANT PRODUCTS, PROTEIN-ENRICHED, "FREE FROM"

With the growth of supply and demand for products of plant origin, and as a result of strengthening environmental initiatives, an assortment was launched that includes six herbal drinks based on almonds, oats and rice under the O'Plant brand. All products are 100% plant-based, taste deliciously, contain spring water, no added sugar, naturally lactose-free and come in an improved Tetra Pak® sugar cane-based plastic packaging, thus reducing the carbon footprint by 15%. In the production of packaging, 83% of plant-based materials were used, making it an excellent partner in environmental protection.

Podravka continued conforming to the global trend of plant based products in the category of burgers and sausages. The Green Beast burger is a counterpart to meat – its texture, taste, smell, appearance and bite is identical to meat products and is a complete alternative to meat. In addition to the burger, three Green Beast semi-durable sausages were launched: classic, with vegetables and with olives. All products

NEW PRODUCTS

from the Green Beast line bear a unique quality veggie label on the packaging that the European Vegetarian Union (EVU) awards to products made in accordance with vegetarian and vegan standards, to help consumers identify products containing no ingredients of animal origin.

The product range of modern Fant dishes, such as lasagna, Bolognese or baked pasta, has been upgraded to a new version that now offers the idea of dual preparation – meat or vegetarian. In this way, Fant responds to the growing trend of vegetarian and flexiterian diets, which is making enormous strides from Western Europe to our domestic market.

With its new protein-rich Hi protein line Dolcela, through four products: Dolcela Hi protein pudding chocolate 35 g, Dolcela Hi protein pudding vanilla 35 g, Dolcela Hi protein Banana muffins 270 g and Dolcela Hi protein American pancakes 210 g, successfully responds to the consumers' desire for value-added products that are easy to prepare and rich in energy. The same trend is followed by Čokolino protein power, an ideal meal for recreationists and athletes. In the trend of protein products, Žito has developed a new line of breads. The first is Sports bread, which contains specially prepared pre-cooked grains of cereal, flakes, chia seeds and whey protein and thus represents a wealth of flavour and improved nutritional value. According to the same recipe, consumers were offered attractive pastries of 100 g and 80 g, and for those more demanding consumers, protein bread with seeds and protein pastry of 80 g 3 x 3 (with three different types of seeds, three different flours and three different types of flakes) were developed.

NEW PRODUCTS

“Free from” is a trend that has dominated the world of nutrition for several years, and the Podravka Group has followed with various assortments and product categories. Thus, in 2021, gluten-free Čokolino was launched, a perfectly balanced cereal meal for all generations, especially for those who follow a gluten-free diet or suffer from celiac disease.

The range under the Vegeta Natur brand represents 100% naturalness, richness of vegetables, with the presence of sea salt, and with no added flavour enhancers or preservatives. The new products mark the entry into new categories and thus Vegeta Natur mixes for dishes and special supplements in the shape of pyramids in Poland and regional specials for the preparation of Dalmatian dishes in the Adria region were launched.

Emphasis on naturalness, lack of preservatives, no added flavours and the absence of added sugar are the characteristics of four new Podravka fruit spreads containing 100% of fruit. Fully fruit spreads come in a combination of cranberries and strawberries, pears and apricots, and black fruit and blueberries.

Many development activities have taken place in the bakery field over the past year. With the development of the bread called Drožnik, Žito responded to the trend of baking bread at home with sourdough and accelerated the development of products without yeast with the addition of active sourdough. In addition to the classic Drožnik, Žito also launched Drožnik with seeds, the taste of which is rounded off by the addition of pumpkin, linseed and sunflower seeds.

NEW PRODUCTS

With the development of hemp bread, Žito increased its diverse selection of special breads. Technologists added hemp protein to the combination of different flours, flakes and seeds, which gives the product a very distinctive taste and is also a rich source of protein.

Due to the changed lifestyle, consumers still look for special purpose mixes and special flours for baking at home. That is the underlying reason why Žito launched a special purpose Manitoba flour made of high-quality wheat and rich in protein. It is particularly helpful in baking more demanding products such as traditional Italian pizzas or sourdough products.

Lagris has expanded its range with Ground poppy 200 g that is used for preparing many dishes. The product is in line with food trends because it is 100% natural, ready to use and has no added preservatives, additives or allergens.

TRENDS: BIO

In line with the growth and strengthening of the “Ready to eat” segment of children's meals, Lino Baby Food has expanded its range with four new products. These are Lino Frutolino BIO ready-made purees in a practical 100 g pouch packaging and in four different combinations: apple, pear and banana, fruit with spelt, pear and apricot and fruit with oats.

Žito has prepared refreshing novelties – three selected flavours of the new line of BIO green teas from organic production: BIO green tea Sencha, BIO green tea Jasmine and BIO green tea Eucalyptus matcha.

A new version of the well-known Vegeta – Vegeta BIO has been launched. Vegeta BIO contains a simple and transparent recipe,

NEW PRODUCTS

more than ten types of dried vegetables, organic spices with BIO certification and sea salt, which makes this product fully compliant with consumer requirements.

All products carry a certified BIO label, which means that they are manufactured according to strict EU environmental standards. With this, Podravka has expanded its range of Bio products, which is becoming increasingly important to both retailers and consumers.

TRENDS: RECYCLABLE PACKAGING

The trend of recyclable packaging also contributes to environmental protection. In order for consumers to be able to consume Lino Lada at every opportunity, especially for those who prefer being on the move, staying in nature and “on the go” consumption, the new Easy Pack 100% recyclable packaging of Lino Lada duo and Gold with an added spoon has been designed. The new Podravka traditional spoon dishes can also boast recyclable packaging: Čobanac with Baranja paprika, Chicken paprikaš and Meatballs in tomato sauce. They are packaged in BPA safe tins that are infinitely recyclable and preserve product quality without the need to add any preservatives.

For more demanding palates, Sardines in olive oil and Tuna in olive oil were launched. Only three natural ingredients, fish, salt and oil, come in a *craft* stlye, in BPA safe tins – 100% safe and are proudly made in Croatia.

NUTRITIOUS MEALS

Today’s hectic lifestyle does not take the importance of nutritious and full meals out of focus, moreover, it puts them high on the list of desirability, so the Podravka Group has also prepared

NEW PRODUCTS

novelties in this area. Amongst them is a new line of highly desirable Mediterranean flavours with no preservatives or additives: Podravka ready-made meals in trays. Salads are immediately ready for consumption, you just need to open, stir and enjoy, while dishes need to be reheated for 2-3 minutes in the microwave or in a pan and the meal is ready to serve. The palette of Podravka's ready-made dishes in trays consists of: Quinoa salad with beans and vegetables, Tuna salad with pasta and vegetables, Penne Bolognese, Penne à la carbonara, Risotto with mushrooms, Paella with vegetables and chicken and Chicken in Mediterranean sauce.

Novelties in the segment of sterilized vegetables: Podravka baked beans and Black beans, which can be found on the shelves since the beginning of 2022, have proved that nutrition and fun can go together.

Nutrition is also on the high priority list at Žito: Žito bakers have shown their knowledge of pastry design in the production of two handmade bread plaits from rich milk dough. To make the products even more appealing and tasty, they are sprinkled with sesame and poppy seeds.

For all polenta lovers and those who want new combinations of different cereals, Žito has developed Zlato polje polenta containing three cereals, where buckwheat and rye are added to corn flour, thus creating a new product of well-balanced taste that can be used as a side dish or stand-alone, ready to serve in just two minutes. Zlato Polje has also enriched its selection of special rice for gourmets, demanding connoisseurs and rice consumers with new Jasmine rice – white long grain rice with a special aroma and its durum pasta assortment with two new forms of mini short pasta – Mini penne rigate and Mini rigatoni, especially suitable for children due to their attractive small shapes.

NEW PRODUCTS

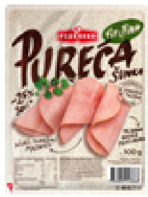
New rich soup with cereals, rich soup with lentils and rich soup with quinoa and vegetables, were also launched. Cereal-rich soups are a good opportunity to enjoy a nutritionally good meal at any time of the day and are ideal for all consumers who want to enrich their diet.

INTERNATIONAL DISHES

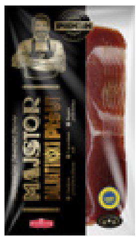
As the Podravka Group is present in more than 60 different markets worldwide, it also offers products specific to different climates and international flavours. A specific type of bujon in gastro packaging is an extension to the Vegeta mix for dishes and *boosters* for the Australian market. Fant also made an international breakthrough with two new dishes – paella and stroganoff. Following the trend of increasing consumption of dishes from various parts of the world, Asian flavour Talianetta was launched in the segment of semi-finished dishes. With their black, bold design and equally bold flavours, they represent a step forward into the world of modern dishes.

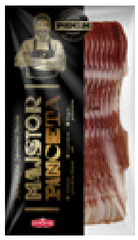
(SEMI) DURABLE RANGE

In the range of semi-durable meat cuts, Podravka has created two new products: Fit & Fina chicken ham and Fit & Fina turkey ham. These nutritionally rich products are made from pure breast fillets. Also, the semi-durable assortment is enriched with three mortadellas produced following a traditional Italian recipe: Mortadela classic, Mortadela with pistachios and Mortadela with olives.



In 2021, Podravka introduced four traditional cured meat gastronomic delicacies under the Majstor brand in the range of durable products: Dalmatian prosciutto, Pancetta, Buđola and Dry ham. Thanks to the location of the prosciutto plant





NEW PRODUCTS

and technological processes, these are top quality products that are made in a traditional way.

SPICES

Within the category of spices, with the purpose of strengthening the position in Slovenia and proving the strength of the brand that Maestro has been carrying for more than 30 years, the product range has expanded with the extension of the pepper line – red and green pepper, and turmeric – a product that has gained popularity in recent years, in larger packaging. Together with these extensions in the existing lines, a new line of Maestro lyophilized spices has been introduced to the market. Lyophilization involves drying plants by freezing, resulting in spices that retain aromas, essential oils and natural colours. Innovations and extensions of the pepper, turmeric and ginger assortment under the Vegeta Maestro brand were also made in other markets of the Adria region, starting with Croatia.

DESSERTS

For those who like ready-made desserts and for those who like to prepare them, either in the traditional way or using modern and newer techniques, the Podravka Group offers the right solutions with its new products.

At the end of the year, a new packaging of famous flavours was launched in a “twisted” edition: Lino Lada Twist, a unique combination of Lino Lada Gold and Lino Lada milk flavours.

As part of an excellent collaboration with Ledo, the Ledo range of impulse ice creams is complemented by a rich Lino Lada Gold ice cream in a cone.

NEW PRODUCTS

The newest member of the Lino cereal family for kids is Lino mini Pillows nougat. Practical and nutritious, it is perfect for breakfast, but also as a sweet snack between meals. It is filled with your favorite Lino Lada, and contains no colours. The Lino Lada sweet snack offer is enriched with Lino Lada Pillows nougat and Lino Lada Pillows milk, cereal pillows richly filled with Lino Lada.

Dolcela has expanded its premium products range of puddings and desserts with the launch of Dolcela Premium blueberry pudding 40 g and Dolcela Premium peanut pudding 40 g, which function as an independent dessert, but also as an addition to cakes or pastries. Dolcela Choco vanilla dessert 110 g and Dolcela Lemoncella dessert 120 g come from the range of desserts, which, apart from their excellent taste are characterized by quick and easy preparation in just five minutes without cooking.

Understanding the specific needs and habits of consumers, Dolcela also brings new products within the category of cake mixes: Dolcela Mini Pavlova 180 g, Dolcela Pancakes 200 g, Dolcela Fritters 250 g and Dolcela Husar cookies 300 g. The products are high quality, allow quick and easy preparation and guarantee that the desserts will succeed, look appealing and be delicious.

For the Christmas and New Year holidays, Žito offered consumers a delicious and refreshing dough cake with blueberries, in which a rich filling of fresh cheese and blueberries is wrapped in a light and tasty dough, and a strudel with the taste of traditional apple pie.

A frozen dough cake was also made, which every housewife can bake at home and boast of a delicious and fresh dessert.

NEW PRODUCTS

Žito also successfully combined the traditional taste and "snack" design replacing the classic form of a mini dough cake with a more appealing form of double-bent pretzel, with visible fillings of both fresh cheese and blueberries and walnuts.

The Podravka flour range is rounded off with a new flour mix for fritters and donuts.

SNACK AND BEVERAGES

During 2021, the Kviki brand expanded its range with Kviki mini sticks with chia seeds 90g. This product is characterized by the presence of very popular chia seeds, which give additional crunchiness to the product. Mini sticks are baked snacks, sprinkled with sea salt.

Žito refreshed its range of fruit teas in the autumn with a new taste of tea, a combination of ginger and mango, and the tea was named Tea for winners.

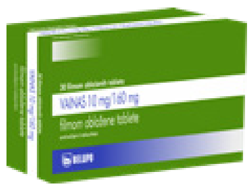
NEW PRODUCTS

PHARMACEUTICALS

PRESCRIPTION DRUGS

The drug ROSIX DUO, in addition to the existing doses of 10 mg/100 mg and 20 mg/100 mg hard capsules, has been expanded with a new dose – ROSIX DUO 5 mg/100 mg hard capsules. ROSIX DUO hard capsules are used to prevent heart attack and stroke in patients who have already suffered a heart attack or stroke and can also be used in patients who have one or more risk factors for cardiovascular diseases.

The cardiac range of Belupo antihypertensives has been enriched with two new drugs: VAINAS and VAINAS HCT film-coated tablets. Both drugs are new combinations of pre-existing molecules from Belupo's cardio portfolio.



Also, GRECCAS 90 mg film-coated tablets is Belupo 's new drug in the pharmacotherapeutic group of Platelet aggregation inhibitors (B01AC24). As platelets are involved in the creation and / or development of thrombotic complications in atherosclerotic disease, inhibition of platelet function has shown to reduce the risk of cardiovascular events such as death, myocardial infarction or stroke.

Another new drug called DOLYXAN 30 mg and DOLYXAN 60 mg hard gastro-resistant capsules brings a new molecule to Belupo's range of antidepressants. DOLYXAN contains duloxetine which is indicated in the treatment of major depressive disorder, in the treatment of pain in diabetic peripheral neuropathy and in the treatment of generalized anxiety disorder.

NEW PRODUCTS

Four new products, i.e. prescription drugs, were introduced in the market of Bosnia and Herzegovina in 2021.

From the group of cardiovascular drugs, Amora (ramipril + amlodipine) for the treatment of hypertension (high blood pressure) in adult patients, and Rosix Combi (rosuvastatin + ezetimibe) for the treatment of primary hypercholesterolaemia and to reduce the risk of cardiovascular events, were introduced as replacement therapy in patients with a history of coronary heart disease (CHD) and acute coronary syndrome (ACS).

The Belupo urological range has been enriched with a new drug from the G04CA group – Drugs acting on the urinary system, Drugs for the treatment of benign prostatic hypertrophy, Alpha-receptor blockers, under the trademark Tamosin Duo. Tamosin Duo is intended to treat moderate to severe symptoms of benign prostatic hyperplasia (BPH). It is also used to reduce the risk of acute urinary retention (AUR) and surgery in patients with moderate to severe BPH symptoms.

Belupo has also enriched the range of drugs for the nervous system with Vaira-V (olanzapine), which belongs to a group of medicines called antipsychotics to treat schizophrenia, a disease in which the patient has auditory, visual or sensory delusions, illusions, unusual suspicion and reticence.

During 2021, three new products were introduced on the Slovenian market. The prescription drug Retitren (isotretinoin) was introduced from the group of skin medicines. Isotretinoin is used to treat severe forms of acne (such as nodular acne or *acne conglobata* and acne that can

NEW PRODUCTS

leave permanent scars) for which other forms of treatment, including oral antibiotics, have not been effective.

Belupo's wide over-the-counter range in Slovenia has been further enriched with Rinil (xylometazoline). It is used to reduce swelling of the nasal mucosa in patients with rhinitis and as a supportive treatment for the healing of mucocutaneous lesions, paroxysmal rhinorrhea (vasomotor rhinitis) and to treat nasal breathing difficulties after nasal surgery. The portfolio is also enriched with an enteral nutrition product Nutribel.

The new product on the Slovak market is Amorolfin Belupo. It is a prescription drug intended for the treatment of fungal nail infections.

A new product from the group of drugs for the nervous system Dolyxan (duloxetine) has been introduced on the Czech market. Duloxetine increases serotonin and norepinephrine levels in the nervous system. It is used in adults to treat depression, generalized anxiety disorder (chronic anxiety or nervousness) and pain in diabetic neuropathy (often described as burning, stabbing, scorching, radiant, dull or even electroshock-like pain).

Three new prescription drugs were introduced on the market of Northern Macedonia in 2021: Rosix Combi (rosuvastatin + ezetimibe), Val (valsartan) and Val Plus (valsartan + hydrochlorothiazide), which belong to the group of drugs for the heart and blood vessels.

In 2021, the Russian market launched the cosmetic product Silverio Derm 125 ml, which

NEW PRODUCTS

provides optimal hydration of dry and irritated skin, restoring its structure by anti-irritant action of MicroSilver particles.

PREPARATIONS FOR ENTERAL NUTRITION

In addition to the already existing chocolate and vanilla-flavoured products, Belupo's brand of enteral nutrition products NUTRIBEL DIABET has been given a new strawberry flavour, thus expanding the existing product range. It is intended for the diet of malnourished patients with diabetes or hyperglycemia or when, for medical reasons, it is not possible to meet the nutritional needs of a normal diet. Strawberry-flavoured NUTRIBEL DIABET is a high-protein, nutritionally full liquid food with a high content of monounsaturated fatty acids and added fiber. It contains fructose, sweeteners, as well as slowly digestible complex carbohydrates to regulate blood glucose levels, free of gluten and lactose. The preparation is given only under medical supervision and can be used as a single source of nutrition or as a dietary supplement.

In addition to the already existing products with chocolate, strawberry, coffee and vanilla flavours, a new peach flavour has been added to Belupo's brand of NUTRIXA enteral nutrition products, thus expanding the existing product range. NUTRIXA is a food preparation for special medical needs and is intended for the diet of malnourished patients (disease-related malnutrition) or when for medical reasons it is not possible to meet the nutritional needs of the usual diet. NUTRIXA is a high-calorie, high-protein liquid food with added fiber for a complete, balanced diet. It contains milk protein and has a low lactose content (<0.5 g / 100

NEW PRODUCTS

ml), is gluten-free and is administered orally. The preparation can be used as a single source of nutrition or as a dietary supplement and is given only under medical supervision.

Non-prescription products

LUPOCET DIREKT 500 mg granules – over-the-counter medicine in a new pharmaceutical form – was launched on the market of the Republic of Croatia in 2021. The drug comes in the form of white granules with the taste of lemon and is intended for direct oral application. LUPOCET DIREKT 500 mg granules belong to the pharmacotherapeutic group: *Other analgesics and antipyretics, anilides* (ATC *code:* N02BE01). The main advantage of this new form is easier swallowing because the granules dissolve immediately in contact with saliva.

BELAABO® hand sanitizer gel 50 g is also a new product from the group of Disinfectants (biocidal product 1). BELAABO® is a fast and effective disinfectant and is used undiluted for hand disinfection.

Digital *innovations*

Both in the food and pharmaceutical areas, the Podravka Group monitors trends in the digital part of its business, carefully listening to the needs and wishes of its (potential) consumers. The year of the beginning of the pandemic was marked by a large migration of consumers to *online* media, and in 2021 it showed that the vast majority remained there. Many other businesses joined the migration to *online* media and this trend will continue in the future as more and more consumers also choose a lifestyle that is primarily digital. What was a necessity in 2020, and that is the availability of products and services online, in 2021 has become a proactive and common practice for consumers and for business processes for companies.

In such a combination of circumstances, Podravka's brands had to show not only resistance to the pandemic but also understanding and flexibility towards consumers, with increasingly clear outlines of the digital future of brands. The year 2021 is a year of great, visible changes in which the goal was to keep the consumer/customer at the centre of what is being done and to strengthen brand trust in various *online* communication tactics.

In this context, we actively worked on increasing the *online* presence of brands and opened 17 new profiles on social networks and new websites.

A new Coolinarika was launched, and the event was accompanied by a campaign under the creative title "*Easier to think of than to cook*", suggesting the functionalities of the new Coolinarika that easily and intuitively leads the user to exactly the recipe he/she needs. In addition to Croatia, the markets of Serbia and Bosnia and Herzegovina also participated in this exclusively digital campaign, inviting creativity focused on stories about everyday situations related to the preparation of dishes that everyone can identify with and that evoke emotion. Regional influencers were also involved in the campaign, and through them Coolinarika presented itself for the first time on the social network TikTok. The new Coolinarika, redesigned as a progressive web application, puts the user in the main focus i.e. his/her eating habits and needs. The smart algorithm, Taste Machine, creates a so-called "taste profile" for each user, following his/her movement through the website and allowing personalization of content by understanding individual needs. It offers an easy and almost intuitive approach to exactly the recipe the consumer needs. The new Coolinarika has 264,000 registered users, which is an increase of 28% compared to the year before. Also, in 2021, the Coolinarika Video Baker application project was launched as an extension of the Coolinarika brand. It is a mobile application that enables current and new users to easily and quickly create video recipes, publish them within the application and share them on Coolinarika.com as well as on social networks. The goal of the project is to attract new generations to the Coolinarika brand in a fun and interesting way.

DIGITAL INNOVATIONS

Last year, integrated communication was made through 360° access in the campaign “Podravka zimnica (winter preserves) – when you play it safe”, and whose results (300,000 views on YouTube, reach up to 740,000 users on Facebook and Instagram and almost 5 million views) confirm the success of the project.

Lino has stepped out of its current *online* communication with video interviews with young athletes, and the humorous Eva Instagram filter delighted younger audiences in the summer months. Vegeta continued to show that it is 100% original and prepared the AR (augmented reality) filter of the *Dugačke kuhače (Long ladle).*

Another special milestone of the past year was the complete renewal of the corporate website www.zito.si , where you can find out everything about Žito and its products, and a novelty is the establishment of the LinkedIn profile of the Žito Group.

The health portal *Zdravo budi (Be healthy!)* also received a new outfit. It was launched on 7 April, the World Health Day, and it is fully in line with the latest trends in the digital world. Clear and precise expression gives users a high level of visibility, giving them a pleasant and practical experience on their mobile devices, from which most visits come today. The new edition of the site further emphasizes the high standard and professional approach to each visitor thus justifying and securing the reputation of this primary personal health website.

Awards *and recognitions*

ZAGREB STOCK EXCHANGE AWARDS PRESENTED: PODRAVKA SHARE DECLARED “TOP TURNOVER SHARE”

The tenth Zagreb Stock Exchange Awards was highly successful for Podravka: the Podravka share was declared the “Top turnover share”. This category takes into account statistical indicators during the year and share turnover on the capital market.

While receiving the award for the “Top turnover share”, the President of the Management Board of Podravka, Martina Dalić, PhD, congratulated the Zagreb Stock Exchange on the impressive 30th anniversary and all participants in the capital market and added: “I thank all the investors who last year expressed confidence in Podravka's share, which has been listed on the Stock Exchange for 22 years. I believe that in that period it also contributed to the growth and development of the Stock Exchange. I would also like to thank my colleagues from the Management Board and all Podravka employees who provided the results and business events that investors recognized not only in this turnover, but also in the growth of Podravka's share price over the past year”.

In addition to awards in the category “Top turnover share”, Podravka was nominated for “Share of the year” an award chosen by the public, upon proposal of the Zagreb Stock Exchange Awards Committee, which consists of financial experts.

AWARDS AND RECOGNITION

As part of the Zagreb Stock Exchange Awards, Podravka was recognised by PwC (PricewaterhouseCoopers) – a multinational network of professional services companies, as one of the most transparent companies that is to say a company that continuously stands out with open and transparent communication about its business.

PODRAVKA GROUP WON 13 SUPERIOR TASTE AWARDS – PRESTIGIOUS AWARDS IN THE WORLD FOOD SEGMENT

In 2021, the Podravka Group continued its long-standing success with new accomplishments at the international quality assessment, Superior Taste Award, in Brussels. An impressive number of 13 products won medals at this prestigious award in the world food segment. It is universal recognition of the excellence of taste and official confirmation of quality.

The most outstanding success, three gold stars, was achieved by Podravka's new products, Fant for tortillas and Majstor Panceta. Majstor Panceta is created at 950 meters above sea level during 95 days of salting, smoking, drying and ripening. Fant for tortillas is a new product from the Fant international line, created for quick and easy preparation of this famous Mexican dish and contains no flavour enhancers.

Vegeta Maestro smoked paprika, Eva tuna fillets in olive oil, Majstor Zdenka grilled sausage, Majstor Špinatka grilled sausage and Majstor Dalmatian prosciutto were awarded two gold stars each.

Vegeta Natur liquid seasoning, Eva delicates sardines with rosemary and sea salt, Majstor

AWARDS AND RECOGNITION

Pepica grill sausage, Green Beast Burger (plant-based burger), Podravka beef goulash and Žito's bread, Zlatno zrno, won one gold star each.

The Superior Taste Award is given by the Brussels-based International Taste & Quality Institute, and companies from more than 120 countries compete for this prestigious award. The medals are awarded by a jury of more than 200 members from 20 countries, including top world chefs and sommeliers. The evaluation process includes sensory evaluation by the method of blind tasting, with a focus on the intensity of the taste of the product itself, without comparison with other products. Particular importance is attached to the assessment of the aroma, texture and appearance of the product. The Podravka Group has been participating since 2008, and to date its products have won as many as 148 Superior Taste Award medals.

"BE FREE" BREAD IS THE MOST INNOVATIVE FOOD PRODUCT

Every year, Žito demonstrates the quality of its products by receiving numerous awards and recognitions and in the year 2021 they also served as a credible sign of product excellence. Žito's line of gluten-free bread "Be Free" won the title of the most innovative food product in 2021 in the group of gluten-free products awarded by the Institute of Nutrition as part of the competition for the most innovative foods.

CHAMBER OF COMMERCE OF SLOVENIA AWARDS ŽITO

At the 21st expert evaluation of bread, bakery products, fine pastries, pasta, biscuits and

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fresh desserts, which is held every year under the auspices of the Bakery Section of the Chamber of Agricultural and Food Companies at the Chamber of Commerce of Slovenia (GZS), Žito received 34 awards for product excellence. Bread, bakery pastries and fine pastries received 26 gold medals, while Žito pasta received eight.

LAGRIS RICE RECEIVES KLASA AWARD

The excellence and quality of Lagris products has been confirmed by the KLASA Award received from the Ministry of Agriculture of the Czech Republic. KLASA is a Czech label that only food and agricultural products of the highest quality can receive, and it is deservedly worn by Lagris rice products in cooking bags.

NEW COOLINARIKA WON THE MIXX AWARD FOR BEST WEBSITE

Coolinarika, in cooperation with the digital agency Human, won the prestigious MIXX award in the Best Website category. With the launch of the new site in early 2021, the most important event for Coolinarika is the MIXX award for the best website in the Best Website category.

MIXX is a competition that, according to the international license of the IAB (Interactive Advertising Bureau), awards the best digital projects in the country at the Communication Days festival.

At the awards ceremony, which took place on 14 June 2021 as part of the festival, awards were presented to the best digital projects in the field of marketing communications.

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"We are extremely proud that the expert jury recognized Podravka's Coolinarika as the best website that is a truly intuitive personal assistant in the culinary adventures of our customers across the region," said Tanja Gligorović, director of Digital Communications after receiving the award. She added that Coolinarika continues its rise as a leader in digital trends in the culinary world.

After more than ten years since the last redesign, Coolinarika has undergone a conceptual change that responds to challenges of the digital age and the needs of users, and thus continues to provide answers to everyday questions about what and how to cook.

In collaboration with the agency Human, with more than a year of work on the project, it has become a progressive web application (PWA) – a website adapted for mobile devices as a natural response to the needs of smartphone users.

A simple, fast and smart application that meets all the culinary needs of visitors with a personalized approach has deservedly become the owner of the esteemed MIXX statue.

At the same event, as many as five Podravka projects were placed in the finals amongst digital works of the highest quality. In addition to the new Coolinarika, these are Coolinarika Social – COVID edition in the Best Social category, Coolinarika Taste Machine in the Best Tech & Innovation category, and the digital campaigns "Podravka Beans" and "A Parcel with a Heart".

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NEOFEN COMBO WON BRONZE AT THE IDEJAX COMPETITION

At the Communication Days, Belupo's Pain pecialist was awarded bronze in the Idea X 2021 category, Best on market (Health and Pharmacy). Belupo's Pain specialist is the face of the Neofen Combo commercial, a likable blue “Demo” character who endures various symptoms and demonstrates the innovative combination of ibuprofen and paracetamol – Neofen Combo, launched in September 2020.

ACCORDING TO CONSUMER CHOICE, PODRAVKA BECAME “LEADER OF SUSTAINABLE DEVELOPMENT 2021"

Podravka is the winner of a new award – “Leader of Sustainable Development 2021”. This was decided by consumers who participated in a survey conducted in November 2021 on a national representative sample by the renowned market research agency, Hendal.

Thus, Podravka is recognized by a large number of respondents as a company that has a positive impact on society and the environment and is thus ranked in the TOP 5 companies in Croatia that consumers consider socially and climatically responsible. All companies ranked in the TOP 5 also received a special trophy “Leader of Sustainable Development 2021” made of recycled material.

The research was conducted for the needs of a special issue of the Corporate Social Responsibility Report, which was published together with the issue of the magazine Lider. Companies were selected that, amongst other things,

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protect the environment, human rights, reduce the carbon footprint, take into account the consumption of energy and natural resources and recycle. In a survey conducted *online*, the results showed that consumers remember and recognize the responsible practices of companies. Respondents had the freedom to give their answers and listed the companies they thought operate in a responsible manner.

According to the research, the results suggest that citizens pay the most attention to sustainable development practices such as waste sorting and waste reduction, while placing water and other natural resources in second place. According to Lider, each of the TOP 5 companies is also a company and a separate activist who cares about climate change, ethical practices, social and gender equality and the well-being of its employees.

10 Expected development

The Supervisory Board of Podravka gave its consent to the Podravka Group's Strategic Plan for the period from 2021 to 2025 (hereinafter: Strategy). During the development of the Strategy, the current situation, historical data and the external environment of the Podravka Group were carefully analyzed.

The Strategy includes both segments of the Podravka Group, Food and Pharmaceuticals (Belupo), through three development pillars: focus on selected markets and product categories, increase of business efficiency through technological modernization and digital transformation of production and logistics processes and acquisitions. It is an integral part of the strategic document and an integrated implementation plan with clearly defined activities and associated deadlines for implementation, thereof.

The planned activities relate to investments in technical and technological modernization which include, among other things, the construction of a new logistics and distribution centre in Koprivnica and the use of renewable energy sources to increase energy efficiency. Altogether, it aims to contribute to reducing the carbon footprint of production and distribution of products, thus eliminating the negative impact of Podravka's production and packaging on the environment and harmonizing the overall operations of the Podravka Group with the highest standards of social responsibility.

