

PODRAVKA GROUP ANNUAL REPORT FOR 2020



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A multi-story building with a red overlay. The building has many windows and a sign on top that says "ПОДРАВНА". In the foreground, there is a construction site with a crane and some scaffolding. The overall image has a strong red color cast.

ПОДРАВНА

**WE KNOW WHERE
WE'RE GOING,
BECAUSE WE
KNOW WHERE WE
COME FROM**

1 Introductory word

THE PAST 2020 WAS A YEAR OF GREAT CHALLENGES due to the pandemic caused by the COVID – 19 disease, which significantly affected the domestic and world economy, but also the whole of humanity due to changes in the way of life and work. The pandemic, and the consequent closure and restriction of movement in March 2020, required rapid adjustment and transformation of business to new models and working conditions. Despite numerous negative impacts of the COVID – 19 disease on operations (growth of prices of raw materials and packaging, impact of exchange rate differences, growth of prices of transport services and difficult conditions of product delivery, weaker tourist season and more complex business in the gastro segment, etc.) **the Podravka Group maintained and continued the positive business trends in 2020**, which once again confirms the Company's capacity to adapt to business even in unforeseen and emergency situations.

Thus, the Podravka Group ended the challenging 2020 with HRK 4,503.2m of sales revenue with growth in both business segments, Food and Pharmaceuticals. At the same time, the realized operating profit in the amount of HRK 332.3m increased by HRK 48.8m, and the net profit in the amount of HRK 248.9m increased by HRK 27.3m compared to the year before. Also, in the past period, the Podravka Group has **further strengthened its export position in all key markets**, mostly in the markets of Western Europe and Overseas Countries.

All this **results from absolute consumer trust in product quality even in uncertain times when they especially return to proven and long – lasting brands**. Listening to the wishes and needs of loyal consumers, the Podravka Group continued in 2020 to innovate and expand the range of its leading brands, whose quality was again recognized and awarded 14 Superior Taste Awards – the world's most prestigious awards in the food segment.

Behind the top brands and extraordinary business results are people – hard – working employees of the Podravka Group who in the pandemic year showed strong commitment and their hard work, but also responsible behaviour, contributed to the Company's success. Therefore, for their engagement during 2020, they were additionally rewarded on several occasions with the payment of one – time cash bonuses, which contributed to the further **improvement of their material rights**. In addition to the responsibility towards employees, in the past year the Podravka Group confirmed its socially responsible role in the community, providing support to various segments of society and the needy. In particular, there were numerous considerable donations to the health system and civil protection as support in the fight against the COVID – 19 disease, Red Cross beneficiaries and underprivileged families, as well as significant assistance to earthquake victims.

Successful crisis management and business operation also affected investor confidence, and **the price of Podravka's share, after the expected fall at the beginning of the pandemic, rose again very quickly and ended the year with growth compared to the end of the year before.**

The Podravka Group believes that 2021 will be **a year of stabilization and recovery of the economy**, which will contribute to further positive trends of the Podravka Group's business operations and the realization of the set business plans.

Management Board of Podravka Inc.

2 Podravka Group profile

COMPANY NAME AND HEADQUARTER LOCATION

Name and headquarter location of the Podravka Group: Ante Starčevića 32, 48000 Koprivnica

ORGANIZATIONAL STRUCTURE

Business operations of the Podravka Group are organized in **two strategic business areas:**

- FOOD AND
- PHARMACEUTICALS.

Business operations of the Strategic Business Area Food can be followed through the activities of the **business units** related to certain product groups:

- ŽITO AND LAGRIS, CULINARY, PODRAVKA FOOD, BABY FOOD, SWEETS AND SNACK, MEAT PRODUCTS, MEAT SOLUTIONS, SAVOURY SPREADS, FISH AND TRADING.

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

- ADRIA REGION
- INTERNATIONAL MARKETS.

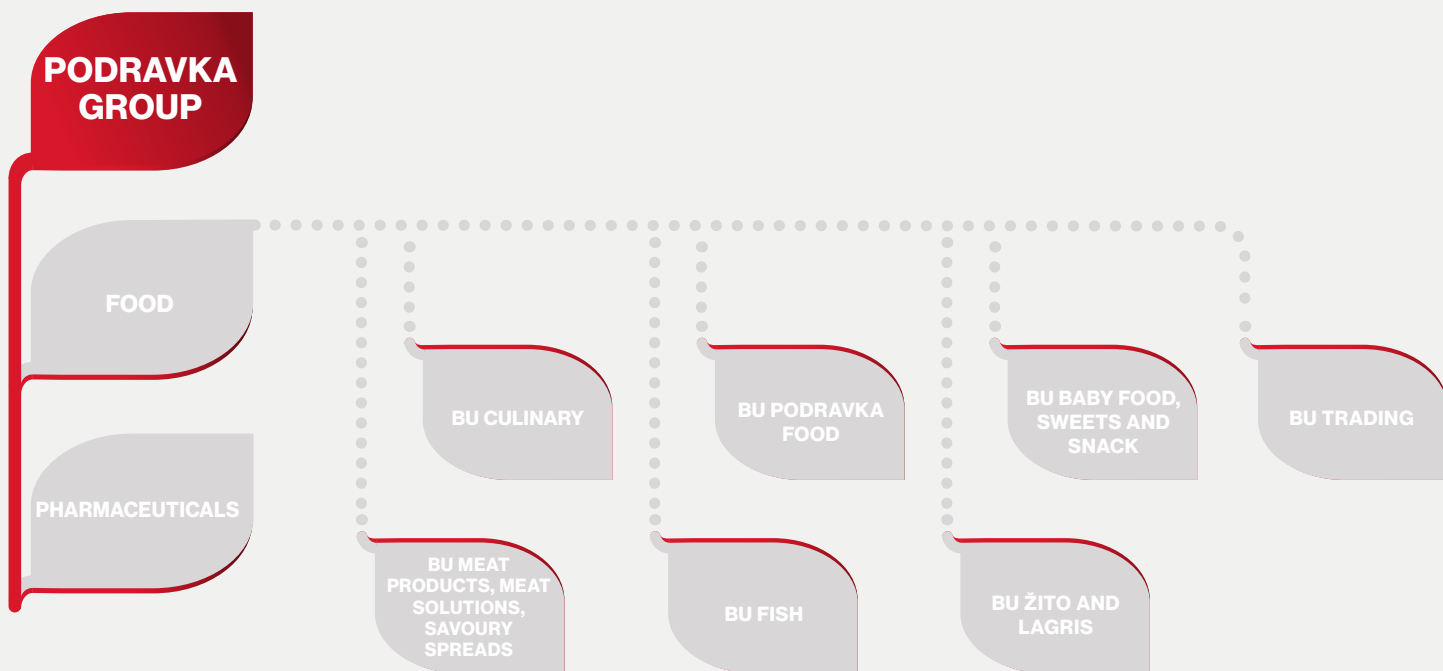
The Adria region consists of the Croatian Market and Southeast European Market.

International markets include the Central European Market, the Western European Market and Overseas Countries, the Eastern European Market and the New Markets.

The third important area is **Operative Efficiency and Supply Chain Management**, which maintains focus on profitability and cost efficiency, with particular emphasis on supply chain management through the functions of **Production, Logistics, Purchasing and Agriculture**.

An important part of the business organization are also **corporate functions**. They support the overall business operations and ensure the application of unique corporate standards. Corporate functions are: **Human Resources and Law, Corporate and Information Security, Treasury, Corporate Accounting, Controlling and Informatics**.

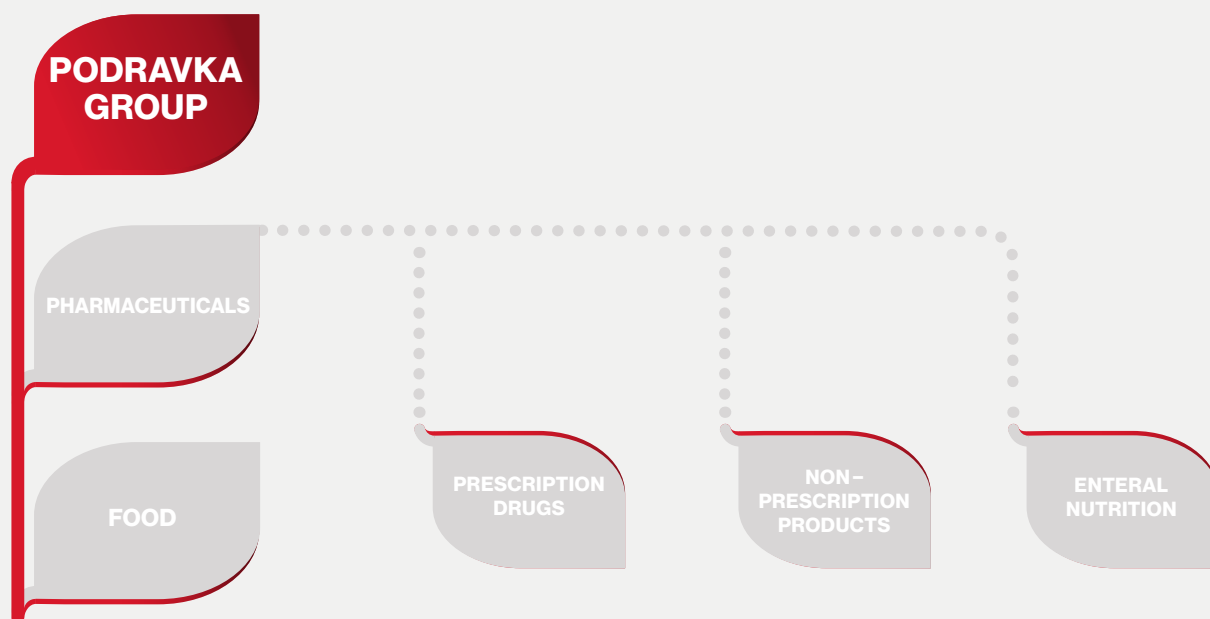
Corporate functions also include **Corporate Marketing and Communications and Research and Development**, whose role is to apply corporate standards and provide support for marketing and development in business units.



The organizational structure of Podravka also includes **Internal Audit**, which acts as an independent function. Furthermore, business operations are supported by the following management functions: **the Management Board's Office, Global Business Development, Business Quality and Sustainable Development and Offices of the Deputy Presidents.**

Global Business Development is in charge of providing support to the Management Board in the segment of strategic management, defining and implementing long – term development strategy and business development as well as determining strategic goals.

Business Quality and Sustainable Development is responsible for the implementation, maintenance and development of an integrated management system based on the ISO 9001, ISO 22 000, HACCP and other standards and regulations relating to the food industry and markets, such as the International Food Standard, British Retail Consortium, NSF, Halal, Kosher, as well as other standards not directly related to the food industry: ISO 27001, ISO 14001, OHSAS 18001, SA 8000, etc.



The Strategic Business Area Pharmaceuticals is organized as the Belupo Group. Business operations of the Belupo Group are organized through the following organizational units:

- CROATIAN MARKET,
- MARKETING,
- SALES,
- LOGISTICS,
- INTERNATIONAL MARKETS,
- BUSINESS DEVELOPMENT AND REGISTRATION,
- PRODUCTION,
- PURCHASING,
- RESEARCH AND DEVELOPMENT AND
- QUALITY CONTROL.

Corporate functions support: **Legal and Joint Affairs, Controlling, Treasury, Accounting and Quality Management.**

The following services are at managerial level: **the Management Board's Office, Public Relations and the Strategic Projects Team.**

ABOUT BRANDS AND PRODUCTS



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 and many more under the Vegeta brand.

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 is offered that meets the demands of modern, well – informed consumers.

Convenience of preparation and excellent taste are also 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 as a side dish.

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.

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

LINO WORLD reveals a rich, diverse and wonderful world of flavours, delicious and healthy products carefully prepared for us to grow happily and healthily!

As a reliable manufacturer of baby food for 50 years, Podravka offers a wide range of baby food that provides all the ingredients necessary for the child's growth and development. **ČOKOLINO**, a synonym for baby food, has always been associated with a carefree childhood, joy, happiness, moments of relaxation – simply put, it evokes happiness. Listening to the wishes and needs of consumers has resulted in a significant expansion in the Čokolino range so that today, Čokolino can be found in different variants: no added sugar for the youngest, with less sugar, with crunchy cereals, gluten – free or with protein. That is why it is not surprising that Čokolino is also a favourite cereal for all generations.

There are also new perfectly balanced **LINO NUTRI BALANCE** cereals – a rich meal ready in an instant! The crunchy experience is provided by the popular Lino cereals for children in plenty interesting shapes and flavours, and now in a gluten – free variant.

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 ten different types of packaging. Thanks to its innovation and continuous investment in brand building, Lino Lada is today at the very top of the cream spread market in Croatia and in other countries of the Adria region, while the demand for Lino Lada is quickly expanding to other international markets. The best – selling of the five flavours is Lino Lada Duo – the perfect harmony of milk, hazelnuts and cocoa. It is immediately followed by Lino Lada Gold – a silky spread rich in hazelnuts with the addition of chopped hazelnuts, and since its launch in 2018, Lino Lada Gold has won the highest ratings and numerous awards: from the Golden Basket, Product of the Year and after three consecutive Superior Taste Awards with three stars, in 2020, it reached the highest Crystal Taste Award. In addition to cream spreads, Lino Lada is one of the most desirable flavours in the ice cream category, successfully developed in cooperation with the company, Ledo.

DOLCELA offers sweet touches of fantasy in each of its products. High – quality dessert products enable quick and easy preparation, from simple small desserts to festive cakes and pastries, and ready – made cakes, pastries and desserts are made to be enjoyed at all times.

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.

A rich assortment of fish products under the brands **EVA** and **MIRELA**, is prepared from the highest quality fish led by the queen of the Adriatic, the Adriatic sardine. The extraordinary temperature and salinity of the Adriatic Sea guarantee top taste and balanced nutritional value for Adriatic sardines. In the assortment of the Eva brand, in addition to the most common sardines, there are also products made of tuna, mackerel, Baltic fish, fish pâté 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.

The **PODRAVKA FOOD** range includes a wide range of different products: from tomatoes to chutney, jams and pickled vegetables, prepared according to local traditional recipes, completely natural and incredibly nutrient – rich.

PODRAVKA TOMATO is an indispensable ingredient in every cuisine, especially in the Mediterranean cuisine, and perfectly compliments a whole range of culinary ingredients. Healthy and natural tomato products contribute to health, enable creativity in preparing meals and finding pleasure in the best fruits of modern cuisine.

PODRAVKA FRUIT products have been prepared for the past 70 years by processing top quality fruits of controlled origin with no aromas, artificial colours and sweeteners. Podravka's plum jam is a recognizable and appreciated traditional, Croatian product thanks to its high content of fruit and it proudly holds the original Croatian Quality label of the Croatian Chamber of Commerce.

PODRAVKA VEGETABLES perfectly preserve and refine the original flavours of vegetables throughout the year and brings them to the tables of our consumers. Sterilized and pickled vegetables can be used all year round, with no significant change in their nutritional value. Harvested at just the right time and prepared with no additives, Podravka vegetables are used for salads, side dishes, sauces, stews and sandwiches.

The perfect texture and proven taste make **PODRAVKA CONDIMENTS** – chutney, mustard, ketchup and horseradish, an ideal addition to a wide variety of dishes. Podravka's delicious and aromatic condiments are a *must – have* product in every kitchen, and whether used with grilled meat, potatoes or pasta, they will improve the taste of just every dish.

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 ingredients: high content of chicken meat, fine blend of spices and supreme spreadable texture. In 2020, Podravka launched a new generation of 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. The new chicken pâté is made of chicken fillet and thigh meat, contains no preservatives, palm oil or flavour enhancers, and above all, is perfectly spreadable. For those who want economical solutions Piketa pâté is the right choice.

PODRAVKA is the undisputed market leader in Croatia in the category of **READY – MADE DISHES AND SAUCES**. Homemade taste and quality, nutrient rich, quickly prepared meals for every day, are the main features of a wide range of ready to serve meals, among which Beef goulash is the most distinguished. Beef goulash has been the most popular product for more than 60 years, not only for its outstanding quality and taste, but also the recognizable red packaging, and it proudly bears the original "Croatian Quality" label. Goulash and other Podravka ready – made meals are not just fashionable dishes that last a season or two. They bring the taste of a tradition that lasts and evokes the most beautiful memories of the warmth of home.

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, or you prefer modern flavours of the **MAJSTOR (MASTER)** brand, top quality products are guaranteed.

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 a trip to the beach.

1001 CVET has been the favourite regional brand of tea for half a century. It is well known that only the best quality natural raw materials are used to prepare a variety of tea mixes that can be enjoyed throughout the day. The wide assortment makes it possible to find the perfect one for everyone.

GORENJKA chocolate products with its wide range will satisfy all chocolate lovers because in addition to dairy chocolate, dark chocolate, minirolls and squares, chocolate with rice and cooking chocolate are also offered. With ninety years of experience Gorenjka is the synonym for first – class chocolate products with the finest cocoa.

ŽITO fresh bakery products cover the segments of semi – baked bread (rusks), fresh bread and rolls. The secret lies in the combination of tradition and innovation in using the finest raw materials, thus preserving the best of Slovenian culinary tradition in combination with modern technologies.

ZLATO POLJE is the synonym for modern cuisine with products such as rice, pasta, puree, oatmeal, grits and breakfast cereals. Zlato polje offers a wide range of products that are convenient throughout the day, whether breakfast cereals full of natural ingredients and vitamins, or lunch – Zlato polje offers the right side – dish to complement every meal. And for a light dinner, mill products that provide healthy and delicious meals are the right choice.

Caramels, jelly beans, fruit gums, filled candies – both children and adults will enjoy **ŠUMI** candies. These candies are distinguished for a high share of natural fruit juice, vitamins and minerals. They contain no artificial colours or flavouring, and their 140 years long tradition boosts confidence. Herbal candies are based on an original recipe characterized by a sophisticated selection of herbal flavours and a natural extract of fruit juices.

The **NATURA** brand is the synonym for products grown in a nature – friendly way, and **BIO NATURA** are carefully selected organic products. Intact areas of nature yield food that provides a healthy and safe diet.

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 and gluten – free flours. Lagris' high quality is ensured by certified high standards in production. Lagris products are stored in controlled conditions with a unique technology which perfectly preserves the quality and original flavours of the products that are every day served on the tables of consumers.

CROATIAN MARKET

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 2020.

Belupo's drug portfolio consists of about 400 products, of which over 100 brands in the Rx portfolio and almost 30 brands in the OTC portfolio. Belupo's portfolio of medicines is well known among business partners, patients and consumers, and we are working on its constant enrichment with new products in view of market trends.

The largest sales portfolios within Rx drugs are in the ATC groups N (Nervous system) and C (Cardiovascular), followed by ATC groups J (Systemic infections), D (Skin) and M (Musculoskeletal system).

In ATC groups N and C, Belupo is the leader in pieces sold, while in ATC group D it is both the pieces sold and financial leader in the Croatian prescription drug market according to IMS data for 2020.

Looking at Belupo's over – the – counter portfolio, in 2020, as in the year before, the best – selling OTC brand in the Croatian market was Belupo's Lupocet brand. Belupo is both the pieces sold and financial leader in ATC group N where the Lupocet brand is positioned, while in ATC group M where the Neofen brand is positioned, it is the pieces sold leader of over – the – counter drugs in the Croatian market according to IMS data for 2020.

INTERNATIONAL MARKETS

Belupo is present in its international markets with almost all brands that are also in the domicile market, however, the product portfolio varies from market to market.

The Belosalic brand (lotion, spray and ointment) is the best – selling drug in Belupo's portfolio in the markets of Russia, Ukraine, Kazakhstan and Poland, and at the same time it is the best – selling brand in all Belupo's international markets.

Belogent cream and ointment are Belupo's best – selling prescription drugs in the markets of the Czech Republic, Slovakia and Macedonia.

In the Serbian market, the best – selling prescription drug is Isocard, and Portalak syrup is the best – selling prescription drug in the Slovenian market.

Well – known brands from the cardio segment Irumed and Iruzid are the best – selling prescription drugs in Belupo's portfolio in the market of B&H.

In the OTC segment, the best – selling non – prescription drug in all of Belupo's international markets is Generolon/Alomax/Belohair (minoxidil 2% and 5% scalp treatment solution), which belongs to the group of dermatological preparations for topical application against hair loss (antialopecia).

Generolon/Alomax/Belohair (minoxidil 2% and 5% scalp treatment solution) is the best – selling OTC drug in the markets of Russia, Kazakhstan and the Czech Republic.

Herplex cream, which is used to treat herpes labialis caused by the Herpes simplex virus, is the best – selling non – prescription drug in the Ukrainian market.

Belupo's herbal medicine Silymarin, which is used as supportive treatment in adults with liver dysfunction, is the best – selling non – prescription drug in the markets of Serbia, Montenegro and Macedonia.

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 market of B&H, and also in the Slovenian market, but under the name Ibubel.

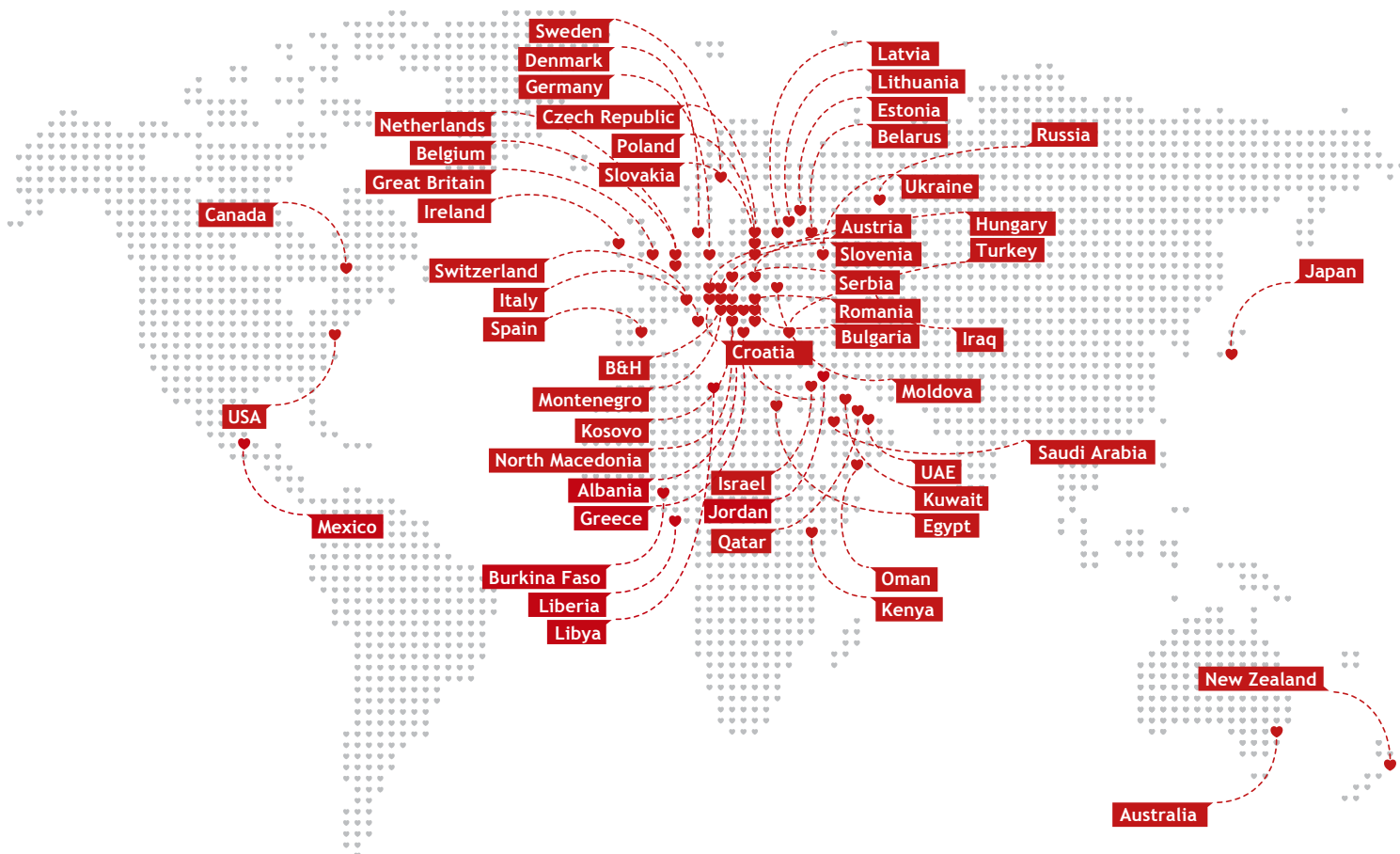
Belcura, a cosmetic product that provides optimal hydration of dry and irritated skin restoring its structure as a result of anti – irritant action of MicroSilver particles, is the best – selling over – the – counter product in the Polish market.