The Strategy clearly defines areas for business breakthroughs that will further strengthen the Podravka Group's ability to continuously identify consumer needs and adapt even faster to changes in consumption habits, while maintaining high quality and the highest health standards of its products. In the next period, the goal of the Podravka Group is to be even closer to its customers in order to remain a reliable partner in overcoming the challenges of the modern lifestyle by offering a wide selection of high-quality products. The underlying message that will guide the Podravka Group in the next period of implementing the adopted Strategy is *Creating a delicious world. Always with a heart.*

In the forthcoming period, the Food segment of the Podravka Group will place special emphasis on product development and innovation in products and packaging aimed at increasing the availability of Podravka products and adapting them to the needs and life habits of different consumer groups. The future rapid growth and development of the Food segment will be based on product categories with greater export potential such as food supplements, soups and bakeries, and with a focus on richer and more potent markets in Western and Central Europe. When it comes to the Croatian market, i.e. the markets of the Adria region, the preservation of high market positions focused on further growth will be dominant in the next period. This strategic approach is expected to significantly increase the share of Western and Central European markets in total sales revenue.

The Implementation of defined measures to increase sales efficiency, for example by opening new sales channels, a stronger presence in the gastro segment and increasing production efficiency with better management of people and processes as well further technological modernization and digitalization of production and logistics processes, will ensure the raising of efficiency to a much higher level. For the implementation of the Lean 4.0 concept, the Soup and Vegeta Factory was selected as a pilot project, with the subsequent intention of establishing the said concept within all production units.

By increasing self-sufficiency through its own agricultural production and strengthening cooperation, Podravka will in the next five years contribute to reducing import dependence and stably manage risks in the primary part of the supply chain, thus strengthening its leadership position and competitiveness.

In the part related to acquisitions, the Strategy defines the criteria for consideration and selection of the subject of acquisition. It is crucial to point out that the intention of the Podravka Group is to strengthen its presence and market position also in categories that are in the focus of further accelerated development through possible acquisitions in the Food segment.

In the next period, Pharmaceuticals (Belupo), the second segment of the Podravka Group, will focus on stronger growth in international markets, mainly Central and Eastern Europe, expanding its product portfolio in additional anatomical-therapeutic-chemical (ATC) groups and stronger domestic market growth by introducing new products. Growth will be strongly stimulated by the launch of new molecules in the prescription and over-the-counter program.

The Strategy envisages accelerating the product development process of the pharmaceutical part of the company by optimizing key processes and establishing stronger guidelines for monitoring effectiveness. By optimizing the efficiency in procurement, production and logistics capacities, we will also work on improving the operational efficiency of business operations. When it comes to the inorganic growth of the Pharmaceuticals segment, the company wants to be an active participant and proactively seek portfolio acquisitions and manufacturing partnerships.

The implementation of the adopted Strategy implies investments of around HRK 1.7 billion in modernization and digitalization of production and logistics processes, around HRK 1.4 billion in marketing for organic growth and around HRK 2 billion in acquisitions.

As part of the adopted business strategy, the Podravka Group will actively work on establishing a more advanced human resources management function in order to achieve an appropriate structure and further improve the status of employees.

The three-year business plan of the Podravka Group for the period from 2022 to 2024 was adopted, which, following the guidelines and goals set by the Strategy, elaborates all business activities of both segments of the Podravka Group, Food and Pharmaceuticals, which are planned to be implemented in the stated period.

11 Non-financial report

ESG *reports*

ESG is an acronym for three fundamental groups of goals to be achieved within sustainable development initiatives. These goals are:

- Environmental, – “E”,
- Social – “S”, and
- Corporate Governance. – “G”.

The Podravka Group has compiled this ESG report as a separate chapter of the Annual Report, but the ESG principles are woven into every part of the Podravka Group's operations and the Management includes them in all its decisions and business processes as an integral part of daily operations.

These goals are displayed through a series of criteria that serve as indicators of the effects of the company in relation to economically sustainable activities.

Environmental protection (E) is viewed through the impacts of the company on nature and the environment. Social (S) criteria show how the company manages its relations with employees, suppliers, customers and the community in which it operates. Corporate governance (G) refers to topics such as good management structure of the company, employee benefits, internal control systems, transparency and shareholder rights.

The ESG indicators for the Podravka Group were prepared using selected GRI Standards or parts of their content for reporting specific information.

The creator of the GRI Standards is the Global Reporting Initiative (GRI), an independent international organization that helps companies and other organizations take responsibility for their economic, environmental and social impacts.GRI Standards are the most widely, globally used reporting standards on sustainability and represent the world's best practice of non – financial reporting. GRI Standards create a common language for all types and sizes of organizations, for the purpose of reporting their impacts on sustainability in a consistent and credible way. These Standards help organizations discover and understand their impacts in a way that meets the needs of different stakeholder groups.

The main objectives promoted by the GRI Standards are:

- The practice of public reporting by organizations on their economic, environmental and social impacts,
- Identifying significant positive or negative contributions of organizations to the goal of sustainable development,
- Global comparability and quality of non – financial information on the economic, environmental and social impacts of organizations.

Risks

RISK FACTORS

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

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

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

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

The Podravka Group activities in the area of risk management continued to focus on developing the Enterprise Risk Management project; ERM. This project refers to the process of integrated analyses and reports on key risks that the company is exposed to, identifying potential events which can have negative effects on the company's business results and managing the identified risks. The Treasury department of Podravka Inc. is in charge of the management and supervision of the ERM project, and it is performed in cooperation with other organizational units and related companies of the Podravka Group. All the risks

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can be additionally divided into insurable and uninsurable. Insurable risks are managed by the Insurance division within the Treasury department, and together with uninsurable risks they undergo the analysis and reporting process within the ERM project. The project aims at building a more efficient risk culture, implying that every business activity holder involved in the project also takes on the role of a "*risk manager*".

In addition to being a tool for improving business processes, the purpose of the ERM project is to limit the Group's potential losses, improve investor relations management, increase the Groups' financial safety and integrate risk reports and analyses into the decision-making process, thus creating additional value for the Group and matching return rates with assumed risks arising from operating activities.

FINANCIAL RISK

In the course of its business operations, the Podravka Group is exposed to various financial risks, especially currency, interest rate and price risk, and in addition to the aforementioned financial risks, significant risks are credit risk and liquidity risk. Currency, interest rate and credit risk management are performed by the Treasury sector and finance departments of individual companies within the Group, together with active management of excess liquidity investment and active management of financial assets and liabilities.

An integral part of the overall "*Enterprise risk management*" project is the *Escalation procedure for managing financial risks*. The purpose of this procedure is to ensure that the Management is informed of critical events that may jeopardize profitability or cause a significant loss of funds while these critical events are still in their early stages. This allows for timely decision-making on specific business activities for the purpose of efficiently managing critical events.

CURRENCY RISK

The Podravka Group conducts certain transactions in foreign currencies and is therefore, exposed to the risk of exchange rate fluctuations. The most significant exposure to changes in exchange rates of the Croatian kuna during 2021 was in relation to EUR, USD, PLN, AUD, HUF and RUB.

Currency risks arise from operations of related companies in foreign markets and the procurement of raw materials in the international market, which is largely performed in EUR and USD. Likewise, a significant portion of Podravka Group's borrowings is denominated in EUR. During 2021, the exchange rate of the Croatian kuna against the Euro was less volatile than in 2020, when it was under a strong influence of market conditions as a result of the pandemic caused by the COVID-19 disease, although it still remains at a higher level compared to the prior pandemic year.

During 2021, the Podravka Group continued to apply the model of managing transaction currency risk called "*Layer hedging*". This model is applied to the following basket of currencies: USD, AUD, CAD, RUB, CZK, HUF and PLN. The integral parts of the model include the identification of risk sources and exposure measurement (using the Monte Carlo method of Value at Risk simulation), process of contracting derivative financial

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instruments for hedging purposes and the control and reporting systems. Additionally, within the model, exposure limit parameters were set which are triggers for contracting the prescribed hedge levels. Using the Bloomberg terminal, macroeconomic projections are regularly monitored and derivative financial instruments for currency risk management are contracted. Also, the inflows from related companies, whenever possible, are forwarded to Podravka Inc. in the domestic currency of the country where the related company operates. This way the currency risk is largely transferred from related companies to Podravka Inc. that adjusts these cash inflows with outflows, respectively using "natural hedging" and thus reducing the overall exposure to currency risk and contracting derivative financial instruments for the remaining amount of net cash flow at central level.

During 2021, Podravka Inc. concluded *fx forward* transactions for managing exchange rate risks for AUD, CAD, USD, HUF and PLN. Due to the exchange rate regime implemented by the Croatian National Bank, derivative financial instruments were not contracted for the exposure of the Croatian kuna exchange rate against the Euro. Belupo Inc., a company within the Podravka Group, earns a significant portion of income on the Russian market and is thus exposed to changes of the RUB exchange rate. Podravka International Kft., Budapest, a company within the Podravka Group, realizes part of its outflows in Euros due to the settlement of its liabilities in the specified currency. During 2021, the company entered into *fx forward* transactions for the currency pair EUR – HUF with the aim of hedging against changes in the exchange rate of the Forint against the Euro.

INTEREST RISK

The Podravka Group continuously monitors all changes and projections of interest rates in order to promptly react, if necessary. As fixed interest rates have been contracted for the majority of the Group's debts, the Podravka Group is not significantly exposed to any interest rate risk.

CREDIT RISK AND RISK OF THE DEBT COLLECTION

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

The Podravka Group enters into business relations with creditworthy customers, securing receivables as needed, in order to reduce the risk of financial loss as a result of non-fulfilment of contractual liabilities. The exposure of the Podravka Group on the basis of incurred receivables as well as the credit ratings of other counterparties are continuously monitored.

The control of the Group's exposure to the most important customers is carried out through regular monitoring of receivables and certain measures to control the collection of payment and delivery of goods, as well as obtaining adequate security instruments.

Business cooperation with new customers begins or continues with current ones with payment deferred after all the Group's parameters for credit rating assessment have been met. Receivables are analysed on a weekly basis and necessary measures are taken regarding their collection.

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

Depending on the needs and collection status of receivables on particular markets, during 2021, the Podravka Inc. contracted insurance of receivables for a selected group of markets. The company secured receivables for the markets of the Republic of Croatia, Turkey, Qatar, Belarus, Ukraine, the United Arab Emirates, Saudi Arabia, Oman, Kuwait, Egypt, Japan and Kenya. For a certain group of markets, Podravka's related companies also insure receivables from external customers. In 2021, Belupo Inc., Podravka Ltd. Moscow, Podravka Lagris a.s., Podravka Ltd. Poland and the Žito Group secured their receivables through insurers.

During 2021, the Podravka Group did not have any significant claims related to the collection of receivables.

LIQUIDITY RISK

The Podravka Group manages liquidity risk by maintaining optimal amounts of funds on accounts, with adequate sources of financing from available credit lines, in order to more efficiently manage short-term and long-term financing requirements and ensure the necessary liquidity.

Continuous cash flow management at the level of the Podravka Group, through regular monitoring of overdue trade receivables and liabilities to suppliers, banks and other financial institutions, enables timely provision of an acceptable level of liquidity necessary for maintaining regular operations of the Podravka Group.

Cash flow planning, performed at all companies of the Podravka Group in compliance with company guidelines, the goal of which is regular settlement of all debts and harmonization of all other contractual relations, has greatly contributed to additional optimization and efficient management of the Group's liquidity.

PRICE RISK

The cost of raw materials and supplies is subject to changes in market prices and can play a significant role in the cost of finished products. Price volatility in the agri-food raw materials market is particularly evident because this market is one of the most sensitive markets in the modern world. The risk of unavailability of commodities due to increasing adverse weather conditions caused by climate change (years of drought, floods, etc.), the occurrence of disease in livestock (African swine fever), political or social unrest in some countries and the current pandemic caused by the COVID-19 disease have a significant impact on the increase of input prices.

In order to mitigate these impacts, the Podravka Group is working to develop partnerships with long-standing suppliers and at the same time develop relationships with new suppliers in the targeted EU and third-country markets. Timely contracting, consolidation of supply volumes to strengthen market positions, inventory management of raw materials and finished products,

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equal risk distribution to suppliers, optimization of material specifications, introduction of replacement raw materials and alternative supplies and active implementation of *commodity risk management* are some of the activities that have been successfully implemented for the purpose of better price trends assessment and reducing the risk of market price volatility.

CLIMATE RELATED RISK

Podravka Group operates through two main business segments, Food and Pharmaceuticals. Both business activities are not eligible according to The EU Taxonomy Climate Delegated Act, meaning both business activities doesn't have significant negative effect on climate as production processes don't emit large amounts of Greenhouse Gases). Environment protection is one of Podravka's priorities and is implemented throughout the principles of sustainable development and clean production. All of the activities have to be aligned with national legal framework regarding environment protection as well as regulations of the country in which the company operates. In case of non-existing of own legal framework, international standards apply. Podravka is obliged to rational use of best sources of energy and raw material, waste management and constant prevention of negative influence on the environment, for production and for its products and services. According to Environment Protection Policy, Podravka Group takes actions in its own environment as well, where finding integral solutions for Greenhouse Gas emission reduction is one of the goals set in the Policy. CO_2 is the only Greenhouse Gas emitted as a result of production process, while there is no other Greenhouse Gasses emission. Throughout logistic and distribution part of the business (vehicle fleet) CO_2 is emitted as well as very small amounts of CH_4 and N_2O, which is visible in the difference between total CO2 and total GHG (both data are shown in table under the section Environmental impact). Investments in vehicle fleet and purchase of new EURO VI norm vehicles resulted in 2,89% decrease in CO_2 emission in 2021 in respect to comparative period. Use of renewable energy sources is increasingly represented in the production process (wood chips boiler room and photovoltaic power plant on Kalnik factory), while trough planed capital expenditures (new photovoltaic power plant in Danica factory area), the portion of use of renewable energy on the Podravka Group level will further increase. Investments into energy efficiency upgrade of real estates and machinery result in reduction in use of energy sources and further decrease of CO_2 emission and related negative effect on climate.

Environmental impact *(criteria "E")*

Environmental criteria	Unit	2020	2021
Total GHG CO_2 emissions (scope 1)[1]	000 t	31.3	34.0
Total GHG CO_2 emissions (scope 2)[2]	000 t	22.1	23.0
Total CO_2 Emissions (scope 1)	000 t	31.2	34.0
Total CO_2 Emissions (scope 2)	000 t	22.1	23.0
Total CO_2 Emissions from chipped wood[3]	000 t	10.2	8.5
Environmental Fines (Amount)	mil. HRK	–	–
Total Energy Consumption	000 MWh	252.8	264.1
Renewable Energy Use	000 MWh	25.9	22.5
Electricity Used	000 MWh	77.2	78.5
Fuel Used – Coal/Lignite	000 t	–	–
Fuel Used – Natural Gas	000 m^3	12,653.6	13,452.8
Fuel Used – Crude Oil/Diesel	000 m^3	1.9	2.2
Self Generated Renewable Electricity	000 MWh	0.7	0.7
Total Renewables Energy Production	000 MWh	25.9	22.5
Total Power Gnerated	000 MWh	25.9	22.5
Total Waste	000 t	6.6	6.4
Hazardous Waste	000 t	0.1	0.1
Waste Recycled	000 t	2.3	2.5
Total Water Use	000 m^3	937.0	904.6
% Water Recirculated	Percentage	9.7%	9.2%
Total Water Recirculated	000 m^3	90.7	83.6
Discharges to water	000 m^3	0,0	0,0
Activities negatively affecting biodiversity-sensitive areas	Yes/No	No	No
Environment Protection Policy[4]	Yes/No	Yes	Yes

[1] For GHG scope 2 the GHG Emission Calculation Tool has been used, provided by GHG Protocol Organization (https://ghgprotocol.org/calculation-tools) / [2] Electricity distributors provide data only for CO_2 emission in production process of the electricity they distribute, data for other GHG emission and rečated emission coefficient are not available. / [3] Chipped wood is CO_2 neutral fuel and is excluded from criteria Total CO_2 Emissions (scope 1). / [4] https://www.podravka.com/responsibility/consumers/environment/environment-protection-policy/

ENVIRONMENTAL IMPACT (CRITERIA "E")

The Podravka Group continuously develops and improves processes, products and services, aiming to reduce the negative impact on the environment. The basis of all activities in the field of environmental protection is the Environmental Protection Policy, the backbone of which are guidelines for continuous improvement and reduction of all types of pollution. By implementing the Environmental Policy, the company strives to manage all resources in a responsible and productive manner.

It is increasingly difficult to rely on uncertain sources of primary raw materials – vegetables, fruits and cereals because, due to extreme climatic conditions in recent years, it is not possible to produce sufficient quantities of quality raw materials in the environment that would be safe and affordable. For this reason, certain measures have been taken to adapt to climate change, including the installation of irrigation systems on production areas, construction of a system of drainage of excess rainwater from endangered production areas, reduction of pesticides and mineral fertilizers in agricultural production, implementation of organic green fertilizers on agricultural land, minimal invasive cultivation technology and installation of meteorological sensors on agricultural areas in order to monitor climatic parameters and for timely intervention in crops.

In this context, waste is treated in accordance with legal regulations, respecting the hierarchy of waste management and following the global trend in waste management which relies on circular economy. In 2021, the amount of municipal waste produced decreased by 2% compared to the previous year, while the amount of hazardous waste produced in 2021 increased. Hazardous waste in the context of the Podravka Group refers to packaging made of chemicals, electronic waste, waste chemicals, waste lubricating oils, insulating material, fluorescent tubes and similar. The reason for the increase in hazardous waste in 2021 is the complete cleaning of the separator at the location of the Baby Food and Cream Spreads Factory for the purpose of testing the watertightness of the drainage system. Also, according to the valid legal regulations and water permits, the treatment and pre-treatment of wastewater of Podravka Inc. was performed. Also, Podravka's ETS team contributes to the timely fulfillment of legal obligations and the submission of emission allowances to the Union Registry and regularly performs service and control of the permeability of all cooling devices through authorized repairers. Regarding emissions of harmful substances into water, the Podravka Group does not have emissions of priority substances in accordance with Directive 2000/60 / EC, and the mentioned priority substances are not components of the Podravka Group Water Licenses indicator.

Furthermore, at the end of 2021, the construction of the solar power plant Podravka – Danica 1 began, which will have a connection capacity of 2.4 MW. The mentioned project applied for the Rural Development Program of Measures 4.2.2. Use of renewable energy sources and is co-financed with 50% of the total investment. The power plant will be put into permanent operation in 2022, and the projected annual production is 3,244.42 MWh. It is important to point out that photovoltaic solar power plants do not emit pollutants into the environment, unlike fossil fuel power plants, and will contribute to reducing the carbon footprint. Thanks to the solar power plant, up to 40% of the electricity consumption of the Soup and Vegeta Factory, the Baby Food Factory and the Meat Products and Cured Meat Products Factory will be from renewable sources.

ENVIRONMENTAL IMPACT (CRITERIA "E")

So far, the Podravka Group has invested significant funds in increasing energy efficiency, and thus in reducing CO_2 emissions. In 2021, 22,475.66 MWh of energy was produced from renewable energy sources, of which 721.39 MWh refers to electricity produced in the photovoltaic solar power plant at the Kalnik factory, and 21,955.95 MWh refers to energy produced in the boiler room for producing steam on biomass (wood chips). The photovoltaic solar power plant Kalnik has a total connected power of 350kW, and the produced electricity is used for own needs (519.61 MWh in 2021), while unused energy (201.78 MWh in 2021) is sold to the electricity grid.

The boiler room for the production of steam on biomass (wood chips), was put into operation in December 2017 and to this day is in continuous operation with occasional downtime due to regular maintenance and service requirements. It is equipped with all the elements for safe and reliable operation and a flue gas treatment system (electrostatic precipitator with multicyclone) that ensures the release of minimal particles into the air.

The installed capacity of the boiler plant/furnace is 3300 kW with a maximum production of five tons of steam/hour. In conditions of regular maintenance and planned downtime (cleaning) it is possible to produce 27,000 tons/year. As the needs of consumers in the industrial zone Danica are 50,000-52,000 tons/year, the difference is produced from a steam boiler fired by natural gas.

During 2021, according to the planned service request, a major service/overhaul was performed which lasted four weeks due to certain specifics (in 2020 there was no major service due to the situation caused by COVID-19) and in that period there was no steam production from wood chips, but it was produced from a gas boiler, which led to increased consumption of natural gas compared to 2020.

Wood chips belong to renewable sources of energy and CO_2 emitted during wood chip combustion has a neutral impact on the atmosphere and is not included in the calculation of direct CO_2 emissions (scope1).

In 2021, in addition to the above investments, the renovation of Podravka's office building in Koprivnica began, which includes IT and energy reconstruction and modernization that will contribute to energy efficiency and sustainability of the Podravka Group.

During 2021, investments were made in the renewal of the vehicle fleet, bearing in mind that road transport has a significant impact on climate and climate change. Procurement and exploitation of the new EURO VI standard passenger cars resulted in the emission of 2.89% less CO_2 than in the previous year. Despite the above, diesel consumption in 2021 increased compared to the comparable period because in 2021 there were significantly more deliveries of goods to customers compared to 2020, a specific year due to the situation caused by the COVID-19 disease.

By investing in new vehicles, the average consumption per vehicle has been reduced, but in 2021 significantly more kilometers were covered.

Direct CO_2 emissions (scope 1) in 2021 were 8.8% higher than in 2020 due to higher consumption of electricity and fuel caused by higher production in certain production facilities and higher volumes of deliveries and mileage of rolling stock.

ENVIRONMENTAL IMPACT (CRITERIA "E")

Higher CO_2 emissions in 2021 also result from higher consumption of natural gas in production due to the annual overhaul of the wood-fired boiler room, which did not exist in the comparable period and due to changes in calculation elements of the 2021 budget.

The statement of CO_2 emissions from gas is made according to the methodology for ETS plants, where the relevant thermal energy is calculated on the basis of data from the NIR, and not according to the actual supplied energy. For 2021, the lower calorific value for the conversion of thermal energy, and thus CO_2 emissions, is higher than that of 2020, and likewise higher than that of the actually supplied gas.

The Podravka Group will continue to invest in the development and improvement of processes, products, services and further renewal of the vehicle fleet in order to reduce the negative impact on the environment.

Corporate social responsibility *(criteria "S")*

EMPLOYEE RELATIONS

The greatest strength of the Podravka Group are its employees, and their loyalty is the foundation of the company. Therefore, in 2021, a lot of effort was invested in advancing working conditions, motivation systems, competence development, promotion and reward systems. In accordance with the Podravka Group's Strategy adopted in 2021 for the period until 2025, the same direction will be followed in terms of human capital and resource management. Through the seven key pillars of the human resources development strategy, the focus is on the transformation of the workforce through programs to retain young workers, cooperation with educational institutions and finding new sources of labour. By establishing career paths, employees will develop professionally and key positions as well as talent and successors' management programs will be accurately detected. All this will strengthen the image of a desirable employer that the companies within the Podravka Group proudly promote.

GENERAL WORKING CONDITIONS

In order to ensure the highest possible level of employee health protection and reduce health risks in the business environment to a minimum, work from home at all workplaces where business processes allow continued during 2021, due to the COVID-19 pandemic.

In order to improve the material rights of employees, the Management Board of Podravka decided to increase earnings of 3,250 employees with an investment of over HRK 21 million effected through an increase in performance for all in the tariff system, an increase in the lowest coefficients and the introduction of a monthly bonus of HRK 250. The minimal coefficients were also increased for Belupo employees.

In 2021, in accordance with the Collective Agreement of the Podravka Group, employees of Podravka and Belupo were paid an Easter bonus, holiday allowance to the maximum non-taxable amount of HRK 3,000 net and a Christmas gift for children up to 15 years of age in the amount of HRK 600. In December, a supplement in the amount of HRK 1,500 was paid as a Christmas bonus.

In accordance with its Collective Agreement, Žito paid employees holiday allowance, a Christmas bonus, a Christmas gift for children and a gift for the children starting the first grade of primary school. Lagris, on the other hand, allows its employees to take advantage of five days off during the year to address health issues and necessary medical check-ups.

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA"S")

Podravka also adopted a number of measures to improve the status and position of employees based on good business results. Thus, in April and December, additional rewards were paid in the amount of HRK 1,250 net based on the achieved business results in 2020 and 2021, respectively. The reward for good business results in 2020 was also paid to Belupo employees in April in the amount of HRK 1,250.

Although due to the unfavourable epidemiological situation it was not possible to organize the traditional gathering of pensioners and employees, all pensioners and employees who completed 30, 35 and 40 years of service at Podravka were provided with a package of Podravka's products to express gratitude to their long-time and former employees. A Christmas package was also delivered to pensioners in December.

In accordance with the epidemiological situation and measures, Žito and Lagris held open days at which the children of employees visited their parents' workplaces. Thus, an open-air meeting with Santa Claus was organized at Žito on the eve of the holidays, while Lagris hosted the employees' children within the company circle, introducing them to different parts of the company: from production facilities, the mill to the laboratory and warehouse. Žito continued to strengthen its care for the wellbeing of employees with its internal campaign "*Žitnica zdravlja* (*Granary of Health*)" promoting a healthy diet and a healthy lifestyle. As part of the campaign, a special "Health Day" was organised.

EMPLOYMENT

Podravka, Žito, Lagris and Belupo continued to employ during 2021, and the basic tools were calls to recruit on specialized employment portals and internal calls that enable employees to make progress within the company. Podravka and Belupo employed interns with secondary and higher education and part-time and full-time workers. The majority of employments was related to professional specialist positions, workers in vocational professions and management. At Lagris, employment was related to filling vacancies, and at Žito to professional specialist positions and managerial positions.

New employees at Podravka Inc. are included in the induction program "Welcome to our table" to make joining the company as easy as possible. Other companies within the Podravka Group also have their own induction programs, all for the purpose of introducing new employees to the business and the organization, as best as possible.

GENDER EQUALITY

Professional equality and equal opportunity are effective instruments that turn legislative and rhetorical solutions into actual and visible results. That is why job applications at Podravka are not gender-defined and women and men are equally employed, just as they have equal opportunities for progress and advancement merely depending on their qualifications. In the past year, 43% of women advanced their careers.

Amongst the employees of Podravka Inc., a total of 46% are women and amongst employees with higher qualifications, with a master's or doctoral degree, the share of women is as high as 61%. The share of women on the Management Board is 40%, which is already in line with the EU Strategy for Gender Equality until 2025. The percentage of women on Podravka's Management Board is higher than the Croatian average, but also higher than in almost 90% of OECD and G20 member countries. With a share of 33%, Podravka is above the Croatian average of women on Supervisory Boards.

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA"S")

Podravka, amongst other things, is continuously working to encourage young people, especially girls and women, to commit to the STEM area, cooperating with educational institutions on projects such as "Development of innovative by-products during vegetable processing." In addition, as many as 90% of Research & Development employees are women, which further makes these occupations attractive to the younger generations of women and girls.

EDUCATION

The gaining of relevant business knowledge, further development and upgrading of the necessary business skills are continuously carried out within the Podravka Group through numerous education and training programs, but also by encouraging further formal education. In addition to the professional training programs required by legal regulations, investments are also made in educational programs in accordance with the needs of particular units within the Group.

During 2021, employees were provided with education in the field of information technology, quality management, foreign languages, professional specialist and business knowledge, certain abilities and skills as well as attendance at professional gatherings, congresses and conferences.

Also, Podravka established an internal knowledge sharing program called "Podravka's Internal Academy" which allows the involvement of a larger number of interested employees to be educated in areas that meet real business needs by using internal sources of knowledge.

The total number of hours spent on employee education and training in 2021 amounted to 104,853.6, which is an increase of 5.73% compared to the comparable period. In the reporting period, the Podravka Group spent a total of HRK 3.6 million on employee education and training.

TALENT MANAGEMENT

In 2021, given the new Strategy, increased ambition to achieve better results and the need to create a balance between many years of experience and knowledge of the system and a fresh view from the outside, the *Management Assessment* program started at the level of Podravka Group, except at Belupo. This is a comprehensive standardized method for assessing managerial competencies and development needs of managers. In addition to the focus on managerial competencies, emphasis was placed on assessing the potential for growth and transformation. The assessment was performed by independent and professional partners who provided an objective and impartial view of the Group's management. More than 40 managers passed the Management Assessment, and in 2022 the program is to continue for another 60. The expected results are the identification of managers with the highest level of potential and competencies to achieve organizational goals (promotion and nomination of successors for specific positions), group and individual reports of managerial competencies assessment and preparation of the *Leadership Development* program. The benefit for each participant will be individual feedback with emphasis on insight into the development of their own managerial competencies and a plan for further development within the company.

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA"S")

SOCIAL DIALOGUE

At the level of the Podravka Group, employees participate in decision-making through their representatives on the Workers' Council and the trade union, which promote their rights and interests towards the employer, but also through institutes of employee meetings and employee representatives on the Supervisory Board of Podravka Inc.

The Workers' Council is regularly informed every three months on all issues crucial to the socio-economic position of employees and for all decisions regarding employee matters, consultations are held before such decisions are made. During 2021, a total of 22 sessions of the Workers' Council of Podravka Inc. were held and all were attended by representatives of the employer. The covered topics were of common interest for both employer and workers, and workers' representatives are thus involved in the decision-making process regarding development plans, organizational changes, annual leave plans, labour plans, working hours allocation and termination of employment contracts.

Apart from representing workers on the Workers' Council, the Podravka Group fosters social dialogue with all three trade unions operating within the Podravka Group: the PPDIV Trade Union, the Independent Trade Union of Podravka and the Workers' Union of the Podravka Group – SINPOD. In relation to the total number of employees at Podravka Inc. as of 31 December 2021, 55.7% are union members.

The company considers employee participation in decision-making extremely important because it greatly affects the company's competitiveness. Therefore, during 2021, the President of the Management Board of Podravka, together with members of the Management Board and members of the Workers' Council participated in regular employee meetings of Podravka Inc. and Belupo Inc. at several locations: the production facilities of Danica, the Soup and Vegeta Factory together with the employees of the Baby Food and Cream Spreads Factory, the seven-storey office building for all employees in the circle (Mill Factory, Savoury Snack Factory and all units located in the headquarters' physical vicinity), the Kalnik Factory in Varaždin and at Belupo Inc.

CORPORATE SOCIAL RESPONSIBILITY

Consumers, beneficiaries of products and services, but also society in general, are becoming increasingly aware and they place corporate social responsibility high on the scale when deciding who to trust and whose products and services to choose. Also, global trends call for the integration of social responsibility into corporate governance and business strategies, and increasingly legislation as well, at the national level and at the level of the European Union and the world.

The Podravka Group has been promoting social responsibility since its inception. All companies within the Podravka Group are responsible employers and active members of the communities in which they operate, and the promotion of corporate social responsibility is one of the most important principles of the Group, woven into every part of business.