The medical product Belobaza, used for the protection and care of sensitive skin in children and adults, is the best – selling over – the – counter product in the Slovak market.

LOCATION OF BUSINESS ACTIVITIES

The Podravka Group is a multinational company that operates through subsidiaries and representative offices in **22 countries around the world on five continents (Europe, North America, Asia, Africa and Australia).**

The Podravka Group operates abroad through 25 subsidiaries in the following countries: Slovenia, Bosnia and Herzegovina, Serbia, Northern Macedonia, Montenegro, Germany, Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Russia, USA, Australia, UAE and Tanzania, and 15 representative offices in Bosnia and Herzegovina, Northern Macedonia, Serbia, Romania, the Czech Republic, Russia, Bulgaria, Ukraine, Latvia, Kosovo, Sweden and Kazakhstan.



MARKETS IN WHICH THE COMPANY OPERATES

PODRAVKA

The Podravka Group's business activities take place in two industrial sectors, namely, two strategic business areas (SBA): Food and Pharmaceuticals.

SBA Food operates on domestic and international markets that are divided as follows:

- **Adria region** that includes Croatia and South Eastern Europe (Slovenia, Bosnia and Herzegovina, Serbia, Northern Macedonia, Montenegro, Kosovo, Albania, Bulgaria and Greece)
- **International markets** that include:
 - **Central Europe** that includes the countries: Poland, the Czech Republic, Slovakia, Hungary and Romania
 - **Western Europe and Overseas Countries** that include the countries: Germany, Austria, Switzerland, France, Great Britain, Italy, Denmark, Sweden, Norway, Iceland, the Netherlands, Belgium, Ireland, Spain, Portugal, USA, Canada, Australia and New Zealand
 - **Eastern Europe** that includes: the Russian Federation, the Ukraine, Kazakhstan, Estonia, Latvia, Lithuania, Uzbekistan, Moldova, Belarus, Armenia and Kyrgyzstan
 - **New markets** that include: MENA (Iraq, United Arab Emirates, Kuwait, Qatar, Oman, Saudi Arabia, Turkey, Jordan, Lebanon, Egypt, Libya), Africa (East and West Africa) and Asian countries (China, Japan, Singapore, Taiwan, Israel, Mongolia).

ŽITO

In addition to the domestic market in Slovenia, Žito also exports its products abroad. Its largest export markets are Italy, Germany, Spain and Austria. They are followed by the countries of the Adria region, and through the Podravka Group, the Žito sales network reaches more distant markets, such as China, Russia, Japan, Australia, Saudi Arabia, Israel, as well as North America and Canada.

BELUPO

In 2020, Belupo achieved HRK 667.5 million in gross sales on international markets, which is a growth of 1.4% compared to the year 2019. Belupo's most important export markets are Russia with a share of 37.1% in international sales, and Bosnia and Herzegovina with a share of 36.3%. In Bosnia and Herzegovina, Belupo has had its own production plant since 2008, when it acquired the local production company Farmavita.

In the structure of Belupo's sales on international markets, prescription drugs are the most widely represented, accounting for 70.6% of sales, followed by merchandise 20.7%, while non – prescription products account for 8.1% of sales. Among the prescription drugs of Belupo's key export group of drugs are dermatics, drugs for the nervous system, and drugs for the heart and blood vessels.

Belupo's sales on international markets steadily grows every year. For the year 2021, further sales growth is planned, both for current products and through the introduction of new products onto the markets.

- **Southeast Europe** – Bosnia and Herzegovina, Serbia, Montenegro, Northern Macedonia, Kosovo, Albania
- **Eastern Europe** – Russia, Ukraine and Kazakhstan
- **Central Europe** – Czech Republic, Slovakia, Slovenia and Poland
- **New markets** – Iraq (Kurdistan)
- **Belupo – out-licensing** – Denmark and Germany

OWNERSHIP AND LEGAL FORM

Podravka Inc. is a joint stock company that was registered as such in 1993, resulting from the transformation of a former social enterprise.

Podravka Inc. shares were listed on the 1st Zagreb Stock Exchange listing on 7 December 1998 and have been traded on the Zagreb Stock Exchange since 8 December 1998.

On 27 December 2018, the shares of Podravka Inc. were listed and traded on the Leading Market of the Zagreb Stock Exchange.

The ownership structure of Podravka Inc. as of 31.12.2020. was as follows:

SHAREHOLDER	NUMBER OF SHARES	SHARE IN EQUITY CAPITAL
ADDIKO BANK D.D. / PBZ CO OMF – CATEGORY B (1/1)	1,097,644	15.42
OTP BANKA D.D. / AZ OMF CATEGORY B (1/1)	917,563	12.89
CERP (0/1) / HZMO – CROATIAN PENSION FUND (1/1)	727,703	10.22
OTP BANKA D.D. / ERSTE PLAVI OMF CATEGORY B (1/1)	724,373	10.17
ADDIKO BANK D.D. / RAIFFEISEN OMF CATEGORY B (1/1)	625,298	8.78
CERP (0/1) / REPUBLIC OF CROATIA (1/1)	415,564	5.84
HPB D.D. / KAPITALNI FOND D.D. (1/1)	406,842	5.71
HPB D.D. (0/1) / REPUBLIC OF CROATIA (1/1)	167,281	2.35
ZAGREBAČKA BANKA D.D. / AZ PROFIT OPEN VOLUNTARY PENSION FUND (1/1)	101,840	1.43
Treasury account	127,916	1.80
Other shareholders	1,807,979	25.39
TOTAL:	7,120,003	100.00

SUPPLY CHAIN

CHARACTERISTICS OF THE SUPPLY CHAIN OF THE PODRAVKA GROUP

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 and 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 monitoring of competition. **In order to ensure transparency of the procurement processes and in order to increase the efficiency of the procurement function, sophisticated eProcurement tools are used**, and the continuous digitalization of the procurement function is one of a number of key levers of continuous development of the Podravka Group. 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.

In 2020, the Podravka Group generated turnover with **more than 10,000 suppliers from 70 countries around the world**. Respecting the high quality standards of input raw materials and the required level of technical and technological equipment of approved suppliers, the Company conducts business with direct producers, primary producers, small businesses, family farms, veterans' associations, subcontractors, distributors, wholesalers and large multinational companies.



SIGNIFICANT CHANGES IN THE SUPPLY CHAIN OF THE PODRAVKA GROUP

There were no significant changes in the supply chain in the year 2020. During 2020, the focus was on local suppliers and suppliers with whom the company fosters partner relationships, which in a situation of significant disruptions in the agri – food market, especially in conditions of the pandemic caused by the COVID – 19 disease, offers security of product supply in the required quantity, contracted quality and in a timely manner.

PRECAUTIONARY APPROACH

PODRAVKA

The Podravka Group applies a precautionary approach in order to **protect the health of its employees and people in general** by eliminating the potential dangers of real and irreparable damage to human health. This has been achieved in the following ways:

- Referring employees who work in special work conditions and, where appropriate, other employees, to **regular medical examinations** at occupational medicine clinics
- **Additional health insurance program for all employees**, which includes preventive medical examinations once a year and curative care, as needed
- Developing new products that promote **better health and life quality**, viewed from the aspect of price, quality of ingredients and packaging
- Developing **nutritionally balanced** products focused on human health
- Reformulating current products, especially in **reducing nutrients with negative impact on health** (salt, sugar, fat, etc.)
- Communicating development and reformulation results and **making nutrition declaration easier for consumers to understand**
- **Providing information on a proper and balanced diet** (internally to employees, externally to all age groups, social and educational structures of people).

The Company also applies a precautionary approach to **reduce and avoid negative environmental impacts** in the following ways:

- **Utilization of process by – products**
- Investing in **new, “green” food processing technologies** (reducing harmful emissions, waste, water consumption and effective consumption of resources)
- **Increasing the capacities of own technological resources** by developing innovative products
- Continuous **improvement of efficient waste management** by reducing waste materials and raw materials, rationalizing the use of consumables and educating employees.

ŽITO

On 16 October 2019, Žito Ltd. joined the signing of bakery commitments that oblige producers to **reduce the salt content of bread by 5% by 2022 through innovative approaches, the search for new formulas and other solutions**. In this way, it commits producers to increase the use of whole grain ingredients in bakery products.

- For certain segments, where applicable, **the scope of application of RSPO certified palm fat and UTZ cocoa raw materials** associated with sustainable production of these raw materials, **is being expanded**.
- **Minimization of the quantity of packaging** on the product is actively implemented: reduction of thickness / weight, adjustment of shape, size of packaging, without compromising the quality and safety of the product

- **Draft guidelines for sustainable packaging** have been developed
- **Scope of the returnable packaging system has expanded** to frozen products
- **The amount of generated waste is decreasing**
- **Active participation in the field of reducing the amount of food waste** by careful handling in production, logistics and consumer awareness activities related to the use of the product after the expiration date – *"Best use by"*.

BELUPO

Belupo has for many years taken the precautionary approach as **a set of appropriate activities and measures aimed at preventing environmental hazards and preventing damage and pollution**. In carrying out these activities, Belupo is guided by the following principles:

- Preservation, protection and improvement of the quality of the environment
- Protection of human health
- Prudent and rational use of natural resources.

As part of its business, Belupo **applies the precautionary approach** in the following ways:

- When using the environment, it uses the components of the environment economically and manages them taking into account the possibilities of reusing natural and material goods, and taking into account the prevention of environmental pollution, possible damage to the environment and avoidance of waste, as much as possible.
- Emission limit values, environmental quality standards, rules of conduct and other environmental protection measures are determined by regulation, i.e. the relevant act, and each environmental impact is carefully planned and performed in such a way as to cause the least possible environmental impact, taking into account the rational use of natural resources and energy.
- In order to avoid risks and dangers to the environment, when planning and carrying out interventions, the company applies all established preventive environmental measures, which include the use of good practice and the use of products, equipment and devices and the application of production procedures and maintenance systems that are most environment – friendly.
- For the purpose of prevention, when using the environment, the Company applies the best available techniques and a world – renowned plant maintenance system.

EXTERNAL INITIATIVES 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
- Charter of Diversity Croatia.

PODRAVKA INC. also supports the following voluntary external initiatives:

- OECD corporate governance guidelines
- The United Nations Global Compact, which represents the world's largest socially responsible business initiative
- Food without GMOs Policy.

ŽITO LTD. is committed to the following external initiatives:

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

BELUPO LTD. 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.

3 Corporate governance

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

Aware of the importance of responsible and ethical behaviour 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 business partners, the business and social environment and own employees.

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**, and measures to be taken in order to eliminate its consequences and for general prevention in the event of a conflict of interest.

Podravka Inc. continuously promotes the policy of diversity and non – discrimination as regulated by the Code of Business Ethics of the Podravka Group. 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 prejudices is strictly forbidden**, 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.

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*.

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

The policy to combat bribes and corruption is defined within the Podravka Group's Code of Business Ethics (hereinafter: Code of Ethics). Corruption, bribes, extortion and all similar conduct are strictly prohibited.

Every employee has the right to submit a written report to human resources and/or legal affairs of known or suspected violations of the Code of Ethics.

The Code of Ethics prescribes the protection of employees filing reports of violations of the Code, and pertains to the prohibition of sanctions or discrimination in their future work.

The Podravka Group Code of Business Ethics is available at the following link:
<https://www.podravka.hr/kompanija/investitori/korporativno-upravljanje/dokumenti/>.

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

The company Podravka d.d. fills out two questionnaires once every year: one that states whether the provisions of the Code of Corporate Governance have been abided by and, where derogations exist, lists which provisions and provides reasoning thereto (Compliance questionnaire), and a second that provides more information about the corporate governance practices (Governance practices questionnaire). Both questionnaires are submitted to HANFA, and the Compliance questionnaire is also submitted to the Zagreb Stock Exchange and is published on the Podravka 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. in the

Investors / Corporate governance / General Assembly module.

SUPERVISORY BOARD

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 2020 were as follows:

1. ŽELIMIR VUKINA – PRESIDENT
2. LUKA BURILOVIĆ – DEPUTY PRESIDENT
3. MARINA DABIĆ – MEMBER
4. TOMISLAV KITONIĆ – MEMBER
5. IVANA MATOVINA – MEMBER
6. PETAR MILADIN – MEMBER
7. KSENIJA HORVAT – MEMBER (WORKERS' REPRESENTATIVE)
8. DAJANA MILODANOVIĆ – MEMBER
9. KRUNOSLAV VITELJ – MEMBER.

Given that the Supervisory Board does not select or appoint members of the Supervisory Board, it does not have the possibility of setting the target percentage of female members of the Supervisory Board.

The Supervisory Board assesses the current composition of the Supervisory Board, with a 40% representation of women, as satisfactory.

The Supervisory Board hereby sets a target of 30% female representation in the composition of the Management Board, and will aim to achieve this 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.**

The **AUDIT COMMITTEE** members in 2020 were as follows:

1. IVANA MATOVINA – PRESIDENT OF THE COMMITTEE
2. ŽELIMIR VUKINA – MEMBER
3. TOMISLAV KITONIĆ – MEMBER.

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

The Audit Committee held seven sessions in 2020.

The **REMUNERATION COMMITTEE** members are as follows:

1. LUKA BURILOVIĆ – PRESIDENT OF THE COMMITTEE
2. PETAR MILADIN – MEMBER
3. ŽELIMIR VUKINA – MEMBER.

The Remuneration Committee is authorized to recommend to the Supervisory Board the remuneration policy for the members of the Management Board at least every three years, to recommend annually to the Supervisory Board the remuneration to be received by the members of the Management Board based on the evaluation of the Company and their personal results, and after consulting the President of the Management Board, to recommend to the Supervisory Board a remuneration policy for the members of the Supervisory Board to be approved by the General Assembly of the Company, to supervise the overall amount and structure of remuneration to senior management and employees, to make recommendations to the Management Board on its policies and to oversee the preparation of the statutory annual report on remuneration for which approval from the Supervisory Board is required.

The Remuneration Committee held two sessions in 2020.

The **NOMINATION COMMITTEE** was established on 10 December 2019 and is composed as follows:

1. ŽELIMIR VUKINA – PRESIDENT OF THE COMMITTEE
2. LUKA BURILLOVIĆ – MEMBER
3. KRUNOSLAV VITELJ – MEMBER .

The Nomination Committee is authorized to oversee the appointment processes of the Supervisory Board and the Management Board in order to ensure that it is fair and transparent, develop function and candidate descriptions for each vacancy in accordance with the profile of the Management Board or the Supervisory Board (in consultation with the President of the Management Board or the Supervisory Board) and identify and make recommendations of suitable candidates to the Supervisory Board when seeking independent candidates for the Supervisory Board, determine that the candidates are independent, negotiate the terms of appointment with potential new members of the Management Board or the Supervisory Board, including the expected time required to exercise their function, prepare a succession plan for reappointment or replacement of the members of the Supervisory Board and the Management Board, in consultation with the Presidents of the Supervisory Board and the Management Board, to monitor the progress in reaching the target percentage of female members of the Management Board and the Supervisory Board and to monitor the Management Board's policy of selecting and appointing senior management of the Company.

The Nomination Committee performed its assigned duties at workshops and sessions of the Supervisory Board and did not hold any separate session in 2020.

Members of the Supervisory Board of Podravka Inc. are entitled to a fixed monthly compensation as determined by the General Assembly Resolution on determining remuneration for the Company's Supervisory Board members.

REPORT ON THE WORK OF THE SUPERVISORY BOARD OF PODRAVKA INC. AND ITS COMMITTEES IN 2020

During 2020, the Supervisory Board of Podravka Inc. (hereinafter: Supervisory Board) acted as follows:

1. ŽELIMIR VUKINA – PRESIDENT,
2. LUKA BURILOVIĆ – DEPUTY PRESIDENT,
3. MARINA DABIĆ, KSENIJA HORVAT, TOMISLAV KITONIĆ, IVANA MATOVINA, PETAR MILADIN, DAJANA MILODANOVIĆ I 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 administration of Podravka Inc. and the Podravka Group during 2020, and at 12 sessions, four of which were held in writing, made decisions and conclusions.

Attendance at the sessions was as follows:

- Mr. Vukina, Ms. Dabić, Mr. Kitonić and Mr. Vitelj were present at all meetings of the Supervisory Board,
- Ms. Horvat and Mr. Miladin were absent from one meeting of the Supervisory Board,
- Ms. Milodanović was absent from two meetings of the Supervisory Board,
- Ms. Matovina was absent from three meetings of the Supervisory Board,
- Mr. Burilović was absent from four sessions of the Supervisory Board.

During 2020, the Supervisory Board discussed all key issues related to the operations of Podravka Inc. and its subsidiaries and regularly received written business reports, as well as other reports and proposals for decisions of the Management Board of Podravka Inc. which, in accordance with the regulations and the Articles of Association of Podravka Inc., they duly considered and decided upon. The Supervisory Board was regularly informed by the Management Board of Podravka Inc. on all important business events, the course of business, and in general the overall state of business of both Podravka Inc. and the Podravka Group.

The Management Board of Podravka Inc. submitted regular monthly, quarterly, semi – annual and annual business reports to the Supervisory Board.

In addition, the Supervisory Board held a thematic session together with the Supervisory Board and the Management Board of Belupo Inc. with an emphasis on SBA Pharmaceuticals, where members of the Supervisory Board visited the production facilities of Belupo Inc. and were informed on the analysis of the SBA Pharmaceuticals portfolio.

In 2020, at the initiative of the Supervisory Board a project of business analysis and the development of a multi – year strategy of the Podravka Group called "*Strategic Plan of the Podravka Group for the period 2021 – 2024*" was launched. Apart from meetings, the Supervisory Board was also actively engaged in the project by giving suggestions and opinions during four workshops with the Board.

The Supervisory Board was continuously informed and educated in order to refresh and improve its skills and knowledge, and in accordance with the above, a workshop on corporate governance was organized with the participation of both the Supervisory Board and the Management Board of Podravka Inc.

In order to enhance efficient performance, the Supervisory Board operates through the following committees: **the Audit Committee, the Remuneration Committee and the Nomination Committee.**

In 2020, the **AUDIT COMMITTEE** consisted of:

1. IVANA MATOVINA, CHAIRPERSON OF THE AUDIT COMMITTEE AND
2. MEMBERS OF THE AUDIT COMMITTEE AS FOLLOWS: ŽELIMIR VUKINA AND TOMISLAV KITONIĆ.

In 2020, the Audit Committee held seven sessions, four of which were in writing. All members of the Audit Committee were present at all meetings.

The **REMUNERATION COMMITTEE** consisted of:

1. LUKA BURILOVIĆ, CHAIRPERSON OF THE REMUNERATION COMMITTEE AND
2. MEMBERS OF THE REMUNERATION COMMITTEE AS FOLLOWS: ŽELIMIR VUKINA AND PETAR MILADIN.

The Remuneration Committee held two sessions in 2020. All members of the Remuneration Committee were present at all meetings.

The **NOMINATION COMMITTEE** consisted of:

1. ŽELIMIR VUKINA, CHAIRPERSON, AND
2. LUKA BURILOVIĆ AND KRUNOSLAV VITELJ AS MEMBERS OF THE NOMINATION COMMITTEE.

The Nomination Committee did not hold any sessions in 2020.

ŽELIMIR VUKINA

President of the Supervisory Board

Želimir Vukina was elected a member of the Supervisory Board of Podravka Inc. in June 2019.

President of the Nomination Committee, member of the Audit Committee and the Remuneration Committee of Podravka Inc.

He began his professional career at Pliva Inc. in 1985. During his years at Pliva, he served as the director of Marketing and Sales of the Pharmaceuticals Program, and subsequently the director of the Pharmaceuticals Program. In 1993, he assumed the position of deputy president of the Management Board of Pliva Inc. responsible for marketing and sales of all business programs, and coordinating procurement, legal affairs, joint operations and logistics. He was a member of the core team preparing and conducting the initial public offering (IPO) and listing of Pliva shares on the Zagreb and London Stock Exchanges. In 1999, he moved to Lura Inc. to the post of managing director. In 2002, he continued his career at the Adris Group Inc. as a member of the Board responsible for development. Since 2012, he has been working at the Vukina and Partners Ltd. Law Firm as a business consultant.

He graduated from the Faculty of Economics, University of Zagreb in 1985.

He studied business at the IEDC Business School in Bled, Cleveland State University in Ohio, USA, Cornell University, Johnson Graduate School of Management in New York, USA, and Insead, Fontainebleau in France.

LUKA BURILOVIĆ

Deputy president of the Supervisory Board

Luka Burilović was elected a member of the Supervisory Board of Podravka Inc. in June 2018, to a mandate commencing on 8 September 2018.

President of the Remuneration Committee and member of the Nomination Committee of Podravka Inc.

He began his professional career in 1990, as the owner of the company Agrotehna Lipovac. In 1996, he became the deputy head of the Municipality of Nijemci.

In April 2004, he was appointed assistant minister in the Ministry of Agriculture, Forestry and Water Management. He continued his professional path at Sladorana Županja as deputy president of the Management Board. In 2008, he became the president of the Management Board of Sladorana, where he remained until April 2014 when he took on his current position as president of the Croatian Chamber of Commerce.

He graduated from the Faculty of Economics at the J. J. Strossmayer University in Osijek, receiving the title of legal administrator. He continued his education at the Faculty of Business Studies in Banja Luka, where he received the title of graduate economist. At the Business College in Višnjan, he received the title of professional specialist in economics, while at the Faculty of Economics at the J. J. Strossmayer University in Osijek, he received the title of university specialist in economics.

In 2019, he obtained his doctorate from the Faculty of Economics at the J. J. Strossmayer University in Osijek in the field of social sciences, scientific field of economy.

Throughout his career, he continued his professional development, and at the Faculty of Economics at the J. J. Strossmayer University in Osijek also attained qualifications in the field of corporate management for members of supervisory boards and executive bodies. He attained the knowledge and competences of an advisor for entrepreneurship in small business from the Ministry of Crafts, Small and Medium Entrepreneurship.