During 2021, Podravka implemented a number of socially responsible initiatives and projects, many of which are just a continuation of previous

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA“S”)

longstanding engagements. Long-term cooperation refers to cooperation with the Croatian Red Cross, various humanitarian associations, cultural and artistic projects, sports clubs, children and youth organisations, as well as projects aimed at preserving the environment and those promoting excellence in various segments of society and contribute to improving the quality of life in the immediate community.

Last year, Žito continued its socially responsible activities and helping the needy. By joining forces with the organization *Anina zvezdica* and the Gorenjc application, an all-Slovene humanitarian action was organized in which a donation for as much as half a ton of Gorenjka chocolate for needy families was collected. In addition to chocolate, in December 3.5 tons of ŠUMI sweets were donated to organizations that help children and families. Throughout the year, a picnic was organized for children from the Day Care Center for Children and Youth, and a humanitarian basketball game for socially deprived children from the Galjevica kindergarten. Žito also cooperated with the Slovenian Red Cross by donating bakery products for schoolchildren from socially deprived families. Together with Lidl Slovenia, Žito supported the Slovenian Breast Cancer Association, Europa Donna Slovenija, in Pink October with a donation of EUR 6,000.

As the COVID-19 disease pandemic continued last year, the Podravka Group once again acted as a partner to the community. The Koprivnica General Hospital was donated with two AIRVO 2 devices for high oxygen flow therapy, needed for the treatment of patients during the pandemic. In Slovenia, donuts were distributed to staff in Slovenian hospitals and the organizers of the European solidarity project “New Dimension Party” during the carnival, and at the end of the year, 1000 Gorenjka chocolates were donated to staff in intensive care units of hospitals throughout Slovenia through the campaign *#niste sami*.

Due to the earthquake that hit the Sisak-Moslavina County at the end of 2020 and left long-term consequences that are still being remedied, Podravka has on several occasions in various ways helped the areas affected by the earthquake. Apart from being one of the first companies to organize help for the victims, products were donated and Podravka's culinary promoters prepared cooked meals in the first weeks in the earthquake-affected areas. Together with volunteers, Podravka donated Lino packages to the youngest who remained in the devastated and destroyed houses. And in order to repair the damaged buildings as soon as possible, members of the Podravka Voluntary Fire Brigade helped with the construction work in the Glina area and donated aid in the form of firefighting equipment. In December, during the season of giving, Podravka again visited the youngest and donated the Bubamara Kindergarten from Glina, but also helped the Croatian Red Cross prepare aid packages for their beneficiaries from the areas affected by the earthquake at the end of 2020.

In addition to helping the community through donations, the Podravka Group also takes care of the community's environment, so in 2021 projects were prepared aimed at reducing the damaging impact on the environment. Reconstruction and renovation of Podravka's office building, which began in October, will lead to a

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA"S")

higher energy class of the facility, reduce energy consumption and contribute to usability and sustainability. In 2021, the project of building Podravka's 2.4 MW solar power plant at the Danica business zone in Koprivnica began. The first phase refers to the approval of HRK 5.1 million in grants from EU funds. The construction of a solar power plant will lead to significant savings in the cost of electricity from conventional sources for the needs of Podravka's factories, but also to a positive impact on the environment by reducing CO_2 emissions. Also, Podravka's Kalnik factory was granted HRK 19.4 million from EU funds for production modernization, which will, among other things, contribute to effective environmental protection.

Belupo manages its business in accordance with the principles of sustainable development and by constantly adapting to new conditions and challenges maintains the leading position in the pharmaceutical industry. Investments in the real economy (industry, innovation and infrastructure) and job creation bring sustainable economic growth and, consequently, the sustainability of both the pension and health care systems.

Many of the projects and initiatives that took place during 2021 will continue in the coming years and the Podravka Group's operations will continue to focus on preserving the communities and environments in which the Group operates.

In 2021, the Podravka Group donated HRK 22.4 million to community granting and financing, which is an increase of more than 6% compared to the year 2020.

SUPPLY CHAIN

Supply Category Management and Supplier Relationship Management are the basic principles of the Podravka Group's supply chain.

The entire procurement range of the Group is segmented into procurement categories for which procurement strategies, initiatives and tasks for their implementation are carefully targeted. Depending on the specifics of individual procurement categories, annual, semi-annual or monthly tenders are conducted and/or bids are sought from potential partners in the global market through targeted market research and close monitoring of competition. In order to ensure transparency of the procurement processes and to increase the efficiency of the procurement function, sophisticated eProcurement tools are used, and continuous digitalization of the procurement function is one of a number of key levers for the permanent development of the Group's Procurement.

Supplier Relationship Management is of strategic importance for the Podravka Group. Segmentation and a differentiated approach to suppliers with regard to their contribution to creating added value for the company, significantly contributes to business success. Creating partnerships with key suppliers is one of the main goals of the supply chain because partnership ensures security of supply, better use of resources and reduced operating costs, which ultimately leads to increased competitiveness of the company. During 2021, the focus was placed on local suppliers and suppliers with whom the company nurtures good partner relations, which in a situation of significant disruptions in the agri-food market, especially in the context of the COVID-19 pandemic and global supply chain disruption, offers security of prompt product delivery in both the required quantity and contracted quality.

In 2021, the Podravka Group traded with 10,106 suppliers from 64 countries worldwide. Respecting the high quality standards of input raw materials and supplies and the required level of technical and technological equipment of the approved suppliers, the Podravka Group conducts business with direct manufacturers, primary producers, small crafts, family farms, veterans' associations, subcontractors, distributors, wholesalers and large multinational companies.

CERTIFICATION OF THE MANAGEMENT SYSTEM

Quality assurance, ensuring the needs of consumers and product innovation are the main guiding principles of Podravka Group's product placement. In order to enable all this, the Podravka Group invests in quality control in each segment of the production process and seeks additional confirmation from third parties. Thus, during 2021, external audits conducted by authorized certification companies and organizations confirmed the compliance of Podravka Group products with the following international standards:

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA"S")

Item no.	Standard	Locations	Authorised Authority
1	ISO 9001:2015 Quality management system	1) Podravka Inc.	Certification authority SGS
		2) Žito Ltd., Šumi bonboni Ltd., Sales segment of Podravka Ltd., Ljubljana	SIQ_ Slovene Institute for Quality
		3) Belupo Inc.	Certification authority SGS
2	HACCP according to Codex Alimentarius	1) Podravka Inc. 2) Mirna Inc.	Certifikacijska kuća SGS
3	IFS Food, Version 6.1 International Featured Standards - Food	1) Podravka Inc., Soup & Vegeta Factory 2) Podravka Inc., Baby Food & Cream Spreads Factory 3) Podravka Inc., Production of semi-finished and ready meals 4) Podravka Inc., Kalnik Factory	Certification authority SGS
		5) Mirna Inc., Rovinj	Certification authority SGS
		6) Žito Ltd. - PC Žito, Ljubljana 7) Žito Ltd. - PC Gorenjka 8) Žito Ltd. - PC Bread and Pastry 9) Žito Ltd. - PC Bakery Vrhnika 10) Žito Ltd. - PC Dolenjska Bakeries 11) Žito Ltd. - PC Gradišče 12) Žito Ltd. - Gluten-free Bakery Trbovlje 13) Šumi bonboni Ltd., Krško	QA – Quality Austria
3a	IFS Food, Version 7 International Featured Standards - Food	14) Podravka Inc., Production Danica	Certification authority SGS
		15) Žito Ltd. - Bakery Vič	QA – Quality Austria
		16) Podravka – Lagris a.s.	TÜV SÜD
4	BRC, Issue 8 (British Retail Consortium) Global Standard for Food Safety	1) Podravka Inc., Soup & Vegeta Factory 2) Podravka Inc., Baby Food & Cream Spreads Factory	Certification authority SGS
5	HALAL	1) Podravka Inc., Production Danica 2) Podravka Inc., Soup & Vegeta Factory 3) Podravka Inc., Baby Food & Cream Spreads Factory 4) Podravka Inc., Factory Kalnik 5) Podravka Inc., Fruit Factory 6) Podravka Inc., Savoury Snacks Factory	Halal Quality Certification Centre
		7) Mirna Inc., Rovinj	Halal Quality Certification Centre
		8) ŠUMI bonboni Ltd., Krško	Islam Association in Slovenia

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA“S”)

Item no.	Standard	Locations	Authorised Authority
6	KOSHER	1) Podravka Inc., Kalnik Factory 2) Podravka Inc., Soups & Vegeta Factory 3) Podravka Inc., Fruit Factory 4) Podravka Inc., Savoury Snacks Factory 5) Podravka Inc., Mill	Rabin Kotel Da-Don
		6) Žito Ltd., Bakery Šmartinska	K MESHULASH /TRIANGEL K INC. NY, USA
7	BIO * list of BIO products is available on certificates	1) Podravka Inc.	Bio Garantie
		2) Žito Ltd. and Podravka Ltd., Ljubljana	Institute KON-CERT Maribor
		3) Podravka – Lagris a.s.	A.B. CERT
8	AOECS The AOECS Standard for Gluten-Free Foods	1) Podravka Inc., Savoury Snacks Factory	Certification authority SGS
		2) Podravka – Lagris a.s.	
9	VEGAN European Vegetarian label * list of products is available on certificates	1) Podravka Inc., Factory Kalnik 2) Podravka Inc., Savoury Snacks Factory 3) Podravka Inc., Soups and Vegeta Factory 4) Podravka Inc., Production Danica	Udruga Prijatelji životinja (*Friends of Animals Association*)
		5) Žito Ltd.	Institute Padma
10	RSPO Supply Chain Certification Standard	1) Podravka Inc., Soup & Vegeta Factory 2) Podravka Inc., Baby Food & Cream Spreads Factory	Certification authority SGS
		3) Žito Ltd. - Frozen Foods and Toast 4) Žito Ltd. - PC Gorenjka - Biscuits 5) ŠUMI bonboni Ltd., Krško	BV – Bureau Veritas
11	UTZ	1) ŠUMI bonboni Ltd., Krško 2) Žito Ltd. - PC Gorenjka 3) Žito Ltd. - PC Kruh pecivo	BV – Bureau Veritas
12	ISO 27001:2013 Information safety management system	Podravka Inc.	Certification authority SGS
13	ISO 45001:2018 Occupational health and health management system	Podravka Inc., Koprivnica Soups & Vegeta Factory	Certification authority SGS
14	ISO 13485:2016 Quality management system for medical products	Belupo Inc.	Certification authority SGS

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA "S")

PRECAUTIONARY APPROACH

By applying the concept of risk-based thinking through an integrated management system in all components of the Podravka Group, a culture of proactive, preventive action is established, thus resulting in an improved system of company management. The Podravka Group applies a precautionary approach to protect the health of its employees and people in general, by eliminating potential dangers of real and irreparable damage to human health.

Therefore, Podravka refers employees working under special working conditions to regular medical examinations at occupational medicine clinics. Employees are able to exercise the right to use the Supplementary Health Insurance Program, which includes preventive medical examinations once a year and curative care as needed.

High standards of the food safety and quality management system are continuously implemented and improved by ensuring the production of high quality and safe products for consumption to all consumers throughout the chain: from the procurement of the highest quality raw materials to the distribution of finished products to consumers. We are working to raise awareness of the food safety culture at all levels of the company by raising awareness and educating employees, suppliers, service providers and other stakeholders.

New products are being developed for both the benefit of human health and quality of life, in terms of ingredient quality, packaging, price and environmental impact, as well as nutritionally balanced products aimed at human health and enriched with positive nutrients (vitamins, minerals, dietary fiber, probiotics), and for specific groups (infants, young children). At the same time, the existing products are being reformulated, especially in terms of replacing or reducing negative nutrients (salt, sugar, fats), and this is communicated to the consumer through clearer nutritional labelling. Education on proper and balanced nutrition takes place internally for our employees and externally for all age groups and social and educational structures.

The company also applies a precautionary approach to reduce and avoid negative environmental impacts. Thus, the by-products of processing are extensively used and investments are made in new, "green" food processing technologies (ecological treatment of raw materials with nitrogen, reduction of harmful emissions, reduction of waste, reduction of water consumption, efficient use of resources). It increases the capacity of own technological resources by developing innovative products and investing in new technologies, and continuously improves efficient waste management by reducing the dissipation of supplies and raw materials, streamlining the use of consumables and educating employees.

For many years, Belupo has been applying the precautionary approach as a set of appropriate activities and measures aimed at preventing environmental hazards and preventing damage and pollution. In the implementation of these activities, the company pays special attention to preserving, protecting and improving the quality of the environment, protecting human health and prudent and rational use of natural resources. As part of its business, Belupo economically uses and manages environmental components, taking into account the possibilities of reusing natural and material goods and preventing environmental pollution, possible damage to the environment and avoiding waste, as much as possible. Great attention is paid to emission limit values, environmental quality standards, rules

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA“S”)

of conduct and other environmental protection measures defined by regulations and relevant acts. Every action on the environment is carefully planned and executed in such a way as to cause the least possible burden on the environment, while taking into account the rational use of natural resources and energy. In order to avoid risks and dangers to the environment, Belupo applies all established preventive environmental protection measures when planning and carrying out interventions, which includes the use of good practice, as well as the use of products, equipment and devices and the application of production procedures and maintenance systems of projected plant parameters that are best for the environment. The company applies the best available techniques and a world-renowned plant maintenance system to prevent and protect the environment.

Since 2019, Žito has been a signatory of bakery commitments that oblige producers to reduce the salt content in bread by 5% by 2022 through innovative approaches, the search for new formulas and other solutions. Therefore, in 2021, Žito will continue to carry out activities in order to fulfill all its commitments, including increasing the use of whole grain ingredients in bakery products.

Where applicable, Žito for certain segments uses RSPO certified palm fat and UTZ cocoa raw materials (in the new *Rain Forest Alliance system*) which are linked to sustainable production of these raw materials. The minimization of the amount of product packaging is actively carried out: reduction of thickness/weight, adjustment of shape and size of packaging, without compromising the quality and safety of the product. The draft guidelines for sustainable packaging are taken into account when choosing new packaging and looking for new suppliers wherever possible, and in 2021 a returnable packaging system for frozen products was introduced for some retailers and solutions are sought for an even wider use. The amount of generated waste is relatively reduced compared to production, and in the area of reducing the amount of food waste careful waste control in both production and logistics is actively exercised.

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA"S")

Social criteria	Unit	2020	2021
Employee Protection / Whistle Blower Policy[1]	Yes/No	Yes	Yes
Community spending[2]	mil. HRK	21.1	22.4
Political donations	mil. HRK	0,0	0,0
Human Rights Policy[1]	Yes/No	Yes	Yes
Policy Against Child Labor[1]	Yes/No	Yes	Yes
Quality Assurance and Recall Policy[3]	Yes/No	Yes	Yes
Equal Opportunity Policy[1]	Yes/No	Yes	Yes
Fair Remuneration Policy[1]	Yes/No	Yes	Yes
Business Ethics Policy[1]	Yes/No	Yes	Yes
Anti-Bribery Ethics Policy[1]	Yes/No	Yes	Yes
Ocupational Health and Safety Policy[4]	Yes/No	Yes	Yes
Remuneration policy[5]	Yes/No	No	Yes
UN Global Compact Signatory[6]	Yes/No	No	No
Total number of employees as at 31.12.2021	Number	6,650	6,557
Number of woman employed as at 31.12.2021	Number	3,481	3,437
Employee Average Age as at 31.12.2021	Number	45.0	46.1
% Disabled in Workforce as at 31.12.2021	Percentage	3.1%	3.9%
Unadjusted Gender Pay Gap[7]	Percentage	3.2%	2.2%
Lost working hours due to work-related injuries	Number of hours	20,611.0	32,795.0
Number of work-related injuries	Number	103	101
Rate of fatalities as a result of work-related injuries	Number	0	0
Rate of work-related injuries that resulted with lost working hours	Number	10.8	9.9
Rate of recordable work-related injuries	Number	11.4	12.7
Rate of high-consequence work-related injuries	Number	1.0	1.3
Employee Turnover %	Percentage	6.3%	6.8%
% Employees Unionized	Percentage	40.9%	40.5%
Number of Part-Time Employees	Number	62	70
Number of Temporary Employees	Number	71	135
Number of Contractors	Number	616	649
Training Policy	Yes/No	Yes	Yes
Employee Training Cost	mil. HRK	3.9	3.6
Total Hours Spent by Firm – Employee Training	Broj sati	99,174.0	104,853.6
Total number of suppliers as at 31.12.2021	Number	10,008	10,106
Total number of domestic suppliers[8]	Number	6,215	6,133
Quarterly earnings calls	Yes/No	No	No

[1] Included in Podravka Group's Code of Ethical Principles (in Croatian), available on https://www.podravka.com/investors/corporate-governance/documents/.. / [2] Difference in 2020 data in relation to data published in Annual Report for 2020 is due to a different data scope which now, beside donations, include include sponsorships.. / [3] Available on https://www.podravka.com/responsibility/food-quality-and-safety/food-safety/food-safety-and-quality-system-policy/. / [4] Available in General Assembly Resolutiona 2021 at https://www.podravka.com/investors/corporate-governance/the-general-assembly/. / [5] Implemented in Podravka inc. and available on https://www.podravka.hr/kompanija/odgovornost/politika-ohs/ (in Croatian).. / [6] Podravka Group is not an official signatory of the initiative but supports the initiative by implementation of all 10 UN Global Compact principles into business principles, codeces and bylaws.. / [7] Calculation is based on realized working hours in a way that average hourly wage for women employees has been calculatds as well as average hourly wage for men employees (hourly wage include total taxable and non-taxable employee benefits, severance payments are excluded) which are devided by total number of working hours paid by employer.. / [8] Difference in 2020 data in relation to data published in Annual Report for 2020 is due to a methodology change. In Annual Report for 2020 only suppliers from Croatia have been included, while now all suppliers, where Podravka Group is localy present with production, are included.

Corporate governance (criteria "G")

Governance criteria	Unit	2020	2021
Size of Audit Committee	Number	3	3
Audit Committee meetings in 2021	Number	7	8
Audit Committee independence	Percentage	100.0%	100.0%
Years Auditor Employed[1]	Number of years	1	1
Big 4 auditor	Yes/No	Yes	Yes
Internal Audit	Yes/No	Yes	Yes
Management Board Size as at 31.12.2021	Number	5	5
Management Board Age Range as at 31.12.2021	Number	46–56	47–57
Management Board Average Age as at 31.12.2021	Number	50	52
% of Board Members that are Women	Percentage	20.0%	40.0%
Former CEO or its Equivalent in Supervisory Board	Yes/No	No	No
Chief Executive Officer Tenure as at 31.12.2021	Number of years	3	1
Chief Financial Officer Tenure as at 31.12.2021	Number of years	3	4
Last Chief Executive Officer Start Date	Date	02/24/17	02/04/21
Last Chief Financial Officer Start Date[2]	Date	05/01/17	5/01/17
Number of Bord meetings in 2021	Number	40	57
Bord meeting attendance	Percentage	99.0%	99.3%
Average Supervisory Board Tenure as at 31.12.2021	Number of years	5	5
Supervisory Board diversity as at 31.12.2021	Number of women/ men	4 women and 5 men	3 women and 6 men
Supervisory Board independence[3]	Percentage	88.9%	88.9%
Number of Supervisory Bord meetings in 2021	Number	12	13
Supervisory Bord meeting attendance	Percentage	58.3%	76.9%
Number of Executives as at 31.12.2021	Number	99	94
Number of Women Executive as at 31.12.2021	Number	37	38
Average Executive Age as at 31.12.2021	Number	48	48
Executive Age Range as at 31.12.2021	Broj	31–65	32–66
Dual Class Unequal Voting Rights – Common Shares	Yes/No	No	No
Unequal Voting Rights Stocks Issued Includes Pfd	Yes/No	No	No
Number of Board Positions CEO Holds	Number	0	0

[1] According to Audit Committee recomendation, Supervisory Board propose a decision on Auditor appointment for the current business year and pass the proposal to General Assembly to be accepted. / [2] Podravka Inc. Management bord has 5 years tenure. / [3] Supervisory Bord member is also the representative of workers therefore is not considered as an independent member.

CORPORATE GOVERNANCE (CRITERIA“G”)

EXTERNAL INITIATIVES OF THE PODRAVKA GROUP

EXTERNAL INITIATIVES

In order to operate prudently, successfully and in a socially acceptable manner, the companies within the Podravka Group have joined and supported various initiatives that contribute to the desired position of the Podravka Group.

Podravka Inc. is committed to the following external initiatives:

- Corporate Governance Codex of the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange
- Code of Ethics in Business of the Croatian Chamber of Commerce (HGK)
- Biotechnical Foundation of the Faculty of Food Technology and Biotechnology
- Foundation of the Croatian Chamber of Commerce of the County Chamber of Koprivnica for student scholarships
- Croatian Diversity Charter.

Podravka Inc. also supports the following voluntary external initiatives:

- OECD corporate governance guidelines
- The United Nations Global Compact, which represents the world's largest business initiative for corporate social responsibility and sustainable development
  - Podravka has integrated all 10 principles of the Global Compact into its business / codes / regulations and continues to fully support the 10 principles throughout its entire business, i.e. all its business activities.
- GFSI (Global Food Safety Initiative), founded by CIES – The Food Business Forum. Its main goal is to improve the food safety system in order to ensure consumer trust in the delivery of safe food that it achieves by issuing guidelines and criteria for GFSI recognized certification schemes IFS, BRC, SQF, GLOBALG.A.P., FSSC 22000 and others.
  - Podravka supports GFSI guidelines and criteria by being certified according to GFSI recognized food safety standards, IFS and BRC and through established company policies: Supply Chain Security Policy and Food Safety and Quality System Policy.
- Continuous strengthening of awareness on food safety culture by raising awareness of all stakeholders in the food supply chain by participating in conferences and gatherings organized by the Croatian Chamber of Commerce
- Food without GMO.

Belupo Inc. is committed to the following external initiatives:

- Code of Ethics of the HUP (CEA, Croatian Employers' Association) – Pharmaceutical Industry Association
- Code of Conduct of the European Generic Medicines Association (EGA) in interaction with the health community
- Foundation of the Croatian Chamber of Commerce of the County Chamber of Koprivnica for student scholarships
- Section of the Community for Environmental Protection in the County Chamber of Koprivnica.

ŽITO Ltd. is committed to the following external initiatives:

- Responsibilities of the Slovenian Bakery Sector for a 5% reduction of salt in bread by the end of 2022 and for increasing the content of wholegrain ingredients in bakery products.

CORPORATE GOVERNANCE

In compliance with the main purpose of the Podravka Group business relating to ensuring sustainable business growth and the growth of value for the shareholders, the Management Board and the Supervisory Board of Podravka Inc. act in

CORPORATE GOVERNANCE (CRITERIA“G”)

accordance with the principles of corporate governance.

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

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

Key principles of corporate governance that Podravka Inc. applies are as follows:
- business transparency;
- clearly defined procedures for the work of the Management Board, the Supervisory Board and its Committees and the General Assembly;
- avoiding conflict of interest;
- efficient internal control and
- efficient system of responsibility.

Podravka Inc. and all its related companies at home and abroad adhere to ethical principles and the principles of modern corporate governance.

In order to improve the quality of the corporate governance system, Podravka Inc. has also adopted a *Conflict of Interest Management Policy* which establishes mechanisms for early identification of possible conflicts of interest, prevention of their occurrence, measures to be taken in order to eliminate its consequences and for general prevention in the event of a conflict of interest.

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

Podravka Inc. continuously promotes the policy of diversity and non-discrimination. Employee diversity is one of the strengths of Podravka Inc. and all employees are equal, and any form of discrimination and harassment of employees based on bias or prejudice, such as discrimination on the basis of race or ethnicity or the colour of skin, gender, language, religion, political or other beliefs, national or social origin, property status, union membership, education, social status, marital or family status, age, health status, disability, genetic heritage, gender identity, expression or sexual orientation and any other characteristics protected by applicable regulations, is strictly forbidden.

Podravka Inc. promotes equality among all employees, and provides the same opportunity for employment, education, promotion and rewarding for all its employees.

In accordance with such policy, Podravka Inc. is a signatory to the *Croatian Diversity Charter.*

The Code of Ethics strictly prohibits corruption, bribery, extortion and any similar conduct.

Every employee has the right to inform in writing Human Resources and/or Legal Affairs about

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possible or committed violations or non-compliance with the Code of Ethics, which prescribes protection of employees who report violations of the Code of Ethics and prohibits sanctions or discrimination in future work.

The Code of Business Ethics of the PODRAVKA Group can be found at the link *https://www.podravka.hr/kompanija/investitori/korporativno-upravljanje/dokumenti/*.

The Annual Consolidated Financial Statements of the Company and the Annual Report on the State of the Company are submitted as a single annual report of the Podravka Group, which includes the related companies of Podravke Inc.

Podravka Inc. completes two questionnaires once a year: one stating whether it has complied with the provisions of the Corporate Governance Code and from which provisions has it deviated stating the reasons (Compliance Questionnaire) and the other providing detailed information on its corporate governance practices (Questionnaire on Corporate Governance Practices). Both questionnaires are submitted to HANFA, and the Compliance Questionnaire is published on the Zagreb Stock Exchange and Podravka's website at the link *https://www.podravka.hr/kompanija/investitori/korporativno-upravljanje/dokumenti/*.

GENERAL ASSEMBLY

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

The General Assembly can pass valid resolutions if it is represented by at least 30% (thirty percent) of the total number of shares with voting rights. The General Assembly is chaired by the president appointed by the Supervisory Board, at the proposition of the Management Board.

Shareholders, proxies and authorized persons of shareholders get the right to vote at the General Assembly meeting using voting ballots marked with the number of votes belonging to an individual General Assembly participant. All the materials related to the calling and holding of the General Assembly meeting are available on the website of Podravka Inc. at the link: *https://www.podravka.hr/kompanija/investitori/korporativno-upravljanje/glavna-skupstina/*.

MANAGEMENT SYSTEMS

BRAND MANAGEMENT

Business conditions in most markets in which the Podravka Group operates are extremely challenging due to local, regional and global competition, but also because of the risk of a drop in spending power, strengthening of customer power and new market and consumer trends that are emerging in the environment. During 2021, the pandemic caused by the COVID-19 disease had an additional, most significant impact by continuously changing consumer behaviour and steering their shopping habits. In a situation where consumer demand is driven by external factors and security issues it is extremely price sensitive, and at the same time demanding in terms of product functionality, the success of recognizable brand-oriented companies is largely dependent on their capacity to be innovative, differentiating and at the same time price relevant.

Consumer habits, tastes and preferences are constantly changing, so the Podravka Group is

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continuously faced with the need to promptly identify and anticipate them in order to adapt its products and brands, accordingly. As a result, the Podravka Group is persistently designing and developing innovative solutions in line with the expectations of its consumers and clients, as it is one of the most important factors in the realization of sales plans and overall business results.

Through continuous innovation within the current product range, as well as the launch of new categories and product groups, the Podravka Group has confirmed that it is the leader in setting food trends in Croatia and beyond.

BUSINESS SEGMENT MANAGEMENT

As a company that sees the achievement of its goals through both organic and inorganic business growth, an optimal selection of the strategic segments of product categories, markets and sales channels has a significant impact on the opportunities for that growth. For that reason, the Podravka Group pays great attention to the evaluation and decision-making regarding strategic investments and considering the opportunities that can potentially contribute to realising added value for investors. In addition, special attention is paid to monitoring and analysing the segments and markets that are estimated not to have long-term potentials for realizing the desired business results. Through acquisition activities, expansion of operations onto new markets and the development of new products, the Podravka Group additionally internationalises its operations and diversifies its product portfolio, and thereby significantly reduces any risk of dependence on a particular product, market or business partner.

CLIENT RELATIONS MANAGEMENT

The Podravka Group is aware of the utmost importance of developing and maintaining relationships with its clients in order to secure the desired position of products at points of sale in markets around the world.

With its marketing strategies, innovations, point-of-sales activities and plans aimed at strengthening brand recognition, the Podravka Group acts on the intensity of product demand and thus on negotiating positions in defining the terms of business with clients.

In addition, the Podravka Group makes efforts to ensure the best preconditions for further successful long-term growth and to avoid the erosion of profit margins by optimising the existing pricing policies and price levels in current markets.

HUMAN CAPITAL RISK MANAGEMENT

The foundation of the success of the Podravka Group and the characteristics of its employees are business ethics and excellence, dedication to achieving goals and work, additional effort and devotion, daily commitment, growth and development. Respect and trust, as well as teamwork based on dialogue and transparency in work, are encouraged and supported and therefore form a solid foundation for continuous progress.

Through a series of proactive measures, the Podravka Group creates an environment in which employees are deeply engaged and entirely loyal. Companies recognize and reward individuals who achieve excellent results, show exceptional effort and encourage innovation and efficiency.

A new Human Resources strategy has been defined, with some of the main pillars being Workforce transformation and renewal and Professional development and new career options.

In addition to the above, the Podravka Group uses a number of other proactive measures and controls to minimize potential risks.

CORPORATE GOVERNANCE (CRITERIA "G")

QUALITY ASSURANCE AND FOOD SAFETY MANAGEMENT SYSTEM

The quality and safety of Podravka Group's products are of priceless value for preserving the reputation of its brands, as well as the company in general. The high quality of products is guaranteed by top-quality raw materials, modern technological processes and knowledge applied in their production.

At the time of the current pandemic, Podravka further confirmed that investing in improving the food safety system is an imperative and the only right direction in which the company should follow because the food safety system has proven to be one of the key tools to reduce exposure to COVID-19.

The Podravka Group takes special care of the health and nutritional needs of its consumers, convenience in consumption and safety of its products. Therefore, special attention is paid to defining and implementing activities that are based on the assessment of critical areas in the supply chain and production in order to protect products from contamination and counterfeiting.

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

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

The entire business is supported by the certified Information Security Management System (ISO/IEC 27001:2013), according to which the company is committed to continuously improve the protection of Podravka's information system, which ensures continuity of all company operations.

The improvement of the company's current management system is also contributed by the certified Occupational Health and Safety Management System according to ISO 45001:2018 at corporate level and for the Soup and Vegeta Factory, which is also the basis for further development and implementation of the system in other organizational units.

INFORMATION SECURITY SYSTEM

Due to the digital transformation of business in the last few years, an exponential growth of cyber-attacks has been detected. In almost all relevant reports, the risk of cyberattacks is placed at the forefront of business interruptions in the corporate environment.

In line with trends and real threats, the security of the information system is one of the key foundations of business continuity because any incident in this segment has the potential of inflicting considerable financial damage caused by the interruption of business processes in the long run.

During 2021, due to the continued SARS-COV-2 virus pandemic, work from home (remote workplace) has become the "new normal" for most employees working in jobs where this is possible. In order to support the increased demands of work from home, adequate capacities of the information system have been activated, and the corresponding set of documents referring to policies and work instructions had been defined and adequately communicated to all users of Podravka's information system. The occurrence of a series of *phishing* emails with Covid-19

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topics was detected and users were alerted by warning posts on both the intranet and in emails.

A strong cycle of investments in advanced information system protection tools such as network traffic analyzer, automated PEN test tool and network segmentation has begun.