Luka Burilović is president of the Croatian National Board of the International Chambers of Commerce (ICC), a member of the Executive Board of the Association of European Chambers of Commerce (Eurochambres), member of the Executive Board of the HAZU Foundation (Croatian Academy of Sciences and Arts) and chairman of the University Council of the University of Zagreb. He was member of the Economic Council of the President of the Republic of Croatia.

He is a member of the Supervisory Board of INA and HBOR.

He was a participant in the Homeland War and decorated with the Homeland War Memorial medal.

He was decorated with the Order of the Croatian Morning Star with the image of Blaž Lorković for his special contributions to economy and for his exceptional contributions to developing economic relations with other countries.

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 company's Workers' Council.

Ms. Horvat began her career at Podravka in 1984 in an administrative position, and after successfully continuing her education while working, she took on commercial tasks for the Croatian market. In 2001, serving as the representative of the largest trade union in Podravka, PPDIV, she took on a full – time role in the Union and has since been one of the leading union negotiators in improving the rights of Podravka's employees through the Collective Agreement for the Podravka Group.

In 2002, she was first elected into Podravka's Workers' Council, and from 2013 to the present day, she has served as chairperson of that Council. She first served as the workers' representative in the Supervisory Board of Podravka from 2004–2012, and in that period also served as deputy president of the Supervisory Board, and interim president of the Supervisory Board in the period 2009–2010.

PETAR MILADIN

Member of the Supervisory Board

Petar Miladin was elected a member of the Supervisory Board of Podravka Inc. in June 2018, to a mandate commencing 8 September 2018.

Member of the Remuneration Committee of Podravka Inc.

Petar Miladin was born in 1973 in Dubrovnik. He graduated from high school and the Faculty of Law in Zagreb. After completing his studies, he worked as an intern at the Zagreb Municipal and Commercial Courts. He passed the bar exam in 1999. He is a full professor at the Faculty of Law, University of Zagreb for the subjects Commercial Law, Company Law and Banking Law. From October 2013 to 1 October 2015, he was the vice – dean of the Faculty of Law, University of Zagreb. He received his master's degree from the Postgraduate Scientific Study in Commercial Law and Company Law at the Faculty of Law, University of Zagreb, defending his master's thesis "Bank Secrecy and Bank Notification" in 1999. He defended his doctoral thesis "Payment via Giro Transfer" on 27 January 2005 at the Faculty of Law, University of Zagreb and obtained an academic degree of Doctor of Social Sciences, scientific field of law. At the Faculty of Law, University of Zagreb, on 5 May 1997, he became a junior assistant professor at the Department of Commercial Law and Company Law. He has published some fifty scientific papers in the fields of commercial law, banking law and capital market law. He lectures the subjects Commercial Law, Company Law and Banking Law at the Faculty of Law of the University of Zagreb the within the doctoral study program of Commercial and Company Law.

Since February 2019, he has been employed at the Faculty of Law, University of Zagreb, as a full professor.

IVANA MATOVINA

Member of the Supervisory Board

Ivana Matovina became a member of the Supervisory Board in June 2017.

President of the Audit Committee of Podravka Inc.

She began her professional career in 1996 as an accounting manager and from 1997 to 2009 worked at KPMG Croatia Ltd. Subsequently, until 2011, she worked as a partner and director of Cinotti audit Ltd./ Cinotti consulting Ltd., and in 2011 founded her own company, Antares audit Ltd./ Antares consulting Ltd. engaged in audits, internal audits, accounting and business consulting and training. From 2009 to 2012, she was a member of the Governing Council of the Croatian Chamber of Auditors, from 2012 a member of the Financial Reporting Standards Board and a member of the HANFA Council.

In 1996, she graduated from the Faculty of Economics and Business in Zagreb, majoring in Accounting and Finance. In 2000, she became a Chartered Certified Accountant of the United Kingdom and two years later acquired the title of Chartered Certified Auditor of Croatia.

KRUNOSLAV VITELJ

Member of the Supervisory Board

Krunoslav Vitelj was elected in June 2018 as a member of the Supervisory Board of Podravka Inc, to a mandate commencing 8 September 2018.

Member of the Nomination Committee of Podravka Inc.

He began his professional career in 1977 at Podravka, where until 1991 he held several management posts. In 1991, he became head of the Municipal Assembly of Koprivnica, and in 1993, transferred to the Ministry of Internal Affairs of the Republic of Croatia, the Police Directorate of the Koprivnica – Križevci County, to the post of head of the Department of Civil Protection, Fire Protection and Inspection. He returned to Podravka in 1995 as an advisor to the president of Human Resources and Law, and in 1996 he became director of the Croatian Chamber of Commerce – County Chamber of Koprivnica, where he still works.

He graduated in 1993 from the Faculty of Economics and Business, University of Zagreb, where he received his master's degree in 1995.

In 2008, he obtained corporate governance qualifications 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, to a mandate commencing on 8 September 2018.

She began her professional career at the Banka Kovanica Inc., Varaždin in 2004 as Branch Manager for Bjelovar, Virovitica and Koprivnica. In 2011, she transferred to Hrvatska poštanska banka Inc., Zagreb to the post of head of the Koprivnica Branch, Regional Centre Varaždin. She continued her career at Hrvatska poštanska banka Inc. Zagreb and from 2015 worked in the Retail Banking Division, first in the Network Sales Management Directorate and then in the Business Development Directorate. She has been employed in the Office for the Development of the Service Model and Sales Staff since 2020.

Dajana Milodanović is a member of the Town Council of the Town of Đurđevac and the County Assembly of the Koprivnica – Križevci County. She also serves as the chairperson of the Executive Council of the Maslačak Preschool in Đurđevac and chairperson of the Supervisory Board of the municipal services company Komunalne usluge Đurđevac Ltd. and President of the Supervisory Board of the Union of Sports Associations of the Town of Đurđevac. She was member of the Executive Council of the PORA Development Agency for Podravina and Prigorje for promoting and implementing development activities in the Koprivnica – Križevci County.

In 2004, she graduated in Accounting and Finance from the University of Zagreb, Faculty of Economics and Business, and in 2011 attained the title of Professional Specialist in Economics upon completing Management of Finances, Banking and Insurance 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.

Member of the Audit Committee of Podravka Inc.

He began his professional career as a production technologist at Ledo Inc. and later advanced to become assistant head of the laboratory. In 2000, he was made assistant head of Production, and three years later, head of International Production Operations and in 2004, director of Production. In 2008, he became president of the Management Board of Ledo Ltd., where he remained for the next 6 years.

Since 2003, he has been co – owner of the company Bik Ltd. from Čazma, and since 2014, its 100% owner and procurator. In 2012, he became co – owner of the company Moslavina proizvodi Ltd. from Sišćani. During 2015 – 2016, he served as the appointed director for Pestova Sh.P.K. at the European Bank for Reconstruction and Development (EBRD).

He graduated from the Faculty of Economics and Business, University of Zagreb. He continued his professional development and education at the IEDC Business School in Bled, Slovenia, Management Centre Europe in Belgium, and obtained corporate governance qualifications 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 began her professional career in 1983 in the company Đuro Đaković, Marsonia Commerce, working first in the Import/Export Division, and later becoming director of imports. From 1995 to 2007, she worked at the Faculty of Mechanical Engineering in Slavonski Brod, and in 2004 became the vice – dean for commercial cooperation. Since 2007, she has worked at the Faculty of Economics and Business, University of Zagreb, as a full professor in tenure, and an associate professor at the Nottingham Business School, Nottingham Trent University (Great Britain), lecturing in the courses of International Business, Open Innovations in Global Networks and International Entrepreneurship. She is the head of International Accreditations at the Faculty of Economics and Business in Zagreb.

She graduated from the Faculty of Economics and Business at the University of Zagreb in Marketing in 1983 and received the title of master of science in the field of Theory and Placement Policy – Marketing with the topic “Joint Ventures” in 1989 and a PhD in April 2000 with a doctoral thesis titled “International Technology Transfer and the Position of the Republic of Croatia in International Exchange”.

During 2006 and 2007, she was director for Strategic Development of the Consortium of Regional Cooperation in Science, Medicine and Technology (RECOOP HST Cedars – Sinai Medical Center) in Los Angeles, USA and schools of medicine in Central and Eastern Europe.

Her professional development continued at Cedar Sinai Hospital, Los Angeles and Strathclyde University, Glasgow in the area of transfer of knowledge and strategic management.

In 2013, she was a visiting professor at Columbus State University, USA, and an invited lecturer at several universities in India, Finland, Denmark, Malta, Italy and Spain.

Prof.dr.sc. Marina Dabić is the leader and/or grandholder of more than ten European projects such as: Tempus, Erasmus +, Leonardo da Vinci, Horizon 2020 – RISE.

She is the editor and author of seven books by prestigious publishers Springer, Palgrave MacMillan. She has published 30 chapters in books, is the author of more than a hundred scientific papers indexed in the Scopus scientific database and is the most quoted Croatian scientist in the field of economics.

As of 2018, she is the co – editor of the prestigious journals Technological Forecasting and Social Change, Elsevier, IEEE – Transaction in Engineering Management Technology in Society, Elsevier. She is a member of a dozen editorial boards of journals such as: Journal of Business Research, International Journal of Physical Distribution & Logistics Management, Journal of Knowledge Management, Emerald and others.

Since 2015, prof. Marina Dabić is a regular evaluator for the European Commission of the prestigious Horizon 2020 projects in the area of circular economy and other projects within the Horizon 2020 projects. She is a member of the EPAS Evaluation Committee for European Foundation Management Development (EFMD). She was the President of the AZVO Re – Accreditation Team for the Faculty of Economics in Rijeka and the Faculty of Economics in Osijek, a member of the Executive Evaluation Board of BICRO, and a consultant for the World Bank. She has prepared background reports for OECD and EC HEInnovate. Five doctoral theses were defended under her mentorship.

MANAGEMENT BOARD

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) and they can be reappointed. If the president or members of the Management Board are appointed during the term of the existing Management Board, their term lasts until the expiry of the term of the Management Board as a whole. The beginning of the term is as of the date the Management Board members are appointed if not otherwise stipulated in 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 among 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 2020 were as follows:

1. **MARIN PUCAR – PRESIDENT**
2. LJILJANA ŠAPINA – MEMBER
3. DAVOR DOKO – MEMBER
4. MARKO ĐEREK – MEMBER
5. HRVOJE KOLARIĆ – MEMBER.

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 2020, the Company's stock options in the amount of 40,000 were granted to the members of the Management Board of Podravka Inc.



MARIN PUCAR

President of the Management Board

MARIN PUCAR WAS APPOINTED PRESIDENT OF THE MANAGEMENT BOARD OF PODRAVKA INC. IN FEBRUARY 2017.

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.



LJILJANA ŠAPINA

Member of the Management Board

LJILJANA ŠAPINA WAS APPOINTED MEMBER OF THE MANAGEMENT BOARD OF PODRAVKA INC. IN FEBRUARY 2017.

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

DAVOR DOKO WAS APPOINTED MEMBER OF THE MANAGEMENT BOARD OF PODRAVKA INC. IN MAY 2017.

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 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, 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

MARKO ĐEREK WAS APPOINTED MEMBER OF THE MANAGEMENT BOARD OF PODRAVKA INC. IN JULY 2017.

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

HRVOJE KOLARIĆ WAS APPOINTED MEMBER OF THE MANAGEMENT BOARD OF PODRAVKA INC. IN FEBRUARY 2017.

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.

4

Expected development

During its rich history, Podravka has conquered the world with its products. Today, it is the only Croatian multinational food company with representative offices in 23 countries around the world, and its **products are present in over 60 countries on almost all continents.**

In more than 70 years of operation, solid business foundations have been built, respecting the tradition and its values, as well as the work and efforts of generations of employees. Today we invest in new knowledge and by following technologies and trends we proudly build our future.

**WE KNOW WHERE WE'RE GOING
BECAUSE WE KNOW WHERE WE COME FROM**



ACHIEVING GROWTH

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

The key factors of development will be **further strengthening of business operations in international markets and retaining positions in the domestic market**, as well as **digitalization** and application of new business models.

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

In the markets of the Adria region, the Podravka Group strives to be **the leading manufacturer of branded products**, and in Central and Eastern Europe its aim is to achieve additional growth and strengthen market positions.

In Western Europe and Overseas Countries, the goal is **to expand its presence**, come closer to domestic consumers and focus on portfolio development.

GENERAL STRATEGIC GOALS

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

✓
To be the leading food company on defined strategic markets

✓
To provide new and innovative culinary solutions for consumers and by implementing nutritive strategy, launch top – quality products with added value

✓
To keep pace with or be ahead of the average of industries in which Podravka operates on key markets regarding the levels of cost and production efficiency

✓
To reduce costs of procurement, sales and distribution, general and administrative costs and thus enable higher investments in marketing, research and product development and to improve cash flow necessary for optimum operations with better financial management

✓
To be the leader or strong second place competitor in defined business units on strategic markets

✓
To strengthen the existing international markets

✓
To contribute to the development of Croatian economy

✓
To be the consolidator of the food industry in the region

KEY FACTORS OF SUCCESS

1. STRENGTHS AND VALUES

EMPLOYEES

The key to Podravka's success are professional, creative and enterprising employees who contribute to the Company's wellbeing and invest additional effort and time in achieving above – average results.

QUALITY

Every product bearing the name Podravka is the result of many years of experience, know – how and care for the health and wellbeing of consumers.

LONG – ESTABLISHED TRADITION

In more than 70 years, together with our consumers we have built a tradition that nurtures Croatian quality, the strength of domestic products and pride in domestic values.

SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

Compliant to the principles of sustainability and responsible business, Podravka makes every effort to use fewer resources and to produce less waste. Therefore, the Company's focus of attention are the needs of consumers, employees and local communities, full commitment to the development and quality of products and the constant concern for health and the environment.

PODRAVKA BRANDS AND CONSUMER TRUST

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

WIDE DISTRIBUTION NETWORK

Podravka has an advanced distribution network in Croatia and ten countries of the region, including Central and South Eastern Europe.

PARTNER RELATIONS

Our current and future partners and consumers are the most valuable Company's external potential and they are therefore, approached with special care in open and accountable communication. The Company builds trust based on mutual respect of employees, as well as clients and consumers.

2. PROFITABLE GROWTH

STRENGTHENING CURRENT MARKET POSITIONS

The focus is on strengthening the current markets where Podravka brands have been recognised and which have an advanced selling and distribution network.

INTERNATIONALIZATION

Podravka focuses on increasing the share of income from international markets that will positively impact the reduction of business risk and ensure the Company's long – term growth.

SYNERGY OF THE FOOD AND PHARMACEUTICAL SEGMENTS

Take full advantage of the food and pharmaceuticals synergy potential, and develop new, innovative products through the Nutraceuticals program.

FOCUS ON KEY BRANDS

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

BUSINESS INVESTMENTS

By increasing operating efficiency, additional capital is released, and the Podravka Group intends to invest in further business. Through effective investment cycle management and significant investments in marketing, all the potentials of strategic markets are to be fully exploited.

STRATEGIC PARTNERSHIPS AND ACQUISITIONS

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

3. OPERATING EFFICIENCY

EFFICIENT COST MANAGEMENT

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

CONTINUOUS MONITORING OF THE PRODUCT RANGE PROFITABILITY

Podravka focuses on profitability through the restructuring of certain areas and thus intends to release capital for investments in profitable categories.

STRATEGY CASCADING – CLEAR GOALS AND RESPONSIBILITIES

Podravka attaches utmost importance to the strategy, goals and cascading to lower organizational units, and thereby clearly defines individual responsibilities and tasks that need to be fulfilled, in order to realize the set goals.

BUSINESS UNITS

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

DEVELOPMENT OF INTERNAL COMPETENCIES

Sharing knowledge amongst employees through own training courses and experience, Podravka takes care of the competencies of its employees, improving internal processes and encouraging innovation within the Company.

GENERATING THE BASE FOR PROFITABLE GROWTH

The Podravka Group strives to increase the efficiency of the whole Group, strengthen internal resources and potentials and focus investments on strategic brands in key markets by full exploitation of all available resources.

RISK FACTORS

In its operations, the Podravka Group is exposed to risks typical of economic entities operating on the domestic and foreign markets, especially to those common in food and pharmaceutical industries. Various internal and external factors cause risks manifested in an inability to realize the Company's set goals, which impact the Company's financial position and operating result, 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 have an impact on the implementation of strategic business decisions and on regular operations, whether at the level of a particular country or beyond. Technological risk refers to innovation and improvement of production processes, or risk of obsolescence of the 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 ability to achieve growth and planned profitability in a particular market. The lack of adjustment to these regulations could have a significant impact on expenses related to operations, as well as the Company's overall reputation.

Therefore, the Podravka Group uses its own as well as external resources from various fields of expertise in order to ensure compliance with the norms that regulate specific areas. Equally, sales and 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.

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 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's 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 is 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 fluctuations in exchange rates. The most significant exposure to changes in exchange rates of the Croatian kuna during 2020 was in relation to EUR, USD, PLN, CAD, 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 2020, the exchange rate of the Croatian kuna against the Euro was significantly more volatile than in previous years due to market conditions in 2020, and especially due to the partial closure of the economy due to the pandemic caused by the COVID – 19 disease and thus weakened tourist season.

During 2020, 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 instruments for hedging purposes and the control and reporting system. Additionally, within the model, exposure limit parameters were set which are triggers for contracting the prescribed hedge levels. Using 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, thus reducing the overall exposure to currency risk, and also creating the opportunity to contract derivative financial instruments for the remaining amount of net cash flow at central level.

During 2020, Podravka Inc. concluded fx forward contracts for managing exchange rate risks for USD, 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 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. For the purpose of active supervision and minimization of exchange rate risk, in 2020 fx forward transactions were concluded as available instruments for hedging against changes in the exchange rate of RUB. Podravka International Kft., Budapest, a company within the Podravka Group, realizes part of its outflows in Euros due to the settlement of its obligations in the specified currency. During 2020, 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 and taking into account the fact that the key interest rates are currently at low levels, 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. noncompliance 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.

In continuance to the extraordinary administration over companies in the Agrokor Group based in Croatia and their takeover by the Fortenova Group, Podravka continues its business cooperation with companies of the Fortenova Group regularly monitoring the state of receivables and exposures.

The pandemic caused by the COVID – 19 disease had and still has an impact on a somewhat slower collection of receivables, primarily from industries that were / or still are closed (catering and tourism), but without a significant impact on the liquidity of the Podravka Group.

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

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 individual markets during 2020, the Podravka Group contracted insurance of receivables for a selected group of markets. The Company secured receivables on the markets of the Republic of Croatia, Turkey, Qatar, Belarus, the Ukraine, the United Arab Emirates, Saudi Arabia, Oman, Kuwait, Egypt, Japan and Kenya. For a certain group of markets, Podravka's affiliated companies also insure receivables from external customers. In 2020 Belupo, Podravka Moscow, Podravka Lagris, Podravka Poland and the Žito Group secured receivables from insurers.

During 2020, 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 is performed at the level of all companies of the Podravka Group, including observing guidelines set by Podravka, the goal of which is regular settlement of all debts and harmonization of all other contractual relations.

Additional efforts in cash flow planning at the level of all affiliated companies made in previous periods continued in 2020, which resulted in additional optimization of the Podravka 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 on the market due to increasing adverse weather conditions caused by climate change (years of drought, floods, etc.) resulting in reduced yields, 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 to 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, 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 price volatility in the market.

BRAND MANAGEMENT

Business conditions in most markets in which the Podravka Group operates are 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 2020, the pandemic caused by the COVID – 19 disease had an additional, most significant impact by continuously changing consumer behaviour and directing 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 functionalities, the success of recognizable brand – oriented companies is largely dependent on their ability to be **innovative, differentiating and at the same time price relevant**.

Consumer habits, tastes and preferences are constantly changing, so the Podravka Group is 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 **constantly designing and developing innovative solutions** in line with the expectations of its customers and clients as well, 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 their 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 is making efforts **to ensure the preconditions for the continuation of successful long – term growth and the avoidance of erosion of profit margins** through the optimization of existing pricing policies and price levels in current markets.

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.**

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

Quality assurance is based on 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 of the Podravka Group is supported by the certified Information Security Management System (ISO / IEC 27001: 2013), according to which the Company is committed to continuously improving the protection of Podravka's information system, which ensures the 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 the 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.

MANAGING MANAGEMENT AND EMPLOYEE RISKS

Recognizing and valuing knowledge, innovation and performance, promoting individuality as well as teamwork is the very foundation of Podravka's success, **alongside dynamic, creative and successful employees.**

Different programs tailored to the needs of employees and organizational units along with constant upgrading of existing and introduction of new, innovative, specific company programs, have created sound grounds for further successful and safe operation and added value for the Company.

Podravka offers additional opportunities for those who are determined and eager to develop their professional skills. Personal development planning **recognizes and supports individuals whose potential suggests further career advancement and development.**

Management and employee risks, monitored by the Human Resources and Law sector, have since 2017 been included in the analysis and reporting process within the ERM project. There are three key goals for the development of professional and organizational skills: **to enable employees to continue development in their field of expertise and career advancement, to keep pace with constant environmental and organizational changes and to support strategic directions of the company's development in all areas of human resource management, thus creating added value for customers, owners and employees.**

NON-FINANCIAL REPORT

1 Business model and creating value

BUSINESS MODEL

The Podravka Group is engaged in the **production of food and pharmaceutical products**.

The production and sales of food products is organized through business units that group a wide range of products: seasonings, spices, soups, semi – finished and ready meals, bakery and mill products, side dishes, condiments, tomato products, other fruit and vegetable products, tea, confectionery, baby food, sweets, snacks, breakfast cereals, spreads, meat products, fish products and other food products. The pharmaceutical business area includes prescription drugs, over – the – counter program, and enteral nutrition products.

The business of both segments is based on the **production of high quality and safe products in accordance with good manufacturing practice and the principles of quality management and food and medicine safety**. In addition to its commitment to business results, i.e. the creation of economic benefits for owners, and the creation of top brands and products, the Podravka Group is also committed to **care for the community in which it operates, and care for its employees as a responsible employer**. In business, it applies the norms of socially responsible business, acting according to the **principles of sustainable development**, taking into account the goals for community progress and preserving the environment for future generations.

The products of the Podravka Group are intended for **consumers of all ages, built on tradition and its values**, and research, creativity and technological achievements enable products to compete in the market created by the **latest trends that modern consumers closely follow**.

Product quality, following trends and responding to consumer needs ultimately result in the **satisfaction of consumers and the profession** who adequately reward the Company with their loyalty and numerous awards.

The Podravka Group cooperates with many partners around the world in its business and through procurement, production and sales processes. These are producers, crafts, family farms, veterans' associations, subcontractors, distributors, wholesalers and large multinational companies.

The company has considered the possible links associated with environmental, social and personnel issues, the abundance of human rights, and combatting corruption, and identified no additional risks associated with those issues or any negative impacts on the business model of Podravka d.d.

CREATING VALUE

One of the strategic goals of the Podravka Group is to **ensure the quality and safety of products, the quality of business processes as well as the continuous improvement of business practices**. In the entire production process, from the procurement of raw materials and packaging to the distribution of the finished product to the consumer, the emphasis is on the quality of the process.

The quality management system is designed to **strengthen transparency, improve the Company's internal processes and efficiency**, thus ensuring compliance with national and international legal regulations, standards and guidelines and thus justifying the expectations of customers, partners and regulatory bodies. The quality management system is regularly monitored through internal inspections as well as through inspections of external certified inspectors of regulatory bodies and business partners.

In accordance with the Company's vision, the business of the Podravka Group is dedicated to **improving the everyday quality of the life of consumers, customers and employees**. Monitoring consumer needs and market trends provides useful information that allows **prompt reaction to changes**, which creates an advantage over the competition and attracts new consumers, while strengthening the confidence of long – standing ones. This trust is largely due to the business tradition, which in combination with the latest technological achievements produces impressive results.

The development of new innovative products that fully meet the required needs and trends contributes to consumer satisfaction, but also to the progress of the entire food industry. The willingness to adapt to the desires and needs of consumers further strengthens their trust based on tradition and quality. One of the examples are food products adapted to national cuisines and local tastes, given the fact that the Podravka Group operates in over 60 markets around the world.

In a competitive business environment, the Podravka Group is constantly improving its business, developing its product range, and maintaining its leading position in selected categories, taking into account the diversity of each individual market.

The Podravka Group **operates according to the principles of sustainable development**, striving to use resources optimally with as little waste as possible. Special attention is paid to environmental protection and the development of the community by carefully listening to their needs.

In an effort to expand the concern for the community and the environment, the Podravka Group applies various approaches and is committed to many initiatives. By applying precautionary approaches it seeks to protect the health of employees and people in general, and to avoid, reduce or eliminate the negative impact on the environment. Reducing the amount of salt in products, scholarships for students and adhering to the code of business ethics are just some of the initiatives to which the Podravka Group is committed.

The Podravka Group is **involved in the life processes of its employees, as well as the entire community**. In order to improve the quality of life of the community in which it operates, the Podravka Group has been **investing in science, education, culture, art and sports** since its very establishment through numerous donations and sponsorships. It promotes corporate social responsibility by endorsing a healthy lifestyle, professional development of employees and encouraging their innovation and creativity, as well as caring for health and safety at work. It also actively employs people with disabilities and thus has a positive impact on the local community by encouraging the employment of hard – to – employ groups. In addition to all this, the Podravka Group is an important intermediary in connecting business and social entities in Croatia and abroad.

CONNECTION BETWEEN VALUE CREATION AND IMPACT ON NON – FINANCIAL / SOCIALLY RESPONSIBLE BUSINESS

The Podravka Group's strategy includes a guideline according to which the production of the range of fruit and vegetable products should be based entirely on domestic raw materials through cooperation with domestic food producers, family farms and veterans' cooperatives. The Podravka Group provides its subcontractors with support in all aspects of business, from professional support of agronomists to financial, development and sales support. In this way, **the wellbeing of the local population is affected in the short term through the provision of subsistence, and in the long term the development of local agriculture and the entire economy.**

Business has changed greatly in the past few years due to the adaptation to the principles of sustainable development. Significant efforts have been made to improve the waste management system through long – term activities aimed at reducing the negative impact of waste at all locations where the Podravka Group operates. In addition, special attention is paid to materials used in the production of products with a positive impact on the human body and the environment, care for consumer health, development of functional products, optimization of production processes and systematic reduction of resource consumption in production.



2 Impact of the pandemic caused by the COVID – 19 disease on business activities

THE IMPACT OF THE PANDEMIC AND THE COMPANY'S RESPONSE

Food production in the conditions of crisis proved to be extremely important for ensuring supplies for the population and the normal functioning of everyday life. The SARS-CoV-2 virus pandemic has opened new opportunities for the Croatian food industry, encouraging domestic food producers to adapt their business processes to ensure sufficient amounts of food for all. During the pandemic, food imports were hampered, forcing consumers to turn to domestic products.

The pandemic has prompted consumers to change their lifestyle habits and consumption preferences. Consumers have begun to **appreciate domestic products more**, and retail chains are increasingly inviting domestic producers to cooperate and sell their products. The increase of the prices of raw materials and packaging, higher transport costs, difficult delivery conditions and the impact of exchange rate differences have negatively affected the operations of most companies, but the Podravka Group has managed to maintain positive business trends, which confirms the Company's ability to adapt to unexpected circumstances.

In the shortest possible time, the Podravka Group fully adjusted its business processes so that food production was able to promptly meet the increased market demands. The work was organized in three or four shifts, depending on the needs of production, logistics and distribution. Wherever possible, work from home was organized, while employees who do not have the opportunity to work from home were engaged in helping and supporting employees in production facilities.

The pandemic has changed the way of work by directing employees to do their standard work outside the office, from home, organizing meetings *online*, gaining more freedom in solving tasks, educating themselves in new areas from their own home and, despite isolation, trying to maintain good relationships with co – workers and colleagues.

COVID-19

The pharmaceutical industry has faced a number of challenges since the beginning of the crisis, especially at the time of the closure of China and India from which most generic drugs are procured. At the beginning of the pandemic, there was an increased demand for drugs, which increased the need for the production of pharmaceutical products. Pharmaceutical companies had to adapt to the new situation, and those that had enough raw materials and supplies to work successfully overcame the crisis. In the short term, it was necessary to reorganize the business and increase the flexibility of processes in order to ensure stable business. The Podravka Group is less affected by this trend than other participants in the pharmaceutical market due to the **quality management of procurement processes and the long – term reduction of dependence and procurement risk from a smaller number of suppliers.**

The pandemic has also shown how **important it is to ensure our own production of medicines**, instead of moving to countries where it will be cheaper due to short – term savings. At the time of the pandemic, there was an increased demand for disinfectants, due to the greater need for protection from infectious diseases, but ultimately also due to the change in consumer lifestyle resulting from the adaptation to crisis situations.

THE IMPACT OF THE PANDEMIC ON BUSINESS MODEL CHANGES

Market research shows that the growing focus of consumers is on the impact of food on their immunity, which further reinforces the current trends relating to functional food that has additional positive effects. **New trends in healthy eating will focus on food safety, especially hygiene.** Prior to the epidemic, customers were looking for products with a design that offers natural nutrition and sustainability, and now the popularity of neatly packaged food that suggests hygiene and safety is predicted to grow again. This poses a new challenge to food and packaging manufacturers. In addition, at the time of the pandemic, consumers turned to more cooking at home and realised all the benefits, so it is assumed that this trend will continue. Homemade food is gaining importance in every respect, both in terms of the origin of the raw material and in terms of preparation at home.

The Podravka Group **focuses its business on the new needs of consumers and can successfully respond to all new trends**, since for many years it has produced a wide range of products with additional benefits, from cooking aids to food for medical purposes and a bio assortment.

The pandemic has accelerated some changes in the pharmaceutical industry, such as **digitalization and the reduction of bureaucratic processes.** Value – added drugs for health systems and patients, based on the application of digital technologies, artificial intelligence and machine learning, have been developed for some time to increase the effectiveness of treatment outcomes, and thus productivity and competitiveness. The Podravka Group successfully follows these trends and organizes consultations with doctors, professional seminars and various conferences via *online* tools, respecting all necessary regulations and continuously taking into account the highest quality standards.

IMPACT OF THE PANDEMIC CAUSED BY THE COVID - 19 DISEASE ON BUSINESS ACTIVITIES - CORPORATE SECURITY

From the very beginning of the outbreak of the SARS-CoV-2 virus (COVID - 19) and before the SARS-CoV-2 virus spread to the EU, Podravka Inc. continuously monitored the situation and **took preventive and corrective measures in real time to manage potential health and business risks.**

With the arrival of the SARS-CoV-2 virus in the surrounding countries and the deterioration of the situation in Italy during February 2020, Podravka Inc. continued to monitor the situation, and upon the first outbreak in the Republic of Croatia a Crisis Team was activated. In accordance with the provisions of the Crisis Management Manual, members of the basic Crisis Team assessed the crisis potential in the situation of SARS-CoV-2 virus outbreak in the Republic of Croatia and the risk and possible impacts on ensuring business continuity of Podravka Group companies. The first meeting of the extended Team from all key units of Podravka was held immediately, and concrete assessments of the risk and possible impact on business were discussed. Conclusions were made in terms of directing **priority action in the field of health and safety of employees and all stakeholders**, taking all available preventive measures and procedures to prevent disease at all Company locations and facilities, ensuring business continuity and crisis communication.

Measures taken to reduce the risk of potential introduction and spreading of the disease within the Company were implemented in accordance with the recommendations of the World Health Organization (WHO) on measures to prevent the spread of disease and in accordance with decisions of Croatian national authorities and guidelines of other particular countries.

In order to provide timely, accurate and accountable information, communication with interested parties was established through available channels, and a special e - mail address for two - way internal communication was additionally opened. An internal portal was produced on the corporate intranet in order to constantly raise awareness of the need to apply the established anti - epidemic measures. Publications on the corporate intranet are updated on a daily basis and harmonized with the information and recommendations of the competent state bodies. A brochure was printed with specific safety and security information for visitors, contractors and especially truck drivers. Special attention was paid to ensuring the transport and traffic of trucks in such a way that preventive hygienic and sanitary measures were taken for truck drivers at locations and at the Company's facilities.

A daily exchange of information and coordinated treatment with the competent state, county and city bodies such as the Civil Protection Headquarters and the Institute of Public Health has been established.

A sufficient amount of personal protective equipment and hygienic and sanitary supplies was provided in real time and in accordance with the needs.

So far, a number of measures, recommendations, documents, procedures and activities have been adopted and implemented, which have been assessed by the competent authorities as proportionate, purposeful and appropriate, all with the aim of timely action and risk management.

All activities undertaken in order to implement decisions, measures and recommendations have resulted in ensuring continuous and safe conduct of all business processes within the Company with special emphasis on production and logistics processes.

IMPACT OF THE PANDEMIC CAUSED BY THE COVID - 19 DISEASE ON BUSINESS ACTIVITIES - INFORMATION SECURITY

Due to the digital transformation of business in the last few years, an exponential growth of cyberattacks 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 2020, the exponential growth of cyberattacks has further accelerated due to the SARS-CoV-2 virus pandemic. The past year, 2020, was marked by increased engagement of human resources from the Corporate and Information Security and Informatics sectors in all elements of Podravka's information system protection, with an emphasis on **proactive activities aimed at reducing the risk of currently the greatest security threats to the information system** (Ransomware, etc.).

In March 2020, the number of VPN connections increased twentyfold in two weeks due to the drastically increased remote work for most employees working from home where possible as a result of the SARS-CoV-2 virus pandemic. For this reason, in a very short period and with minimal additional investments, the capacities of the information system were activated in order to support the stated requirements of working from home.

A corresponding set of documents referring to policies and work instructions had been defined, and adequately communicated to all users of Podravka's information system to support and document the increased demands of work from home.

The occurrence of a series of *phishing* emails with COVID - 19 topics was detected and users were alerted by warning posts on both the intranet and in emails.

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.

IMPACT OF THE PANDEMIC CAUSED BY THE COVID - 19 DISEASE ON THE OPERATIONS OF THE PODRAVKA GROUP 'S PURCHASING FUNCTION

At the very beginning of the pandemic, possible risks were identified regarding the purchasing function, and **procurement activities were adjusted to operating in conditions of difficult supply**.

In order to ensure timely and sufficient quantities of raw materials, supplies and other goods needed for the smooth running of production and sales processes during the pandemic, the purchasing function of the Podravka Group carried out a number of activities, such as: intensifying communication with suppliers (especially strategic categories), using alternative ways of transport for raw materials and supplies from abroad, short - term increase of stocks (*safety stock*) for materials with longer *lead time*, including alternative suppliers wherever possible, in cooperation with Production Planning production priorities were agreed, and with Logistics unloading and storage processes were optimized. By carrying out these activities and reacting promptly, the purchasing function of the Podravka Group has successfully adapted to the new conditions in accordance with the current situation and needs.

IMPACT OF THE PANDEMIC CAUSED BY THE COVID - 19 DISEASE ON BUSINESS ACTIVITIES - RESEARCH AND DEVELOPMENT

The circumstances surrounding the pandemic caused by the SARS-CoV-2 virus particularly affected the work of the Laboratory for product development and sensory food testing, due to the decisions passed by the Croatian Civil Protection Headquarters in order to prevent the spread of the SARS-Cov-2 virus and additional internal measures implemented by the crisis management team at Podravka.

In that period, 20.6% of employees in the sector worked from home. Thanks to the support of Podravka's Informatics sector, they were provided with full availability of IT tools (notebook, internet connection, e - mail, Microsoft Teams, SAP) that enabled smooth functioning, and the company co - financed the overhead costs of home internet.

The activities of the Quality Control Service (a component of the sector consisting of 12 laboratories) were not disrupted at any time due to the pandemic, and work from home was minimally represented (less than 3%). This means that in compliance with all hygienic measures to preserve the health of employees, the processes of quality control and health safety of raw materials, semi - finished products, finished products, and control of worker, environment and production line hygiene ran smoothly, and product placement onto the market was never threatened by the pandemic.



IMPACT OF THE PANDEMIC CAUSED BY THE COVID - 19 DISEASE ON BUSINESS ACTIVITIES

The company Žito Ltd. **responded very quickly to the epidemic caused by the COVID - 19 disease and organized a team for emergency situations.** Throughout the period, the Team directed measures within the company and took care of the crisis plan, which focused on all processes in order to reduce any obstacles. Priority product lists were prepared to facilitate the organization of work, and the procurement segment took care, due to difficult logistics from neighbouring countries, of increased quantities of raw materials and packaging, given the expected growth in sales of particular sales programs. Changes in the market hit the bakery program the hardest because daily shopping in stores was limited. The choice of products was also influenced by the fact that consumers stayed and prepared food at home. Sales in the Horeca channel and the public consumer channel dropped significantly in all segments due to the long - term closure of hotels, restaurants, schools and kindergartens. Pressures to increase production in the milling industry, the pasta industry and some other durable products started right at the beginning of the epidemic. Exports were severely limited in terms of planned quantities.

Regular and transparent communication with employees was carried out in terms of transmitting and interpreting decisions, establishing preventive rules, monitoring the condition of employees, infection and quarantine, and also working from home and crossing borders. In the first part of the epidemic the spread of the infection amongst employees was successfully suppressed. However, there were more infections in the home environment in autumn and group testing measures were needed from time to time to prevent the transmission of the infection at the workplace, especially where it was not possible to maintain adequate distance. Individual projects were subject to delays due to difficult communication with suppliers, mostly from abroad. Additional unplanned operating costs incurred as it was necessary to provide appropriate protective equipment for employees, test employees and implement all additional prescribed protective measures.

Despite the difficult situation, Žito Ltd. successfully concluded the year 2020, which was entirely affected by the epidemic caused by the COVID - 19 disease.

LAGRIS

IMPACT OF THE PANDEMIC CAUSED BY THE COVID - 19 DISEASE ON BUSINESS ACTIVITIES

The pandemic caused by the COVID - 19 disease had significant impacts on the operations of Podravka - Lagris a.s. It had an indirect effect on the growth of COGS, given that both the upward trend in raw material prices and the difficult functioning of the supply chain continued.

In early 2020, during the first wave of COVID - 19, there was an increase in demand for Lagris rice and Lagris legume products in the retail channel, leading to growth in sales and profits.

At the same time, sales in the gastro trade channel fell due to the closure of restaurants and schools. The growth in sales in the retail channel partially offset the decline in the gastro retail channel.

IMPACT OF THE PANDEMIC CAUSED BY THE COVID - 19 DISEASE

This year, like no other in recent history, has shown that the European Union needs strategic industries that will fully develop in Europe in the future. One of them is, indeed, **an efficient and effective pharmaceutical industry, the so - called *smart healthcare industry***. This includes the need to define the following five key issues: Security of supply; Sustainable and affordable drug budgets; Harmonization of drug regulations with the digital age; Retaining and supporting production technologies of interest to Europe and ultimately, Aligning industry goals with public health goals.

From the Croatian perspective, the pharmaceutical industry, in addition to being a key partner of the Croatian healthcare system, exports its products to about sixty countries worldwide, including the most developed pharmaceutical markets, and is one of the strongest industries in general. In this crisis, drug manufacturers in Croatia, including Belupo, have **focused on maintaining the production, supply and distribution of drugs to hospitals and patients**, alongside all the difficulties caused by the occasional closure of borders and increased costs of transport and procurement of active substances.

This crisis has changed the management logic at Belupo by redefining the processes – further encouraging digital transformation, in some organizational units changed the concept of work organization and directed it to smaller teams, but also the use of new communication channels and tools. The organization of Belupo had to be fast, because in a crisis, current knowledge, competencies and resources lose their value. In this context, all Belupo employees had to change themselves and their business models, as there were no more “best practices” because the context in which they had functioned changed dramatically. New assumptions have emerged on which to build the future business logic.

Belupo has changed the conditions, but also the way employees work, primarily taking into account their health and wellbeing. On this track of security, each business segment has adapted to security measures. Various initiatives have been taken to maintain the continuity of production and supply of medicines to the market. In Belupo's factories, production capacities and access to planning the production of certain drugs from the group of antipyretics and analgesics, which were most in demand at the time, were provided. Stocks of finished products and raw materials were sufficient for a regular supply of the market, and despite the restrictive measures related to the movement of people and transport, patients were never left without medicines. There were no major problems with the delivery of raw materials, but there were still some short delays in deliveries due to restrictive measures introduced across Europe and the situation at the borders. But regardless of that, the delivery of finished products to wholesalers, pharmacies and foreign markets also took place regularly.

In 2020, Belupo operated in the planned volumes and generated HRK 976 million in external sales revenues, which is an increase of HRK 21 million compared to the previous year. However, one of the biggest challenges, which systematically burdens Belupo's business on the Croatian market, was the collection of receivables, as long as 125 days. When it comes to revenues from export markets, especially the markets of the Russian Federation, where Belupo generates more than half of its export revenues, the Company was faced with an unstable ruble exchange rate, against the euro and against the kuna.

This crisis has given all Belupo employees the opportunity to take a proactive approach, questioning and changing the existing business logic. **The solution to the crisis always lies in identifying the weaknesses of the current business paradigm as quickly as possible and creating a new one, and building an organization, offer and market that will be in line with the new logic.** Experience so far shows that everyone in the Company has the capacity to take full advantage of this situation.

IMPACT OF THE PANDEMIC CAUSED BY THE COVID - 19 DISEASE ON BUSINESS - BELUPO - HUMAN RESOURCES

The *new normal* in the context of human resources management brought a lot of challenges and major changes, the introduction of which was necessary for the processes to proceed at the planned pace. During 2020, the pandemic caused by the COVID - 19 disease had huge consequences for the economy. In this context, the question of jobs had arisen, how to maintain a quality workforce, how to maximize productivity and thus survive in the market. Here, good human resources management plays the leading role and technology can be of great assistance, especially in times of crisis. Belupo is a company that **with its initiatives and decisions shows that employees really come first**. All necessary measures and changes in the organization of work for the purpose of employee protection were implemented in a timely manner, and the fact that 11,088 hours of education of Belupo employees less than in the previous year shows the changes that Belupo had to introduce in the human resources management process to protect employees and their families. All new decisions were communicated to employees openly and transparently, and they were provided with multiple forms of support to ensure psychological wellbeing and a sense of security.

The SARS-CoV-2 virus pandemic has proven the importance of workforce adaptability and given the need to prevent the spread of the SARS-CoV-2 virus and the nature of work, work from home has been introduced for employees who can perform their regular jobs at a dislocated place of work. Perhaps, at first glance, working from home has great advantages, but still, most employees who were sent to work from home did not consider it a great advantage.

Insufficient work atmosphere and the feeling of isolation that often occur as a result of working from home, can lead to unproductivity and employees need to become more creative and enterprising with a great deal of self - discipline in order to do their jobs well.

Belupo proved to be a company that has successfully adapted to the new way of working and connected employees with each other as well as with partners and customers, and such remote communication has shown an enviable level of resilience and successful and sound business with many foreign markets in which Belupo operates.

The global pandemic has brought out the best in many employees and executives who have shown an unprecedented level of transparency. Strengthening the new level of cooperation amongst managers, using the unique abilities of employees to adapt to circumstances and using real - time data in the process of restructuring work and redefining tasks, enabled Belupo to develop and maintain long - term growth.

IMPACT OF THE PANDEMIC CAUSED BY THE COVID - 19 DISEASE ON BUSINESS - BELUPO - CROATIAN MARKET

When writing about 2020, it is impossible not to look back at the impact of the pandemic caused by the COVID disease on all segments of life, and thus business.

The pandemic itself has brought a number of challenges beyond the medical care of patients and has shown that it is able to reverse all the paradigms on which business in the pharmaceutical market is based.

Given that there are no effective and safe therapies for the SARS-CoV-2 virus infection and that the number of molecules / drugs that can be used for this indication is relatively small, the impact of the pandemic was primarily manifested in a growing demand for those molecules whose use is justified as supportive or symptomatic therapy, for example paracetamol, nasal drops and sprays, cough syrups, dietary supplements to boost

immunity with an emphasis on zinc and vitamin D and the like. Also, another category has experienced significant growth compared to previous years, and that is disinfectants.

However, in one part it stimulated the demand for certain groups of drugs, and in the other part, as a result of strict epidemiological measures and reorganization of healthcare, it brought significant difficulties reflected on acute therapy, primarily antibiotics.

Patients' access to healthcare was much more complicated and difficult than before the pandemic, whether in primary healthcare or hospitals, the non – urgent conditions and diagnostics were reduced, and in COVID hospitals even cancelled, while preventive activities were dormant. The contact of pharmaceutical representatives with healthcare professionals was severely aggravated which resulted in increasingly complex optimization of work in order to achieve results and introducing new preparations on the market was extremely challenging.

Also, given that the situation was very similar on the global scale, occasional problems occurred related to transport, difficult or delayed deliveries whether of active or auxiliary substances, packaging, foils, etc., which led to more difficult inventory management and increasingly demanding market supply.

IMPACT OF THE PANDEMIC CAUSED BY THE COVID - 19 DISEASE ON BUSINESS - INTERNATIONAL MARKETS

The pandemic caused by the COVID – 19 disease has had a strong impact on Belupo's operations in international markets. The first wave of the pandemic was characterized by a significant increase in demand for most Belupo products in March, especially for drugs that help with COVID – 19, but also for drugs used in chronic therapies, because the population wanted to ensure themselves in case of a longer lockdown. Initially, there were problems with the organization of international transport due to restrictions caused by the pandemic, especially in the context of increased demand for Belupo's products, but other companies' as well. In April and May, the number of deliveries dropped significantly due to the stocks created at distributors. There have been changes in the way professional associates work because the number of direct visits to doctors and pharmacists had significantly decreased, and *online* seminars, *webinars*, phone calls, communication via e – mail, the Internet, Instagram, Facebook, YouTube and other digital services were used more intensively.

The biggest impact of the pandemic caused by the COVID – 19 virus is the instability of demand for Belupo products and constant changes in the way of work and doing business in the markets. Such changes require constant adjustment and rapid change of work style, to which we have responded adequately in order to achieve satisfactory business results.

IMPACT OF THE PANDEMIC CAUSED BY THE COVID - 19 DISEASE ON BUSINESS - RESEARCH AND DEVELOPMENT

The pandemic caused by the COVID – 19 disease in 2020 was reflected in limitations in the form of increased absence of employees from the workplace and difficult business communication within the Sector and the Company, as well as business with external partners, and to some extent affected the dynamics of development activities. The implementation of anti – epidemic measures introduced at Company level, and the application of information and communication technologies has maintained the continuity of development processes.