Despite all these challenges caused by the SARS-COV-2 virus pandemic, thanks to the intensified efforts of the Corporate and Information Security and Informatics sectors, there were no significant security incidents that would cause unavailability of the information system and consequently affect the company's business continuity.

Report on disclosure obligations set out *by the EU Taxonomy Regulation*

In 2015, the Paris Agreement was signed, the first global climate agreement that is binding on all signatory states. The main objective of the Agreement is to keep the global average temperature at 2°C above pre-industrial levels and to make additional efforts to bring the global average temperature rise down to 1.5°C above pre-industrial levels. The European Union has drawn up a “Green Plan” which defines the goal of reducing CO_2 emissions by 55% by 2030 and achieving a climate-neutral Union by 2050. In order to achieve these climate goals, the European Union has established regulatory framework for sustainable finance in which the EU Taxonomy Regulation and Regulation on the establishment of a framework to facilitate sustainable investment play a key role.

The EU Taxonomy Regulation establishes 6 environmental objectives:

1. Climate change mitigation;
2. Climate change adaptation;
3. Sustainable use and protection of water and marine resources;
4. Transition to a circular economy;
5. Pollution prevention and control;
6. Protection and restoration of biodiversity and ecosystems.

The Report on Key Performance Indicators (KPIS) is being compiled for the first time across the European Union and in the first year of reporting covers the first two environmental objectives: climate change mitigation and climate change adaptation, which means the focus is on greenhouse gas emissions, primarily CO_2. Article 8 of the EU Taxonomy Regulation requires non-financial undertakings to disclose information on the proportion of the turnover, capital expenditure and operating expenditure (“key performance indicators” or “KPI”) of their activities related to assets or processes associated with environmentally sustainable activities. Hereafter is the elaboration of key pefrormance indicators for Podravka Group for 2021 in accordance with The EU Taxonomy Climate Delegated Act and The Delegated Act on Disclosure Obligation.

1. KEY PERFORMANCE INDICATOR: REVENUE (KPI REVENUE)

The Podravka Group generates revenues from two business segments (Food and Pharmaceuticals), i.e. from two main activities: food production and production of pharmaceutical products.

The Report on disclosure obligations set out by the EU Taxonomy Regulation is based on activities

REPORT ON DISCLOSURE OBLIGATIONS SET OUT BY THE EU TAXONOMY REGULATION

according to the NACE[1] classification. The analysis of external revenues of the Podravka Group generated in 2021, has established that revenues in the reporting period were generated from the following activities:

- Agriculture (section A),
- Production (section C),
- Electricity supply (section D),
- Wholesale and retail (section G),
- Accommodation and serving of food (section I),
- Administrative and support service activities (section N),

The list of activities from which sales revenues were generated in 2021, together with the corresponding NACE codes is shown in the table below.

Section	NACE code	Name of activity
A – Agriculture, forestry and fishing	01.11	Growing of cereals (except rice), leguminous crops and oil seeds
C – Manufacturing	10.11	Processing and preserving meat
	10.13	Production of meat and poultry meat products
	10.20	Processing and preserving of fish, crustaceans and molluscs
	10.39	Other processing and preserving of fruit and vegetables
	10.61	Manufacture of grain mill products
	10.62	Manufacture of starches and starch products
	10.71	Manufacture of bread; manufacture of fresh pastry goods and cakes
	10.72	Manufacture of rusks and biscuits; manufacture of preserved pastry goods and cakes
	10.73	Manufacture of macaroni, noodles, couscous and similar farinaceous products
	10.82	Manufacture of cocoa, chocolate and sugar confectionery
	10.83	Processing of tea and coffee
	10.84	Manufacture of condiments and seasonings
	10.85	Manufacture of prepared meals and dishes
	10.86	Manufacture of homogenised food preparations and dietetic food
	10.89	Manufacture of other food products n.e.c.
	21.20	Manufacture of pharmaceutical preparations
D – Electricity, gas, steam and air conditioning supply	35.11	Electric power generation by solar photovoltaic technology

1 The NACE classification is an abbreviated name for the classification of EU economic activities derived from the French name *Nomenclature statistique des activités économiques*. It sets out the classification of economic activities to be used in the EU to ensure the comparability of the statistics collected.

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Section	NACE code	Name of activity
G – Wholesale and retail trade; repair of motor vehicles and motorcycles	46.32	Wholesale of meat and meat products
	46.36	Wholesale of sugar and chocolate and sugar confectionery
	46.37	Wholesale of coffee, tea, cocoa and spices
	46.38	Wholesale of other food, including fish, crustaceans and molluscs
	46.90	Non-specialised wholesale
	47.11	Retail sale in non-specialised stores with food, beverages or tobacco predominating
	46.46	Wholesale of pharmaceutical goods
	47.73	Pharmacies
I – Accommodation and food service activities	56.10	Restaurants and mobile food service activities
	56.21	Event catering activities
N – Administrative and support service activities	73.12	Media representation
	77.40	Leasing of intellectual property and similar products, except copyrighted works
	74.90	Other professional, scientific and technical activities n.e.c.
	82.92	Packaging activities

All these activities, except for the production of electricity by solar photovoltaic technology, in accordance with EU Taxonomy Regulation are considered *taxonomically unacceptable activities*, which means that their actions cannot significantly contribute to reducing CO_2 emissions and thus greatly contribute to achieving the first two environmental goals: climate change mitigation and adaptation to climate change.

The activity of electricity generation by solar photovoltaic technology (NACE code 35.11) is a taxonomically acceptable activity, but it is not the primary activity of the Podravka Group. The mentioned activity is related to the production of electricity from the solar power plant that the Podravka Group has at the Kalnik Factory. The electricity produced by the solar power plant is used for its own needs, and only the produced surplus is sold to the electricity grid and on that basis revenues are generated. In 2021, revenues from the activity of electricity production by solar photovoltaic technology amounted to HRK 84,775.0, which is not a materially significant amount compared to the total sales revenues[1] of the Podravka Group in the reporting period in the amount of HRK 4,631.5 million.

It follows from all the above that the *Key performance indicator Revenues* (KPI *Revenues*) for the Podravka Group in 2021 is 0.0%.

2. KEY PERFORMANCE INDICATOR: CAPEX (KPI CAPEX)

Capital investments (capital expenditures) at the level of the Podravka Group include investments that resulted in an increase in long-term tangible and intangible assets in the reporting

1 Sales revenues are explained in the Business results page 53.

REPORT ON DISCLOSURE OBLIGATIONS SET OUT BY THE EU TAXONOMY REGULATION

period, as a result of invoiced and advanced amounts under a certain item in the minimum amount of HRK 3,500.0.

Criteria for selecting capital expenditures that can be linked to environmentally sustainable activities are energy efficiency and investment in renewable energy sources. Given that energy consumption is the basis for calculating CO_2 emissions, it is assumed that any capital expenditure that results in reduced energy consumption, i.e. energy efficiency and investment in renewable energy sources, results in reduced CO_2 emissions and consequently contributes to the first two goals defined in the EU Taxonomy Regulation: climate change mitigation and adaptation to climate change.

The total amount of capital expenditures[1] for the Podravka Group in 2021 amounted to HRK 170.3 million, and the increase in right-of-use assets (IAS 16) amounted to HRK 37.1 million, which is the denominator for the calculation of the KPI CAPEX in the amount of HRK 207.4 million.

In the KPI CAPEX, the goal of climate change mitigation includes investments that have met the above-mentioned criteria, while capital expenditures related to the goal of climate change adaptation relate to capital expenditures in air conditioning.

The analysis of capital expenditures by activities is shown in the table below. The table contains the item "CAPEX not allocated by activities", which includes capital expenditures that are not uniquely allocated to a particular activity but are capital expenditures that cover several different activities (capital expenditures in the field of ecology, energy, maintenance, quality control).

1 The data is available in the Consolidated Statement of Cash Flows in chapter 12. Consolidated Financial Statements, while the list of the most significant capital investments in 2021 is given on page 68.

NACE code	Name of activity	Climate change mitigation	Adaptation to climate change
10.13	Production of meat and poultry meat products	0.9	0.0
10.20	Processing and preserving of fish, crustaceans and molluscs	2.3	0.0
10.39	Other processing and preserving of fruit and vegetables	26.0	0.0
10.61	Manufacture of grain mill products	4.0	0.0
10.71	Manufacture of bread; manufacture of fresh pastry goods and cakes	1.6	0.1
10.72	Manufacture of rusks and biscuits; preserved pastry goods and cakes	0.5	0.0
10.82	Manufacture of cocoa, chocolate and sugar confectionery	0.2	0.0
10.84	Manufacture of condiments and seasonings	0.2	0.0
10.89	Manufacture of other food products n.e.c.	0.2	0.0
21.20	Manufacture of pharmaceutical preparations	6.0	0.0
47.73	Pharmacies	0.0	0.0
56.10	Restaurants and mobile food service activities	2.0	0.0
–	CAPEX not allocated per activities	9.9	0.1
In millions HRK	Total	53.9	0.3

REPORT ON DISCLOSURE OBLIGATIONS SET OUT BY THE EU TAXONOMY REGULATION

The KPI CAPEX calculation is shown in the table below:

in millions of HRK	Climate change mitigation	Adaptation to climate change
Capital expenditures that can be linked to environmentally sustainable activities	53.9	0.3
Total capital expenditure	170.3	170.3
Right-to-use assets*	37.1	37.1
KPI CAPEX	26.0%	0.1%

*Increase in the position of Long-term assets with the right-to-use compared to 2020.

3. KEY PERFORMANCE INDICATOR: OPERATING EXPENSES (KPI OPEX)

According to the regulatory framework of EU Taxonomy, the operating expenditure included in the calculation of the KPI OPEX refers to the relevant capital expenditure (CAPEX).

The denominator for the calculation of KPI OPEX includes the total amount of current maintenance costs and the leases cost related to the right-to-use short-term assets at Podravka Group level in the reporting period.

Considering that there were no operating costs for realized capital expenditures (CAPEX) in 2021, which are the basis for calculating the KPI CAPEX, capital expenditures in the period 2017-2020 were taken into account as the basis for calculating the KPI OPEX. Of all items of realized capital expenditures in the period 2017-2020, expenditures have been singled out which, according to the criteria of increasing energy efficiency and investing in renewable energy sources, contribute to achieving the first two goals defined in the EU Taxonomy Regulation, climate change mitigation and climate change adaptation, can be considered capital expenditures related to environmentally sustainable activities. For each allocated item of capital expenditures in the observed period, which can be associated with environmentally sustainable activities, the amount of current maintenance costs in 2021 is allocated and this cost is included in the numerator for the calculation of the KPI OPEX.

For example, in 2017, investments were made in a wood chip boiler room. Wood chips are biomass, and the CO_2 emitted during the combustion of biomass in the boiler room has an emission factor of 0, which means that it is neutral and has no effect on the increase of greenhouse gases in the atmosphere. This capital expenditure is taken as an expenditure that can be related to environmentally sustainable activities, and the amount for the current maintenance of the boiler room in 2021 is included in the numerator for the calculation of the KPI OPEX.

The analytics of operating expenses included in the numerator for the calculation of KPI OPEX can be found in the table below. Amongst the listed activities is the item “OPEX which is not allocated by activities” and it refers to capital expenditures that are not directly allocated to a particular activity but are capital expenditures that cover several different activities (capital expenditures in the field of ecology, energy, maintenance, quality control).

REPORT ON DISCLOSURE OBLIGATIONS SET OUT BY THE EU TAXONOMY REGULATION

NACE code	Name of activity	Operating expenses
10.13	Production of meat and poultry meat products	0.03
10.20	Processing and preserving of fish, crustaceans and molluscs	0.34
10.39	Other processing and preserving of fruit and vegetables	0.03
10.61	Manufacture of grain mill products	0.22
10.71	Manufacture of bread; fresh pastry goods and cakes	0.04
10.82	Manufacture of cocoa, chocolate and sugar confectionery	0.06
21.20	Manufacture of pharmaceutical preparations	0.13
56.10	Restaurants and mobile food service activities	0.06
–	CAPEX not allocated per activities	0.81
In millions HRK	Total	1.73

The calculation of the KPI OPEX is shown in the table below:

In millions HRK	Climate change mitigation
Operating expenses that can be linked to environmentally sustainable activities	1.7
Total operating expenses (current maintenance)	35.2
Right-to-use assets (short term lease – rent)	7.8
KPI OPEX	4.0%

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Consolidated Financial statements

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

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

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

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

Martina Dalić
President of the Management Board

Davor Doko
Member of the Management Board

Ljiljana Šapina
Member of the Management Board

Milan Tadić
Member of the Management Board

PODRAVKA
PREHRAMBENA INDUSTRIJA d.d.
KOPRIVNICA 173

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Koprivnica, April 4, 2022

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Independent auditor's report

To the Shareholders of Podravka d.d.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Podravka d.d. (the Company) and its subsidiaries (together- the Group), which comprise the consolidated statement of financial position as at 31 December 2021, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (IFRS as adopted by the EU).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Company and the Group in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants, including International Independence Standards (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Applicable court: Commercial court in Zagreb; Registered share capital is 20.000,00 HRK, fully paid;
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Key Audit Matter	How we addressed Key Audit Matter
Impairment of brands and goodwill	
A description of the key judgements and estimates regarding impairment of the Group's brands and goodwill are included in Note 3 Summary of significant accounting policies and Note 6 Key accounting judgements and estimates. The asset is presented in Note 17 Goodwill and Note 18 Intangible assets. The determination of recoverable amount, being the higher of value-in-use and fair value less costs to dispose, requires management judgement in both identifying and valuing the relevant cash generating units. Recoverable amounts are generally measured by using appropriate valuation techniques, such as present value techniques based on management's view of variables and market conditions, including future price and volume growth rates, the timing of future operating expenditure, and the most appropriate discount, long term growth rates and royalty rate. Considering the above mentioned, we believe that the assessment of recoverable amounts of brands and goodwill is a key audit matter.	Audit procedures included understanding of the assets impairment process and walk through of controls implemented within. We examined the methodology used by management to assess the carrying value of respective brands and goodwill to determine its compliance with IFRS as adopted by the EU and consistency of application. We evaluated the future cash flow forecasts and the process by which they were prepared. We compared the budget inputs in the model to the approved budgets and forecast inputs in the model to management plans. We compared current year actual results with the figures included in the prior year forecast to evaluate assumptions used. We also evaluated management's key assumption for long-term growth rate by comparing it to historical growth results. We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis and tested the appropriateness of discount rates and royalty rates used in the calculation with the assistance of the specialists. We also assessed on the adequacy of the relevant disclosures in the consolidated financial statements and if these are in line with the requirements of the IFRS as adopted by the EU.

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Key Audit Matter	How we addressed Key Audit Matter
Recognition of revenue: valuation of customer discounts, incentives and rebates As indicated in Note 3 Summary of significant accounting policies and Note 8 Sales revenue to the consolidated financial statements, the Group recognizes revenue net of volume rebates, trade discounts, returns, listing fees and various promotional and marketing activities that are integral part of contracts with customers. Revenue measurement and presentation therefore involves estimates related to such agreements or actions. At the reporting date, amounts for discounts, incentives and rebates that have been incurred and not yet confirmed by the customers are estimated and accrued. Due to the variety of contractual terms across the markets, management is required to monitor a large number of individual customer arrangements in order to estimate the discounts, incentives and rebates amounts at the reporting date. This is considered complex and includes risk of incorrect inclusion or non-inclusion of discounts, incentives and rebates in the current period and year-end accruals, or incorrect calculation of these amounts recorded as at the reporting date. Due to the above mentioned, measurement and presentation of these costs is considered a key audit matter due to the judgements required and the number of unique customer arrangements they relate to.	Our audit procedures included understanding of the revenue recognition process including discounts, incentives and rebates recognition and assessing compliance with the policies in terms of IFRS as adopted by the EU. We walked through and tested the operation effectiveness of the controls over revenue recognition process. Based on a sample, we assessed revenue transactions taking place at either side of the balance sheet date as well as credit notes issued after the reporting date to evaluate whether that revenue was recognised in the correct period. We also developed an expectation of the current year sales revenue balance considering historical revenue and discounts, incentives and rebates information, compared it to the actual sales revenues and examined unexpected differences. On a sample of key customers, we inspected respective contractual terms and recalculated the amount of discounts, incentives and rebates. Where our recalculation differed to contractual terms, we obtained support for the differences to vouch their validity. We obtained customer confirmations of amounts outstanding at the reporting date for a sample of customers and gained understanding of any significant differences between customer confirmations received and the Group's accounting records. In addition, we assessed on the adequacy of the relevant disclosures in the consolidated financial statements and if these are in line with the requirements of the IFRS as adopted by the EU.

Other information included in the Group's Annual Report for year 2021

Management is responsible for the other information. Other information consists of the information included in the Group's Annual Report which includes the Management report and Corporate Governance Statement, other than the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the Other information including the Management report and Corporate Governance Statement.

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. The information given in the enclosed Management report for the 2021 financial year are consistent, in all material respects, with the enclosed consolidated financial statements;

2. The enclosed Management report for 2021 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

3. Corporate Governance Statement, included in the Group's annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and

4. Elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Group's annual report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed consolidated financial statements;

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

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Responsibilities of management and Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 ISAs 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 consolidated financial statements.

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

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

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

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

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor’s report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Company on by the General Meeting of Shareholders on 18 June 2019. Our appointment has been renewed annually by shareholder resolution, with the most recent reappointment on 29 June 2021, representing a total period of uninterrupted engagement appointment of 3 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 4 April 2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company and its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the consolidated financial statements.

Report based on Delegated Regulation (EU) 2018/815 on supplementing Directive 2004/109/EZ of European parliament and Council related to regulatory technical standard for specification of single electronic reporting format of reporting

Independent report on the compliance of annual consolidated financial statements (further: financial statements) prepared pursuant to Article 462 (5) of the Capital Market Act (Official Gazette 65/18, 17/20 and 83/21) applying the requirements of the Delegated Regulation (EU) 2018 / 815 on establishing of single electronic reporting format for issuers (hereinafter: the ESEF Regulation).

We have conducted a reasonable assurance engagement on whether the financial statements, as contained in the attached electronic file 2546289f9475d313a2f7449605687b1dbc6e6812000b1ffa8cf75153c391badd, are prepared, for the purposes of public disclosure pursuant to Article 462, paragraph 5 of the Capital Market Act, in all material respects in accordance with the requirements of the ESEF Regulation.

Responsibilities of the Management and those charged with governance

Management is responsible for the preparation of the financial statements in accordance with ESEF Regulation. Furthermore, Management is responsible for maintaining an internal control system that reasonably ensures the preparation of financial statements without material non-compliances with ESEF Regulation requirements, whether due to fraud or error.

The Management is also responsible for:

- the public disclosure of financial statements in ESEF format
- selecting and using XBLR codes in accordance with ESEF regulation

Those charged with governance are responsible for overseeing the preparation of the financial statements in ESEF format as part of the financial reporting process.

Auditor's responsibilities

Our responsibility is to express a conclusion, based on the audit evidence gathered, as to whether the financial statements are free from material non-compliances with the requirements of the ESEF Regulation. We conducted our reasonable assurance engagement in accordance with International Standard for Assurance Engagements ISAE 3000 (revised)- Assurance engagements other than audits or reviews of historical financial information.

Work performed

The nature, timing and extent of the procedures selected depend on the auditor's judgment. Reasonable assurance is a high degree of assurance, however it does not guarantee that the scope of procedures will identify all significant (material) non-compliance with ESEF regulation.

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In respect of the subject matter, we have performed the following procedures:

- we read the requirements of the ESEF Regulation,
- we have gained an understanding of the Company's internal controls relevant to the application of the requirements of the ESEF Regulation,
- we have identified and assessed the risks of material non-compliance with the ESEF Regulation due to fraud or error; and
- Based on this, devise and implement procedures to respond to the assessed risks and to obtain reasonable assurance for the purpose of expressing our conclusion.

The aim of our procedures was to assess whether:

- the financial statements, which are included in the annual report, are prepared in the relevant XHTML format,
- the information contained in the financial statements required by the ESEF Regulation is marked and all markings meet the following requirements:
  - the XBRL markup language was used,
  - the basic taxonomy elements listed in the ESEF Regulation with the closest accounting significance have been used, unless an additional taxonomy element has been created in accordance with Annex IV. ESEF Regulation,
  - the labeled elements comply with the common labeling rules under the ESEF Regulation.

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

Conclusion

Based on the procedures performed and evidence gathered, the financial statements presented in ESEF format for the year ended on 31 December 2021, contained in the aforementioned attached electronic file and prepared pursuant to Article 462 paragraph 5 of the Capital Market Act prepared for public disclosure, are prepared in all material respects in line with the requirements of Articles 3, 4 and 6 of the ESEF Regulation.

Further to this conclusion as well as opinion contained in part of this report related to accompanying financial statements and annual report for the year ended 31 December 2021, we do not express any opinion on the information contained in these presentations or on any other information contained in the aforementioned file.

The partner in charge of the audit resulting in this independent auditor's report is Berislav Horvat.

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d.o.o.
Zagreb, Radnička cesta 50

Berislav Horvat, President of the Management Board and certified auditor

Ernst & Young d.o.o.
Radnička cesta 50
10000 Zagreb
Republic of Croatia

4 April 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousands of HRK)	***Note***	**2021**	**2020**
Revenues	*8*	4,631,519	4,503,217
Cost of goods sold	*11*	(2,953,381)	(2,843,802)
Gross profit		**1,678,138**	**1,659,415**
Other income	*9*	34,983	23,247
General and administrative expenses	*11*	(346,110)	(335,920)
Selling and distribution costs	*11*	(619,421)	(592,555)
Marketing expenses	*11*	(373,762)	(377,440)
Other expenses	*10*	(8,529)	(44,401)
Operating profit		**365,299**	**332,346**
Financial income	*13*	1,782	542
Financial expenses	*14*	(7,801)	(18,878)
Profit before tax		**359,280**	**314,010**
Income tax	*15*	(41,458)	(57,876)
Profit for the year		**317,822**	**256,134**
Other comprehensive income:			
Items that will not be reclassified to profit or loss account			
Actuarial loss net of deferred tax		(969)	(2,602)
Items that can be subsequently reclassified to profit and loss account			
Exchange differences on translation of foreign operations		365	8,628
Total other comprehensive income		**(604)**	**6,026**
Total comprehensive income		**317,218**	**262,160**
Profit attributable to:			
Equity holders of the parent		309,221	248,934
Non-controlling interests		8,601	7,200
Total comprehensive income attributable to:			
Equity holders of the parent		308,754	254,473
Non-controlling interests		8,464	7,687
Earnings per share (in HRK):			
- Basic	*16*	44.1	35.6
- Diluted	*16*	43.4	35.4

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

(in thousands of HRK)	*Note*	**31 December 2021**	**31 December 2020**
ASSETS			
Non-current assets			
Goodwill	*17*	28,103	26,819
Intangible assets	*18*	249,235	253,155
Property, plant and equipment	*19*	2,206,453	2,222,277
Right-of-use assets	*20*	93,234	100,318
Investment property	*21*	115,406	117,086
Non-current financial assets	*23*	43,209	43,291
Deferred tax assets	*15*	150,101	141,411
Total non-current assets		**2,885,741**	**2,904,357**
Current assets			
Inventories	*24*	933,710	980,437
Trade and other receivables	*25*	1,026,086	972,996
Financial assets at fair value through profit and loss	*26*	-	106
Income tax receivable		6,426	2,023
Cash and cash equivalents	*27*	33,306	51,856
Non-current assets held for sale	*28*	23,683	28,873
Total current assets		**2,023,211**	**2,036,291**
Total assets		**4,908,952**	**4,940,648**
EQUITY AND LIABILITIES			
Shareholders' equity			
Issued capital	*29*	1,566,401	1,566,401
Share premium	*29*	191,489	187,215
Treasury shares	*29*	(39,387)	(47,568)
Reserves	*30*	1,090,288	951,174
Retained earnings	*31*	822,186	714,828
Attributable to equity holders of the parent		**3,630,977**	**3,372,050**
Non-controlling interests	*32*	63,289	54,932
Total shareholders' equity		**3,694,266**	**3,426,982**
Non-current liabilities			
Borrowings	*34*	139,740	301,194
Lease liabilities	*20*	62,769	68,642
Non-current provisions for employee benefits	35	52,825	52,023
Other non-current provisions	*35*	34,265	26,451
Other non-current liabilities	*36*	18,445	19,129
Deferred tax liability	*15*	37,984	39,034
Total non-current liabilities		**346,028**	**506,473**
Current liabilities			
Trade and other payables	*37*	531,316	554,910
Income tax payable		2,419	4,747
Financial liabilities at fair value through profit and loss	*33*	35	66
Borrowings	*34*	258,884	381,977
Lease liabilities	*20*	32,403	33,322
Current provisions for employee benefits	35	42,221	32,030
Other current provisions	*35*	1,380	141
Total current liabilities		**868,658**	**1,007,193**
Total liabilities		**1,214,686**	**1,513,666**
Total equity and liabilities		**4,908,952**	**4,940,648**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousands of HRK)	Issued capital	Share premium	Treasury shares	Treasury shares reserves	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Retained earnings	Total	Non-controlling interests	Total
As at 1 January 2020	**1,566,401**	**179,803**	**(47,568)**	**147,604**	**66,358**	**189,738**	**64,046**	**385,834**	**620,878**	**3,173,094**	**46,334**	**3,219,428**
Comprehensive income												
Profit for the year	-	-	-	-	-	-	-	-	248,934	248,934	7,200	256,134
Foreign exchange differences	-	-	-	-	-	-	-	8,141	-	8,141	487	8,628
Actuarial losses (net of deferred tax)	-	-	-	-	-	-	-	(2,602)	-	(2,602)	-	(2,602)
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,539**	**-**	**5,539**	**487**	**6,026**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,539**	**248,934**	**254,473**	**7,687**	**262,160**
Transactions with owners and transfers recognised directly in equity												
Allocation from retained earnings	-	-	-	-	10,238	-	3,505	78,312	(92,055)	-	-	-
Liquidation of a subsidiary	-	-	-	-	-	-	-	-	-	-	911	911
Exercise of options	-	(3,708)	-	-	-	-	-	-	-	(3,708)	-	(3,708)
Fair value of share-based payment transactions	-	11,120	-	-	-	-	-	-	-	11,120	-	11,120
Dividend declared	-	-	-	-	-	-	-	-	(62,929)	(62,929)	-	(62,929)
Total transactions with owners recognised directly in equity	**-**	**7,412**	**-**	**-**	**10,238**	**-**	**3,505**	**78,312**	**(154,984)**	**(55,517)**	**911**	**(54,606)**
As at 31 December 2020	**1,566,401**	**187,215**	**(47,568)**	**147,604**	**76,596**	**189,738**	**67,551**	**469,685**	**714,828**	**3,372,050**	**54,932**	**3,426,982**
Comprehensive income												
Profit for the year	-	-	-	-	-	-	-	-	309,221	309,221	8,601	317,822
Foreign exchange differences	-	-	-	-	-	-	-	502	-	502	(137)	365
Actuarial losses (net of deferred tax)	-	-	-	-	-	-	-	(969)	-	(969)	-	(969)
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(467)**	**-**	**(467)**	**(137)**	**(604)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(467)**	**309,221**	**308,754**	**8,464**	**317,218**
Transactions with owners and transfers recognised directly in equity												
Allocation from retained earnings (note 30)	-	-	-	-	9,712	-	2,621	127,215	(139,548)	-	-	-
Exercise of options	-	(1,986)	8,181	-	-	-	-	-	812	7,007	-	7,007
Fair value of share-based payment transactions (note 39)	-	6,260	-	-	-	-	-	-	-	6,260	-	6,260
Dividend declared	-	-	-	-	-	-	-	-	(63,127)	(63,127)	-	(63,127)
Additional acquisition of minority interests (note 30)	-	-	-	-	-	-	-	33	-	33	(107)	(74)
Total transactions with owners recognised directly in equity	**-**	**4,274**	**8,181**	**-**	**9,712**	**-**	**2,621**	**127,248**	**(201,863)**	**(49,827)**	**(107)**	**(49,934)**
As at 31 December 2021	**1,566,401**	**191,489**	**(39,387)**	**147,604**	**86,308**	**189,738**	**70,172**	**596,466**	**822,186**	**3,630,977**	**63,289**	**3,694,266**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousands of HRK)	***Note***	**2021**	**2020**
Profit before tax		**359,280**	**314,010**
Depreciation and amortization	*11*	218,166	218,225
Impairment on property, plant and equipment	*10*	766	132
Impairment/(reversal of impairment) of intangible assets	*10*	7,674	(4,000)
Impairment/(reversal of impairment) of trade and other receivables		533	(5,246)
(Gain)/loss from sale and disposal of non-current assets		(396)	323
Remeasurement of financial assets and liabilities at FVTPL		75	(321)
Share-based payment transactions		6,260	11,120
Gain on disposal of assets held for sale		(5,272)	(1,320)
Increase in provisions		20,046	4,375
Interest income	*13*	(613)	(211)
Dividend income and similar		(12)	-
Interest expense	*14*	7,784	14,771
Foreign exchange differences		(950)	11,708
Total adjustments		**254,061**	**249,556**
Changes in working capital:			
Decrease/(Increase) in inventories		46,727	(32,177)
(Increase) in receivables		(53,649)	(18,740)
(Decrease) in payables		(23,058)	(53,450)
Cash generated from operations		**583,361**	**459,199**
Income taxes paid		(58,224)	(59,953)
Interest paid		(8,077)	(14,792)
Net cash from operating activities		**517,060**	**384,454**
Cash flows from investing activities			
Purchase of property, plant, equipment and intangibles		(170,264)	(192,417)
Proceeds from sale of assets held for sale	*28*	11,532	2,091
Proceeds from sale of property, plant, equipment and intangibles		1,669	3,200
Loans given		(3)	(39)
Proceeds from loans given		20	71
Interest received		613	189
Dividends received		12	-
Net cash from investing activities		**(156,421)**	**(186,905)**
Cash flows from financing activities			
Dividend paid		(62,782)	(62,546)
Additional acquisition of minority interests		(74)	-
Sale of treasury shares		7,983	-
Proceeds from borrowings		226,847	389,411
Repayment of borrowings		(512,326)	(491,496)
Repayment of leases		(38,837)	(36,651)
Net cash from financing activities		**(379,189)**	**(201,282)**
Net (decrease) of cash and cash equivalents		**(18,550)**	**(3,733)**
Cash and cash equivalents at beginning of year		51,856	55,589
Cash and cash equivalents at the end of year	27	**33,306**	**51,856**

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

Podravka prehrambena industrija d.d., Koprivnica ("the Company") is incorporated in the Republic of Croatia. The principal activities of the Group comprise production of a wide range of food products as well as production and distribution of drugs, pharmaceutical products, cosmetics, auxiliary medical preparations and other chemicals. The Group consists of the parent company Podravka d.d. and its subsidiaries as stated in note 22. Podravka d.d. was established as a joint stock company under the entity registration number 010006549 and personal identification number 18928523252.