IMPACT OF THE PANDEMIC CAUSED BY THE COVID - 19 DISEASE ON BUSINESS - QUALITY MANAGEMENT

The pandemic had a negative impact on the regular performance of planned work assignments primarily related to the management of suppliers of input materials for the production of medicines due to the inability to travel. This problem was also recognized by the regulatory bodies (EU Medicines Agency), which approved the postponement of the necessary activities until the situation normalized. The need for intensified activity in this regard is expected when the situation normalizes.

IMPACT OF THE PANDEMIC CAUSED BY THE COVID - 19 DISEASE ON BUSINESS - ENVIRONMENTAL PROTECTION

Belupo recognized that the quality of the environment is key to health, the economy and wellbeing. Despite the pandemic caused by the COVID - 19 disease, Belupo continued in 2020 to cultivate ecological awareness and environmental protection with constant positive developments. The Company continued to strive to find the most environment - friendly solutions that minimize the negative impacts of particular processes.

3 Significant promotional activities



EXHIBITION "VEGETA 60 - A LITTLE PACKAGE FULL OF HISTORY"

An exhibition titled *"Vegeta 60 - a little package full of history"* was opened to honour the 60th anniversary of Vegeta. The story of Vegeta is told from the perspective of the historical development of Vegeta packaging and graphic design, which has always been one step ahead of time. In addition to 60 museum exhibits of packaging for Vegeta's 60 years of age, the exhibition also contained a large amount of archival material, photographs, old commercials, clips from the legendary show *"Little secrets of the great masters of the kitchen"* and texts that bring to life the story of a favourite product of many generations.

The exhibition was first set up at the Gallery of the Croatian Designers' Association, and afterwards moved to the premises of the University North at the University Centre Koprivnica.

PODRAVKA AWARDED THE BEST SHORT FILM OF THE 26TH SARAJEVO FILM FESTIVAL

The most unusual Sarajevo Film Festival so far, in online format, hosted more than 180 films, of which 49 competed for the prestigious Heart of Sarajevo award. This year, Podravka also **sponsored the Heart of Sarajevo award for the best short film**, presented to the film ANTIOTPAD by the Croatian film director Tin Žanić. The new situation had no effect whatsoever on the quality of this film event – the Sarajevo Film Festival has become a festival that qualifies its winning films in the short film categories for applying for the Oscar of the American Academy of Motion Picture Arts and Sciences.

PODRAVKA FOR THE FOURTH YEAR IN A ROW AT GULFOOD IN DUBAI

Numerous consumers around the world have recognized Podravka's quality and tradition, so likewise Podravka also operates successfully in the MENA region. Presentation at Gulfood, **one of the largest and most significant specialized fairs of the food industry in the Middle East** with over 4,200 exhibitors, was an opportunity for more than 98,000 visitors to visit Podravka's stand.

Podravka has been operating in the Middle East market for years, and **favourite Croatian brands and products can be found on the shelves of the largest retail chains in the UAE, Qatar, Oman, Kuwait, Saudi Arabia, Turkey, Jordan and Egypt**. Podravka also hosted distributors from the MENAT region, with whom the Company successfully cooperates, and Gulfood was an excellent opportunity for meetings regarding future market performance.

PODRAVKA INC. WAS GRANTED MORE THAN THREE MILLION HRK FOR THE EU CO – FUNDED RESEARCH AND DEVELOPMENT PROJECT "DEVELOPMENT OF INNOVATIVE PRODUCTS FROM SIDE – PRODUCTS DURING THE PROCESSING OF VEGETABLES".

Podravka's project *"Development of innovative products from side – products during the processing of vegetables"* worth a total of HRK 6,899,956.33 received a non – repayable grant in the amount of HRK 3,055,545.56 co – funded by the European Union from the European Regional Development Fund.

A non – repayable grant was awarded by the Ministry of Economy and Sustainable Development of the Republic of Croatia, within the Operational program "Competitiveness and Cohesion" 2014 – 2020, Priority Axis 1. Strengthening the economy through research and innovation, based on the Call for proposals "Increasing new product development and services arising from research and development activities – phase II".

During the two – year implementation period (2020 – 2022), the project targets at researching the innovative, technologically efficient process of separating nutrient – rich biowaste during the industrial processing of vegetables at Podravka's Factory Kalnik in Varaždin, for the purpose of developing new and innovative food products. The potential for biogas production from all waste production streams will be further investigated. The expected results are the creation of new knowledge and increase of Podravka's intangible assets through patents and new brands, increase of production process efficiency through commercialization of innovative products and preparation of expert evaluated evidence which should ensure continuation of long – term strategic guidelines for circular economy and energy sufficiency.



Projekt je sufinancirala Europska unija iz Europskog fonda za regionalni razvoj

Koprivnica, 28 December 2020

PRESS RELEASE

Podravka d.d. has received approval for more than HRK 3 million in co-financing for the research and development project entitled “Development of innovative products from by-products obtained in vegetable processing”

Podravka's project entitled “Development of innovative products from by-products obtained in vegetable processing”, valued at HRK 6,899,956.33, has received approval for a grant in the amount of HRK 3,055,545.56 from the European Regional Development Fund of the European Union.

The grant was awarded by the Ministry of Economy and Sustainable Development, as part of the Operational Programme Competitiveness and Cohesion 2014–2020, Priority axis 1: Strengthening the economy through research and innovations. The application was submitted in response to the Call for Project Proposals “Increasing the development of new products and services ensuing from research and development activities – phase II”.

During the two-year implementation period (2020–2022), the project goals are to research innovative and technologically efficient processes to extract nutritionally valuable biowaste from the industrial processing of vegetables at Podravka's Kalnik factory in Varaždin, for the development of new and innovative food products. Additional research will focus on the potential for producing biogas from all waste flows in production. The expected results of the project are the creation of new knowledge and increasing the intangible assets of Podravka through patents and new brands, increasing the efficiency of production processes through the commercialisation of innovative products, and developing scientifically evaluated evidence that should ensure the continuation of the company's long-term strategic goals for a circular economy and energy self-sufficiency in production.

The UN's 17 global Sustainable Development Goals to 2030 include defining and implementing environmentally acceptable solutions and technologies in the corporate sector. At the national level, the Croatian Smart Specialisation Strategy 2016–2020 has defined the areas and market policies for innovation and market growth.

Accordingly, several years ago, Podravka began to conduct an analysis of the situation and potential of by-products generated during production in Podravka's factories,

particularly the Kalnik and Umag factories. The Podravka Research and Development Sector joined forces with the academic community to set hypotheses on the basis of the existing literature, while preliminary research confirmed the presence of nutritional potential of vegetable by-products that could be redirected towards developing completely new products with high added value. Since further research of a wider scope is required to obtain concrete evidence, in February 2020, Podravka submitted an application for this project to receive EU funding in response to the call for proposals issued by the Ministry of the Economy and Sustainable Development.

“I believe that the overall goals of the project encompass three thematic priorities laid down in the Croatian Smart Specialisation Strategy (Food and the Bioeconomy, Energy and a Sustainable Environment, and Health and Quality of Life). This certainly contributed to the quick and positive result obtained from the Ministry of Economy and Sustainable Development and the Croatian Agency for Small Business, Innovations and Investments. We are exceptionally proud of this project, which is the result of cooperation among sectors in the company, Management, and external collaborators and consultants. This is also the first research project of Podravka d.d. to receive co-financing from EU Funds. We believe in its sustainability through the commercialisation of new products and technologies,” stated Dr. Jasmina Ranilović, project leader and R&D director at Podravka.

The content of this press release is exclusively the responsibility of Podravka d.d.



"PROJECT SLICE" – A LARGE INVESTMENT AT PRODUCTION, DANICA

"Project Slice" is an investment worth HRK 15.2 million that will make work for employees much easier due to the automation of the machine itself. In order to keep up with technological achievements and trends in the meat industry, a machine for slicing and packaging durable and semi – durable meat products was purchased. In addition, "Project Slice" included the preparation of the premises, construction work and the installation of a clean room – a space with controlled conditions of enhanced microbiological purity.

THE CZECH TEAM PATENTED A METHOD AND A DEVICE FOR DETECTING THE PRESENCE OF INSECTS WHEN RECEIVING BATCHES OF GRAIN AS RAW MATERIAL

The leader on the Czech market in universal seasonings and one of the leaders in the category of rice and legumes under the Lagris brand, Podravka – Lagris a.s., received one of the highest honours – a **patent for their new sampling method for insect control**. This acknowledgement is important because it praises the **efforts invested in achieving the highest standards of quality and health safety** of Podravka's products.

Podravka has always given priority to preventive measures, especially when it comes to product quality control, and the new patent was created with the aim of improving the internationally recognized working method used in the Czech Republic for representative sampling when receiving raw materials. This is the ČSN EN ISO 24333 standard, which has been noticed in practice to be rather limited in terms of the reliability of detecting problems at the very beginning when controlling the safety and quality of grain as raw material.

The new patent is used on a daily basis in the preparation of samples for laboratory analysis. The two devices take samples from more than 100 tons of input raw material a day, thus facilitating the precise determination of further technological processing of all rice and legumes, which enables significant time and financial savings. The present invention enables, in combination with the application of the previously implemented ecological technology of nitrogen raw material treatment, the development of organic production at Podravka – Lagris a.s. Also, the Institute with which the Czech team cooperates sees certain commercial potential of the invention for the purpose of more effective protection of raw materials from insects, which is one of the greater world challenges.

PODRAVKA AT THE DAYS OF CROATIAN TOURISM IN RUSSIA

The Russian market is of great importance for Croatia and Podravka and as a result of the continuous growth potential, the *Days of Croatian Tourism* were held in Moscow. An increasing number of Russian tourists visit Croatia every year, which is why it was decided to make a step forward and organize a large business event in which Podravka actively participated.

With the aim of **expanding current and establishing new cooperation with the Russian tourism sector**, all in order to increase tourist traffic, the leading people from Croatian and Russian tourism gathered in the centre of Moscow.

The significance of the event was confirmed by the presence of more than 30 Croatian companies and organizations, over 140 Russian partners and the arrival of ambassadors of EU member states, which also shows that **Croatia has been recognised as a top European tourist destination**.

PODRAVKA REPRESENTED AT THE LARGEST CHINESE FAIR OF IMPORTED PRODUCTS

The Chinese market is a market of great potential, but at the same time a very challenging market. The largest Chinese fair of imported products in Shanghai is one of the best ways to enter the Chinese market. It is a place where (potential) local and national clients meet, display their products and initiate closer cooperation. Podravka was presented in partnership with the Croatian Chamber of Commerce, and Podravka's local commercial partner, the company Pura Shanghai, also provided full support in the overall performance at the fair.



PODRAVKA'S NATIONAL RESTAURANT AT THE GREEN WEEK 2020 FAIR IN BERLIN

Croatia was a partner country of one of the world's most important fairs of agriculture and food industry, *Green Week 2020*, which took place in Berlin from 17 to 26 January 2020, and Podravka, as the leading domestic food company, actively participated in representing Croatia.

In addition to **exhibiting and presenting a wide range of products**, Podravka participated as a **promoter of Croatian cuisine by organizing a national restaurant offering traditional Croatian dishes**, which was also visited by the Croatian Prime Minister, Andrej Plenković, on the first day of the fair, accompanied by Marin Pucar, Podravka's CEO, Luka Burilović, president of the Supervisory Board of Podravka and president of the Croatian Chamber of Commerce and their associates.

There were as many as 1,800 exhibitors from 60 countries, representing more than 100,000 agricultural and food products present at the fair.



PODRAVKA, TRADITIONALLY FAITHFUL PROMOTER OF FILM CULTURE IN B&H AND SPONSOR OF THE "BEST SHORT" AWARD OF THE MEDITERRANEAN FILM FESTIVAL

The Mediterranean Film Festival was held for the 21st time, and Podravka once again **supported the promotion of film culture** by sponsoring the "Best Short" award for the best short film. The award went to the Spanish short documentary "Hell", and the festival was held *online* due to the SARS-CoV-2 virus pandemic.

NEW PODRAVKA BRAND AMBASSADORS

In 2020, new brand ambassadors were named for Čokolino and Vegeta. **Tonči Huljić appeared for the first time in the campaign for Čokolino, food for all generations.** The new Čokolino brand ambassador's famous and catchy tune was rearranged for the needs of the new video.

The comedian **Ivan Šarić became the new star of the Vegeta campaign** for simple, fast and delicious food, and also the new Vegeta brand ambassador whose dishes never fail with the help of just a spoonful of Vegeta.

RENOVATION OF PODRAVKA'S RECREATION CENTRE

During 2020, **Podravka's recreation centre was renovated.** The former large terrace of the Štagelj restaurant has been covered with special panels that are open when the weather is nice and allow air to circulate, while in case of rain they close and are waterproof. A new children's playground was also arranged with recognizable characters of the bear Lino, his friend Lada, walrus Šime and Kviki, and the site was enriched with gazebos that ensure privacy for the guests.





PODRAVKA AND THE CROATIAN POST ENABLED ONLINE ORDERING OF PODRAVKA'S PRODUCT PACKAGES WITH FREE DELIVERY

In order to make everyday life easier for Croatian citizens due to the SARS-CoV-2 virus epidemic and to help them leave their homes as little as possible, two important Croatian companies, Podravka and the Croatian Post, joined forces and enabled *online* ordering of Podravka's food packages with free delivery. Specially prepared packages at the price of 300, 500 and 800 HRK respectively, consist of products that are most often used in households, and individual product prices are the lowest regular prices on the market.

"THE KIND OF CROATIA WE NEED" HELD AT THE RESTAURANT ŠTAGELJ

Another successful business conference "The kind of Croatia we need" was held in cooperation with Podravka and *Večernji list*. This is the third year in a row that the conference was held at Podravka's premises, this time in the newly renovated Štagelj, a restaurant within Podravka's recreation centre. This year's conference on the topic of economic policy and competitiveness was held in Koprivnica and attended by Prime Minister Andrej Plenković, Ministers Zdravko Marić, Tomislav Čorić and Oleg Butković, president of the Management Board of Podravka and HUP (Croatian Association of Employers) Marin Pucar, as well as leading people of the largest Croatian companies and economic experts.

AWARD CEREMONY "OPG ZLATA VRIJEDAN" (FAMILY FARM WORTH GOLD)

The award ceremony "OPG Zlata vrijedan" was held at the newly renovated restaurant Štagelj. In the presence of the president of the Croatian Parliament, Gordan Jandroković, and the Minister of Agriculture, Marija Vučković, and their associates, the best domestic producers, owners of family farms received the well – deserved awards of *Večernji list* and Croatian Television, under Podravka's auspices.





PODRAVKA AT THE NATIONAL EXHIBITION OF INNOVATIONS

As part of the Entrepreneurship promotion project, the *"Innovate – Profit"* initiative was launched, within which the National Innovation Exhibition was held. Organized by the Croatian Chamber of Commerce, the exhibition aimed to **present the innovative products and solutions offered by Croatian companies** and readily accepted in both domestic and foreign markets where they have been lining up success.

Podravka was amongst the exhibitors **presenting innovative products from each of its business units that match the description of an innovative product**, whether a recipe or a method of production. Visitors were informed of the Vegeta Natur concept through the Vegeta Natur seasoning in liquid and solid form and Vegeta Natur soups. Podravka's Food Business Unit was presented by hot and mild chutney and new vegetable spreads, while Fish was presented by new sardine delicacies. The promotion of the gluten – free product line included Lino cereals, Dolcela confectionery mixes and Žito crispy crackers. Lino Lada was also presented, while the BU Meat products, food solutions and savoury spreads presented Majstor sausages and pâté.

"REMEMBER THE TASTES OF CROATIA"

The 2020 tourist season will be remembered in many ways, especially as being extremely challenging. In the midst of the pandemic, new ways were devised to adapt to the unexpected situation, including transport from one country to another. Thanks to the cooperation of RegioJet with HŽ Putnički prijevoz (Croatian railway passenger transport), Slovenian Railways and the Hungarian company Continental Railway Solution, many tourists from the Czech Republic and Slovakia had the opportunity to reach the Croatian coast and spend their vacation on the Adriatic.

In order to make their holidays memorable, primarily in terms of gastronomy, **Podravka provided bilingual leaflets in Czech and Slovak for everyone travelling by train from Rijeka to Prague, with a special gift – Podravka chutney packed in the shape of a heart.** In addition, there was a coupon on the leaflets for Czech guests, which offered a discount when buying Podravka's products *online* from the *web shop*.



ŽITO

participates in numerous **business, professional, educational, sports and cultural events and fairs** where its products are also presented.

SPORT

At the very beginning of 2020, 1001 CVET teas warmed up the participants of the 28th skiing race of entrepreneurs, diplomats and politicians, as well as the fans of the 56th Golden Fox women's alpine skiing race. In February, Žito enabled a group of 25 young football fans, who participated in the Bravo Malčki project, to support their football idols from the Bravo Football Club and the Sežana Football Club and to enjoy Žito donuts together with other visitors at the match. In summer, golfers from the Golf & Country Club Ljubljana refreshed themselves with Žito sandwiches, while Gorenjka and other Žito products were present at the tennis event Tennis Fest Zavarovalnica Sava Slovenia Open 2020. In the 2020/2021 ski season, 1001 CVET teas supported the Federation of Slovenia and thus, upon the solemn signing of the sponsorship agreement, became the official tea of the entire Slovenian Alpine Ski Team.

PROFESSIONAL AND EDUCATIONAL EVENTS

In January, Žito walnut rolls were served at a New Year's reception for foreign diplomatic and consular representatives accredited in Slovenia, held at the Slovenian Chamber of Commerce. At the beginning of February, the products of Zlato polje, Gorenjka and 1001 CVET teas lines, invigorated the participants of the My Day event organized by Mladinska knjiga. The guests of the round tables of the virtual (due to COVID – 19 circumstances) Business Conference Portorož also warmed up with 1001 CVET teas in November.



TRADE FAIRS AND PROMOTIONAL EVENTS

In January, Žito held a promotion on city buses in Ljubljana, where mini – samples of Vegeta Natur were distributed to passengers and passers – by. In February, Žito products were presented at the ISM international confectionery fair in Germany, and Žito carnival donuts delighted the youngsters at the Prešeren Carnival in Kranj.

Due to the epidemic caused by the COVID – 19 disease in 2020, Aktual's summer barbecue took place a little differently than usual, in the homes of Slovenes, where they created masterpiece barbecues with Maestro spices and competed for great prizes with photos of their dishes. In June, Žito cooperated with the Radio Center with the Zlato polje brand, and organised the "Active Breakfast at the Office" campaign. Teams of collaborators applied and received baskets with Zlato polje products, Sport muesli and Sport porridge. At the traditional July Picnic under hats, the Lino brand, as the general sponsor of the event, took care of sweetening the pancakes with Lino Lada, and the children could try their hand at the Lino racetrack. Together with Lidl Slovenia, Žito and Podravka Ljubljana also donated a Škoda Kamiq car to the lucky winner of the *Zapelji se v culinary experience* (Drive

into a culinary experience) prize game. In the campaign of Radio Antena and the company Eligme, Žito customers were treated with a free bakery product at a shop in the Bavarian Palace in Ljubljana as part of the promotion of the GoCrypto payment system.

At the end of the summer, a special edition of Gorenjka chocolate was released with a photo of the legendary young Slovenian basketball hero Luka Dončić, who had an extremely successful NBA league season. Young people were encouraged with his messages hidden in chocolates "Believe, believe in yourself, train and never give up" and pictures of basketball players from the chocolates were a special treat for basketball and chocolate fans they could collect in a special album. *Be Free* gluten free bread was presented at the Gluten Free Offer Festival. In autumn, a booklet of new recipes with polenta and a special recipe for a golden polenta cake were created and a video of inspiration for excellent polenta dishes was shared on social networks marking the occasion of the 50th anniversary of instant polenta, Zlato polje.



**“RUĐER” AND BELUPO DEVELOP
INNOVATIVE FOOD FORMULATIONS
FOR SPECIAL MEDICAL PURPOSES**

The Ruđer Bošković Institute and Belupo are **developing new clinical nutritional formulations intended for the nutritional support of people who are at risk or suffer from malnutrition, diabetics and oncology patients.**

The largest scientific institute in the Republic of Croatia (RH), the Ruđer Bošković Institute (RBI) and Belupo, the second largest pharmaceutical company in Croatia, have joined forces in a joint research and development project worth HRK 9 million, of which HRK 6.1 million is co – funded by EU, to develop innovative products from the category of food for special medical purposes.

The pharmaceutical industry is one of the strongest industries in Croatia. Its strength stems from the large share of exports in total revenues, continuous investment in new technologies and capacities, as well as significant investments in development and research and

in employee competencies. The developed Croatian pharmaceutical industry provides patients in Croatia with the latest therapeutic options, at more favourable costs. Guided by this philosophy of sustainable business, Belupo stepped into the field of nutraceuticals and clinical nutrition five years ago. Belupo entered the new business segment as the first regional manufacturer in cooperation with Croatian experts and the Croatian Medical Association's Clinical Nutrition Society. Thus, with proven excellence in the research and development and innovation concept confirmed on the market, Belupo has established itself as a natural partner to the Ruđer Bošković Institute.

Thanks to the funds provided under the call *“Strengthening the capacity for research, development and innovation”* (IRI) from the European Regional Development Fund, the “scientific – industrial” multidisciplinary team will develop new clinical nutritional formulations for nutritional support of people who are at risk or suffer from malnutrition, diabetics and oncology patients. Most of the financial resources will be invested in research and development of new formulations, patent protection and the employment of new experts.



BELUPO DAY 2020

In 2020, the traditional Days of Belupo turned into **the Belupo Day**. The Belupo Day 2020 conference **reached up to 2,000 people**, the panel was followed by 800 of them via the Zoom and YouTube platforms and 1,500 views were recorded on the Facebook profile, *Zdravo budi*.

In 135 minutes, interesting and useful content – a panel discussion and a professional and promotional lecture – was shared with numerous viewers.

EMPLOYEES REWARDED FOR ENHANCED WORK

The Management Boards of Podravka and Belupo have decided to pay a one – time bonus in the amount of HRK 1,000 net as a sign of gratitude to their employees who carried out enhanced workloads in March 2020, given the increased demand related to the new SARS-CoV-2 virus situation. Unselfish daily engagement, especially in times of intensive workload due to the need for increased production and further marketing of Podravka's products, the Management Board decided to reward employees in production and logistics units and supporting services by paying an additional HRK 1,000 net in April following the payment of March salaries.

It is worth mentioning that the managements of Podravka and Belupo have already rewarded employees from the mentioned units who had an increased workload in the summer months of the previous years due to meeting the increased demand in the tourist season.

BELUPO CONTINUES WITH DONATIONS OF MEDICINE AND EQUIPMENT

By the decision of the Management Board, **Belupo has directed aid** in the form of donations of large quantities of medicine and other necessary medical and protective equipment **to the Civil Protection Staff of the Koprivnica – Križevci County, but also to the General Hospital “Dr. Tomislav Bardek” Koprivnica.**

VALUABLE DONATION FROM PODRAVKA AND BELUPO'S MANAGEMENT

The Management Board and vice – presidents of the Podravka Group have launched an initiative towards the Company's management to make a donation from their personal income for humanitarian purposes. The initiative met excellent response and **more than HRK 900 thousand were collected and donated to hospitals** for the purchase of much – needed respirators and other necessary medical equipment.

PODRAVKA AND BELUPO PAY INCREASED HOLIDAY ALLOWANCE UP TO THE MAXIMUM NON – TAXABLE AMOUNT OF 3000 HRK NET

The Management Boards of Podravka and Belupo have **decided on the payment of increased holiday allowance to employees**, rewarding their wholehearted contribution in extraordinary business circumstances during the pandemic caused by the COVID – 19 disease. Belupo is continuously improving the material rights of employees, and in addition to the basic salary, they were paid an average of HRK 10,000 net in the name of various allowances.

AT THE BEGINNING OF MARCH, 54 EMPLOYEES RECEIVED PERMANENT CONTRACTS OF EMPLOYMENT

At the beginning of March, 54 Belupo employees with fixed term employment contracts **deservedly received permanent contracts of employment**. The largest number of employees, 40 of them, come from the Production sector, nine from the Quality Control sector and four from the Croatian Market sector. In order to obtain a permanent contract of employment, employees had to meet several basic conditions, that they have shown **a high degree of independence and responsibility**, performed all their work tasks diligently and treated their colleagues and associates collegiately and with the utmost respect.

4 Digital innovations

Due to the impact of the pandemic on all segments of life and business, 2020 was a very challenging, but also extremely important year for digitalization in general and thus the digital communication of Podravka Inc./ Podravka Group. In a very short time everything changed, from media consumption to the way we work. **Digital channels became even more important in consumer communication**, the struggle for customer attention became a far greater challenge than in pre – pandemic times, and everyone now was a competitor.

Customer and consumer behaviour also changed significantly with the very important fact that, more than ever before, people cooked at home. **In an extremely short period of time, digital communication adapted to all these changes.** Coolinarika found itself at the forefront and its popularity was used for a praiseworthy initiative – Coolinarika *#ostanidoma* (stay at home) page, as a quick response to lockdown. The site contained everything necessary (simple recipes, practical cooking ideas and easily available ingredients) with the aim to make time spent at home as high quality, healthy and positive as possible. The activation of *Pošiljka sa srcem* (A parcel with a heart), in cooperation with the e – commerce platform *Žuti klik* (yellow klik), enabled customers to order some of the already offered packages of Podravka products for themselves, their family or friends. A special website *Doma sam i kuham* (**I am at home and cooking**) was also created providing tested and reliable recipes and containing the inevitable Vegeta. Podravka Catering adjusted its business to focus on the delivery and collection of orders outside the facility, with online advertising, aimed at spreading awareness among consumers and generating sales, playing a crucial role. In addition, **communication on social networks was tailored to consumer needs in order to be useful, relevant and offer original content.**

#domasamikuham



100% ORIGINALNA

During 2020, **48 online campaigns were realized**. The campaign "Gdje su stali naši djedovi počinjemo mi" ("We start where our grandfathers stopped") increased the interest of farmers in cooperating with Podravka, which is confirmed by numerous inquiries regarding purchase, but also with comments of support and praise. The result of the campaign is **raising national awareness of Podravka's responsibility in the context of domestic production** and ensuring high recognition and perception. In total, the campaign **reached more than 800,000 users**.

The celebration of the 60th anniversary of Vegeta was the most successful digital campaign. The profession confirmed this by presenting the MIXX award in the Cross Media Integration Campaign category.

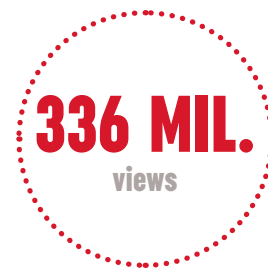
For the first time in the advertising of digital campaigns, **the TikTok social network was used**, with the aim of approaching the younger target group and presenting the content in a fun and interesting way. Vegeta, Dolcela, Kviki and Lino assisted by famous influencers tried their hand at that. But Vegeta didn't stop there and **used the Instagram AR filter** in the campaign Vegeta 100% original with Ivan Šarić.

During the year, **25 new websites were developed or redesigned**. A noticeable project was Meat&More, conceived as a kind of hedonistic lifestyle magazine, a place where users will be able to get quality coverage of topics closely related to meat products and interesting for gourmets and those who are yet to become one. There is also a new Slovak website *Spolu k Stolu* imagined as a central repository of native content.

As in 2019, Coolinarika, Podravka Hrvatska and Lino occupy the first three places in the Fast moving consumer goods (FMCG) category on Facebook Hrvatska. **Coolinarika's Facebook page also ranks third place in the Facebook rankings of all brands** in Croatia. This remarkable achievement has been confirmed with the results of a survey conducted by Socialbakers, a global company specialized in social media analysis.

A significant shift towards digital channels during the pandemic resulted in social networks experiencing an additional push. **Markets opened 9 new brand profiles**: FB and IG Vegeta Bulgaria, FB and IG Vegeta Ukraine, FB and IG Vegeta Kazakhstan, FB and IG Vegeta Natur Latvia and FB Spolukstolu Slovakia.





COOLINARIKA

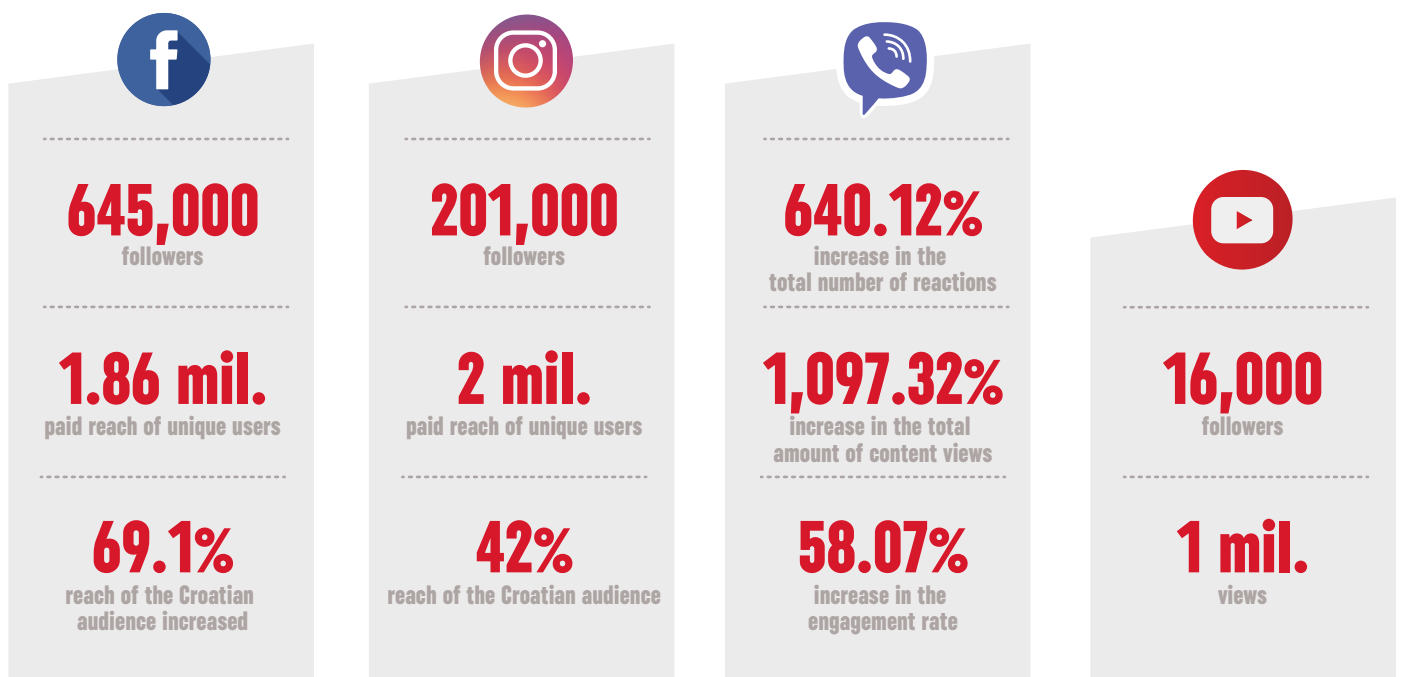
Coolinarika continues to prove its importance with **195,000 so far uploaded recipes and 207,000 registered users**. The contents of Coolinarika's website were viewed more than 336 million times in 2020. The biggest innovation in 2020 is the project of revising Coolinarika which has been devotedly worked on throughout the year. The new Coolinarika is designed as being the **focal point for all the nutritional needs of users, and as a PWA** (progressive web application) where everything happens within one user interface, with equal experience on all platforms and devices in order to make site usage even **faster, more connected, easier and more user – friendly**.

At the heart of the new Coolinarika is the machine learning algorithm Taste Machine, developed especially for this purpose. It is an “invisible” algorithm that creates a taste – based profile for each visitor based on activity (reads recipes, adds them to favourites, tags, comments,...) offering the user personalized content. Also, the new Coolinarika creates additional value for Podravka by understanding consumer behaviour and food trends, building thus **an excellent image and media platform**.

In 2020, the focus of **Coolinarika's Facebook and Instagram** was on increasing the reach share of Croatian citizens, rejuvenating the audience and urbanising the content. Coolinarika's Facebook page has 645,000 followers with an annual paid reach of 1.86 million unique users, while the reach of the Croatian audience increased from 530,000 in 2019 to 900,000 in 2020, or 69.1%. The number of users following Coolinarika's Instagram grew by almost 10%, and now stands at 201,000 with an annual paid reach of 2 million users. In 2020, the citizens of Croatia covered 42% of the reached audience, and that number has doubled compared to 2019.

Coolinarika Viber Public Chat has become a Community, which resulted in an increase in the total number of reactions by as much as 640.12% (from 17,852 in 2019 to 132,127 in 2020). A large increase was recorded in the total amount of content views, as much as 1,097.31% (from 204,725 in 2019 to 2,451,186 in 2020), with an increase in the engagement rate from 8.03% to 58.07%.

Coolinarika YouTube channel gathered 4,083 new subscribers in 2020, meaning that the total number now exceeds 16,600 subscribers (36% more than in 2019). The content of the channel was viewed almost a million times.



PODRAVKA HRVATSKA

The Podravka Hrvatska Facebook page actively communicates on Podravka's new products, awards and achievements, as well as current topics, and its posts have reached almost a million people. The number of fans exceeds 200,000, and as many as 20,000 new ones were collected last year. Podravka Hrvatska's Instagram page is followed by 19,835 users, and over 890,000 people were reached by posts. Given over half a million reactions (like, share and comment) on both sites, we can conclude that the audience liked the offered content.

The contents of the YT channel Podravka Hrvatska in 2020 were viewed 11 million times, and the most popular video was the one for the product Lino Lada (724,307 views).

19,835
followers



200,000
followers



890,000
annual reach



1,000,000
annual reach



11 mil.
views

LINO

Facebook pages Lino and Lino Baby in 2020 focused on reach, which resulted in great numbers. Thus, the Lino page reached 1,210,384 users more than the year before, while on the Lino Baby page the number was 1,275,900. This is an increase of 21.03% on Lino and even 50.10% on Lino Baby. Also, Lino's Instagram profile continued growing and the total number of followers compared to 2019 increased by 3,000, or an increase of 37.05%, reaching 1,182,735 users.

A big step forward has been taken in the context of the Lino calendar campaign. This time numerous consumer inquiries were answered by a bot through which consumers could monitor their shipment status. The results were best visible on Lino's Facebook and Instagram profiles, where the number of inquiries fell by an incredible 91% compared to the year before. Only 354 of them arrived, while the number in 2019 was 3,900. Consumers checked the status of their shipments more than 12,500 times via the Lino website.

3,000
increase in total
number of followers



Lino
Baby

1,275,900
annual reach

1,182,735
annual reach



Lino

1,210,384
annual reach



KVIKI

Kviki's Facebook profile at the end of 2020 had 28,174 followers, while the number of posts on Facebook reached 927,000 users. The Instagram Kviki profile has 2,135 followers, and in 2020 it reached more than a million users. The average monthly reach was 491,583 unique users, an increase of 120.59% over the previous year. Also, Kviki, as a longtime partner of Reboot and a fan of the gaming world, participated in Reboot Online Games Week, where it was a star among the stars. Kviki's live show was watched by more than 10,000 viewers over seven days.



DOLCELA

Dolcela's Facebook page reached more than half a million users with its posts, and the content being shown almost 25 million times. Dolcela's Instagram page ended its second year with 22,000 followers, while the content reached almost 700,000 relevant users and potential consumers. The content was shown over 4 million times, and more than 140,000 user likes and comments were collected.



Zlato polje Hrvatska and Šumi Hrvatska Facebook profiles were launched at the end of 2019, and during the first full year they reached 669,272 and 551,525 users, respectively.

The multi – year Podravka.io project continued with the development of a software solution for a content management system related to the Podravka.io project. The first phase of this project implies the connection of the new Coolinarika to the Podravka.io content management system.

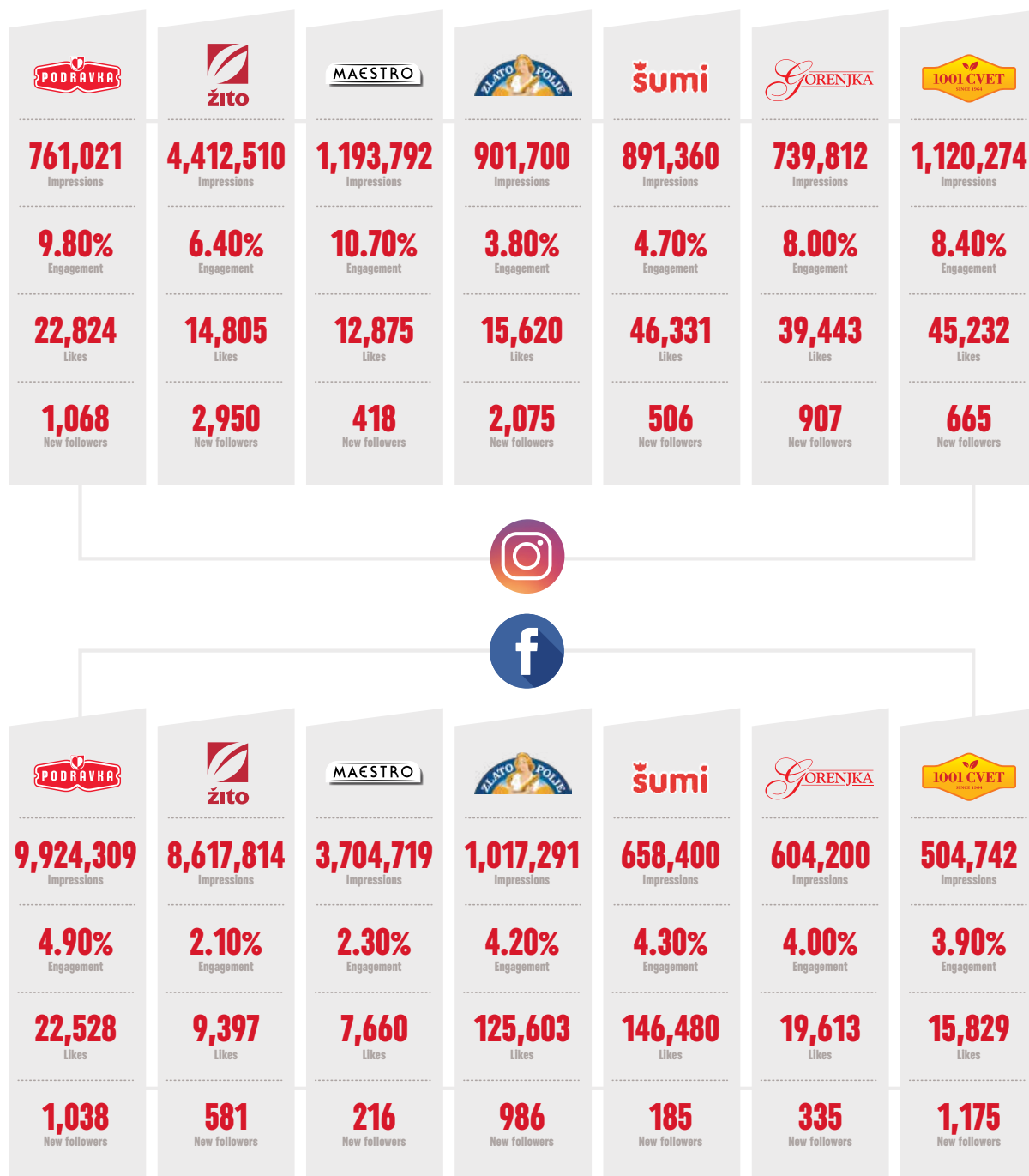
ŽITO

The year 2020 was extremely dynamic in the field of digital communications. Due to problems with the epidemic caused by the COVID – 19 disease, many people stayed at home and as a result spent more time on digital media. During the country lockdown, an increased number of comments and questions were noticed on certain profiles. **The contents on the Facebook and Instagram profiles of the Žito and Podravka groups were adjusted** accordingly.

Profiles Maestro and Zlato polje offered their followers new recipes, live cooking broadcasts with celebrities and tips for preparing meals in their own kitchen on a weekly basis, while other profiles inspired their followers in unique ways. With the help of Instagram quizzes, Gorenjka handed out many chocolate prizes to her followers, more than ever before, and Šumi animated both older users on Facebook and younger ones on Instagram with entertaining content.

Following trendy approaches in the field of digital communication, several innovative campaigns with famous influencers were successfully conducted in Slovenia. Through such activities, more than 600,000 Facebook and Instagram users were reached.

Data on a total of 13,105 new followers, 544,240 likes and 35,051,944 displayed content also indicate that 2020 was indeed a very successful year.



Like all business segments of Belupo Inc., the Marketing sector of the Croatian Market department found itself in an extremely challenging situation with regard to epidemiological measures that have been to a greater or lesser extent in force from March until the very end of 2020.

Epidemiological measures were followed by a change in the organization of healthcare, which significantly hampered the current way of working for our professional associates. Therefore, during the complete lockdown, Marketing resorted to other forms of communication with healthcare professionals, which made it possible to provide primarily relevant and professional information, but also human support and care for Belupo's partners in the healthcare system.

Belupo's Marketing department **initiated the sending of a newsletter to the professional public**, which in the first phase aimed to bring the current epidemiological measures closer and provide reliable information on current events. Given the very good feedback, this communication tool has been maintained, with growth in the number of reviews, topics from various professional fields, renowned authors and attractive design. Under the umbrella name "*Zdravo budi* (Be Healthy!)", it proved to be a perfect extension to the current digital platforms, strengthening the power and recognizability of the slogan, which in a very simple way sums up Belupo's mission – and that is – **to become and remain healthy, i.e. Be healthy!**

Marketing also introduced webinars and tutorials, as a digital substitution of professional events organized by Belupo, thus continuing the Company's significant orientation towards digital activities. This type of communication was also characterised by **professional production, great response and excellent lecturers**, from the ranks of Belupo employees, as well as health professionals. As an additional benefit, the content was open for viewing for a week and credits could be gained according to the Regulations on Professional Development of the Croatian Medical Chamber.

5 Awards and recognitions

PODRAVKA HAS WON AS MANY AS 14 SUPERIOR TASTE AWARDS – THE WORLD'S MOST PRESTIGIOUS AWARDS IN THE FOOD SEGMENT

In 2020, Podravka again achieved remarkable success at the international quality assessment Superior Taste Award, the world's most respected award in the food segment, with **14 medals won for the quality and taste of its products**. Since 2008, when Podravka started participating in this worldwide competition, its products have won as many as 135 Superior Taste Awards.

The stars among the winners were **Lino Lada Gold** and **Žito buckwheat bread with walnuts with three STA stars and a crystal award for three consecutive award – winning years**.

Also, the products **Vegeta Natur special for Asian dishes**, **Vegeta Natur special for Mexican dishes**, **Vegeta Natur**, **Eva delicates sardines with rosemary and sea salt**, **Salut – salt with reduced sodium** and **Vatroslava – dry hot sausage** were decorated with two gold stars. Besides them, **Vegeta Natur liquid supplement**, **Eva delicates sardines with black olives**, **Blaženka – dry mild sausage**, **Vinka – dry sausage with wine** and **Jeger – semi – dry mild sausage** and **Žito gluten – free bread with seeds** were awarded with one gold star.



PODRAVKA PROCLAIMED THE BEST DOMESTIC COMPANY ACCORDING TO RESEARCH CONDUCTED BY IPSOS AND LIDER

After research conducted by the Ipsos agency, where **the citizens declared Podravka the best domestic company**, the same results were obtained by the Lider survey. Namely, the business weekly Lider conducted a survey amongst its readers where they were asked to state which are the top brands they would like to spend their lives with, which are the ones they couldn't live without. All world brands were included in the survey and Podravka took second place, right behind Apple. If we exclude foreign brands, then **Podravka has been declared the number 1 domestic brand**, without which it is impossible to live. The importance of Podravka and consumer recognition are supported by the fact that more than a quarter of respondents consider the food industry to be the most important, which has certainly been contributed by Podravka's constant efforts to ensure products on all shelves as well as its socially responsible business activities.

The survey was conducted between 9 April and 5 May on a sample of 474 respondents and included foreign and domestic brands coming from 700 business groups and 250 corporate brands. The obtained results are another **indicator of the importance of the domestic food industry and its recognition by the consumers**.

LINO LADA ICE CREAM WON THE GOLDEN BASKET FOR BEST PRODUCT

Lino Lada ice cream, created in collaboration with Podravka and Ledo, won **the Golden Basket for the best product in 2019**, a prestigious annual award given by the magazine, JA TRGOVAC.

In the category with traditionally the largest number of applicants and strong competition of top domestic products, Lino Lada ice cream won the expert jury with its unique taste and innovation. The Golden Basket is another notable acknowledgement for Lino Lada ice cream, which was declared the best in the world in 2019 at the International Ice Cream Consortium in Sweden.

"The Golden Basket for product of the year confirmed that, together with our partner Ledo, we have recognized the potential of expanding the range of Lino Lada cream spreads into new innovative categories such as impulse ice creams. In the past period, Lino Lada ice cream achieved exceptional results and delighted consumers in both the domestic and global markets. The Lino Lada brand has once again proved to be a favourite cream spread, and winning the Golden Basket for product of the year for the second year in a row is additional confirmation of the quality and innovation of Podravka products",

said Vesna Višnić, Podravka's Director of Baby Food, Sweets and Snacks.

PRESIDENT OF THE MANAGEMENT BOARD OF PODRAVKA, MARIN PUCAR, ELECTED PRESIDENT OF THE CROATIAN EMPLOYERS' ASSOCIATION

The President of the Management Board of Podravka, Marin Pucar, was elected President of HUP (Croatian Employers' Association) at the session of the Council of Members of the Croatian Employers' Association. He was chosen amongst three candidates in two rounds in which in both rounds he collected a larger number of votes than the remaining candidates.





PODRAVKA AWARDED FOR TRANSPARENCY AND GOOD INVESTOR RELATIONS

At the conference of the Zagreb Stock Exchange and pension funds held in October in Rovinj, Podravka won the second prize for best investor relations, awarded by the business journal, *Poslovni dnevnik*. For the 11th year in a row *Poslovni dnevnik* in cooperation with the Zagreb Stock Exchange, has been awarding this valuable prize, the aim of which is to find and highlight companies with transparent business operations.



THE VEGETA 60 YEARS CAMPAIGN HAS WON THE MIXX AWARD

The MIXX competition aims to award prizes to the best digital campaigns and digital tools / platforms in the field of marketing communications. Vegeta is the winner in the Cross Media Integration Campaign category for the MIXX award with the Vegeta 60 Years project.