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

The main location of the Company's operations is Koprivnica, the Republic of Croatia.

The Company's shares were listed on the official market of the Zagreb Stock Exchange until 27 December 2018, since when they have been listed on the Prime Market of the Zagreb Stock Exchange. The shareholder structure is shown in note 29.
Podravka d.d. is the ultimate parent company of the Group.
During 2021, there were no changes in the Company's name or other identification of the reported entity.

General Assembly

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

Supervisory Board:
Members of the Supervisory Board in 2021:

President	Želimir Vukina	(01.07.2019 - 30.06.2023)
Deputy President	Luka Burilović	(08.09.2018 - 07.09.2022)
Member	Marina Dabić	(01.07.2019 - 30.06.2023)
Member	Tomislav Kitonić	(01.07.2019 - 30.06.2023)
Member	Ksenija Horvat	(01.07.2019 - 30.06.2023)
Member	Ivana Matovina	(30.06.2017 - 29.06.2021)
Member	Petar Miladin	(08.09.2018 - 09.09.2022)
Member	Dajana Milodanović	(08.09.2018 - 07.09.2022)
Member	Krunoslav Vitelj	(08.09.2018 - 07.09.2022)
Member	Ivan Ostojić	(30.06.2021 - 30.06.2022)

Management Board:

President	Martina Dalić	(04.02.2021 - 23.02.2027)
President	Marin Pucar	(24.02.2017 - 06.01.2021)
Member	Davor Doko	(01.05.2017 - 23.02.2027)
Member	Marko Đerek	(19.07.2017 - 23.02.2022)
Member	Hrvoje Kolarić	(24.02.2017 - 23.02.2022)
Member	Ljiljana Šapina	(24.02.2017 - 23.02.2027)
Member	Milan Tadić	(24.02.2022 - 23.02.2027)

More detailed information is presented in note 43.

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

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

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

Changes in accounting policies are explained in note 5.

These financial statements were authorised for issue by the Management Board on April 4, 2022.

(ii) Basis of measurement

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

(iii) Functional and presentation currency

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of Podravka d.d. ("the Company") and entities controlled by Podravka d.d. (its subsidiaries) as at and for the year ended 31 December 2021. Control is achieved if the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(i) Subsidiaries

Subsidiaries are all entities over which the Company 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 Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are de-consolidated from the date that control ceases.

(ii) Business combinations

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

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

(iii) Non-controlling interests

Non-controlling interests are initially measured by their proportionate share of recognised net assets of the acquiree at the acquisition date. Changes in the Group's share in the subsidiary that do not result in loss of control are accounted for as transactions with owners.

(iv) Loss of control over subsidiaries

When the Group loses control of a subsidiary, the subsidiary's assets and liabilities and all related non-controlling interests and other equity items are derecognised. Gains or losses are recognized in the income statement. Retained share in the former subsidiary is measured at fair value when control is lost.

(v) Transactions eliminated on consolidation i

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Goodwill

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

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

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

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

3.3 Non-current assets held for sale

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

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

3.4 Revenue recognition

The Group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expect to be entitled in exchange for those goods or services. Revenue is recognised, net of value-added tax, volume rebates, trade discounts, returns, listing fees and various promotional and marketing activities that are an integral part of contracts with customers. This core principle is delivered in a five-step model framework.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated.
In determining the transaction price, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer.
Group’s sales contracts generally comprise of only one performance obligation. As such, the Group do not disclose information about the allocation of the transaction price.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Revenue recognition (continued)

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

The Group manufactures and sells its own products and goods of third parties (for which the Group is a distributor) in the wholesale market. Revenue is recognised when the Group transfers the promised goods or services to the wholesaler.

Products are sold with volume discounts and customers have a right to return products in the wholesale market in case of defects. Sales are recorded based on the price specified in the sales contracts, net of estimated volume rebates and trade discounts and returns. The volume discounts are assessed based on contracts with customers. No element of financing is deemed present in the sales.

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

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

(iii) Revenue from services

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

(iv) Finance income

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

3.5 Leases

Lease is a contract or part of the contract that conveys the right to control the use of an asset (identified asset) for a period of time in exchange for consideration. The Podravka Group leases certain property (including long-term lease of agricultural land), plant and equipment.

The Group adopted IFRS 16 using the modified retrospective method of adoption, with the date of initial application of 1 January 2019. The Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value in the amount up to HRK 35 thousand (low-value assets). Assessment of asset of a low value starts from the assessment of new assets, regardless of the age of that asset at the time of assessment. If a lessee subleases an asset the head lease does not qualify as a lease of a low value asset. In short-term leases and leases of a low value asset, lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

At the commencement date of the lease the Podravka Group recognizes right-of-use assets at cost. The cost of right-of-use assets comprises of amount of the initial measurement of the lease liability, all lease payments plus all direct costs and less any lease incentives received. The asset is activated when it is put into use.

The Podravka Group at the commencement date also recognizes lease liabilities at the present value of the minimum future lease payments (discounted value). Interest rate implicit in the lease contract is used for discounting or if that rate cannot be readily determined, the incremental borrowing rate at the commencement date is used.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases (continued)

Variable lease payments that do not depend on the index or rate are not included in lease liabilities but are recognized in the income statement in the period in which they are incurred.

Subsequently, right-of-use asset company as a lessee measures at cost less any accumulated depreciation and any accumulated impairment losses and adjusts for any remeasurement of the lease liability.

Asset is amortized from the commencement date of the lease until the end of the useful life of the asset.

Lease liabilities are measured at the effective interest rate method and re-measured to include changes due to reassessments (changes in fixed payments, lease terms, discount rates and other similar changes).

Lease term includes the non-cancellable period during which the lessee is entitled to use the asset that is the subject of the lease and begins on the date on which the lessee makes the determined assets available to the lessee. Lease term includes periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In the statement of financial position, right-of-use assets is reported as a separate line under long term assets, lease liabilities are disclosed as a separate item within long-term and short-term liabilities.

The statement of comprehensive income includes the cost of depreciation of the right-of-use assets and interest expenses on lease liabilities (see note 20).

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.

Sale and leaseback

Sale and leaseback transactions include the sale of some assets and return/lease of the same.

If the transfer of an asset by the lessee is a sale, the Group as a seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. In this case the Group as a seller-lessee shall recognize only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.
If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, the Group shall make the adjustments to measure the sale proceeds at fair value. Any below-market terms shall be accounted for as a prepayment of lease payments and any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee. All potential adjustments are measured on the basis of the more readily determinable of the difference between the fair value of the consideration for the sale and the fair value of the asset and the difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

If the transfer of an asset is not a sale, the Group as a lessee shall continue to recognize the transferred asset and shall recognize a financial liability equal to the transfer proceeds.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Foreign currency transactions

(i) Transactions and balances in foreign currencies

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

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

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

(ii) Group companies

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

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

(iii) Net investment in Group companies

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

3.7 Borrowings and borrowing costs

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Government grants

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

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

3.9 Dividends

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

3.10 Segment reporting

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

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

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

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

3.11 Taxation

(i) Income tax

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

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

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Taxation (continued)

(ii) Deferred tax assets and liabilities

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

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

Deferred tax asset recognised on the basis of tax losses carried forward is recognised in accordance with tax legislation of the country where the company operates for the period envisaged by the law and is discharged at the expiry of this period if it is not used until then.

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

(iii) Investment tax credits

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

(iv) Tax exposure

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

(v) Value added tax (VAT)

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Property, plant and equipment

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

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

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

Buildings	10 to 50 years
Equipment	3 to 30 years

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

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

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

3.13 Investment property

Investment property is property (land, buildings or a part of a building, or both) held to earn rentals or for capital appreciation (or both). Investment property is treated as long-term investments.

Investment property is carried at historical cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation of buildings is calculated using the straight-line method over their useful lives generally ranging from 10 to 50 years, depending on the type of the building.

Subsequent expenditure is capitalised 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. All other repairs and maintenance are charged to profit or loss when they are incurred. If the Group starts using the investment property, it is reclassified to property, plant and equipment.

The Group discloses the fair value of investment property on the basis of periodical independent valuations by expert valuers.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Intangible assets

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

(i) Licences, brands, distribution rights and registration files

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

Rights to acquired trademarks and know-how are carried at cost and have an indefinite useful life, since based on an analysis of all of the relevant factors at the reporting date, there is no foreseeable limit to the period of time over which the identified rights are expected to generate net cash inflows. Intangible assets with indefinite useful lives are tested annually for impairment and are stated at cost less accumulated impairment loss (note 3.15).

(ii) Computer software

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Impairment of non-financial assets

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is expensed immediately. In situation when 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 recognized as income immediately.

3.16 Inventories

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

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

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

3.17 Trade receivables

i) Trade receivables

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Trade receivables (continued)

ii) Bills of exchange

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

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

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

3.18 Cash and cash equivalents

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

3.19 Share capital

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

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

3.20 Employee benefits

(i) Pension obligations and post-employment benefits

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

(ii) Termination benefits

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Employee benefits (continued)

(iii) Regular retirement benefits

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

(iv) Long-term employee benefits

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

(v) Short-term employee benefits

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

(vi) Share-based compensation

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

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

3.21 Provisions

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments

A. Financial assets

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at:

- amortised cost;
- fair value through other comprehensive income (FVOCI) – debt instruments;
- fair value through other comprehensive income (FVOCI) – equity instruments;
- or FVTPL (fair value through profit or loss).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instruments that is not held for trading, the Group may irrevocably elect to present subsequent changes in the instrument’s fair value in OCI. This election is made on an instrument-by-instrument basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

A Financial assets (continued)

(ii) Classification and subsequent measurement (continued)

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Trade receivables are held in the business model of holding for the purpose of collection.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, relevant for the purpose of classifying financial assets at amortised cost, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing the main criterion, i.e. whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

The structure of the Group's financial assets is simple and primarily relates to trade receivables without a significant financial component, loans given and short-term deposits in banks at fixed interest rates, while forward contracts are of insignificant amount. This significantly reduces the complexity of the assessment whether the financial assets meet the criterion of 'solely payments of principal and interest'.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

A Financial assets (continued)

(ii) Classification and subsequent measurement (continued)

Subsequent measurement and gains and losses

The table below provides an overview of key provisions of the accounting policy used by the Group for subsequent measurement of financial assets and recognition of gains and losses on each class of financial assets:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt instruments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity instruments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the instruments. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

B. Financial liabilities

(i) Recognition and initial measurement

Debt securities are initially recognised when they are originated. All other financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification and subsequent measurement

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

C. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

D. Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

E. Impairment of non-derivative financial assets

Recognition of impairment losses

The Group recognises loss allowances for expected credit loss (ECL)s on:

- financial assets measured at amortised cost;
- debt instruments measured at FVOCI; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if early warning indicators have been activated in accordance with the Group's policy or contractual terms of the instrument.

The Group considers a financial asset to be fully or partially in default if:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 360 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are estimate of credit losses. Credit losses are measured as the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. Regular external trade receivables that are not past due and uncollected receivables past due up to 360 days from the maturity date are impaired using the percentage that reflects the expectations of the non-collection of trade receivables (ECL). The percentage of impairment is determined on the basis of the average of the previous three-year period (historical rate) separately for each of the Group's companies, adjusted for the macroeconomic impact. The calculation of the historical rate is adjusted for extraordinary and specific circumstances, if required.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

E Impairment of non-derivative financial assets (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a significant delay of payment by the borrower;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off of financial assets

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group has a policy of writing off the gross carrying amount of a financial asset upon the legal statute of limitation and it generally expects no recovery of the amount written off.

3.23 Reclassification of items in the Statement of Financial Position and the Statement of Cash Flows

In accordance with the EU Transparency Directive by which ESMA (European Securities and Markets Authority) introduces the obligation to implement ESEF (European single electronic format based on the XBRL format) for Issuers, the Group has reclassified items of the Statement of Financial Position and Cash Flow Statement with the aim of optimal use of valid taxonomy.

The effects of reclassification are as follows:

Statement of financial position

(in thousands of HRK)	**2020 before reclassification**	**Reclassification**	**2020 after reclassification**
Share capital	1,706,048	(1,706,048)	-
Issued capital	-	1,566,401	1,566,401
Share premium	-	187,215	187,215
Treasury shares	-	(47,568)	(47,568)
Total	**1,706,048**	**-**	**1,706,048**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Reclassification of items in the Statement of Financial Position and the Statement of Cash Flows (continued)

Statement of financial position (continued)

(in thousands of HRK)	**2020 before reclassification**	**Reclassification**	**2020 after reclassification**
Non-current liabilities			
Provisions	78,474	(78,474)	-
Non-current provisions for employee benefits	-	52,024	52,024
Other non-current provisions	-	26,450	26,450
Total	**78,474**	**-**	**78,474**

(in thousands of HRK)	**2020 before reclassification**	**Reclassification**	**2020 after reclassification**
Current liabilities			
Provisions	32,171	(32,171)	-
Current provisions for employee benefits	-	32,030	32,030
Other current provisions	-	141	141
Total	**32,171**	**-**	**32,171**

Cash flow statement

(in thousands of HRK)	**2020 before reclassification**	**Reclassification**	**2020 after reclassification**
Profit for the year	256,134	(256,134)	-
Income tax	57,876	(57,876)	-
Profit before tax	-	314,010	314,010
Total	**314,010**	**-**	**314,010**

(in thousands of HRK)	**2020 before reclassification**	**Reclassification**	**2020 after reclassification**
Liquidation of subsidiary	242	(242)	-
Reversal of impairment of other liabilities	(5,299)	5,299	-
Impairment of trade receivables	(189)	189	-
Impairment/(reversal of impairment) of trade and other liabilities	-	(5,246)	(5,246)
Total	**(5,246)**	**-**	**(5,246)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Reclassification of items in the Statement of Financial Position and the Statement of Cash Flows (continued)

Cash flow statement (continued)

(in thousands of HRK)	**2020 before reclassification**	**Reclassification**	**2020 after reclassification**
Gain from sale of right-of-use assets	(41)	41	-
Loss/(Gain) on disposal of property, plant, equipment and intangibles	364	(364)	-
(Gain)/loss from sale and disposal of non-current assets	-	323	323
Total	**323**	**-**	**323**

(in thousands of HRK)	**2020 before reclassification**	**Reclassification**	**2020 after reclassification**
Repayment of borrowings	(528,147)	36,651	(491,496)
Repayment of leases	-	(36,651)	(36,651)
Total	**(528,147)**	**-**	**(528,147)**

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date of issue of these financial statements, the following standards, amendments and interpretations issued by the International Accounting Standards Board are not yet effective.

- **Amendments to IFRS 3** *Business Combinations*; **IAS 16** *Property, Plant and Equipment;* **IAS 37** *Provisions, Contingent Liabilities and Contingent Assets*, all issued on 14 May 2020, (effective date for annual periods beginning on or after 1 January 2022).

- **Amendments to** *Annual Improvements 2018-2020*, issued on 14 May 2020 (effective date for annual periods beginning on or after 1 January 2022).

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue by the International Accounting Standards Board but not yet adopted by the EU. The endorsement might be expected in 2022:

- **Amendments to IAS 1** *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date*, issued on 23 January 2020 and 15 July 2020 respectively (effective date for annual periods beginning on or after 1 January 2023).

- **Amendments to IAS 1** *Presentation of Financial Statements* and **IFRS Practice Statement 2:** *Disclosure of Accounting policies*, issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).

- **Amendments to IAS 8** *Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates* issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).

- **Amendments to IAS 12** *Income Taxes*: Deferred Tax related to Assets and Liabilities arising from a Single Transactions, issued on 7 May 2021 (effective date for annual periods beginning on or after 1 January 2023).

The Group does not expect the adoption of these standards and interpretations to have a material impact on the Group’s financial statements.

NOTE 5 – IMPACT OF NEW ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2021:

- **Amendment to IFRS 16** *Leases* Covid 19-Related Rent Concessions, issued on 31 March 2020 (effective date for annual periods beginning on or after 1 April 2021).

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** *Interest Rate Benchmark Reform – Phase 2,* issued on 27 August 2020 (effective date for annual periods beginning on or after 1 January 2021).

The adoption of these standards and interpretations did not have a significant impact on the Group's financial statements.

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

(i) Deferred tax assets recognition

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

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

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see note 35).

(iii) Consequences of certain legal actions

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

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

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

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

Provisions for the Group's obligations arising from legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 3.21 and 35).

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(iv) Recoverability of trade and other receivables

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

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

By applying the percentage that reflects expectations on the non-collection of trade receivables (expected credit loss), the Group impairs undue regular external trade receivables and past due uncollected receivables up to 360 days from the maturity date.

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

(v) Impairment testing for goodwill, brands and rights

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

	Goodwill	**Brands**	**Rights**
		(in thousands of HRK)	
Operating segment			
BP Culinary	-	8,140	-
BP Baby food, sweets and snack	-	21,144	-
BP Podravka food	-	439	-
BP Žito and Lagris	28,103	46,405	-
BP Fish	-	18,800	-
Pharmaceuticals	-	-	55,542
Other - unallocated	-	-	9,807
	28,103	**94,928**	**65,349**

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

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

Goodwill

Goodwill relates entirely to goodwill arising on acquisition of the subsidiary Podravka Lagris a.s. The Group annually performs an impairment test in order to assess whether the recoverable amount of goodwill indicates potential impairment of its carrying amount. The calculation of the recoverable amount of goodwill is based on five-year plans for sales on the Czech market and business plans of the subsidiary developed by the Group bearing in mind its corporate selling and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories) and the analysis of its competitors. The sales plans also include potential risks of the realistic environment caused by the COVID-19 pandemic.

The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five-year period amounting to 2.00% (2020: 2.50%). Cash flows created from such plans are discounted using the post-tax discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for goodwill as the weighted average cost of capital after tax for the Czech market and the food industry and amounts to 5.25% (2020: 4.65%).

As a result of the impairment testing of goodwill, the Group had no impairment losses relating to goodwill during 2021 and 2020.

The sensitivity analysis of presumptions indicates the need for the impairment of goodwill in case of an increase in the weighted average cost of capital rate by 1 basis point or a decrease in the terminal growth rate (assuming unchanged weighted average cost of capital) by 1 basis point.

Brands

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

The Group annually performs impairment tests in order to assess whether the recoverable amount of brands indicates potential impairment of their carrying amount whereby the primary focus is on brands where the difference between the recoverable amount and the carrying amount indicates a significant sensitivity to changes in key variables used in impairment testing. The calculation of the recoverable amount of brands is based on five-year plans for sales of product and categories which comprise a certain brand and which the Group developed bearing in mind its corporate and marketing strategy, trends on relevant markets where the brands are sold (such as estimated movements in gross domestic product, market share of relevant products and categories) and the analysis of its competitors. The sales plans for products and categories comprising each brand also include potential risks of the realistic environment caused by the COVID-19 pandemic.

Cash flows created from such plans are discounted using the post-tax discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for brands as the weighted average cost of capital (WACC) for the primary market the brand is sold on and the food industry.

For the purpose of recoverable amount of brands whose dominant market is the Adria region, as at 31 December 2021 the Group applied an income approach – the method of non-payment of royalties.

The basis of the method of non-payment of royalties is that the value of intangible assets equals the amount that the owner would pay for the licence over the assets if it had not been owned, i.e. the value equals post-tax discounted expenses saved if royalties, i.e. the compensation for the use of trademarks, are not paid.

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

Brands (continued)

When calculating the recoverable amount of brands whose dominant market is the Adria region (a total of 5 brands), rates equal to the weighted average cost of capital after tax (WACC) per individual market and the food industry were used, ranging from 3.34% to 7.09% (2020: ranging from 4.71% to 9.61%), while the applied terminal growth rate for all brands is 2.00% (2020: ranging from 2.30% to 3.65%). The recoverable amount of the most significant brands resulting from the discounted cash flow method is as follows:

	Book value		**Recoverable amount**	
	2021	**2020**	**2021**	**2020**
Brands		*(in thousands of HRK)*		
Brand 1	6,299	6,299	21,886	13,868
Brand 2	15,500	15,500	81,954	67,974
Brand 3	21,144	21,144	76,831	44,855
Brand 4	439	439	2,490	1,363
Brand 5	3,300	3,300	8,412	6,092

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

Brands (continued)

Valuation technique	Brand	Significant inputs	Value	Sensitivity of the input to fair value
Method of non-payment of royalties	Brand 1	Weighted average cost of capital	2021: 4.02% 2020: 5.56%	Increase of weighted average cost of capital by 413 basis points (2020: 278) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 55 thousand (2020: HRK 3 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.49%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 515 basis points (2020: 342) would result in an decrease of fair value in amount of HRK 32 thousand (2020: HRK 2 thousand)
Method of non-payment of royalties	Brand 2	Weighted average cost of capital	2021: 6.19% 2020: 7.96%	Increase of weighted average cost of capital by 1,981 basis points (2020: 1,794) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 27 thousand (2020: HRK 6 thousand)
		Terminal growth rate	2021: 2.00% 2020: 3.16%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 8,100 basis points (2020: 6,015) would result in an decrease of fair value in amount of HRK 25 thousand (2020: HRK 4 thousand)
Method of non-payment of royalties	Brand 3	Weighted average cost of capital	2021: 3.66% 2020: 5.20%	Increase of weighted average cost of capital by 454 basis points (2020: 318) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 30 thousand (2020: HRK 14 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.46%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 571 basis points (2020: 394) would result in an decrease of fair value in amount of HRK 27 thousand (2020: HRK 32 thousand)
Method of non-payment of royalties	Brand 4	Weighted average cost of capital	2021: 3.34% 2020: 4.71%	Increase of weighted average cost of capital by 666 basis points (2020: 535) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 7 thousand (2020: HRK 3 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.30%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 950 basis points (2020: 715) would result in an decrease of fair value in amount of HRK 18 thousand (2020: HRK 2 thousand)
Method of non-payment of royalties	Brand 5	Weighted average cost of capital	2021: 7.09% 2020: 9.61%	Increase of weighted average cost of capital by 841 basis points (2020: 538) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 10 thousand (2020: HRK 5 thousand)
		Terminal growth rate	2021: 2.00% 2020: 3.65%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 1,460 basis points (2020: 815) would result in an decrease of fair value in amount of HRK 26 thousand (2020: HRK 4 thousand)

During 2021, the Group recognised brands impairment costs in the amount of HRK 671 thousand (2020: HRK 0 thousand).

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

Brands (continued)

When calculating the recoverable amount of brands whose dominant market is the Slovenian market (a total of 20 brands), rates equal to the weighted average cost of capital after tax (WACC) per individual market and the food industry were used, ranging from 3.34% to 5.22% (2020: ranging from 4.79% to 7.63%), while the applied terminal growth rate ranges from 1.69% to 2.00% (2020: ranging from 1.90% to 2.86%).

The recoverable amount of most significant brands resulting from the discounted cash flow method is as follows:

	Book value		**Recoverable amount**	
	2021	**2020**	**2021**	**2020**
Brands		*(in thousands of HRK)*		
Brand 1	12,872	12,906	90,546	62,615
Brand 2	3,899	3,909	38,676	20,235
Brand 3	2,992	3,000	22,333	12,622
Brand 4	908	910	5,459	3,323
Brand 5	654	656	1,494	2,271
Brand 6	689	690	7,365	3,715
Brand 7	285	286	2,870	1,394
Brand 8	249	249	1,697	2,887
Brand 9	3,162	3,170	18,236	9,154
Brand 10	1,907	1,912	14,457	7,387
Brand 11	282	283	1,976	791
Brand 12	2,419	2,425	13,887	7,891
Brand 13	1,795	1,800	18,032	8,942
Brand 14	1,591	1,596	8,137	4,494
Brand 15	730	732	2,471	2,011
Brand 16	185	185	2,133	1,216
Brand 17	2,187	2,193	16,794	10,022
Brand 18	2,510	2,588	7,597	5,355
Brand 19	746	748	4,604	2,391
Brand 20	3,656	3,665	44,360	20,972

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

Brands (continued)

Valuation technique	Brand	Significant inputs	Value	Sensitivity of the input to fair value
Method of non-payment of royalties	Brand 1	Weighted average cost of capital	2021: 4.20% 2020: 5.40%	Increase of weighted average cost of capital by 1,563 basis points (2020: 1,391) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 9 thousand (2020: HRK 4 thousand)
		Terminal growth rate	2021: 1.70% 2020: 1.90%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 3,421 basis points (2020: 3,073) would result in an decrease of fair value in amount of HRK 7 thousand (2020: HRK 3 thousand)
Method of non-payment of royalties	Brand 2	Weighted average cost of capital	2021: 3.40% 2020: 4.80%	Increase of weighted average cost of capital by 1,294 basis points (2020: 1,138) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 13 thousand (2020: HRK 2 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.30%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 2,480 basis points (2020: 2,085) would result in an decrease of fair value in amount of HRK 12 thousand (2020: HRK 4 thousand)
Method of non-payment of royalties	Brand 3	Weighted average cost of capital	2021: 3.30% 2020: 4.80%	Increase of weighted average cost of capital by 916 basis points (2020: 852) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 20 thousand (2020: HRK 3 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.30%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 1,410 basis points (2020: 1,332) would result in an decrease of fair value in amount of HRK 14 thousand (2020: HRK 3 thousand)
Method of non-payment of royalties	Brand 4	Weighted average cost of capital	2021: 4.40% 2020: 6.20%	Increase of weighted average cost of capital by 1,310 basis points (2020: 1,028) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 8 thousand (2020: HRK 3 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.60%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 2,700 basis points (2020: 1,850) would result in an decrease of fair value in amount of HRK 12 thousand (2020: HRK 4 thousand)
Method of non-payment of royalties	Brand 5	Weighted average cost of capital	2021: 5.50% 2020: 5.30%	Increase of weighted average cost of capital by 496 basis points (2020: 870) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 2 thousand (2020: HRK 3 thousand)
		Terminal growth rate	2021: 1.80% 2020: 2.00%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 739 basis points (2020: 1,420) would result in an decrease of fair value in amount of HRK 24 thousand (2020: HRK 3 thousand)

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

Brands (continued)

Valuation technique	Brand	Significant inputs	Value	Sensitivity of the input to fair value
Method of non-payment of royalties	Brand 6	Weighted average cost of capital	2021: 3.30% 2020: 4.80%	Increase of weighted average cost of capital by 1,366 basis points (2020: 1,160) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 7 thousand (2020: HRK 3 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.30%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 2,780 basis points (2020: 2,150) would result in an decrease of fair value in amount of HRK 14 thousand (2020: HRK 4 thousand)
Method of non-payment of royalties	Brand 7	Weighted average cost of capital	2021: 3.30% 2020: 4.80%	Increase of weighted average cost of capital by 1,366 basis points (2020: 1,040) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 14 thousand (2020: HRK 3 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.30%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 2,700 basis points (2020: 1,780) would result in an decrease of fair value in amount of HRK 12 thousand (2020: HRK 2 thousand)
Method of non-payment of royalties	Brand 8	Weighted average cost of capital	2021: 3.30% 2020: 4.80%	Increase of weighted average cost of capital by 822 basis points (2020: 2,680) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 15 thousand (2020: HRK 3 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.30%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 1,160 basis points (2020: 27,200) would result in an decrease of fair value in amount of HRK 10 thousand (2020: HRK 1 thousand)
Method of non-payment of royalties	Brand 9	Weighted average cost of capital	2021: 3.30% 2020: 4.80%	Increase of weighted average cost of capital by 666 basis points (2020: 486) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 35 thousand (2020: HRK 2 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.30%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 900 basis points (2020: 639) would result in an decrease of fair value in amount of HRK 15 thousand (2020: HRK 3 thousand)
Method of non-payment of royalties	Brand 10	Weighted average cost of capital	2021: 4.70% 2020: 6.80%	Increase of weighted average cost of capital by 1,876 basis points (2020: 1,212) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 19 thousand (2020: HRK 3 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.70%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 5,750 basis points (2020: 2,435) would result in an decrease of fair value in amount of HRK 8 thousand (2020: HRK 3 thousand)

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

Brands (continued)

Valuation technique	Brand	Significant inputs	Value	Sensitivity of the input to fair value
Method of non-payment of royalties	Brand 11	Weighted average cost of capital	2021: 3.40% 2020: 4.90%	Increase of weighted average cost of capital by 10 basis points (2020: 10) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 125 thousand (2020: HRK 29 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.40%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 5 basis points (2020: 10) would result in an decrease of fair value in amount of HRK 64 thousand (2020: HRK 27 thousand)
Method of non-payment of royalties	Brand 12	Weighted average cost of capital	2021: 4.70% 2020: 6.90%	Increase of weighted average cost of capital by 1,407 basis points (2020: 1,001) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 41 thousand (2020: HRK 3 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.80%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 3,000 basis points (2020: 1,802) would result in an decrease of fair value in amount of HRK 12 thousand (2020: HRK 3 thousand)
Method of non-payment of royalties	Brand 13	Weighted average cost of capital	2021: 3.40% 2020: 4.80%	Increase of weighted average cost of capital by 1,336 basis points (2020: 1,052) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 16 thousand (2020: HRK 3 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.30%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 2,650 basis points (2020: 1,820) would result in an decrease of fair value in amount of HRK 24 thousand (2020: HRK 2 thousand)
Method of non-payment of royalties	Brand 14	Weighted average cost of capital	2021: 4.50% 2020: 6.30%	Increase of weighted average cost of capital by 1,104 basis points (2020: 710) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 32 thousand (2020: HRK 2 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.60%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 1,939 basis points (2020: 1,080) would result in an decrease of fair value in amount of HRK 18 thousand (2020: HRK 2 thousand)
Method of non-payment of royalties	Brand 15	Weighted average cost of capital	2021: 4.80% 2020: 5.90%	Increase of weighted average cost of capital by 684 basis points (2020: 635) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 14 thousand (2020: HRK 3 thousand)
		Terminal growth rate	2021: 1.90% 2020: 2.20%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 993 basis points (2020: 920) would result in an decrease of fair value in amount of HRK 16 thousand (2020: HRK 3 thousand)

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

Brands (continued)

Valuation technique	Brand	Significant inputs	Value	Sensitivity of the input to fair value
Method of non-payment of royalties	Brand 16	Weighted average cost of capital	2021: 3.70% 2020: 5.20%	Increase of weighted average cost of capital by 2,134 basis points (2020: 1,770) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 14 thousand (2020: HRK 3 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.40%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 7,700 basis points (2020: 5,250) would result in an decrease of fair value in amount of HRK 7 thousand (2020: HRK 2 thousand)
Method of non-payment of royalties	Brand 17	Weighted average cost of capital	2021: 3.40% 2020: 4.80%	Increase of weighted average cost of capital by 963 basis points (2020: 946) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 5 thousand (2020: HRK 2 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.30%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 1,550 basis points (2020: 1,553) would result in an decrease of fair value in amount of HRK 27 thousand (2020: HRK 3 thousand)
Method of non-payment of royalties	Brand 18	Weighted average cost of capital	2021: 5.20% 2020: 7.60%	Increase of weighted average cost of capital by 658 basis points (2020: 542) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 23 thousand (2020: HRK 4 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.90%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 950 basis points (2020: 785) would result in an decrease of fair value in amount of HRK 18 thousand (2020: HRK 3 thousand)
Method of non-payment of royalties	Brand 19	Weighted average cost of capital	2021: 3.30% 2020: 4.80%	Increase of weighted average cost of capital by 765 basis points (2020: 580) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 27 thousand (2020: HRK 3 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.30%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 1,050 basis points (2020: 795) would result in an decrease of fair value in amount of HRK 8 thousand (2020: HRK 2 thousand)
Method of non-payment of royalties	Brand 20	Weighted average cost of capital	2021: 3.30% 2020: 4.80%	Increase of weighted average cost of capital by 1,646 basis points (2020: 1,278) with unchanged terminal growth rate would result in an decrease of fair value in amount of HRK 20 thousand (2020: HRK 3 thousand)
		Terminal growth rate	2021: 2.00% 2020: 2.30%	Decrease of terminal growth rate with unchanged weighted average cost of capital by 4,080 basis points (2020: 2,558) would result in an decrease of fair value in amount of HRK 6 thousand (2020: HRK 2 thousand)

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

Rights

Rights relate to registration files (pharmaceutical segment), distribution rights relating either to a specific segment or to several segments combined and acquired rights for operating pharmacies (pharmaceutical segment). Registration files and distribution rights have finite useful lives over which they are amortised and impaired in the event circumstances arise which indicate a need for impairment in excess of the regular amortisation charge. Pharmaceutical rights relate to acquired rights to perform pharmaceutical activities that are fully allocated to the segment “Pharmaceuticals”. In accordance with local legislation such rights do not expire (the Group does not expect regulatory changes in this respect).