On the occasion of the 60th anniversary of Vegeta, a system of graphic elements was created that allowed users to design their own label of their favourite product – Vegeta. More than 32,000 label designs arrived that were then printed on the products and placed on store shelves. Consumers were able to find Vegeta packaging with their own label creations, and the best 60 label designs were additionally rewarded.

In addition to Vegeta, the finalist in the Cross Media Integration Campaign category for the MIXX award was Podravka with original varieties of Podravka and Slavonka peppers.



WOMEN CHOSE VEGETA AND PODRAVKA AS THEIR FAVOURITE BRANDS

In 2020, Podravka products again won the Woman's Choice Award, the award of the miss7 portal, the strongest women's brand in Croatia. After it was established last year, the Woman's Choice Award proved to be a necessity and the award ceremony continued, albeit in changed circumstances – without winners and guests.

The winners in certain categories are brands that are most often indicated as the favourite of respondents, and in the category of favourite side dishes it is Vegeta, while the Podravka brand is selected as the favourite soup.

The Woman's Choice Award is an award given by readers of the miss7 portal: by participating in the portal's research readers reveal their consumer habits and their favourite brands in various segments – from clothing, footwear, cosmetics, sports brand, through food and drink to cars, banks, cards, mobile phones, favourite shopping centre and chain stores.

ČOKOLINO WITH HULJIĆ IS ONE OF THE MOST SUCCESSFUL CREATIVE CAMPAIGNS EVER

The creative marketing campaign for Čokolino with Tonči Huljić in the lead role was noticed by as many as 84 percent of people in Croatia, which almost doubled the average of similar campaigns and became one of the most noticed campaigns measured so far, according to research conducted by the Ipsos agency. This confirmed that the campaign, which provoked numerous reactions from the first day of broadcasting, ultimately achieved exceptional success and positioned itself in all market segments.

The courageous choice of a creative marketing approach and collaboration with one of the most prolific Croatian composers, Tonči Huljić, resulted in successful brand positioning. As many as 70 percent of respondents described the new promoter, who in a TV spot gathers all generations of one family together around a joint meal, as a great link with the Čokolino brand, while almost half of the respondents described the campaign as unique, different and enjoyable.

With the strengthening of the position of one of the most popular domestic brands, the survey conducted on a national representative sample of respondents, confirmed that the popular Čokolino is the dominant favourite brand which as many as 78 percent of respondents consider the most positive compared to all other brands available on the market, while it is the choice of 47 percent of surveyed consumers.



ŽITO

Numerous awards and recognitions won during 2020 best testify to the excellence and quality of Žito products.

At the 20th expert evaluation of bread, bakery and fine pastries, pasta, biscuits and desserts, **Žito received a record 61 award for product excellence** from the Bakery Section of the Agricultural and Food Companies Chamber at the Slovene Chamber of Commerce. Žito buckwheat bread with walnuts and Be Free gluten – free bread with seeds were also awarded at the evaluation of bakery products Superior Taste Award 2020, organized by the International Taste & Quality Institute (iTQi). With the highest rating – **three stars for exceptional quality and taste** – Buckwheat bread with walnuts also received the Crystal Taste Award. One star was awarded to Be Free gluten – free bread with seeds.

As many as three products – Gorenjka milk chocolate filled with Lino Lada Milk, Coconut or Gold, Lino Nutri Balance Chia and Oats and Sport muesli Zlato polje – **won the title Selected Product of the Year 2020**. Teas under the brand 1001 CVET won the Trusted Brand 2020 award for the 11th year in a row, as the most reliable brand. The title is awarded by the magazine Reader's Digest. Gorenjka chocolate received this outstanding title in the chocolate category.

BELUPO

The Council for Visual Labelling of Croatian Products and Services at the Croatian Chamber of Commerce granted Belupo **the right to use the Croatian Quality label** for the over – the – counter product BELODIN A 10 mg tablets. This right to use this label proves once again that Belupo's products **meet the highest quality standards**.

6 Research and Development

NEW LABORATORY FOR ADVANCED SENSORY AND CULINARY RESEARCH PROF. ZLATA BARTL OPENED

During the two – year period (2018 – 2019), the reconstruction and equipping of the Laboratory premises (as part of the Nutrition and Sensory Department) and the digitization of the sensor testing process were completed. Compared to the old Laboratory from the 1990s, **the new Laboratory has increased the capacity of sensory testing and tasting by 30%, and by more than 90% for culinary research.** The laboratory is designed according to the original ideas of employees of the Research and Development sector and on its 100 m² area **provides full support for new product development:** from culinary prototyping, tasting, implicit and explicit sensory testing, consumer focus testing, to filming (videos) for *online (live streaming)* and *offline* viewing, high – definition photography and *food styling*.

The grand opening of the new Laboratory was held on 21 February 2020, on the day when the inventor of Vegeta products, prof. Zlata Bartl, would have celebrated her 10th birthday and on that occasion, as a sign of gratitude and remembrance, the Laboratory was named after her: ***Laboratory for Advanced Sensory and Culinary Research prof. Zlata Bartl.***

In addition to the opening and tour of the Laboratory and the tasting of 3D printed food, the event was marked by an expert panel entitled *"Bite of the future – personalized food production for the global market"* participated by dr.sc. David Matthew Smith, director of the Ruđer Bošković Institute; prof.dr.sc. Irena Colić Barić, head of the Laboratory for Nutrition Science, Faculty of Food Technology and Biotechnology, University of Zagreb; Zlatko Horvat, professional chef and ph.d. Jasmina Ranilović, director of Research and Development. The event was opened by the president of the Management Board of Podravka, Marin Pucar, and was attended by employees of Podravka, the Management Board and the Supervisory Board, representatives of the academic community, research laboratories and the media.



A YEAR OF SUCCESSFUL RESEARCH AND DEVELOPMENT PROJECTS

On 17 February 2020, Research and Development independently applied the research and development project titled *"Development of innovative products from by – products during vegetable processing"* to the open Call *"Increasing the development of new products and services arising from research and development activities – Phase II"*, KK.01.2.1.02., for the award of grants, within the Operational program *"Competitiveness and cohesion"* 2014 – 2020, Priority Axis 1. *Strengthening the economy through research and innovation.*

After an administrative check and quality and eligible costs assessment, on 8 September 2020, **the Ministry of Economy and Sustainable Development of the Republic of Croatia made the decision on financing the project with a grant of HRK 3,055,545.56 co – financed by the European Union from the European Regional Development Fund for the total value of the project in the amount of HRK 6,899,956.33.**

During the two – year implementation period (2020 – 2022), the project aims to **explore an innovative, technologically efficient process of separating nutritionally valuable biowaste of industrial vegetable processing of Podravka's Factory Kalnik in Varaždin for the development of new and innovative food products.** Additionally, the potential for biogas production from all waste production flows will be further investigated. The expected results of the project are the **creation of new knowledge and increase of Podravka's intangible assets** through patents and new brands, increase of production process efficiency through commercialization of innovative products and preparation of expertly evaluated evidence which should ensure continuation of long – term strategic guidelines for circular economy and energy self – sufficiency.

The idea for the project originated in Podravka's Research and Development sector on the basis of many years of preliminary research and is the first research project to be co – financed from EU funds.

In addition to the Corporate Product Development department, the project also includes other departments within the Research and Development sector (Nutrition and Sensors, Quality Control, Regulatory Affairs), but also outside the sector (Procurement, Accounting, Corporate Marketing and Communications, Design, Controlling, Legal Affairs) as well as external associates and consultants.

ONLINE TRAINING AND CONFERENCES

The sector has maintained a traditional program of knowledge sharing among employees called *"Sharing knowledge and information"* for more than 10 years. Until the beginning of the pandemic, selected lecturers presented information from conferences, scientific gatherings or business trips to highly qualified Research and Development staff at regular meetings (mostly four times a year).

During 2020, despite all the circumstances, this activity continued. Opportunities appeared for participation in so – called webinars (*online* conferences, web seminars) in which knowledge sharing was mostly free. Sector employees participated according to interest and attended a total of 43 webinars and / or online conferences with a high average rating of content satisfaction (4.5).

The Regulatory Affairs Service organised very popular online presentations for a wider circle of Podravka employees under the motto *"Laws in focus"*, where Ph.D. Nada Knežević presented the regulatory aspect of food for vegetarians, food fraud, and the placement of organic products, herbs and spices on the market.

RESEARCH AND DEVELOPMENT PROJECTS FOR THE DEVELOPMENT OF INNOVATIVE PRODUCTS FOR BUSINESS PROGRAMS ("GO WEST" PROJECTS)

Despite difficult working conditions, **activities for the development of innovative products continued.** Intensive work was done on a project to reformulate fish pâté and develop new vegan products for the BU Meat.

The Ministry of Economy and Sustainable Development of the Republic of Croatia granted Podravka the status of aid beneficiary for three projects of industrial and experimental development of new spice mixtures for BU Culinary (1) and innovative "to - go" products for the BU Baby food, sweets and snacks (2), based on the State Aid Act for research and development projects NN No. 64/2018). This status enables Podravka to claim tax relief, in the form of the right to an additional reduction of the corporate income tax base, based on the activities and costs of these projects, which will be financially visible in the coming years (2021 - 2023).

In addition to the above, research and development activities were carried out for the production of a sensor profile for Čokolino and 3D printed food.

Employees of Corporate Product Development held trainings and demonstrations on the use of new semi - industrial devices for internal users of the semi - industrial laboratory (intended for development tests).



SCIENTIFIC - PROFESSIONAL ACTIVITY

As in previous years, the publication of papers in high impact factor journals continued. The works entitled "*Podravka and Slavonka Varieties of Pepper Seeds (Capsicum annum L.) as a New Source of Highly Nutritional Edible Oil*" (magazine *Foods* 2020, 9 (9), 1262, pp. 1 - 21) and "*Physico - chemical properties, spreadability and consumer acceptance of low - sodium cream cheese*" (magazine *Mljekarstvo* 70 (1), pp. 13 - 27), which were created as a result of Podravka's projects in cooperation with the academic community. Research and development experts were invited as lecturers, panelists at *online* conferences (Digital Takeover, OpenInnoTrain).

ŽITO

In 2020, the company Žito **completed the implementation of the four – year research program Food4future**. All goals set during the application were achieved. Most of the activities were focused on the **development of functional foods and reshaping products in line with modern food trends and the principles of healthy eating**. The project also laid a good foundation for connecting and sharing knowledge and was recognized as an example of good practice of cooperation and joint activities of manufacturing companies and research institutions.

Žito is also continuing its activities within the research project "Elimination of antibiotics from the food chain" (ABFREE), which will be completed at the end of 2021. The activities are carried out in accordance with the guidelines of the smart specialization strategy and project application.

Žito continues to work closely with various higher education organizations in the field of food and nutrition (BIC Ljubljana, Piramida Maribor) and the Biotechnical Faculty in Ljubljana. It allows training and gaining valuable experience in practical work for students. Žito's employee as representative of the industry in the Strategic Council of the Higher Vocational School of the Education Centre Piramida Maribor participates in the adoption of the long – term development program of the school and in monitoring the quality assurance of higher education.

As a large buckwheat consumer, Žito is included in the Advisory Board of the project "Locally produced buckwheat as a raw material for the production of quality food" financed by the Slovenian Research Agency and the Slovenian Ministry of Agriculture, Forestry and Food.

Under the auspices of the Ministry of Health, a special Interdepartmental working group for New Food Formulas has been established, 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 for new formulas and improve the composition of food products. One of the main emphases is on activities and target values for salt reduction in products.

In 2020, Žito joined in the preparation of the Catalogue of Groceries 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 "*Odluči se za (Choose)*". The suitability of food for inclusion in the catalogue was assessed by a special expert committee, which included 15 Žito products based of their application.

LAGRIS

Podravka – Lagris a.s. participated in the following two research and development projects:

1. Development of packaging materials for food products based on cereals, nuts and dried fruits, in order to reduce the risk of storage pests
2. 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 the "INTER – EXCELLENCE", INTER – ACTION program).

BELUPO

The Research and Development sector of Belupo **continues its focus on the development of new drugs, the transfer of technologies from collaborating partners to Belupo's production facilities, and the optimization and upgrading of products from the current portfolio**, according to modern pharmaceutical industry standards. In 2020, the development of products from the dermatological group of drugs continued, followed by solid forms of drugs from the groups of drugs with anti – inflammatory and anti – rheumatic effects and antidiabetics. Products in the category of biocidal products were also developed.

Research and Development participates in activities related to the introduction of technologies of newly registered products in production as well as new analytical methods and techniques in product quality control.

In 2020, Research and Development was actively involved through a wide range of activities in numerous company projects, and in cooperation with other sectors contributed to maintaining the overall quality system of Belupo. Cooperation with the scientific community in Croatia continued in 2020.

During 2020, the following products developed in Research and Development: Neofen – neo forte tablets, Lupocet 1000 mg suppositories and Belaabo hand sanitizer spray, were placed on the market.



7 Certification

CERTIFICATION OF THE PODRAVKA GROUP MANAGEMENT SYSTEM

During 2020, audits of quality assurance and food safety management systems were carried out by accredited certification authorities and organizations according to several international standards.

The audits covered the entire Podravka Group in the Republic of Croatia except Belupo.

All Podravka's organizational units and processes participating in the safe food production chain – “*From the field to the table*” were covered: **Purchasing** → **Logistics** → **Quality Control** → **Development** → **Marketing** → **Production** → **Maintenance** → **Human Resources** → **Sales** → and others.

The audits confirmed compliance with the following international standards:

NO.	STANDARD	LOCATIONS	AUTHORITY
1	ISO 9001:2015	1. Podravka Inc. (all locations in Croatia)	Certification Authority SGS
2	HACCP according to Codex Alimentarius	1. Podravka Inc. (all locations in Croatia) 2. Mirna Inc., Rovinj	Certification Authority SGS
3	IFS Food, Version 6.1 International Featured Standards – Food	1. Podravka Inc. headquarters, Koprivnica Soups & Vegeta Factory, Koprivnica Baby Food & Cream Spreads Factory, Koprivnica Danica production plant, Koprivnica Production of semi – prepared and ready – made meals, Koprivnica 2. Kalnik Factory, Varaždin 3. Mirna Inc., Rovinj 4. Vegetable Factory, Umag 5. Podravka Lagris, Czech Republic*	Certification Authority SGS *for Podravka Lagris Certification Authority TÜV SÜD

NO.	STANDARD	LOCATIONS	AUTHORITY
4	BRC, Issue 8 (British Retail Consortium) Global Standard for Food Safety	<ol style="list-style-type: none"> 1. Podravka Inc. headquarters, Koprivnica 2. Soup & Vegeta Factory, Koprivnica 3. Baby Food & Cream Spreads Factory, Koprivnica 	Certification Authority SGS
5	HALAL	<ol style="list-style-type: none"> 1. Danica production plant, Koprivnica 2. Soups & Vegeta Factory, Koprivnica* 3. Baby Food & Cream Spreads Factory, Koprivnica* 4. Kalnik Factory, Varaždin 5. Fruit Factory, Koprivnica 6. Snacks Factory, Koprivnica* 7. Restaurant <i>Podravska klet</i>, Koprivnica 8. Mirna Inc. Rovinj 	Halal quality Certification Centre *Emirates Authority for Standardization & Metrology
6	KOSHER	<ol style="list-style-type: none"> 1. Kalnik Factory, Varaždin 2. Soups & Vegeta Factory, Koprivnica 3. Fruit Factory, Koprivnica 4. Snacks Factory, Koprivnica 5. Mill, Koprivnica 	Rabin Kotel Da – Don
7	BIO	<ol style="list-style-type: none"> 1. Podravka Inc., Koprivnica <ul style="list-style-type: none"> > Ecological tea > Ecological grits > Ecological rice > Ecological puree > Ecological cereal > Ecological seeds > Ecological tomato products > Ecological Vegeta > Bio oatmeal merc blage 500 g > Bio rice vacuum 800 g > Bio biozone millet 500 g > Bio oatmeal merc 500 g > Bio polenta 450 g > Bio biozone buckwheat 500 g 	Austria Bio Garantie
8	AOECS Gluten free	<ol style="list-style-type: none"> 1. Snacks Factory, Koprivnica 	Certification Authority SGS

NO.	STANDARD	LOCATIONS	AUTHORITY
9	EUROPEAN VEGAN	<ol style="list-style-type: none"> 1. Kalnik Factory, Varaždin 2. Snacks Factory, Koprivnica 3. Soups & Vegeta Factory, Koprivnica 	Association „Prijatelji životinja“ (Friends of Animals)
10	RSPO Supply Chain Certification Standard	<ol style="list-style-type: none"> 1. Soups & Vegeta Factory, Koprivnica 	Certification Authority SGS
11	ISO 27001:2013	<ol style="list-style-type: none"> 1. Podravka Inc. 	Certification Authority SGS
12	ISO 45001:2018	<ol style="list-style-type: none"> 1. Podravka Inc., Koprivnica 2. Soups & Vegeta Factory, Koprivnica 	Certification Authority SGS

Compared to previous years, the following changes occurred in 2020:

- EUROPEAN VEGAN – certification of products from the Vegeta category
- BIO certification of products – expansion of product range
- HALAL certification of Mirna Inc. Rovinj by the HALAL Quality Certification Centre
- ISO 27001:2013 – certification of the Information Security Management System (ISO/IEC 27001:2013) according to which the Company is committed to continuous improvement of information system protection, which ensures the continuity of business operations
- ISO 45001:2018 – certification of the Occupational Health and Safety Management System according to the ISO 45001:2018 standard at the 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.

ŽITO

In 2020, the Žito Group had renewed the following certifications in the areas of quality, food safety, ecological products and other certifications that meet specific customer requirements. The new certifications are for gluten – free products, Vegan certification extensions and new UTZ certifications.

NO.	STANDARD	LOCATION	AUTHORITY
1	ISO 9001:2015	Žito Group with Šumi Candies Ltd. Krško & sales segment of Podravka Ltd. Ljubljana	SIQ – Slovene Institute for Quality Ljubljana
2	IFS Food ver.6.1	<ol style="list-style-type: none"> 1. Žito PC Žito Šmartinska Ljubljana 2. Žito PC Gorenjka 3. Žito PC Bread & Rolls 4. Žito PC Bakery Vrhnika 5. Žito PC Dolenjska Bakeries 6. Žito PC Gradišče 7. Šumi Candies Ltd. Krško 8. Žito Bakery Vič 9. Žito gluten – free bakery Trbovlje – new 	QA –Quality Austria
3	BIO certificate Žito	70 products, i.e. processes including Žito Retail Ltd.	Institut kon – cert, Maribor
4	BIO certificate Podravka Ltd. Ljubljana	Sales of Bio products	Institut kon – cert, Maribor
5	RSPO Suply Chain cer. System – (palm fat)	ŠUMI Candies Ltd., Krško Žito Ltd. Frozen food and Toast program and PC Gorenjka biscuits	BV – Bureau Veritas Ltd. Slovenia, Ljubljana
6	HALAL	ŠUMI Candies Ltd. Krško	Islamic Community in R. Slovenia
7	HALAL	ŠUMI Candies Ltd. Krško	Institute Mannheim, Germany
8	UTZ	ŠUMI Candies Ltd. Krško	
9	Kosher	Toast program, Ljubljana	K Meshulash /Triangel K Inc. NY, USA
10	Vegan – European Vegetarian Label	<p>Expanded to 38 products:</p> <p>Šumi Ltd – 4 products;</p> <p>Žito Frozen food and toast 20 products</p> <p>New bakery Trbovlje – 12 products and</p> <p>Intes DE Lj – 2 products</p>	Institute Padma

NO.	STANDARD	LOCATION	AUTHORITY
11	UTZ	New PC Gorenjka and PC Bread, rolls and cakes	BV – Bureau Veritas Ltd. Slovenia, Ljubljana
12	Gluten free products AO ECS	New Žito bakery Trbovlje – 5 products	Celiac Society of Slovenia

BELUPO

During 2020, two regular certifications were conducted, i.e. annual inspections of the management system related to ISO 9001:2015 and ISO 13485:2016 standards. Given that the circumstances of the pandemic caused by the COVID – 19 disease and the impossibility of physical arrival of auditors still prevail, the checks were conducted through the appropriate web platform (Microsoft Teams).

8 New products

CULINARY BUSINESS UNIT



For the Culinary Business Unit, 2020 was a year of **focusing on strengthening positions in all categories and brands**, and all launches of new products followed the needs of consumers and traders in the target markets. At the same time, utmost care was taken to conform to the new situation of changed consumption habits, which was present throughout the year.

The well recognized **Vegeta Natur project**, launched in the previous period, continued in 2020. The trend of naturalness gained an additional dimension during 2020, as the care for one's own health and immunity became the most important priority amongst consumers. In 2020, the range was expanded with **liquid food supplements** in the Adria region and Central Europe, as well as targeted items of **special food supplements** on the market of Poland, Russia and the Adria region. Vegeta Natur represents the concept of expanding the Vegeta brand portfolio into different categories, so that the Culinary Business Unit, following the concept of Vegeta Natur, will bring numerous innovations in the future and continue to communicate with consumers in all key markets.

Although the Vegeta Natur project is crucial for further evolution of the brand, the Culinary BU **continues to strengthen the position of the original universal Vegeta seasoning**. Thus, a major project was carried out on the Romanian market that included a change in the type of packaging of the original Vegeta, which is now present on the shelves in a stand – up pouch with zipper closure. In addition to the change in packaging, the design was **modernized for all products from the Vegeta blue line**. All changes were accompanied by consumer research and are in line with consumer expectations. At the same time, on the other side of the world, an assortment of liquid stock was innovated and **Vegeta plant based liquid stock** offered to consumers in the Australian market, following the growing trend of plant based foods that is increasing both in Australia and Europe.



Within the category of spices, the product range has expanded with **grill and international product lines** in order to strengthen the position in Slovenia and confirm the strength that the **Maestro** brand has been carrying for more than 30 years. This gives consumers the opportunity to try their hand at preparing meals that are slightly different and new, all in the comfort of their own home. Products for the **preparation of sausages** under the Vegeta Maestro brand which facilitate the traditional sausage preparation characteristic for the autumn period of the year have been launched in the Croatian market.



Consumers in the markets of the Adria region were also offered new products in the soup category, and in 2020, **Vanzemaljac (Alien) kids' soups** were launched. These products are nutritionally balanced in order to satisfy the demanding segment of mothers who insist on the best quality and tasty products for their children. At the same time, their lively and cheerful design brings them closer to children and integrated collectable stickers make them even more appealing for today's youngest consumers.



Innovations were also made to one of the most classic product categories within the Culinary BU, the bouillon category. **The bouillon assortment is enriched with soup cubes of the iconic design**, which rely on the leading products from the soup category – "rooster and cow". In this way, the products fit into the trend of returning to proven brands that appeared at the very beginning of the year. By offering products of ascertained quality, well – known design and attractive price, consumers are given a dose of security in these uncertain times.



In preparation for major changes that the Fant brand will undergo in 2021, **an international line of new products** was introduced in 2020, making travelling to Mexico or China easy with Fant. This is the start of a new cycle of innovations, which will delight consumers in the Adria region throughout the year 2021.





Over the past few years, Podravka has significantly expanded the range of Dehydrated Baby Food, and even supplemented with new products in the Baby Snack category. New **Lino My first flips with carrots – gluten – free**, is a greatly welcomed novelty in the field of gluten – free snacks. This crunchy and easily soluble healthy snack is prepared from fine corn grits and carrots, contains no salt and no added sugar. It comes in the shape of a teddy bear, so it is interesting for children and they will gladly reach for out for this snack themselves.