The Group annually performs impairment tests in order to assess whether the recoverable amount of pharmaceutical rights indicates potential impairment of their carrying amount. Rights with an unlimited useful lives are allocated for the purpose of impairment testing to cash-generating units within the business segments and their net carrying value at the reporting date is HRK 40,025 thousand (2020: HRK 40,025 thousand).

The recoverable value of cash-generating units is determined by calculations of value in use based on projections of discounted cash flows on the basis of financial plans approved by the Management Board, which cover a five-year period from the reporting date.
Key assumptions on which projections of future discounted cash flows are based include an average revenue growth rate in the five-year period of 2%, and normalization of the currently reduced consumption of drugs, caused by the COVID-19 pandemic.

In cash flows after the five-year period, a terminal growth rate of 2 % was used, and the present value of net future cash flows was calculated using discount rates based on the average weighted cost of capital of 5.89% after taxation (for assets that generate the majority of income on the Croatian market) (2020: 7.69% after taxation).

During 2021, the Group recognised rights impairment in the amount of HRK 7,003 thousand (2020: reversal of rights impairment in the amount HRK 4,000 thousand).

During 2021, the Group did not have impairment cost on pharmacy rights (2020: the Group reversed previously recognized impairment of pharmacy rights in the amount of HRK 8,200 thousand for one pharmacy unit, while for another pharmacy unit it recognized an impairment in the amount of HRK 4,200 thousand).
Following the impairment test, the Group further compared similar transactions in the domestic market which also indicate that the fair value of pharmacy rights is higher than the carrying amount. Management views the cash-generating unit as a single pharmacy unit in a particular geographical area.

None of the pharmacy units but one show sensitivity to key assumptions.

Sensitivity analysis for the pharmacy unit with a carrying value of HRK 4,606 thousand at the reporting date (2020: HRK 4,606 thousand) indicates that with the terminal growth rate of 0% (with unchanged weighted average cost of capital) there would be a need for impairment in the amount to HRK 270 thousand. The sensitivity analysis also shows that with an increase in the weighted average cost of capital by 150 basis points (to 7.39%), with unchanged terminal growth rate from key assumptions, the value of the impairment would be HRK 233 thousand.

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

The Group annually performs analysis of impairment indicators for property, plant and equipment in order to assess whether the recoverable amount indicates potential impairment of their carrying amount. In 2021, the Group recognised impairment of property and plant in the amount of HRK 766 thousand (2020: HRK 0 thousand). During 2021, the Group did not recognise any impairment of equipment (2020: HRK 132 thousand).

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

During 2021, the COVID-19 pandemic did not have an impact on the going concern of the Podravka Group's operations.

NOTE 7 – DETERMINATION OF FAIR VALUES

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

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

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

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

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

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

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

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

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

- note 23: Non-current financial assets
- note 26: Financial assets at fair value through profit or loss
- note 28: Non-current assets held for sale
- note 33: Financial liabilities at fair value through profit or loss
- note 39: Share-based payments

NOTE 8 – SALES REVENUE

Sales revenue

	2021	2020
	(in thousands of HRK)	
Revenue from sale of products and merchandise	4,604,342	4,473,547
Revenue from services	27,177	29,670
	4,631,519	**4,503,217**

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

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

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

Segment revenues and results

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

(in thousands of HRK)	**Segment revenues 2021**	**Segment expenses 2021**	**Segment depreciation 2021**	**Segment profits/(loss) 2021**
BP Culinary	1,046,963	757,285	24,854	264,824
BP Baby food, sweets and snack	473,393	388,956	25,042	59,395
BP Podravka food	440,280	428,722	24,929	(13,371)
BP Žito and Lagris	902,864	884,700	36,985	(18,821)
Žito and related companies	*729,798*	*703,528*	*32,389*	*(6,119)*
Other companies	*173,066*	*181,172*	*4,596*	*(12,702)*
BP Meat products, solutions and spreads	304,040	297,156	13,522	(6,638)
BP Fish	212,375	208,300	7,455	(3,380)
Pharmaceutical	1,030,254	832,714	64,659	132,881
Other sales	221,350	218,666	5,126	(2,441)
	4,631,519	**4,016,499**	**202,572**	**412,449**
Finance income (note 13)				1,782
Other income (note 9)				34,983
Central administration costs				(73,604)
Other expenses (note 10)				(8,529)
Finance expenses (note 14)				(7,801)
Profit before tax				**359,280**

NOTE 8 – SALES REVENUE (CONTINUED)

Segment revenues and results (continued)

(in thousands of HRK)	Segment revenues 2020	Segment expenses 2020	Segment depreciation 2020	Segment profits/(loss) 2020
BP Culinary	1,003,114	720,962	25,390	256,762
BP Baby food, sweets and snack	460,803	369,597	23,947	67,259
BP Podravka food	403,115	391,101	25,482	(13,468)
BP Žito and Lagris	926,213	887,710	39,261	(758)
Žito and related companies	*752,381*	*711,476*	*35,659*	*5,246*
Other companies	*173,832*	*176,234*	*3,602*	*(6,004)*
BP Meat products, solutions and spreads	305,443	300,103	13,067	(7,727)
BP Fish	220,994	212,624	7,101	1,269
Pharmaceutical	976,195	783,746	62,885	129,564
Other sales	207,340	203,066	4,691	(417)
	4,503,217	**3,868,909**	**201,824**	**432,484**
Finance income (note 13)				542
Other income (note 9)				23,247
Central administration costs				(78,984)
Other expenses (note 10)				(44,401)
Finance expenses (note 14)				(18,878)
Profit before tax				**314,010**

Balance sheet by segments

	31.12.2021			31.12.2020		
(in thousands of HRK)	**Total**	**Pharmaceuticals**	**Nutrition Segments**	**Total**	**Pharmaceuticals**	**Nutrition Segments**
ASSETS						
Total non-current assets	2,885,741	955,882	1,929,859	2,904,357	1,009,440	1,894,917
Total current assets	2,023,211	629,985	1,393,226	2,036,291	643,445	1,392,846
Total assets	**4,908,952**	**1,585,867**	**3,323,085**	**4,940,648**	**1,652,885**	**3,287,763**
LIABILITIES						
Equity	3,630,977	1,177,600	2,453,377	3,372,050	1,099,478	2,272,572
Minority interest	63,289	63,106	183	54,932	54,540	392
Total non-current liabilities	346,028	138,931	207,097	506,473	206,828	299,645
Total current liabilities	868,658	206,230	662,428	1,007,193	292,039	715,154
Total equity and liabilities	**4,908,952**	**1,585,867**	**3,323,085**	**4,940,648**	**1,652,885**	**3,287,763**

Group does not follow detailed breakdown of balance sheet by segment but only by the two main segments on consolidated level.

NOTE 8 – SALES REVENUE (CONTINUED)

Segment revenues and results (continued)

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

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

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

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

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

BP Fish comprises fish products.

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

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

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

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

Geographical information

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

(in thousands of HRK)	**2021**	**2020**
Region Adria	3,218,531	3,111,544
Region Central Europe	553,824	558,399
Region Western Europe and overseas countries	512,448	504,964
Region Eastern Europe	326,599	313,318
Region New markets	20,117	14,992
	4,631,519	**4,503,217**

NOTE 8 – SALES REVENUE (CONTINUED)

Information about major customers

Third-party sales in Croatia account for 32% (2020: 31%) of the total revenue from external customers, whereas the remaining 68% (2020: 69%) represent foreign sales. Top 20 customers participate with 32% (2020: 33%) in the value of external sales in total income.

Sales to major customers owned or controlled by the same third party group represent approximately 10% of the Group's total revenue in 2021 (2020: approximately 11% of the total revenue). Below is a more detailed overview of countries by geographical area:

Region Adria	**International markets**					
	Western Europe and Overseas		**Central Europe**	**Eastern Europe**	**New markets**	
Southeast Europe	**Western Europe**	**Overseas**				
Croatia	Germany	USA	Poland	Russian Federation	Irak	Burkina Faso
Slovenia	Austria	Canada	Czech Republic	Ukraine	United Arab Emirates	China
Bosnia and Herzegovina	Switzerland	Australia	Slovakia	Kazakhstan	Kuwait	Japan
North Macedonia	France	New Zealand	Hungary	Estonia	Katar	South Korea
Serbia	Great Britain		Romania	Lithuania	Oman	Singapore
Montenegro	Italy			Latvia	Saudi Arabia	Hong Kong
Kosovo	Denmark			Moldova	Turkey	Taiwan
Bulgaria	Sweden			Belarus	Jordan	Israel
Albania	Nederlands			Armenia	Lebanon	Mongolia
Greece	Belgium			Kyrgystan	Egypt	Maldivies
	Ireland			Uzbekistan	Libya	Bolivia
	Spain			Georgia	Kenya	Chile
	Portugal				DR Congo	
	Malta				Liberia	

NOTE 9 – OTHER INCOME

	2021	**2020**
	(in thousands of HRK)	
Interest and foreign exchange differences on trade receivables and payables	14,701	-
Grant income	8,781	8,589
Gain on disposal of assets held for sale	5,272	1,320
Reversal of impairment of other receivables	407	5,299
Gain on disposal of property, plant, equipment and intangibles	303	-
Gains on write-off right-of-use assets	64	41
Reversal of impairment of intangible assets	-	4,000
Other income	5,455	3,998
	34,983	**23,247**

In 2021, the Group generated income from interest and foreign exchange gains on trade receivables and trade payables in the amount of HRK 14,701 thousand (2020: expense of HRK 43,511 thousand).

Grant income mainly refers to non-repayable state grants for the employment of disabled persons.

NOTE 10 – OTHER EXPENSES

	2021	2020
	(in thousands of HRK)	
Impairment loss on property, plant, equipment and intangibles	8,440	132
Interest expense relating to trade payables and other	89	152
Interest and foreign exchange differences on trade receivables and payables	-	43,511
Loss on disposal of property, plant, equipment and intangibles	-	364
Subsidiary liquidation	-	242
	8,529	**44,401**

NOTE 11 – EXPENSES BY NATURE

	2021	2020
	(in thousands of HRK)	
Raw materials supplies, energy and cost of goods sold including change in inventory	2,323,721	2,216,360
Staff costs (note 12)	1,082,505	1,066,377
Services (i)	227,727	230,747
Depreciation and amortisation (ii)	218,166	218,225
Advertising and promotion	195,192	199,977
Transport	114,374	108,115
Taxes and contributions independent of operating results	25,649	25,600
Entertainment	23,578	17,846
Rental expense	16,661	16,421
Insurance premiums	12,927	14,875
Cost of disposal of packaging, administrative fees, etc	11,703	11,328
Litigation expenses	10,764	941
Telecommunications	10,326	10,241
Daily allowances and other business travel expenses	8,973	7,801
Bank charges	5,522	5,451
Impairment of trade receivables (note 25)	940	(189)
Other	3,946	(399)
Total cost of goods sold, selling and distribution costs, marketing costs and general and administrative costs	**4,292,674**	**4,149,717**

(i) Costs of services include audit fees. Fees for the audit of the Group's financial statements amounted to HRK 3,064 thousand (2020: HRK 2,572 thousand and HRK 173 thousand of one-off costs of the audit of previous years). Fees for the assurance engagements performed to the Group amounted to HRK 206 thousand (2020: HRK 226 thousand). During 2021, the Group did not receive any non-audit services from the auditor.

(ii) Depreciation and amortisation include HRK 1,828 thousand of government grants for co-financing of assets (2020: HRK 1,847 thousand).

The Group reports gross profit as revenue from the sale of products less operating expenses as shown in the specification above with the net effect of other income (Note 9) and other expenses (Note 10).

NOTE 11 – EXPENSES BY NATURE (CONTINUED)

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

	2021	2020
	(in thousands of HRK)	
Raw material and supplies	1,648,898	1,590,383
Cost of goods sold	627,355	579,727
Staff costs	462,696	456,971
Depreciation and amortisation	124,459	124,368
Production services	58,409	61,186
Taxes and contributions independent of operating results	11,261	12,141
Other expenses (transport, rent, education, etc)	20,303	19,026
Cost of goods sold	**2,953,381**	**2,843,802**

The Group reports gross profit as revenue from the sale of products less cost of goods sold as shown in the specification above.

Depreciation and amortisation allocated to each function is as follows:

	2021	2020
	(in thousands of HRK)	
Cost of goods sold	124,459	124,368
Selling, logistics and distribution costs	46,200	45,884
General and administrative expenses	36,230	36,672
Marketing expenses	11,277	11,301
	218,166	**218,225**

Staff costs allocated to each function is as follows:

	2021	2020
	(in thousands of HRK)	
Cost of goods sold	462,696	456,972
Selling, logistics and distribution costs	301,224	292,812
General and administrative expenses	211,397	207,363
Marketing expenses	107,188	109,230
	1,082,505	**1,066,377**

NOTE 12 – STAFF COSTS

	2021	2020
	(in thousands of HRK)	
Salaries	928,804	915,299
Transport	25,418	25,236
Share options (note 39)	9,512	11,120
Termination benefits	6,565	6,660
Other cost of employees	112,206	108,062
	1,082,505	**1,066,377**

As at 31 December 2021, the number of staff employed by the Group was 6,557 (2020: 6,650). The average number of employees of the Group during 2021 is 6,663 employees (2020: 6,721 employees). In 2021, termination and retirement benefits of HRK 6,565 thousand were paid to 114 employees (2020: termination and retirement benefits of HRK 6,660 thousand were paid to 91 employees).

Other employee costs relate mainly to meal expenses in the amount of HRK 24,522 thousand (2020: HRK 30,255 thousand). Other significant items within other cost of employees are Christmas, Easter and other non-taxable employee benefits in the amount of HRK 27,245 thousand (2020: HRK 26,455 thousand), and holiday pay in the amount of HRK 22,915 thousand (2020: HRK 22,425 thousand).

NOTE 13 – FINANCE INCOME

	2021	2020
	(in thousands of HRK)	
Net foreign exchange gains on borrowings	1,154	-
Interest on term deposits	360	208
Other interests	252	2
Dividend income	12	-
Remeasurement of financial instruments at fair value through profit or loss	4	332
	1,782	**542**

NOTE 14 – FINANCE EXPENSES

	2021	2020
	(in thousands of HRK)	
Interest expense and similar charges	7,784	14,772
Unrealised losses per forward	17	-
Net foreign exchange loss on borrowings	-	4,106
	7,801	**18,878**

NOTE 15 – INCOME TAX

Income tax expense consists of:

	2021	2020
	(in thousands of HRK)	
Current income tax	51,256	50,503
Deferred tax (income)/expense	(9,798)	7,373
	41,458	**57,876**

Effective tax rate reconciliation

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

	2021	2020
	(in thousands of HRK)	
Profit before taxation	**359,280**	**314,010**
Income tax at 18%	64,670	56,522
Non-taxable income	(2)	(830)
Non-deductible expenses	7,070	6,951
Tax incentives (research and development, education and other)	(2,985)	(2,542)
Recognition of previously unrecognized temporary differences and tax losses as deferred tax assets	(24,433)	-
Temporary differences and tax losses not recognised as deferred tax assets	1,973	2,271
Utilisation of tax losses previously not recognised as deferred tax asset	(12)	(758)
Effect of different tax rates	(5,308)	(4,055)
Tax for the previous year	9	23
Tax paid abroad	476	294
Income tax	**41,458**	**57,876**
Effective tax rate	12%	18%

Investment tax credit

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

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

Based on the assessment of the recoverability of the tax incentive made by the management of the subsidiary and the Group, in financial statements for 2015, the subsidiary and Group initially recognised the entire amount of approved tax incentives as a deferred tax asset and an income tax benefit. In future years, the deferred tax asset will be utilised in accordance with the utilization of the tax incentive, i.e. in accordance with and subject to the availability of tax obligations against which the credits can be offset and/or amounts of cash reimbursements the subsidiary receives as incentives for new employment as part of the investment project. In 2021, deferred tax asset of HRK 24,158 thousand was used from this basis.

NOTE 15 – INCOME TAX (CONTINUED)

Unused tax losses

In accordance with tax regulations, as at 31 December 2021 the Group has unused tax losses in the amount of HRK 87,095 thousand (2020: HRK 79,255 thousand) which consist of tax losses in Slovenia (in the amount of HRK 3,006 thousand), Tanzania (in the amount of HRK 35,866 thousand), Poland (in the amount of HRK 5,962 thousand), Germany (in the amount of HRK 8,260 thousand), the Czech Republic (in the amount of HRK 6,294 thousand), Bulgaria (in the amount of HRK 1,001 thousand) and Croatia (in the amount of HRK 26,705 thousand).

Unused tax losses carried forward were recognized as deferred tax assets in the amount of HRK 5,258 thousand. In the financial statements, the Group did not recognize deferred tax assets for the remaining tax losses since it is not probable that the tax losses will be utilized by the companies they relate to. Unused tax losses (gross) at the reporting date were as follows:

	2021	**2020**
	(in thousands of HRK)	
Tax losses expiring at 31 December 2021	-	3,303
Tax losses expiring at 31 December 2022	4,251	4,474
Tax losses expiring at 31 December 2023	1,189	1,251
Tax losses expiring at 31 December 2024	4,903	4,408
Tax losses expiring at 31 December 2025	8,418	8,372
Tax losses expiring at 31 December 2026	20,200	-
Tax losses with no expiration date	48,134	57,447
	87,095	**79,255**

Deferred tax assets

Deferred tax assets arise from the following:

2021	**Opening balance**	**Recognised in profit or loss**	**Recognised directly in equity**	**Foreign exchange differences**	**Closing balance**
			(in thousands of HRK)		
Basis:					
Intangible assets	3,873	9	-	-	3,882
Property, plant and equipment	7,111	(60)	-	1	7,052
Financial assets	25,014	25,649	-	-	50,663
Provisions	16,102	5,118	177	30	21,427
Share-based payments	2,135	861	(257)	-	2,739
Inventories	12,939	(138)	-	-	12,801
Investment tax credit	70,294	(24,967)	-	-	45,327
Unutilised tax losses carried forward	2,891	2,321	-	46	5,258
Receivables	1,052	(100)	-	-	952
Deferred tax assets	**141,411**	**8,693**	**(80)**	**77**	**150,101**

NOTE 15 – INCOME TAX (CONTINUED)

Deferred tax assets (continued)

2020	Opening balance	Recognised in profit or loss	Recognised directly in equity	Foreign exchange differences	Closing balance
			(in thousands of HRK)		
Basis:					
Intangible assets	4,541	(668)	-	-	3,873
Property, plant and equipment	7,303	(195)	-	3	7,111
Financial assets	24,705	309	-	-	25,014
Provisions	12,548	3,228	321	5	16,102
Share-based payments	1,263	872	-	-	2,135
Inventories	11,185	1,743	-	11	12,939
Investment tax credit	83,774	(13,480)	-	-	70,294
Unutilised tax losses carried forward	2,744	474	-	(327)	2,891
Receivables	1,002	50	-	-	1,052
Deferred tax assets	**149,065**	**(7,667)**	**321**	**(308)**	**141,411**

Based on the revaluation of tax recoverability, the Group recognised deferred tax assets based on loss on financial assets in the amount of HRK 25,027 thousand, and wrote off deferred tax assets on the basis of incentives in the amount of HRK 667 thousand.

Deferred tax liability

Deferred tax liabilities arise from the following:

2021	Opening balance	Recognised in profit or loss	Foreign exchange differences	Closing balance
		(in thousands of HRK)		
Basis:				
Intangible assets	(11,335)	1,172	(10)	(10,173)
Property, plant and equipment	(27,699)	(67)	(45)	(27,811)
	(39,034)	**1,105**	**(55)**	**(37,984)**

2020	Opening balance	Recognised in profit or loss	Foreign exchange differences	Closing balance
		(in thousands of HRK)		
Basis:				
Intangible assets	(11,393)	58	-	(11,335)
Property, plant and equipment	(27,690)	236	(245)	(27,699)
	(39,083)	**294**	**(245)**	**(39,034)**

NOTE 16 – EARNINGS/ (LOSS) PER SHARE

Basic earnings per share

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

Diluted earnings per share

Diluted earnings per share were calculated as the basic earnings per share, including the impact of the number of share options granted to employees, of which 116,800 were not exercised (2020: 40,500 options). The price of all unexercised share options is lower than the share market price as at 31 December 2021. The value of diluted earnings per share is the lower of the basic earnings per share obtained and the diluted earnings per share obtained.

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

	2021	**2020**
Ordinary shares as at 1 January	7,120,003	7,120,003
Effect of treasury shares	(105,916)	(127,916)
Weighted average number of shares at 31 December (basic)	**7,014,087**	**6,992,087**
Effect of share based payments	116,800	40,500
Weighted average number of shares at 31 December (diluted)	**7,130,887**	**7,032,587**

Basic and diluted earnings per share for the Group as a whole was as follows:

	2021	**2020**
Basic earnings per share		
Profit for the year attributable to the owners of parent company (in thousands of HRK)	309,221	248,934
Basic earnings per share (in HRK)	44.1	35.6
Diluted earnings per share		
Profit for the year attributable to the owners of parent company (in thousands of HRK)	309,221	248,934
Diluted earnings per share (in HRK)	43.4	35.4

NOTE 17 – GOODWILL

(in thousands of HRK)	**2021**	**2020**
Cost		
At 1 January	67,304	67,304
At 31 December	**67,304**	**67,304**
Accumulated impairment losses		
At 1 January	40,485	40,054
Effect of foreign exchange differences	(1,284)	431
At 31 December	**39,201**	**40,485**
Carrying amount at 31 December	**28,103**	**26,819**

During 2021 and 2020 there was no impairment of goodwill. A more detailed description of the approach and methods used in impairment testing is provided in note 6(v).

NOTE 18 – INTANGIBLE ASSETS

(in thousands of HRK)	**Software and licences**	**Rights, registration files, know how**	**Brands**	**Intangible assets in progress**	**Total**
Cost					
At 1 January 2020	260,507	249,127	202,305	39,375	751,314
Effect of foreign exchange differences	(123)	225	277	10	389
Additions	143	-	-	29,998	30,141
Transfers	17,297	6,546	-	(23,843)	-
Disposals and write-off's	(417)	(1,031)	-	(1,099)	(2,547)
Transfer from tangible fixed assets	-	-	-	99	99
At 31 December 2020	**277,407**	**254,867**	**202,582**	**44,540**	**779,396**
Accumulated amortisation and impairments					
At 1 January 2020	(221,746)	(178,032)	(106,977)	-	(506,755)
Effect of foreign exchange differences	74	(85)	168	-	157
Disposals and write-off's	327	849	-	-	1,176
Amortisation	(16,912)	(7,907)	-	-	(24,819)
Reversal of impairment of pharmacy rights net	-	4,000	-	-	4,000
At 31 December 2020	**(238,257)**	**(181,175)**	**(106,809)**	**-**	**(526,241)**
Carrying amount as at 31 December 2020	**39,150**	**73,692**	**95,773**	**44,540**	**253,155**
Cost					
At 1 January 2021	277,407	254,867	202,582	44,540	779,396
Effect of foreign exchange differences	(4)	(50)	329	(5)	270
Additions	387	-	-	26,052	26,439
Transfers	23,960	5,894	-	(29,854)	-
Disposals and write-off's	(147)	(1,782)	-	(51)	(1,980)
Transfer to tangible fixed assets	-	-	-	917	917
Impairment of assets	-	(5,961)	(71)	(336)	(6,368)
At 31 December 2021	**301,603**	**252,968**	**202,840**	**41,263**	**798,674**
Accumulated amortisation and impairments					
At 1 January 2021	(238,257)	(181,175)	(106,809)	-	(526,241)
Effect of foreign exchange differences	(49)	25	(503)	-	(527)
Disposals and write-off's	143	1,713	-	-	1,856
Amortisation	(15,745)	(7,476)	-	-	(23,221)
Impairment of assets	-	(706)	(600)	-	(1,306)
At 31 December 2021	**(253,908)**	**(187,619)**	**(107,912)**	**-**	**(549,439)**
Carrying amount as at 31 December 2021	**47,695**	**65,349**	**94,928**	**41,263**	**249,235**

Of the total amount of accumulated amortisation and impairment losses, HRK 28,224 thousand relates to accumulated impairment losses (2020: HRK 20,550 thousand).

The total intangible assets with indefinite useful lives as at 31 December 2021 amount to HRK 160,277 thousand and relate to brands and other rights.
During 2021, the Group recognised brand impairment costs in the amount of HRK 671 thousand (2020: HRK 0 thousand). Also, during 2021, the Group recognised rights impairment in the amount of HRK 7,003 thousand (2020: reversal of rights impairment in the amount HRK 4,000 thousand).

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

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Equipment	Assets under construction	Total
Cost				
At 1 January 2020	2,881,419	2,472,825	78,721	5,432,965
Effect of foreign exchange differences	4,758	2,403	57	7,218
Additions	-	1,958	160,452	162,410
Transfers	26,834	116,063	(142,897)	-
Disposals and write-off's	(1,518)	(51,783)	(681)	(53,982)
Transfer to intangible assets (i)	-	-	(99)	(99)
Transfer to investment property (iii)	-	-	(533)	(533)
Impairment of assets	-	-	(132)	(132)
At 31 December 2020	**2,911,493**	**2,541,466**	**94,888**	**5,547,847**
Accumulated depreciation and impairments				
At 1 January 2020	(1,677,442)	(1,542,217)	(327)	(3,219,986)
Effect of foreign exchange differences	(236)	(835)	-	(1,071)
Disposals and write-off's	833	50,957	-	51,790
Depreciation charge for the year	(57,033)	(99,270)	-	(156,303)
At 31 December 2020	**(1,733,878)**	**(1,591,365)**	**(327)**	**(3,325,570)**
Carrying amount as at 31 Dec 2020	**1,177,615**	**950,101**	**94,561**	**2,222,277**
Cost				
At 1 January 2021	2,911,493	2,541,466	94,888	5,547,847
Effect of foreign exchange differences	(1,898)	(151)	812	(1,237)
Additions	338	1,321	142,833	144,492
Transfers	20,748	117,253	(138,001)	-
Disposals and write-off's	(517)	(48,588)	(126)	(49,231)
Transfer to intangible assets (i)	-	-	(917)	(917)
Transfer to assets held for sale (ii)	-	-	(843)	(843)
At 31 December 2021	**2,930,164**	**2,611,301**	**98,646**	**5,640,111**
Accumulated depreciation and impairments				
At 1 January 2021	(1,733,878)	(1,591,365)	(327)	(3,325,570)
Effect of foreign exchange differences	1,389	(307)	-	1,082
Disposals and write-off's	241	47,696	-	47,937
Depreciation charge for the year	(54,888)	(101,453)	-	(156,341)
Impairment of non-current assets	(766)	-	-	(766)
At 31 December 2021	**(1,787,902)**	**(1,645,429)**	**(327)**	**(3,433,658)**
Carrying amount as at 31 Dec 2021	**1,142,262**	**965,872**	**98,319**	**2,206,453**

During 2021, the Group impaired land and buildings in the amount of HRK 766 thousand (2020: impairment of equipment in the amount of HRK 132 thousand).
(i) During 2021, the Group transferred property, plant and equipment to intangible assets in the amount of HRK 917 thousand (2020: HRK 99 thousand).
(ii) During 2021, the Group transferred property, plant and equipment to assets held for sale in the amount of HRK 843 thousand (2020: HRK 0 thousand).
(iii) During 2020, the Group transferred property, plant and equipment to investment property in the amount of HRK 533 thousand.

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets under construction mainly relate to investments in modernisation of production capacities and extension of the product range.

During 2021, the Group had no investments related to interest expense capitalisation in property and equipment.

Mortgaged assets

Buildings, land and equipment of the Group with a net carrying amount of HRK 327,985 thousand (2020: HRK 712,307 thousand) are pledged as collateral against the Group's borrowings.

NOTE 20 – LEASES

Movements in right-of-use assets:

(in thousands of HRK)	Land	Buildings	Total land and buildings	Equipment	Total
Cost					
As at 1 January 2020	12,814	59,971	**72,785**	63,402	**136,187**
Exchange rate effect	-	132	**132**	54	**186**
Additions	(846)	7,638	**6,792**	35,104	**41,896**
Disposals and write-off's	(25)	(3,472)	**(3,497)**	(13,039)	**(16,536)**
Balance at 31 December 2020	**11,943**	**64,269**	**76,212**	**85,521**	**161,733**
Accumulated depreciation					
As at 1 January 2020	325	13,690	**14,015**	22,004	**36,019**
Exchange rate effect	-	15	**15**	(21)	**(6)**
Depreciation charge for the year	291	14,786	**15,077**	22,117	**37,194**
Disposals and write-off's	(25)	(2,260)	**(2,285)**	(9,507)	**(11,792)**
Balance at 31 December 2020	**591**	**26,231**	**26,822**	**34,593**	**61,415**
As at 31 December 2020	**11,352**	**38,038**	**49,390**	**50,928**	**100,318**
Cost					
As at 1 January 2021	11,943	64,269	**76,212**	85,521	**161,733**
Exchange rate effect	-	(30)	**(30)**	(101)	**(131)**
Increase/(Decrease)	(317)	7,951	**7,634**	29,461	**37,095**
Disposals and write-off's	(20)	(5,901)	**(5,921)**	(16,973)	**(22,894)**
Balance at 31 December 2021	**11,606**	**66,289**	**77,895**	**97,908**	**175,803**
Accumulated depreciation					
As at 1 January 2021	591	26,231	**26,822**	34,593	**61,415**
Exchange rate effect	1	(123)	**(122)**	(56)	**(178)**
Depreciation charge for the year	273	14,861	**15,134**	23,587	**38,721**
Disposals and write-off's	(19)	(2,990)	**(3,009)**	(14,380)	**(17,389)**
Balance at 31 December 2021	**846**	**37,979**	**38,825**	**43,744**	**82,569**
As at 31 December 2021	**10,760**	**28,310**	**39,070**	**54,164**	**93,234**

Movements in lease liabilities for right-of-use assets:

	2021	**2020**
	(in thousands of HRK)	
As at 1 January	101,964	101,828
Interest expense	2,537	2,595
Increase of lease liabilities during the year (net)	31,590	37,152
Lease liabilities payments	(41,374)	(39,246)
Exchange rate difference	455	(365)
As at 31 December	**95,172**	**101,964**
Current portion of long term liability for right-of-use assets	32,403	33,322
Long term liability for right-of-use assets	62,769	68,642

NOTE 20 – LEASES (CONTINUED)

Amounts recognised in the statement of comprehensive income:

	2021	2020
	(in thousands of HRK)	
Depreciation charge for the year	38,721	37,194
Expenses related to short-term leases and leases of low-value assets etc.	25,119	26,392
Interest expense	2,537	2,595
Total amount recognised in the statement of comprehensive income	**66,377**	**66,181**

NOTE 21 – INVESTMENT PROPERTY

(in thousands of HRK)	***Total***
Cost	
As at 1 January 2020	147,737
Exchange rate effect	129
Transfer from property, plant and equipment	533
Balance at 31 December 2020	**148,399**
Accumulated depreciation	
As at 1 January 2020	(29,497)
Exchange rate effect	(24)
Depreciation charge for the year	(1,792)
Balance at 31 December 2020	**(31,313)**
Net book value at 31 December 2020	**117,086**
Cost	
As at 1 January 2021	148,399
Exchange rate effect	17
Balance at 31 December 2021	**148,416**
Accumulated depreciation	
As at 1 January 2021	(31,313)
Exchange rate effect	14
Depreciation charge for the year	(1,711)
Balance at 31 December 2021	**(33,010)**
Net book value at 31 December 2021	**115,406**

In 2021, the Group did not reclassify any portion of property, plant and equipment to investment property (2020: HRK 533 thousand).

Operating expenses amount to HRK 1,863 thousand (2020: HRK 2,059 thousand), while rental income from the property amounts to HRK 2,904 thousand (2020: HRK 2,967 thousand).

NOTE 22 – SUBSIDIARIES

Group consists of the Company and the following subsidiaries in which the Company has an ownership and control:

Name of subsidiary	Country	2021	2020	Principal activity
Belupo d.d., Koprivnica	Croatia	100.00%	100.00%	Production and distribution of pharmaceuticals
Belupo dooel, Skopje*	North Macedonia	100.00%	100.00%	Sale and distribution of pharmaceuticals
Belupo s.r.o. Bratislava*	Slovakia	100.00%	100.00%	Sale and distribution of pharmaceuticals
Belupo d.o.o. Ljubljana*	Slovenia	100.00%	100.00%	Sale and distribution of pharmaceuticals
Ljekarne Deltis Pharm, Koprivnica*	Croatia	100.00%	100.00%	Sale and distribution of pharmaceuticals
Farmavita d.o.o. Sarajevo, Vogošća*	Bosnia and Herzegovina	65.00%	65.00%	Sale and distribution of pharmaceuticals
Mirna d.d., Rovinj	Croatia	99.44%	99.23%	Fish processing and production
Podravka-Lagris a.s., Dolni Lhota u Luhačovic	Czech Rep.	100.00%	100.00%	Rice production and sale
Podravka-Polska Sp.z o.o., Warszawa	Poland	100.00%	100.00%	Seasonings sale and distribution
Podravka-International Kft, Budapest	Hungary	100.00%	100.00%	Sale and distribution of food and beverages
Podravka d.o.o., Belgrade	Serbia	100.00%	100.00%	Sale and distribution of food and beverages
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100.00%	100.00%	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen**	Slovakia	100.00%	100.00%	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100.00%	100.00%	Sale and distribution of food and beverages
Podravka-International Pty Ltd, Silverwater	Australia	100.00%	100.00%	Sale and distribution of food and beverages
Podravka EOOD, Sofia *****	Bulgaria	100.00%	100.00%	Sale and distribution of food and beverages
Podravka-International s.r.l., Bucharest	Romania	100.00%	100.00%	Sale and distribution of food and beverages
Podravka DOOEL, Petrovec	North Macedonia	100.00%	100.00%	Sale and distribution of food and beverages
Podravka d.o.o., Sarajevo	Bosnia and Herzegovina	100.00%	100.00%	Sale and distribution of food and beverages
Podravka USA Inc., New York******	USA	100.00%	100.00%	Sale and distribution of food and beverages
Podravka d.o.o., Moskva	Russia	100.00%	100.00%	Sale and distribution of food and beverages
Foodpro Limited, Dar es Salaam***	Tanzania	100.00%	100.00%	Production and distribution of food
Podravka Gulf Fze, Jebel Ali, Dubai	UAE	100.00%	100.00%	Sale and distribution
Žito d.o.o., Ljubljana	Slovenia	100.00%	100.00%	Production and distribution of food
Intes Storitve d.o.o., Maribor*****	Slovenia	100.00%	100.00%	Production and distribution of food
Šumi bonboni d.o.o., Ljubljana*****	Slovenia	100.00%	100.00%	Production and distribution of food
Žito maloprodaja d.o.o., Ljubljana*****	Slovenia	100.00%	100.00%	Sale of food and beverages
Podravka d.o.o., Ljubljana*****	Slovenia	100.00%	100.00%	Sale and distribution of food and beverages

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

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

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

*** During 2020, the name of the subsidiary Vegeta Podravka Limited, Tanzania was changed to Foodpro Limited, Dar es Salaam

****In 2020, the company Podravka International USA Inc., Wilmington was closed and the new company Podravka USA Inc., New York was established

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

NOTE 23 – NON-CURRENT FINANCIAL ASSETS

	2021	**2020**
	(in thousands of HRK)	
Financial instruments	54,133	54,133
Impairment of financial instruments	(17,736)	(17,736)
Equity instruments	5,388	5,379
Other receivables and deposits	1,420	1,510
Loans receivable	4	5
	43,209	**43,291**

Equity instruments mainly relate to investments in unquoted equity instruments.

NOTE 24 – INVENTORIES

	2021	**2020**
	(in thousands of HRK)	
Raw materials and supplies	348,265	350,229
Work in progress	34,109	39,538
Finished goods	412,142	436,252
Merchandise	139,194	154,418
	933,710	**980,437**

In 2021, the Group recognised impairment loss with respect to inventories in the amount of HRK 1,404 thousand (2020: HRK 9,533 thousand of impairment loss). The movement in inventory impairment provision is included in the statement of comprehensive income in line item ‘Cost of goods sold’.

NOTE 25 – TRADE AND OTHER RECEIVABLES

	2021	2020
	(in thousands of HRK)	
Current receivables		
Trade receivables	1,147,341	1,113,357
Impairment of receivables for expected credit losses	(290)	(1,139)
Impairment of receivables	(178,435)	(189,427)
Net trade receivables	**968,616**	**922,791**
Prepaid expenses	18,355	17,352
Net VAT receivable	10,973	10,723
Advances to suppliers	5,751	5,659
Receivables from employees	1,526	1,292
Loans given	7	8
Other receivables	20,858	15,171
	1,026,086	**972,996**

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

	2021	2020
	(in thousands of HRK)	
At 1 January	190,566	198,036
Increase	3,554	2,815
Amounts collected	(2,612)	(3,004)
Written off as uncollectable	(12,783)	(7,281)
At 31 December	**178,725**	**190,566**

Impairment losses on trade receivables and subsequent collections are included in 'Selling and distribution expenses'.

Ageing analysis of trade receivables which have not been impaired:

	2021	2020
	(in thousands of HRK)	
Non due	806,095	719,819
0-90 days	146,634	181,420
91-180 days	12,195	15,484
181-360 days	3,692	6,068
	968,616	**922,791**

Major customers

Trade receivables from major customers owned or controlled by the same third party from regular business as at 31 December 2021 amount to HRK 145,310 thousand (2020: HRK 122,805 thousand).

NOTE 26 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021	**2020**
	(in thousands of HRK)	
Forward contracts	-	106
	-	**106**

During 2021, the Group used forward contracts entered into with commercial banks with the primary intention of managing the fluctuations of foreign currencies with respect to the purchase and sale of foreign currencies. As at 31 December 2021, the forward contracts did not have positive fair value (2020: HRK 106 thousand).

The nominal value of currency forwards, according to the exchange rate contracted in the forward contracts, as at 31 December 2021 amounted to HRK 2,738 thousand with the contracts maturing in the period from 20 January 2022 and 21 March 2022 (2020: HRK 8,826 thousand with maturities between 11 January 2021 and 8 June 2021).

Gains and losses recognized as changes in the market value of the currency forward contracts are recorded in the statement of comprehensive income within ‘financial income/financial expenses, net’.

Fair value measurement

The fair value of forward exchange contracts is based on the quotation of the exchange rate. In accordance with the used input variables, evaluation is categorized in the fair value hierarchy as level 2 (see note 7).

NOTE 27 – CASH AND CASH EQUIVALENTS

	2021	**2020**
	(in thousands of HRK)	
Cash with banks	32,951	51,378
Cash in hand	355	478
	33,306	**51,856**

Cash with banks relates to transaction accounts at commercial banks that carry an average interest rate ranging from 0.00% to 0.15%.

The Group has certain transactions in foreign currencies and cash on bank accounts mainly in BAM (HRK 7,138 thousand), EUR (HRK 6,368 thousand), USD (HRK 5,672 thousand), HRK (HRK 2,594 thousand), HUF (HRK 2,394 thousand) and PLN (HRK 2,112 thousand), while in other currencies it holds HRK 7,028 thousand.

NOTE 28 – NON-CURRENT ASSETS HELD FOR SALE

	2021	2020
	(in thousands of HRK)	
Land and buildings	20,741	26,133
Equipment	2,942	2,740
	23,683	**28,873**

In 2021, the Group sold a portion of non-current assets held for sale with the carrying value of HRK 6,261 thousand and realised gain on sale in the amount of HRK 5,272 thousand.
Of the total amount of land and buildings held for sale, HRK 11,531 thousand relates to land and buildings in Poland, HRK 1,239 thousand to land and buildings in Tanzania, HRK 2,206 thousand to land and buildings in Croatia, HRK 843 thousand to land and buildings on the market of Bosnia and Herzegovina, and HRK 4,922 thousand on the market of Slovenia.

Fair value measurement

Land and property held for sale in the amount of HRK 23,683 thousand are measured at fair value less costs of sell due to the fact that this value is lower than the net carrying value prior to classification as held for sale. The Group has made an estimation of fair value on classification date and regularly checks if estimation needs to be revised.

Fair value measurement according to inputs used in evaluation is classified as level 3 (see note 7). The following table summarizes the valuation methods and techniques as well as significant inputs used in measuring the fair value at the classification date:

Valuation methods and techniques	Significant unobservable inputs
Property For buildings and land, cost and comparative methods are used. *Equipment* For equipment, the cost method is used.	Among other factors, the estimated discount rate considers the underlying quality of the property and its location on similar locations for a comparative type of property.

Equipment held for sale

The amount of HRK 2,942 thousand as at 31 December 2021 relates to equipment in the production plant in Tanzania (2020: HRK 2,740 thousand).

NOTE 29– SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pcs)	*(in thousands of HRK)*			
At 1 January 2020	6,992,087	1,566,401	179,803	(47,568)	1,698,636
Exercise of options (i)	-	-	(3,708)	-	(3,708)
Fair value of share based payments (i)	-	-	11,120	-	11,120
At 31 December 2020	**6,992,087**	**1,566,401**	**187,215**	**(47,568)**	**1,706,048**
At 1 January 2021	6,992,087	1,566,401	187,215	(47,568)	1,706,048
Exercise of options (i)	22,000	-	(1,986)	8,181	6,195
Fair value of share based payments (i)	-	-	6,260	-	6,260
At 31 December 2021	**7,014,087**	**1,566,401**	**191,489**	**(39,387)**	**1,718,503**

As at 31 December 2021, the Company's share capital amounted to HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 105,916 relates to treasury shares (2020: HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 127,916 relates to treasury shares). Nominal value of one share amounts to HRK 220.00. All issued shares are fully paid in.

(i) Share based payments

During 2021, the Company did not purchase any treasury shares (2020: 0 treasury shares).

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

	2021		**2020**	
Structure of ownership	**Number of shares**	**% of ownership**	**Number of shares**	**% of ownership**
PBZ CO OMF - Category B	1,097,644	15.42	1,097,644	15.42
AZ OMF category B	917,563	12.89	917,563	12.89
CERP - Croatian Pension Insurance Institute	727,703	10.22	727,703	10.22
Erste Plavi OMF category B	638,248	8.96	724,373	10.17
Raiffeisen OMF category B	625,298	8.78	625,298	8.78
CERP - Republic of Croatia	452,792	6.36	415,564	5.84
Kapitalni fond d.d.	406,842	5.71	406,842	5.71
MESNA INDUSTRIJA BRAĆA PIVAC D.O.O.	226,578	3.18	30,288	0.43
HPB - Republic of Croatia	167,281	2.35	167,281	2.35
Treasury account	105,916	1.49	127,916	1.80
Other shareholders	1,754,138	24.64	1,879,531	26.39
Total	**7,120,003**	**100.00**	**7,120,003**	**100.00**

NOTE 30 – RESERVES

(in thousands of HRK)	**Reserves for treasury shares**	**Legal reserves**	**Reserves for reinvested profit**	**Statutory reserves**	**Other reserves**	**Total**
At 1 January 2020	147,604	66,358	189,738	64,046	385,834	853,580
Allocation of profits (note 31)	-	10,238	-	3,505	78,312	92,055
Foreign exchange rate differences	-	-	-	-	8,141	8,141
Actuarial losses (net of tax)	-	-	-	-	(2,602)	(2,602)
At 31 December 2020	**147,604**	**76,596**	**189,738**	**67,551**	**469,685**	**951,174**
At 1 January 2021	147,604	76,596	189,738	67,551	469,685	951,174
Allocation of profits (note 31)	-	9,712	-	2,621	127,215	139,548
Foreign exchange rate differences	-	-	-	-	502	502
The effect of acquiring additional minority interest	-	-	-	-	33	33
Actuarial losses (net of tax)	-	-	-	-	(969)	(969)
At 31 December 2021	**147,604**	**86,308**	**189,738**	**70,172**	**596,466**	**1,090,288**

The legal reserve is required under Croatian law according under which the Company is committed to build up legal reserves to a minimum of 5% of the profit for the year until the total reserve reaches 5% of the share capital. Both legal reserves and reserves for treasury shares, as well as reserves for reinvested profits, are non-distributable. Other reserves mainly relate to (non-distributable) reserves required by the Company's Articles of Association and foreign exchange translation reserves related to subsidiaries abroad.

(i) *Transfers within capital and reserves*

In 2021, the General Assembly reached a decision to allocate the Company's profit from 2020 in the amount of HRK 193,832 thousand as follows: the amount of HRK 9,692 thousand to legal reserves, the amount of HRK 120,060 thousand to other reserves and the amount of HRK 63,127 thousand for the declared dividend (HRK 9.00 per share), while the remaining amount of HRK 953 thousand is retained in unallocated profit.

In addition, in 2021, in accordance with the decisions of their General Assemblies, subsidiaries allocated the profit as follows: the amount of HRK 2,621 thousand to statutory reserves, the amount of HRK 20 thousand to legal reserves and HRK 7,155 thousand to other reserves.

NOTE 31 – RETAINED EARNINGS

Movement in retained earnings is presented as follows:

	2021	2020
	(in thousands of HRK)	
At 1 January	**714,828**	**620,878**
- transfer to legal and other reserves	(139,548)	(92,055)
- dividend declared	(63,127)	(62,929)
- exercise of options	812	-
- profit for the year	309,221	248,934
At 31 December	**822,186**	**714,828**

At 29 June 2021, the General Assembly reached a decision on dividend distribution in amount of HRK 63,127 thousand, HRK 9.00 per share (2020: HRK 62,929 thousand, HRK 9.00 per share).

NOTE 32 – NON-CONTROLLING INTERESTS

Podravka Group has non-controlling interests arising from acquisitions of 65% of ownership interest in subsidiary Farmavita d.o.o. Sarajevo and 99.44% in the related company Mirna d.d. (2020: 99.23%). Summary financial information for the company Farmavita d.o.o., Sarajevo as at 31 December 2021 (excluding consolidation eliminations) and for the company Mirna d.d. are as follows:

31 December 2021	**Mirna d.d.**	**Farmavita**
(in thousands of HRK)		
Non-controlling interest	***0.6%***	***35.0%***
Statement of financial position		
Non-current assets	71,775	74,995
Current assets	47,792	148,118
Current liabilities	(127,096)	(51,125)
Non-current liabilities	(20,429)	(9,995)
Net assets	**(27,958)**	**161,993**
Statement of comprehensive income for the period		
Sales revenue	74,961	254,598
(Loss)/Profit after tax	(18,296)	25,934
Other comprehensive income	10	(138)
Total comprehensive income for the period	**(18,286)**	**25,796**
Statement of cash flows		
Net increase in cash and cash equivalents	**11**	**(7,693)**

NOTE 32 – NON-CONTROLLING INTERESTS (CONTINUED)

The movement in non-controlling interest was as follows:

	2021	2020
	(in thousands of HRK)	
Balance at 1 January	54,932	46,334
Subsidiary liquidation	-	911
Effect of acquiring non-controlling interests	(107)	-
Foreign exchange differences	(137)	487
Share in current year profit	8,601	7,200
Balance at 31 December	**63,289**	**54,932**
Relating to:		
Mirna d.d.	***183***	***392***
Farmavita d.o.o.	***63,106***	***54,540***

NOTE 33 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021	2020
	(in thousands of HRK)	
Forwards	35	66
	35	**66**

The negative fair value of forward exchange contracts as at 31 December 2021 amounted to HRK 35 thousand (2020: HRK 66 thousand).

NOTE 34 – BORROWINGS

	2021	2020
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	129,631	201,441
Banks abroad	9,588	99,602
Finance lease	521	151
	139,740	**301,194**
Current borrowings		
Banks in Croatia	205,700	235,891
Banks abroad	52,886	145,862
Finance lease	298	224
	258,884	**381,977**
Total borrowings	**398,624**	**683,171**

In 2016, Podravka d.d., Belupo d.d. and Žito d.o.o. agreed a syndicated loan with EBRD and business banks in the total amount of EUR 123 million. For refinancing the existing borrowings, the companies used a total of EUR 98,850 thousand. During 2021, Podravka d.d., Belupo d.d. and Žito d.o.o. refinanced the remaining syndicated loan amount by commercial bank borrowings.

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

a) Interest coverage ratio (ICR). The parameter is calculated as the ratio of consolidated EBITDA and consolidated interest expense and bank fee for the year.
b) Debt coverage ratio (DCR). The parameter is calculated as the ratio of consolidated net debt and consolidated EBITDA.
c) Equity ratio (ER). The parameter is calculated as the ratio of consolidated share capital and reserves and consolidated total assets.

Bank borrowings in the amount of HRK 120,588 thousand (2020: HRK 379,272 thousand) are secured by mortgages over the Group's land and buildings and movables with a net carrying value of HRK 327,985 thousand (Note 19).

The lease liabilities of the Group are as follows:

	Minimum lease payments		Finance cost		Present value	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
			(in thousands of HRK)			
Up to 1 year	318	236	(20)	(12)	298	224
Between 1 and 5 years	532	158	(11)	(6)	521	151
Total	**850**	**394**	**(31)**	**(18)**	**819**	**375**
Included in the consolidated financial statements within:						
Current borrowings					298	224
Non-current borrowings					521	151
					819	**375**

NOTE 34 – BORROWINGS (CONTINUED)

The maturity of non-current borrowings is as follows:

	2021	2020
	(in thousands of HRK)	
Between 1 and 2 years	99,451	217,940
Between 2 and 5 years	40,289	83,254
	139,740	**301,194**

Fixed and variable interest rates by major currencies are as follows:

	2021			2020		
	HRK	EUR	Other	HRK	EUR	Other
Non-current borrowings						
Banks in Croatia						
variable interest rate	0.57%	-	-	0.57%	-	-
fixed interest rate	0.70%	0.35%	-	0.75%	-	-
Banks abroad						
variable interest rate	-	3.00%	-	-	0.94%	-
fixed interest rate	-	0.35%	5.00%	-	-	4.79%
Financial leases						
variable interest rate	-	4.80%	-	-	-	4.80%
fixed interest rate	-	-	3.89%	-	-	-
Current borrowings						
Banks						
variable interest rate	-	0.63%	4.48%	0.51%	-	0.99%
fixed interest rate	0.51%	-	-	0.67%	-	-

An overview of borrowings by fixed and variable interest rates is as follows:

	2021		2020	
	fixed	**variable**	**fixed**	**variable**
	(in thousands of HRK)			
Non-current borrowings	99,022	40,718	147,903	153,291
Current borrowings	202,509	56,375	174,957	207,020
	301,531	**97,093**	**322,860**	**360,311**

The average weighted cost of debt on the Group's interest-bearing liabilities as at 31 December 2021 was 0.93% (31 December 2020: 0.84%).

NOTE 34 – BORROWINGS (CONTINUED)

The carrying amounts and fair values of the Group's long-term borrowings are as follows:

	Carrying value		Fair value	
	2021	**2020**	**2021**	**2020**
	(in thousands of HRK)			
Non-current borrowings				
Banks in Croatia	129,631	201,441	129,045	200,133
Banks abroad	9,588	99,602	9,582	99,867
Finance leases	521	151	534	151
	139,740	**301,194**	**139,161**	**300,151**

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

	2021	**2020**
	(in thousands of HRK)	
Croatian kuna	186,490	437,332
EUR	173,349	217,699
Other currencies	38,785	28,140
	398,624	**683,171**

The Group has the following undrawn bank borrowing facilities:

	2021	**2020**
	(in thousands of HRK)	
Available for withdrawal	420,785	408,715
	420,785	**408,715**

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

NOTE 34 – BORROWINGS (CONTINUED)

Reconciliation of movements in liabilities with cash flows from financing activities:

(in thousands of HRK)	**Loans**	**Lease liabilities**	**Share capital**	**Other reserves**	**Retained earnings**	**Non-controlling interests**	**Total**
At 1 January 2021	683,171	101,964	1,706,048	469,685	714,828	54,932	3,730,628
Cash transactions:							
Loans received	226,847	-	-	-	-	-	226,847
Loans repayments	(512,326)	-	-	-	-	-	(512,326)
Repayment of lease liabilities	-	(38,837)					(38,837)
Sale of treasury shares	-	-	7,983	-	-	-	7,983
Additional acquisition of non-controlling interest	-	-	-	33	-	(107)	(74)
Dividend paid	-	-	-	-	(62,782)	-	(62,782)
Total cash transactions	**(285,479)**	**(38,837)**	**7,983**	**33**	**(62,782)**	**(107)**	**(379,189)**
Non-cash transactions:							
Effect of change in exchange rates	183	519	-	502	-	(137)	1,067
Actuarial gains (net of deferred tax)	-	-	-	(969)	-	-	(969)
Transfer from retained earnings (note 31)	-	-	-	127,215	(139,548)	-	(12,333)
Other non-cash transactions	749	37,095	-	-	812	-	38,656
Gain from right-of-use assets write-off	-	(5,569)	-		-	-	(5,569)
Total other changes related to equity	-	-	4,472	-	308,876	8,601	321,949
At 31 December 2021	**398,624**	**95,172**	**1,718,503**	**596,466**	**822,186**	**63,289**	**3,694,240**

NOTE 35 – PROVISIONS

(in thousands of HRK)	Jubilee awards	Unused holiday accruals	Retirement benefits	Termination benefits and bonuses	Legal cases	Total
As at 31 December 2020						
Non-current	16,467	-	35,556	-	26,451	78,474
Current	2,191	14,596	-	15,243	141	32,171
At 1 January 2021	**18,658**	**14,596**	**35,556**	**15,243**	**26,592**	**110,645**
Increase of provisions	2,392	11,294	4,014	23,435	11,031	52,166
Utilised during the year	(2,958)	(9,456)	(2,680)	(15,049)	(1,977)	(32,120)
At 31 December 2021	**18,092**	**16,434**	**36,890**	**23,629**	**35,646**	**130,691**
Non-current	15,935	-	36,890	-	34,265	87,090
Current	2,157	16,434	-	23,629	1,381	43,601
	18,092	**16,434**	**36,890**	**23,629**	**35,646**	**130,691**

(i) Legal cases

Legal provisions relate to a number of legal proceedings initiated against the Group which stem from regular commercial activities and court cases including former employees. The expenses relating to the provisions are included in the consolidated statement of comprehensive income within Other income or Administrative expenses. Based on the expert opinion of legal counsels, the Group's Management believes that the outcome of these legal proceedings will not give rise to any significant losses beyond the amounts provided as at 31 December 2021.

(ii) Termination benefits and bonuses

As at 31 December 2021, the Group recognised HRK 21,414 thousand of provisions for bonuses to key management (2020: HRK 15,243 thousand) and HRK 2,021 thousand of provisions for short-term termination benefits relating to redundancy (2020: HRK 0 thousand).

(iii) Jubilee awards and regular retirement benefits

According to the Collective Labour Agreement signed by the Group companies, the Group has an obligation to pay jubilee awards, retirement and other benefits to its employees. No other post-retirement benefits are provided. The present values of these obligations, the related current service cost and past service cost were measured using the projected credit unit method.

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

	2021	**2020**
Discount rate	0.40% - 3.00%	0.50% - 3.17%
Fluctuation rate	4.40% - 12.80%	4.60% - 12.50%
Average expected remaining working lives (in years)	22	21

The management believes that the Croatian corporate bond market is a deep market.

NOTE 35 – PROVISIONS (CONTINUED)

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

	2021		2020	
(in thousands of HRK)	**Jubilee awards**	**Retirement benefits**	**Jubilee awards**	**Retirement benefits**
At 1 January	18,658	35,556	18,648	31,759
Past service cost	83	99	195	405
Current service cost	1,272	2,560	1,088	1,611
Interest expense	102	112	70	51
Actuarial (gains) / losses	935	1,243	1,522	3,324
Benefits paid	(2,958)	(2,680)	(2,865)	(1,594)
At 31 December	**18,092**	**36,890**	**18,658**	**35,556**

NOTE 36 – OTHER NON-CURRENT LIABILITIES

	2021	**2020**
	(in thousands of HRK)	
Deferred income on government incentives	18,445	18,755
Other non-current liabilities	-	374
	18,445	**19,129**

Deferred income on government grants relates to non-monetary government grant to subsidiary in Slovenia and it is based on the amount of contributions for the employment of disabled persons.

In accordance with the relevant regulations, the aforementioned contributions are not paid into the government budget and it can be used for the acquisition of qualifying non-current tangible assets during three years' period. The amount of unpaid contributions is then recognized as government grant and transferred to profit or loss on a systematic basis over the useful life of the related assets. If the grant is not used for the acquisition of non-current assets within the prescribed period, unpaid contributions become payable.

The amount of deferred income on government grants that is expected to be transferred to profit or loss in the period of up to one year on a basis of depreciation of qualifying assets, or the amount of unpaid contributions, which will not qualify as a government grant and will become payable within one year, is recognized as a current liability in trade and other payables.

NOTE 37 – TRADE AND OTHER PAYABLES

	2021	2020
	(in thousands of HRK)	
Trade payables	307,650	338,402
Other payables	223,666	216,508
	531,316	**554,910**

At 31 December 2021 and 31 December 2020, the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.

Other liabilities include the following:

	2021	2020
	(in thousands of HRK)	
Accrued expenses	91,420	87,113
Salaries and other benefits to employees	81,069	77,904
Deferred income	29,404	29,825
Taxes, contributions and value added tax	7,248	7,334
Advances received	4,402	1,520
Dividends payable	2,930	2,585
Packaging waste disposal fee payable	700	784
Accrued interest	543	836
Other payables	5,950	8,607
	223,666	**216,508**

NOTE 38 – RISK MANAGEMENT

Categories of financial instruments are as follows:

	2021	2020
	(in thousands of HRK)	
Financial assets at amortised cost		
Long-term loans (note 23)	4	5
Long-term deposits (note 23)	1,420	1,510
Short-term loans (note 25)	7	8
Trade receivables (including bills of exchange) (note 25)	968,616	922,791
Cash and cash equivalents (note 27)	33,306	51,856
	1,003,353	**976,170**
Financial assets through other comprehensive income		
Equity instruments	5,388	5,379
Financial assets at fair value through profit or loss		
Financial instruments	36,397	36,397
Forward contracts (note 26)	-	106
	36,397	**36,503**
Total financial assets	**1,045,138**	**1,018,052**
Financial liabilities at amortised cost		
Finance lease liabilities (note 34)	819	375
Borrowings (note 34)	397,805	682,796
Lease liabilities (note 20)	95,172	101,964
Trade and interest payables (note 37)	308,193	339,238
	801,989	**1,124,373**
Financial liabilities at fair value through profit or loss		
Forward contract (note 33)	35	66
	35	**66**
Total financial liabilities	**802,024**	**1,124,439**

Fair value of financial instruments

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

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

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

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

Financial assets arising from currency forward contracts are measured at fair value as explained in note 26.

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

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

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management

In its operations, the Podravka Group is exposed to various financial risks, especially the currency, interest rate and price risks, and in addition to these financial risks, significant risks include credit risk and liquidity risk. Managing the currency, interest rate and credit risks is performed by the Treasury sector and the finance departments of individual companies, together with active management of excess liquidity investment and active management of financial assets and liabilities.

An integral part of the overall Enterprise Risk Management (ERM) project is the reporting procedure for the purpose of managing financial risks. The purpose of this procedure is to ensure that the Management is informed about critical events that may jeopardize profitability or cause a significant loss of cash, while these critical events are still in the early stages. This allows for timely decision-making on specific business activities for the purpose of managing critical events.

Capital risk management

The gearing ratio at the reporting date was as follows:

	2021	2020
	(in thousands of HRK)	
Debt (non-current and current borrowings including forwards)	398,659	683,237
Cash and cash equivalents	(33,306)	(51,856)
Net debt	365,353	631,381
Equity	3,694,266	3,426,982
Net debt to equity ratio	10%	18%

Debt is defined as long- and short-term borrowings. Equity includes all capital and reserves. Besides monitoring the ratio of net debt to equity, the Company's Treasury together with financial departments in subsidiaries, also monitors the net debt ratio and operating profit before depreciation and amortization (EBITDA).

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a possible financial loss to the Podravka Group. The Company adopted an "Collection of due receivables process" and applies it in operations with customers, based on which it takes security instruments, wherever possible, for the purpose of hedging possible financial risks and loss as a consequence of default. In addition, during 2021, the Podravka Group insured collection of receivables for a group of foreign markets. The Company insured receivables in the markets of the Republic of Croatia, Turkey, Qatar, Belarus, Ukraine, United Arab Emirates, Saudi Arabia, Oman, Kuwait, Egypt, Japan and Kenya. For a certain group of markets, Podravka's related companies also insure receivables from external customers. In 2021, Belupo d.d., Podravka Moscow, Podravka Lagris, Podravka Poland and the Žito Group insured their receivables with insurers.

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Credit risk management (continued)

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

The Group's exposure to major customers

The control of the Group's exposure to major customers is carried out through regular monitoring of receivables and certain measures to control the collection and delivery of goods, as well as the acquisition of adequate collection security instruments.

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

Risk mitigation instruments are defined based on the financial performance ratios for individual customers, using internet services where the required information is available (financial statements, credit ratings). The company's exposure and credit rating are continuously monitored through credit limits set by the company and insurer, which are continuously controlled and adjusted if appropriate.

During 2021, the Podravka Group did not have significant damage claims related to the insurance of receivable collection.

Liquidity risk management

The Podravka Group manages liquidity risk by maintaining optimum amounts of cash on accounts, in addition to adequate sources of financing from credit lines available, for the purpose of the efficient management of short- and long-term funding and liquidity requirements.

The process of continuous monitoring of cash flows at the Podravka Group level, matching the maturity profiles of trade receivables and payables to customers and suppliers, banks and other financial institutions, enables timely ensuring optimum liquidity level required for Podravka Group's operating purposes.

Planning cash flows is performed at the level of each company in the Podravka Group, where the companies follow the guidelines set by Podravka Treasury, aimed at settling all liabilities and adjusting other contractual relationships.

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management (continued)

Liquidity risk analysis

Tables below show contracted maturity of financial liabilities and financial assets of the Podravka Group stated in the consolidated statement of financial position at the end of each reporting period.

The tables have been drawn up based on the undiscounted cash flows based on contracted terms at reporting date and include cash flows from both interest and principal.

The liquidity risk analysis below shows no potential deficit of short-term liquidity for the Group.

as at 31 December 2021	**Net book value**	**Contracted cashflow**	**Up to one year**	**1 - 5 years**	**over 5 years**
			(in thousands of HRK)		
Non-interest bearing liabilities:					
Forward contracts	**35**	35	35	-	-
Trade and interest payables	**308,193**	308,193	307,553	640	-
	308,228	308,228	307,588	640	-
Interest bearing liabilities					
Finance lease liabilities	**819**	877	327	550	-
Borrowings	**397,805**	399,960	246,487	153,473	-
Lease liabilities	**95,172**	106,882	35,466	54,540	16,876
	493,796	507,719	282,280	208,563	16,876
	802,024	815,947	589,868	209,203	16,876
Non-interest bearing assets:					
Trade receivables	**968,616**	968,616	967,486	1,130	-
Financial instruments	**41,785**	41,785	-	41,785	-
Cash and cash equivalents	**33,306**	33,306	33,306	-	-
	1,043,707	1,043,707	1,000,792	42,915	-
Interest bearing assets:					
Long-term loans	**11**	11	7	4	-
Long-term deposits	**1,420**	1,424	928	496	-
	1,431	1,435	935	500	-
	1,045,138	1,045,142	1,001,727	43,415	-
Net liquidity position	**243,114**	**229,195**	**411,859**	**(165,788)**	**(16,876)**

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management (continued)

Liquidity risk analysis (continued)

as at 31 December 2020	Net book value	Contracted cashflow	Up to one year	1 - 5 years	over 5 years
			(in thousands of HRK)		
Non-interest bearing liabilities:					
Forward contracts	**66**	66	66	-	-
Trade and interest payables	**339,238**	339,238	337,571	1,667	-
	339,304	339,304	337,637	1,667	-
Interest bearing liabilities					
Finance lease liabilities	**375**	393	248	145	-
Borrowings	**682,796**	690,023	386,456	303,567	-
Lease liabilities	**101,964**	112,242	35,148	57,743	19,351
	785,135	802,658	421,852	361,455	19,351
	1,124,439	1,141,962	759,489	363,122	19,351
Non-interest bearing assets:					
Trade receivables (including bills of exchange)	**922,791**	922,791	922,791	-	-
Financial instruments	**41,776**	41,776	-	41,776	-
Forward contracts	**106**	106	106	-	-
Cash and cash equivalents	**51,856**	51,856	51,856	-	-
	1,016,529	1,016,529	974,753	41,776	-
Interest bearing assets:					
Long-term loans	**13**	13	13	-	-
Long-term deposits	**1,510**	1,510	882	628	-
	1,523	1,523	895	628	-
	1,018,052	1,018,052	975,648	42,404	-
Net liquidity position	**(106,387)**	**(123,910)**	**216,159**	**(320,718)**	**(19,351)**

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks

(i) Interest rate risk management

The Podravka Group continuously monitors interest rate changes and projections so that it can respond in a timely manner if necessary. Given that the Podravka Group has contracted most of its borrowings at a fixed interest rate, the Podravka Group is not significantly exposed to interest rate risk.

Exposure to changes in interest rates on loans in accordance with the agreed dates of changes in interest rates is as follows:

(in thousands of HRK)	**2021**	**2020**
EURIBOR based bank loans	3,643	217,698
EURIBOR based finance lease	561	375
TZMF bill of exchange based loans*	60,013	125,318
PRIBOR based bank loans**	32,875	16,922
	97,092	**360,313**

** Treasury bills of the Ministry of Finance*
*** Prague Interbank Offer Rate*

Interest rate sensitivity analysis

The sensitivity analysis below is determined based on the exposure to changes in contractual interest rates at the reporting date. For floating rate liabilities, the analysis is prepared by calculating the effect of a reasonably possible increase in interest rates on floating rate debt on the expected contractual cash flows of such debt compared to those calculated using the interest rates applicable at the current reporting period end date.

The estimated effect of an increase in interest rates of 50 basis points on the Podravka Group's result before tax for the reporting periods is as follows:

as at 31 December 2021	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years
		(in thousands of HRK)		
At current interest rates	99,172	58,207	20,787	20,178
At current interest rates + 50 basis points	99,803	58,636	20,939	20,228
Effect of increase of interest rate by 50 bp	**(631)**	**(429)**	**(152)**	**(50)**

as at 31 December 2020	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years
		(in thousands of HRK)		
At current interest rates	363,424	209,178	114,009	40,237
At current interest rates + 50 basis points	365,435	210,505	114,493	40,437
Effect of increase of interest rate by 50 bp	**(2,011)**	**(1,327)**	**(484)**	**(200)**

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

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(ii) Price risk

The success of business of Podravka Group is dependent on adequate sources of raw materials, as well as their prices on the market, the efficiency of the production process and distribution of products to its customers.

The cost of raw materials can play a significant role in the cost of finished products the Podravka Group produces, therefore, it is subject to fluctuations of market prices of agricultural, food and pharmaceutical raw materials, whose impact cannot always be mitigated through the sale price for the buyer.

Protective customs and trade mechanisms in the EU protecting EU producers represent a risk in terms of increased customs duties (antidumping) for certain raw materials from third countries.
Also, frequent disruptions on the global market caused by environmental and geopolitical factors and a consolidation in the sector of primary production of raw materials, as well as global disruptions in the supply chain caused by the COVID-19 pandemic, might result in higher purchase prices in the future.

Risks of raw material procurement and product delivery

The Podravka Group realises the procurement on the domestic and foreign markets, while the majority of turnover with foreign suppliers relates to suppliers from EU member states.

Among procurement function risks, the risk of availability of goods on market is one of the most significant, due to its possible impact on the Podravka Group's operations.

Over the last years, this risk is more prominent due to more frequent adverse weather conditions caused by climate change on the global level (long droughts, floods, etc.). The consequence are lower yields of some agricultural plants often coupled with their lower quality, which leads to the deficit of these raw materials in the free market (fresh and dried vegetables), even for several consecutive seasons. More frequent livestock diseases (African swine fever) cause global disruptions on the meat market, while political or social unrest in certain countries, state interventions on market (hazelnut, cocoa) or speculation with key agricultural and food products (wheat, sugar) are a constant threat in the global business environment. The global pandemic of the COVID-19 virus has further increased the supply risk, which is primarily manifested in the availability of the necessary materials due to the functioning of the entire supply chain in difficult circumstances.

Operating in such conditions, the procurement function of the Podravka Group minimizes these impacts through managing the strategic procurement categories and key suppliers, consolidation of purchasing volumes with the aim to strengthen market positions and ensure availability of raw materials for the production in required volumes, of satisfying quality and on time. Also, by continuously monitoring new technological solutions and introducing replacement raw materials where possible, the Podravka Group actively works on the mitigation and/or elimination of the risk of procurement of raw materials and availability of products.

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(ii) Price risk (continued)

Risks of price fluctuations of basic raw materials

The market of agricultural and food products, as the most significant source of raw materials for the Group, is among the most sensitive markets of the modern world. Therefore, the volatility of prices of agricultural and food raw materials is a significant element in the Group's business environment, especially in conditions of prominent disruptions on the global and local markets. One of the reasons lies in the already mentioned risks of availability of goods due to environmental, geopolitical and social factors and speculations with key agricultural and food products, especially those in the wheat and sugar sectors. Exceptional price volatility is particularly relevant in the commodity market segment (hazelnut, sugar, spices, cocoa, powdered milk, energy sources, etc.), which was significant during the last year on the one hand due to disruptions in the supply chain, and on the other, due to increased demand in the market of China.

Protective customs and trade mechanisms in the EU that, on one hand, protect EU producers, on the other hand pose a risk in terms of increased customs duties (antidumping) for certain raw materials from third countries.

In the part of pharmaceutical raw materials there has also been a rise in prices due to significant changes in the input raw material market. Due to the rise in ecological awareness and closure of factories in China that could not survive under the new conditions, there was a lack of primary raw materials which ultimately resulted in an increase in the prices of chemical syntheses.

The global pandemic of the COVID-19 virus has further increased on the one hand the supply risk, which is primarily manifested in the availability of the necessary materials due to the functioning of the entire supply chain in difficult circumstances, but also the risk of price changes.

To minimise these impacts, the Podravka Group's procurement function continuously monitors movements in prices and market trends, conducts joint tenders for certain strategic procurement categories, uses new procurement techniques (e-procurement, internet auctions) to increase the efficiency of the sourcing process and reduce the cost of procurement. Timely contracting, allocating a portion of risk to our suppliers, optimisation of material specifications and introduction of replacement raw materials, as well as active implementation of the Commodity Risk Management with strengthening of cost-driver analysis and technical analyses of all relevant inputs are only some of the measures taken by the Podravka Group for the purpose of best estimates of price movements and the minimisation of market price volatility risk.

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(iii) Currency risk

The carrying amounts of the Podravka Group's financial assets and financial liabilities denominated in foreign currencies at the reporting date are as follows.

	Liabilities		Assets	
	2021	**2020**	**2021**	**2020**
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	451,481	493,350	256,615	227,427
Czech (CZK)	48,374	33,361	19,851	15,874
Bosnia and Herzegovina (BAM)	35,833	38,499	144,961	146,334
Poland (PLN)	27,610	24,008	39,466	42,167
Russia (RUB)	12,230	9,108	155,150	143,252
Other currencies	26,897	22,651	109,546	114,573
	602,425	**620,977**	**725,589**	**689,627**

Foreign currency sensitivity analysis

The Podravka Group performs certain transactions in foreign currencies and is therefore exposed to risks of changes in exchange rates, with the highest exposure during 2021 to changes in the exchange rate of the Croatian kuna against EUR, CZK, BAM, PLN and RUB.

During 2021, the Podravka Group contracted derivative financial instruments to hedge currency risk, aimed at hedging the planned exchange rate for 2021. Using Bloomberg terminal, macroeconomic projections are regularly being monitored and fx forward transactions are contracted based on projections, in line with the "Layer hedging" model.

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(iii) Currency risk (continued)

Foreign currency sensitivity analysis (continued)

Currency risks arise from operation of subsidiary companies in foreign markets and the purchase of food raw materials in the international market which is largely in EUR and USD. Similarly, the Podravka Group is partially financed through borrowings denominated in EUR.

During 2021, the Podravka Group performed the balance sheet currency structure analysis and continued to apply the model of managing transaction currency risk called "Layer hedging". This model is applied to the following currencies: USD, AUD, CAD, RUB, CZK, HUF and PLN. The integral parts of the model include the identification of risk sources and exposure measurement process of contracting derivative financial instruments for hedging purposes and the control and reporting system.

Additionally, within the model exposure limit parameters were set which are triggers for contracting prescribed hedging levels. This way, the currency risk is largely transferred from related parties to the Company that adjusts these cash inflows with outflows (natural hedging), thus reducing the overall exposure to currency risk, and also creating the opportunity to contract derivative financial instruments on the remaining amount of net cash flow at the central level.

During 2021, Podravka d.d. concluded fx forward contracts for managing currency risk of the following foreign currencies: AUD, CAD, RUB, HUF and PLN. Due to the exchange rate regime implemented by the Croatian National Bank, derivative financial instruments were not contracted for the exposure of the exchange rate of Croatian kuna towards the EUR. Belupo d.d., a company in the Podravka Group, realises a significant portion of its revenue in the Russian market and is therefore exposed to changes of the RUB exchange rate. Podravka International Kft., Budapest realizes part of its outflows in euros due to the settlement of its obligations in the specified currency. During 2021, a subsidiary entered into fx forward transactions for EUR HUF rate aimed at hedging the EUR exchange rate change.

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(iii) Currency risk (continued)

Foreign currency sensitivity analysis (continued)

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

	31.12.2021	**31.12.2020**
EUR	7.5172	7.5369
CZK	0.3011	0.2880
BAM	3.8435	3.8536
PLN	1.6356	1.6663
RUB	0.0886	0.0820

The following table details the Podravka Group's sensitivity to a 10% increase and decrease in Croatian kuna against the relevant foreign currencies where the Podravka Group has significant exposure (EUR, CZK, BAM and PLN) while the sensitivity to RUB change was calculated with a exchange rate change of 30%. The sensitivity analysis includes only outstanding cash items in foreign currency and their translation at the end of the period based on the percentage change in currency exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit where Croatian kuna changes against the relevant currency for the percentage specified above. For an inversely proportional change of Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit.

	EUR exposure		**CZK exposure**	
	2021	**2020**	**2021**	**2020**
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result +10%	(19,487)	(26,592)	(2,852)	(1,749)
Increase/(decrease) of net result -10%	19,487	26,592	2,852	1,749

	BAM exposure		**PLN exposure**	
	2021	**2020**	**2021**	**2020**
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result +10%	10,913	10,784	1,186	1,816
Increase/(decrease) of net result -10%	(10,913)	(10,784)	(1,186)	(1,816)

	RUB exposure	
	2021	**2020**
	(in thousands of HRK)	
Increase/(decrease) of net result +30%	42,876	40,243
Increase/(decrease) of net result -30%	(42,876)	(40,243)

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(iv) Sales function based risks

The Podravka Group generates 32% (2020: 31%) of its revenue on the Croatian market, whereas 68% (2020: 69%) of the sales are generated on international markets.

The Podravka Group determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

As for operations on the Croatian market, the Podravka Group expects increased risks associated with maintaining market position. To lessen this effect, the Podravka Group aims to further strengthen its competitiveness by increasing productivity, modernising its technology and strengthening its product brands.

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

Business risks management

Industry risks

In the food industry, market trends as well as consumer habits change in a very short period of time. Due to this risk, the Group seeks to constantly improve the processes and meet market conditions. In the food industry, where the focus is on products and brands, the Group complies with legislative, health and manufacturing regulations. Clear legal regulation creates most of the production and sales processes within the Group and is subject to change, depending on the bodies adopting it. One of the major risks associated with the food industry is consumer health. All production processes are subject to international standards. By implementing better internal processes, the Group seeks to eliminate the majority of potential threats. The use of EU funds seeks to improve all business processes in the company and improve business at all levels in accordance with the guidelines and focuses of EU business.

At the time of the corona crisis, the food industry proved to be important in overcoming crisis situations. Disruptions in global supply chains pose a challenge to food producers, who have to contend with shortages of certain raw materials and difficult production conditions. Timely production planning and taking into account all unforeseen circumstances reduces the risk of production unreadiness to respond to extraordinary demands. The shortage of skilled labour due to the pandemic can greatly jeopardize production processes and their smooth and timely operation. Preventive measures to prevent the spread of virus infection in production facilities are of immense importance for the production.

The impact of the corona crisis on China and India, the world’s two largest exporters of pharmaceutical products with the cheapest production, has disrupted supply chains for drugs and other medical equipment around the world due to limited production, distribution and trade, as well as short-term shortages of certain products. It is necessary to provide in time the raw materials and materials necessary for the production of medicines in order to reduce the risk and maintain a sufficient supply of medicines to the local population.

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Business risks management (continued)

Competition risk

The Group sells products both on the Croatian and international markets, and is exposed to numerous competitors in all product categories. Innovations, adjustments of the product price, quality and packaging are key changes that the Group is paying attention to in order to be different from competition.

In addition, the reputation of the brand, or the Group, is intangible value that differentiates it from the competition and creates the advantage. The fact that the Group is focused on securing the highest level of quality of its products contributes to the reputation that depends on many own products on the market on a daily basis.

Monitoring of consumer habits and preferences that are subject to constant changes, and adjustments to them, are one of a series of activities that the Group undertakes to maintain and increase the existing market positions and margins. An important element in the struggle with major international competitors is the difference between the financial resources needed for the overall promotion and sales of products, and it is often the key factor in reaching out to a new consumer.

Risks of IT system disruptions

The Group intensely uses IT systems that enable it to efficiently manage the Group, communicate with customers and suppliers, and collect all the information that management can rely on in making decisions.

Given the high degree of automation of business processes through the use of IT systems, the Group takes the necessary measures to minimise IT system disruptions due to problems with IT equipment, the space in which it is located, viruses and unauthorised external breaches into the systems.

As each IT system disruption causes significant problems in operating systems and financial losses, the Group has implemented IT system recovery procedures through the construction of an auxiliary IT room that assumes the function of the main IT system room in case of a problem. In the normal operating mode, both IT system rooms work in the active-active mode.

The Group regularly conducts internal and external penetration tests (conducted by external independent security experts) to minimise the risk of using system vulnerabilities for the spread of viruses and the risk of unwanted external breaches into the IT systems.

Also, following the implementation of advance security monitoring systems, monitored on a daily basis, the risk of external breaches into the Podravka Group's IT systems is additionally reduced and minimised.

Podravka d.d. has implemented the ISO 27001 standard aimed at additionally strengthening security procedures and raising awareness of IT security among the Podravka Group's employees.

Human resource risk management

Business ethics and excellence, commitment to achieving goals and to work, extra effort and commitment, and daily commitment, growth and development are the basis of the Group's success and the characteristics of its employees.
Respect and trust, as well as teamwork based on dialogue and transparency in work, are encouraged and supported and form a solid foundation for continuous progress.
Through a series of proactive measures, the Group creates an environment where employees are engaged and loyal. The Group recognizes and rewards individuals who achieve excellent results, show exceptional effort and encourage innovation and efficiency.

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Business risks management (continued)

Human resource risk management (continued)

In 2021, the Group identified the main risks related to human capital:

• Timely recruitment and retention of skilled labour for the needs of Production
• Unfavourable age structure of employees and retirement in the coming years

A new Human Resources Strategy has been defined, with some of the main pillars being Workforce transformation and renewal, and Professional development and new career options.

The Group addresses these risks and will focus on specific initiatives/activities aimed at minimizing the main risks:

1. Intensifying cooperation with educational institutions
2. Employment of young workers
3. Programs for trainees and new employees
4. Supply of workforce from new pools
5. Programs that encourage intergenerational and multicultural cooperation and understanding
6. Employer image management

In addition, the Group uses a number of other proactive measures and controls to keep these risks, as much as possible, at a satisfactory level.

Climate related risk

Group operates through two main business segments, Food and Pharmaceuticals. Both business activities are not eligible according to the EU Taxonomy Climate Delegated Act, meaning both business activities doesn't have significant negative effect on climate as production processes don't emit large amounts of Greenhouse Gases). Environment protection is one of Group's priorities and is implemented throughout the principles of sustainable development and clean production. All of the activities have to be aligned with national legal framework regarding environment protection as well as regulations of the country in which the Group operates. In case of non-existing of own legal framework, international standards apply.

Group is obliged to rational use of best sources of energy and raw material, waste management and constant prevention of negative influence on the environment, for production and for its products and services. According to Environment Protection Policy, Group takes actions in its own environment as well, where finding integral solutions for Greenhouse Gas emission reduction is one of the goals set in the Policy.

CO_2 is the only Greenhouse Gas emitted as a result of production process, while there is no other Greenhouse Gasses emission. Throughout logistic and distribution part of the business (vehicle fleet) CO_2 is emitted as well as very small amounts of CH_4 and N_2O, which is visible in the difference between total CO_2 and total GHG. Investments in vehicle fleet and purchase of new EURO VI norm vehicles resulted in 2,89% decrease in CO_2 emission in 2021 in respect to comparative period.

Use of renewable energy sources is increasingly represented in the production process (wood chips boiler room and photovoltaic power plant on Kalnik factory), while trough planed capital expenditures (new photovoltaic power plant in Danica factory area), the portion of use of renewable energy on the Group level will further increase.

Investments into energy efficiency upgrade of real estates and machinery result in reduction in use of energy sources and further decrease of CO_2 emission and related negative effect on climate.

NOTE 39 – SHARE-BASED PAYMENT TRANSACTIONS

Employee share options

Options for the purchase of Podravka d.d. shares were granted to key management of the Group. The exercise price of the granted option equals the weighted average share price of Podravka d.d. shares as per the Zagreb Stock Exchange in the year the option is granted. Options are acquired separately for each business year. Share purchase options may be exercised after the expiration of at least two and at most five years from the year to which the share purchase option applies. In case of termination of employment, the acquired options can be exercised within 3 years from the date of termination of employment.

The following share-based payment options were effective as at 31 December 2021:

Date of issue	Number of options	Vesting terms	Contracted vesting period
Options granted to key management of the Group			
As at 12 December 2017	2,000	Service during the contracted vesting period	31.12.2022
As at 17 March 2017	2,000	Service during the contracted vesting period	31.12.2022
As at 17 May 2017	5,000	Service during the contracted vesting period	31.12.2022
As at 17 May 2017	7,000	Service during the contracted vesting period	06.01.2024
As at 21 July 2017	5,000	Service during the contracted vesting period	31.12.2022
As at 01 May 2018	2,000	Service during the contracted vesting period	31.12.2022
As at 30 June 2017	5,000	Service during the contracted vesting period	31.12.2022
As at 31 December 2017	4,000	Service during the contracted vesting period	04.10.2023
As at 31 July 2018	28,500	Service during the contracted vesting period	31.12.2023
As at 31 July 2018	10,000	Service during the contracted vesting period	06.01.2024
As at 23 July 2018	7,500	Service during the contracted vesting period	31.12.2023
As at 13 December 2019	2,000	Service during the contracted vesting period	31.12.2023
As at 4 October 2018	5,000	Service during the contracted vesting period	04.10.2023
As at 10 December 2019	22,500	Service during the contracted vesting period	31.12.2024
As at 28 May 2019	7,500	Service during the contracted vesting period	31.12.2024
As at 10 December 2019	10,000	Service during the contracted vesting period	06.01.2024
As at 30 July 2019	5,000	Service during the contracted vesting period	04.10.2023
As at 30 July 2019	4,000	Service during the contracted vesting period	31.12.2024
As at 13 December 2019	9,500	Service during the contracted vesting period	31.12.2024
As at 10 December 2020	7,500	Service during the contracted vesting period	31.12.2025
As at 19 September 2020	3,500	Service during the contracted vesting period	04.10.2023
As at 19 September 2020	2,000	Service during the contracted vesting period	31.12.2025
As at 29 September 2020	22,500	Service during the contracted vesting period	31.12.2025
As at 29 September 2020	10,000	Service during the contracted vesting period	06.01.2024
As at 2 December 2020	13,200	Service during the contracted vesting period	31.12.2025
As at 2 December 2020	3,300	Service during the contracted vesting period	31.03.2024
As at 30 April 2021	32,500	Service during the contracted vesting period	31.12.2026
As at 10 December 2021	7,500	Service during the contracted vesting period	31.12.2026
As at 13 September 2021	7,000	Service during the contracted vesting period	31.12.2026
Total share options	**252,500**		

NOTE 39 – SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Employee share options (continued)

Fair value measurement

The fair value of the employee share options is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the historical volatility of the share price, particularly over the historical period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). In accordance with the input variables used, the fair value estimate of the option is categorised in the fair value hierarchy as level 1. Service and non-market performance conditions are not taken into account in determining fair value.

Input variables for calculation of fair value:

Share option programme for key management	**2021**	**2020**
Fair value at grant date (weighted average)	126	113
Share price at grant date (weighted average)	457	415
Exercise price (weighted average)	417	410
Expected volatility (weighted average)	21%	18%
Expected life (weighted average in years)	2.7	2.2
Risk-free interest rate (based on government bonds)	5.09%	3.78%

Expense recognised in profit or loss	**2021**	**2020**
		(in thousands of HRK)
Equity-settled share-based payment transactions	6,260	11,120

The exercise price of share options for key management is in the range HRK 317 to HRK 589.

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

	2021		**2020**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Outstanding at 1 January	231,500	410	189,217	364
Exercised	(26,000)	356	(19,717)	325
Granted	47,000	632	62,000	485
Outstanding at 31 December	**252,500**	**417**	**231,500**	**410**
Unused at 31 Dec	**116,800**	**333**	**40,500**	**355**

As at 31 December 2021, there are 252,500 of outstanding options (2020: 231,500 options). In 2021, 26,000 options were exercised (2020: 19,717 options).

The weighted average exercise price of outstanding options at the end of 2021 is HRK 417 (2020: HRK 410). The price of all unexercised share options is lower than the share market price as at 31 December 2021. The weighted average remaining validity of options is 2.7 years at year end (2020: 2.2 years).

NOTE 40 – RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are its related parties, are eliminated through consolidation and are not presented in this note.

Payments to members of the Supervisory Board, Management Board and directors

	2021	2020
	(in thousands of HRK)	
Payments of members of the Management Board and directors		
Salaries, bonuses and other benefits paid	47,007	47,645
Share-based payments reimbursement	4,012	-
	51,019	**47,645**

Management of the Group which consists of the Management Board and directors has 64 persons (2020: 65 persons).

During 2021, options were exercised by the active members of the Management Board and directors in the amount of HRK 4,012 thousand (2020: HRK 0 thousand). For details see note 39.

During 2021, a total of HRK 2,568 thousand was paid at Group level as compensation to members of the Supervisory Board (2020: HRK 2,521 thousand).

NOTE 41 – CONTINGENT LIABILITIES

	2021	2020
	(in thousands of HRK)	
Guarantees and warranties given	30,478	28,433
	30,478	**28,433**

Guarantees and warranties mainly relate to the potential liability of Podravka d.d. on the basis of customs guarantees, guarantees for transit procedures and guarantees for regular repayment of advances, contingencies of the Belupo Group on the basis of performance guarantees and payment guarantees to the Croatian Ministry of Economy, Entrepreneurship and Crafts. Guarantees and warranties in part also relate to contingencies for performance guarantees of the Žito Group.

With respect to guarantees and warranties granted, contingent liabilities have not been recognised in the consolidated statement of financial position as at 31 December as the Management Board estimated that, as at 31 December 2021 and 2020, it is not probable that they will result in liabilities for the Group.

NOTE 42 – COMMITMENTS

In 2021, the purchase costs of tangible fixed assets contracted with suppliers amounted to HRK 154,000 thousand (2020: HRK 37,163 thousand), which are not yet realised or recognised in the consolidated statement of financial position.

The future payments under operating leases in 2021 relate to the usage of IT equipment, other operating leases and mobile devices, as follows:

	2021	**2020**
	(in thousands of HRK)	
Up to 1 year	11,306	8,112
From 1 to 5 years	14,773	14,167
	26,079	**22,279**

NOTE 43 – EVENTS AFTER THE REPORTING DATE

At the meeting of the Podravka d.d. Supervisory Board held on 4 February 2022, the decision was made on the appointment of the President and members of the Management Board of Podravka d.d.

The Management Board of Podravka d.d. appointments:

1. Martina Dalić – President of the Management Board of Podravka d.d.
2. Davor Doko – member of the Management Board of Podravka d.d.
3. Ivan Ostojić – member of the Management Board of Podravka d.d.
4. Ljiljana Šapina – member of the Management Board of Podravka d.d.
5. Milan Tadić – member of the Management Board of Podravka d.d.

The mandate of the appointed President and members of the Management Board of Podravka d.d. started on 24 February 2022 and lasts until 23 February 2027, except for the appointed member of the Management Board Ivan Ostojić, whose term of office starts on 1 July 2022 and lasts until the expiration of the term of the entire Management Board.

Also, on 4 February 2022, in accordance with Articles 260a and 261 of the Companies Act, the company received the resignation of a member of the Company's Supervisory Board, Ivan Ostojić, which enters into force on 30 June 2022.

On 10 February 2022, at the meeting of the Supervisory Board of Belupo d.d. a decision was made on the appointment of a member of the Management Board of Belupo d.d., and Marko Đerek was appointed a member of the Management Board of Belupo d.d. The mandate of the member of the Management Board of Belupo d.d. started on 24 February 2022 and lasts until the expiration of the term of office of the entire Management Board of Belupo d.d., 3 May 2022.

NOTE 43 – EVENTS AFTER THE REPORTING DATE (CONTINUED)

The impact of the Russia-Ukraine crisis on business:

The Podravka Group generates less than 6.5% of sales revenue annually in the markets of Russia and Ukraine. Most of the receivables from customers on the Russian market, incurred to date, are insured. The Group has made an assessment of the potential impact of changes in the exchange rate of the Russian ruble on items of outstanding receivables and liabilities. Recalculated value of the same items of receivables and liabilities at the exchange rate of the Russian ruble is about 30% lower than the value of these items at the date of the financial statements.

The Podravka Group will feel the negative consequences of the Russia-Ukraine crisis, as well as the sanctions imposed on Russia, but their scope and intensity cannot be estimated or quantified at the moment. The development of events is continuously monitored, the risks and possibilities of their mitigation are assessed. The Group exposure to Russia and Ukraine does not require any adjustments to these financial statements as at 31 December 2021, and is not expected to jeopardize the business continuity.

NOTE 44 – APPROVAL OF FINANCIAL STATEMENTS

The financial statements were adopted by the Management Board and approved for issue on April 4, 2022.

Signed on behalf of the Company on April 4, 2022:

Martina Dalić
President of the Management Board

Davor Doko
Member of the Management Board

Ljiljana Šapina
Member of the Management Board

Milan Tadić
Member of the Management Board

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Creating
a delicious world.
Always with
a heart.

PODRAVKA