Čokolino has been a cereal meal adored for generations by consumers of all ages, with new flavours now available: **Gluten – free Čokolino** and **Čokolino Protein Power**.

Gluten – free chocolate is a delicious porridge based on rice flakes and chocolate, which can be enjoyed equally by children and adults **intolerant to gluten**. Čokolino Protein Power is a light and completely **nutritionally balanced ready – to – serve protein, cereal meal**. It is a combination of the irresistible Čokolino taste, whey protein, oats and rice, rich in magnesium and vitamins. It is intended for all who are recreationally engaged in sports or any increased physical activity and are looking for a tasty and practical product, full of proteins.



Gluten – free diets in children have become more widespread in recent years, but sometimes this type of diet is not easy to follow. That is why Lino, following dietary trends, has **enriched the range of cereals for children with new gluten – free cereals: Lino Choco caramel flakes and Lino Honey rings**.

Lino Choco caramel flakes are extruded cereals with a great taste of caramel and chocolate, and the youngest will be delighted with the interesting and delicious Lino Honey rings, extruded cereals in the shape of a honey – flavoured ring. They consist of rice, corn and quinoa and contain B group vitamins and vitamin C, are a rich source of iron and calcium, and come in a packaging of 225 g.

After winning the Crystal Taste Award, the Lino Lada Gold range has been enriched with a **festive packaging in a 900 g jar** in four different colours and with four beautiful and inspiring messages that motivated consumers to give this extraordinary product as a gift for their loved ones.

At the end of the year, as response to the main competitor, a **winter – designed packaging** of the best – selling flavour, Lino Lada duo 1 kg was launched for key customers in the markets of the Adria region.



In addition to a large selection of flavours in the cream spread category, the Lino Lada brand strengthened its visibility by expanding into complementary confectionery categories. The greatest success was achieved in the ice cream category after the **Lino Lada duo impulse ice cream on a stick** was launched in 2019. In the same year, it won the status of **the best ice cream in the world**, and in 2020 it was crowned with the Golden Basket award. Due to great reactions from consumers, the expansion of the Lino Lada brand into the ice cream category continued in 2020 with the launch of **Lino Lada Quattro** family ice cream.

In 2020, Dolcela changed its appearance with a new redesigned packaging, thus becoming **more modern – day and more attractive** to its consumers. New innovative and modern products were launched that follow confectionery trends. In the category of baking aids, **Dolcela tartaric baking powder 18 g** and **Dolcela yeast 7 g sticks**, increasingly popular products for preparing leavened dough, were launched. Also, the range of flavoured sugars has been supplemented with two new flavours, **Dolcela mint sugar 10 g** and **Dolcela orange sugar 10 g**.



In the category of cake mixes, the novelty is **Dolcela Trileće & milk caramel topping 384 g**, which has its origins in Latin America and is known as "the juiciest cake in the world".

The range of Dolcela Cake2go expanded with a new flavour, **Dolcela brownies coconut 175 g**. In order for consumers to enjoy Dolcela Cake2go anytime and anywhere, **individual packaging** of Dolcela brownies 50 g and Dolcela brownies coconut 50 g were launched.



During 2020, the Kviki brand decided to **expand its range of sweet products**. After introducing consumers to the irresistible five flavours of Kviki Choco #LOLs two years ago, now they are offered something new and overwhelming – a taste made in heaven.

Kviki Choco #LOLs Gin tonic – a perfectly rounded aroma of gin and lemon with irresistible dark chocolate and **Kviki Choco #LOLs Rum coconut** with the original aroma of rum and a combination of coconut, wrapped in delicious white chocolate. These products contain no alcohol, so they can be enjoyed to your heart's desire! In addition to these new flavours, a new – larger packaging of the already existing product, Kviki choco #LOLs chocolate, in a so – called Party packing, was launched.

PODRAVKA FOOD BUSINESS UNIT

The specificity of 2020 was also reflected in the growing return of consumers to their own kitchens and the resumed search for new flavours, creations and interpretations of domestic cuisine. In order to make this search for taste as exciting as possible, Podravka launched a **range of tomato – based sauces**. It is an assortment of five products that continue the successful story underlying the tomato – based product development of previous years, but this time interpreted in a completely new way. These products perfectly combine user – friendliness, natural ingredients and superior taste.



Preparing bread at home has never been easier. New mixtures of flour for making bread, **oat bread with seeds and bread from 5 types of cereal**, have been launched on the market, enabling just about anyone to become a top baker.

Podravka has strengthened its leading position on the mustard market in Croatia with two new gourmet mustards, **Podravka GOLD mustard and DIJON** made from whole mustard seeds. This is the first step towards further development of mustard in the gourmet section.





During 2020, the category of canned fish **started the process of launching products in new redesigned packaging**. The first products to be refreshed on the shelves were sardines. The new design of the can includes a refreshed logo with the walrus mascot and an overall visual impression with an emphasis on the origin of the ADRIATIC SARDINE in the product name. Modern printing technique with a metallic effect gives the impression that Eva has **just emerged from the depths of the sea**. An additional distinguishing element for easier navigation within the product range is the characteristic edge of the can and vignette to mark each taste. All the benefits of sardines, omega – 3 fatty acids, calcium, protein and vitamin D are still retained in each can.

Eva is the favourite brand in the category of fish products according to the perception of consumers in the region, and in addition to the already recognized quality, Eva continues to surprise its consumers with new, innovative products. Therefore, **a line of delicacy products has been prepared** in which first – class pieces of fish are enriched with foods that further refine them. **Eva mackerel fillets with sun – dried tomatoes** contain first – class mackerel fillets and sweet sun – dried tomatoes. Exceptional taste and a natural source of valuable omega – 3 fatty acids are the trademark of Eva mackerel fillets. And when enriched with dried tomatoes, a delicacy itself, we get a very tasty product with added value because dried tomatoes have preserved all the nutritional value of fresh tomatoes.



Fine pieces of Eva tuna combined with Podravka's mild chutney from roasted peppers, result in a genuine delicacy: **Eva tuna with chutney** that comes in two variants, mild or hot chutney for fans of intense flavours. Whether used on its own in a sandwich, on a bruschetta, or for making pasta sauce, the result is **a real treat and a perfect harmony of a new flavour**.

In addition to these products from the delicatessen line, the standard range is enriched with new products in delicious sauce, **Eva mackerel a la provencale** and **Eva tuna a la provencale**. Due to the variety of vegetables from which it is made and white wine, Provençal sauce gives even greater juiciness and a mild dose of spiciness to Eva mackerel or tuna, and the richness of vegetables turns each can into a nutritionally rich meal.



The year 2020 was also successful for the standard range of the Fish Business Unit. **A step forward was made in the new market of the Ukraine**, but some of the traditional markets of the Adria region also recorded a significant increase in sales results. In addition, in 2020, the quality of Eva products was again confirmed. **Eva delicates Adriatic sardine with black olives and Eva delicates Adriatic sardine with rosemary and sea salt** were awarded two stars at the Superior Taste Award in Brussels.



MEAT PRODUCTS, MEAT SOLUTIONS AND SAVOURY SPREADS BUSINESS UNIT



The year 2020 for the Meat Business Unit was a year of **focusing on strengthening the market position, strengthening the gross margin through portfolio optimization and rejuvenating the categories** through the development of new products and packaging redesign.

Within the pâté category, a strong focus was placed on the new line of Podravka new generation chicken pâtés: **Chicken pâté classic, Chicken liver pâté, Chicken spicy pâté, Chicken pâté with cream and Chicken pâté with chutney**. The trend of high quality and natural nutrition gained a further dimension in 2020, which gave the Podravka new generation pâtés an additional push and aroused increased interest among consumers. These pâtés are characterized by exceptional high quality ingredients – prepared from pure chicken, 100% fillet and thigh, paired with fine spices and supplements such as liver, chutney, cream, rich in protein and, most importantly, contain no preservatives, palm oil, or flavour enhancers. In Croatia, the recognizable red line of the new generation of Podravka pâtés is complemented by two Podravka meat pâtés: **Tea and Liver pâté**, while for foreign markets the line is wider for two additional products: **Beef pâté and Chicken halal pâté**. In order to expand the offer, in mid 2020, **Podravka Chicken pâté and Podravka Pikant pâté** were launched on the Croatian market as a **family pack**.

In order to modernize and attract a younger target group of consumers during 2020, the category of Podravka ready – made meals focused on **innovation, redesign and improvement of recipes** in accordance with the trend of using natural ingredients with an emphasis on functional benefits.

In 2020, four new, premium grill products were launched in the sausage range under the Majstor brand – grill sausages: **Pepica**, **Zdenka**, **Grofica** and **Špinatka**. The new grill products under the MAJSTOR brand are made from a large proportion of the highest quality beef and pork combined with fine spices, following proven recipes from the best sausage craftsmen. **Pepica** has a **unique spicy taste** that will satisfy all meat lovers looking for a more striking taste. The irresistibly juicy **Zdenka** is presented in combination with the widely known Zdenka cheese. Because of its creamy texture, it simply **melts in your mouth**. **Grofica** is a sausage that fascinates with the very first bite. A gourmet delicacy with fine spices, 87% meat, rich in protein, gluten – free and in a natural wrapper guarantees a **well – rounded taste**. **Špinatka** is a premium grilled sausage with the addition of spinach that **provides strength throughout the day**. It stands out with its characteristic greenish colour, richness of protein and natural wrapping of first – class pork. The new grill assortment was the basic part of Podravka's umbrella grill campaign "Without a lot of drill to a juicy grill". The Superior taste award for 2020 won by **Vatroslava**, **Blaženka** and **Vinka** confirmed the high quality of MAJSTOR durable sausages.



ŽITO



In 2020, **modern food trends were monitored**, and in addition to the development of new products, great emphasis was placed on product redesign.

The success of the development and care of Žito's current products was once again proven at the 20th jubilee evaluation of bread, bakery and confectionery products, pasta, biscuits and fresh desserts, which took place under the auspices of the Bakery Section at the Chamber of Agricultural and Food Companies at the Slovene Chamber of Commerce. **Žito received a record 61 awards** for product excellence, which is the highest of all Slovene bakery companies.

In 2020, the line of premium bread Žito was expanded with new bread **Zlatno zrno** – a divinely good triangular bread with nuts and sunflower seeds. The Hribovc family expanded with two special flavours: **Hribovc with onions** and **Hribovc with walnuts**.



Žito also placed great emphasis on the development of special breads that, with their innovation and uniqueness, attract active consumers who love innovation and at the same time appreciate tradition. **Beer bread, Ješprenčkov bread with bacon, Millet bread, Tenstan bread with the addition of potatoes and spices, Bučnik with the addition of pumpkin meat and pumpkin oil and Kruh na Vehah**, bread with a delicious combination of ingredients and sauerkraut were prepared. These are breads of original rustic shapes, special ingredients and a distinctive taste that will satisfy anyone who is ready to try something new.



Breast Cancer Awareness Day was marked in cooperation with Lidl, and for this purpose a rich bread full of cereals and seeds called **Roza October** (Pink October Bread) was developed. The product recorded good sales results in October, and part of the sales revenue went to charity for the Europa Donna association.

The situation caused by the SARS-CoV-2 virus epidemic has drastically changed the buying and consumer habits. In caring for their own health, consumers are increasingly looking for packaged products or pre – baked products to reduce the frequency of purchases. Therefore, **some of the most successful Žito breads are offered in packaged form**, thus providing additional security from external influences and better freshness and durability. Adapting to this trend is also the **development of a line of semi – baked frozen packaged breads and bakery pastries for home baking**.



A line of packaged and suitably cut bread that stays fresh for as long as seven days without preservatives, called **Vandrovec**, has also been developed. For start, three flavours are included: **white, oatmeal, and centenarian**. These breads are intended for active people who buy less often and want quality and tasty bread with no added preservatives.



Due to the changed lifestyle, consumers baked a lot at home. In response to the increased demand for home baking products, Žito launched **two new ready – mixes in 500 g or 600 g packages**. Thus, without any special knowledge, **consumers could bake delicious five – grain bread or aromatic homemade white bread**.

Žito has also expanded the toast line with a new larger format of toast, which is particularly suitable for sandwiches and is called **Mega Toast**. In line with dietary trends and the growing emphasis on foods with enough dietary fibre, **whole grain toast** has been developed. The product is full of flavour, has a shelf life of 21 days and is therefore an excellent choice for making stock at home.



Gluten – free products are a fast – growing segment for which there is a growing demand. That is why Žito has developed the **Be Free** line of gluten – free products. The Žito gluten – free bread program, Be Free, is currently the best and most innovative solution on the market. The products are the result of many years of development with the understanding of the most demanding customers and are comparable in quality to classic bread. The concept is based on the protection of customers and traders from gluten contamination, and thus only Žito offers consumers freshly baked gluten – free bakery products at the point of sale, which enables packaging in an innovative 100% recyclable foil. Consumers can choose between **classic, buckwheat and seed flavours** – they are all allergen – free, preservative – free and a rich source of fibre. The products boast the AOECS certificate of the European Celiac Society, and thus the right to use the crossed – out wheat mark, which gives patients with celiac disease a guarantee that the product is truly safe and reliable.



The Žito sandwich line has been restored and refreshed with a smaller, more attractive shape of the sprinkled loaf, with a changed way of cutting and filling, making them more visible. The flavours on the market have been enriched by a new original **Fit Fit sandwich** with a special spicy spread and new fried croquets.



By developing a line of mini patties called **Veggie Nuggets**, Žito has spoiled vegetable lovers and those who swear by plant proteins. Attractive mini vegetarian patties with crispy panada and a delicious combination of legumes, vegetables and cereals with no additives have been prepared. Consumers can choose from three flavours: **broccoli chickpeas, curry cauliflower and buckwheat with sunflower seeds**. The products are suitable for quick preparation in the oven or in a hot air fryer.





Žito mini savoury snacks are a great solution for unexpected guests, a savoury lunch or just a small snack between meals. They are prepared from puff pastry and stuffed with real pieces of bacon or white cheese and intended for all who caught up in the fast pace of life insist on simple preparation and good food.

Consumers like to be pampered on holidays and in winter days and now they can reach for **new premium dumplings with the taste of the famous Black Forest Cake** – dark dough with the addition of cocoa perfectly complements the cherry filling with pieces of fruit.



Golden – yellow Žito instant polenta of the **Zlato polje brand**, with a recognizable taste and remarkable quality, celebrated its 50th anniversary. A special jubilee packaging of polenta in a golden box and a booklet of new recipes were designed to mark this celebration.

The appearance of the entire range of Natura programs has been restored. The new design, the distinction of colours between the organic and the conventional program and a new way of packaging provides greater recognition and differentiation at the point of sales. Two new products have been added to the program: **Bio chia seeds and Bio hemp seeds**.



In the development of tea, Žito placed great emphasis on the **richness of fruit flavours** and a new line of fruit teas with an increased proportion of fruit has been developed. Rich tea blends have an **intense natural flavour** because they have a higher fruit content and no added artificial flavours. Fruit tea lovers will also receive a special message on the attractive packaging. There are three flavours on the market: **raspberry cranberry, wild strawberry acai berry and mango peach**.

In 2020, like every year, Žito prepared an exclusive line of chocolates, dressed in a New Year's packaging, suitable for gifts during the holiday season, which also included a new **100 g Macha menthol filled chocolate**.

In the category of dark filled chocolate, two new filled chocolates were launched: **menthol cherry and orange turmeric**. Both combinations blend perfectly with the taste of dark chocolate and ensure complete smearing of the palate.



Three new sugar – free products have been added to the Žito Šumi functional hard candy line. Small hard candies are individually wrapped and packed in a natur bag. Three flavours were chosen that are suitable for everyone and for every occasion: a refreshing combination of **orange menthol**, **ice eucalyptus** and **fruit refreshment of elderberry combined with black currant**.

LAGRIS

In 2020, there were no new products under the Lagris brand.

In 2020, Belupo launched **four drugs from the Rx portfolio and five over-the-counter products** on the Croatian market. In addition to the existing packaging of **TAMOSIN** 0.4 mg modified – release capsules 30 x 0.4 mg, Belupo expanded its portfolio with new packaging and launched **TAMOSIN** 0.4 mg modified – release capsules 100 x 0.4 mg. **TAMOSIN** 0.4 mg modified – release capsules are a medicine from the Belupo urology range in indications for the treatment of lower urinary tract symptoms (LUTS) associated with benign prostatic hyperplasia (BPH).

Belupo's urological range is enriched with a new drug from the group G04CA – Drugs acting on the urinary system, Drugs for the treatment of benign prostatic hypertrophy, Alpha – receptor blockers, under the brand name **KLLOTAS** 0.5 mg/0.4 mg hard capsules. **KLLOTAS** 0.5 mg/0.4 mg hard capsules is a medicine used 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's cardiac portfolio has expanded with the new drug **ROSIX DUO** 10 mg/100 mg hard capsules and **ROSIX DUO** 20 mg/100 mg hard capsules. It is an innovative combination of two active substances: rosuvastatin and acetylsalicylic acid, unique on the Croatian market.

ROSIX DUO 10 mg/100 mg hard capsules and **ROSIX DUO** 20 mg/100 mg hard capsules are indicated for the secondary prevention of cardiovascular events as replacement therapy in adult patients who are adequately controlled on monocomponents given concomitantly in equivalent therapeutic doses. The monocomponents in this combination are: rosuvastatin and acetylsalicylic acid. Rosuvastatin is a selective and competitive inhibitor of HMG – CoA reductase, an enzyme that converts 3 – hydroxy – 3 – methylglutaryl coenzyme A to mevalonate, a precursor of cholesterol. Rosuvastatin acts primarily in the liver, a target organ for lowering cholesterol. Acetylsalicylic acid irreversibly inhibits platelet aggregation. As a result, a single, low daily dose of acetylsalicylic acid (<100 mg/day) results in inhibition of platelet A2 in platelets without a significant effect on prostacyclin synthesis.



In addition to the drug **RUDAKOL** 135 mg coated tablets, Belupo's well known antispasmodic whose active ingredient is mebeverine, Belupo's gastro portfolio was supplemented with a new form and an increased dose of active substance in a new drug, RUDAKOL 200 mg hard capsules with modified release. RUDAKOL 200 mg modified – release hard capsules is a medicine intended for use in adults and children over 10 years of age in the treatment of symptoms of spastic functional disorders of the colon – primary irritable bowel syndrome. It is also indicated as support for causal or palliative treatment of secondary irritable bowel syndrome caused by diverticulosis or colonic diverticulitis, Crohn's disease (regional enteritis), gallbladder and bile duct disorders (biliary dyskinesia), gastric and duodenal ulcers and nonspecific and specific inflammations of the digestive system, e.g., enteritis and dysentery (also in history).



In the non – prescription portfolio, the brands **LUPOCET** and **NEOFEN** have been strengthened with new forms – Lupocet 1000 mg suppositories – a unique form of paracetamol on the Croatian market, Neofen combo – an innovative combination of ibuprofen and paracetamol in one tablet that Belupo first launched onto the Croatian market, Neofen neo forte – new lactose, starch and colour free formulation, and the tablet is shaped and sized for easier swallowing (caplet). In addition, the **BELAABO** disinfectant and a non – prescription version of the well – known Rx brand Knavon called **KNAVON AKUT** were launched onto the market.

LUPOCET 1000 MG SUPPOSITORIES

LUPOCET 1000 mg suppositories is an OTC drug belonging to the pharmacotherapeutic group Analgesics, Other analgesics and Antipyretics (ATC code: N02BE01). LUPOCET 1000 mg suppositories are indicated for the symptomatic treatment of mild to moderate pain and/or fever. The administration of paracetamol in the form of suppositories is particularly suitable for patients who are unable to take oral forms. The drug is intended for use in adults and adolescents over 15 years of age who weigh more than 50 kg. Packaging: 10 pcs. The drug is available at pharmacies without a prescription.



NEOFEN COMBO 200 MG/500 MG FILM - COATED TABLETS

NEOFEN COMBO is a non - prescription drug that contains two active substances: ibuprofen and paracetamol. Ibuprofen belongs to a group of non - steroidal anti - inflammatory drugs that relieve pain, reduce inflammation and lower fever (ATC code: M01AE51), while paracetamol is an analgesic that relieves pain and fever in a different way than ibuprofen. Each NEOFEN COMBO film - coated tablet contains 200 mg ibuprofen and 500 mg paracetamol. NEOFEN COMBO is intended for adults over 18 years of age.

NEOFEN COMBO 200 mg/500 mg film - coated tablets are indicated:

- for short - term relief of mild to moderate pain associated with migraine, headache, back pain, menstrual pain, toothache, rheumatic and muscular pain, pain due to non - inflammatory arthritis,
- for cold and flu symptoms, sore throat and fever.

NEOFEN COMBO is particularly suitable for pain that requires stronger analgesia than with single ibuprofen or paracetamol. Packaging: 10 pcs. The drug is available at pharmacies without a prescription.



BELAABO HAND SANITIZER SPRAY 100 ML

BELAABO is a fast and effective disinfectant intended for hand disinfection. It is applied undiluted and belongs to the group of biocidal preparations 1 (biocidal products for personal hygiene). The active substance is ethanol (partially denatured) 72g/100g. Other ingredients: glycerol, carbopol ultrez, neutrol TE, polysorbate 80, squalane, myrtle essential oil, purified water. BELAABO has bactericidal, virucidal and fungicidal effects and reduces the transient flora of the hands by more than 99%. It has been dermatologically tested and is suitable for application on sensitive skin. Myrtle essential oil provides a pleasant scent and gives a feeling of freshness. Packaging: Spray 100 ml. It comes to the market in pharmacies.



NEOFEN NEO - FORTE 400 MG FILM - COATED TABLETS

NOFEN neo - forte is Neofen with a new improved formulation. NEOFEN neo - forte is a non - prescription drug from the group of non - steroidal anti - inflammatory drugs (ATC code: M01AE01) which contains 400 mg of ibuprofen and comes in a new pharmaceutical form - CAPLETS. The advantage of this pharmaceutical form is that it is adapted in shape, size and weight to be easier to swallow and is suitable for a sensitive population that has difficulty swallowing.

NEOFEN neo - forte is formulated to be lactose - free and is particularly suitable for patients with lactose intolerance. Also, the advantage of this new formulation is that it does not contain starch or colours in the coating. It is indicated for the treatment of mild to moderate pain associated with headache (including migraine), neuralgia, toothache, back, muscle and joint pain, menstrual pain, to reduce fever and relieve pain and discomfort resulting from common cold and flu. NEOFEN neo - forte is intended for use in adults and adolescents over 12 years of age (body weight greater than 40 kg). Packaging of 20 (2 x 10) tablets in PVC//Al blister. The drug is available at pharmacies without a prescription.



KNAVON ACUTE 50 MG HARD CAPSULES

Ketoprofen is available on the Croatian market, in addition to its prescription status, as of 2020 it is available as a non – prescription drug. Each hard capsule contains 50 mg of ketoprofen. KNAVON AKUT 50 mg hard capsules belong to a group of medicines called non – steroidal anti – inflammatory drugs (ATC code: M01AE03). These drugs prevent the formation of chemicals in the body that cause inflammatory processes and consequently pain. Ketoprofen relieves pain.

KNAVON ACUTE 50 mg hard capsules are used in adults and adolescents over 16 years of age for short – term symptomatic relief of mild to moderate pain such as headache, toothache, menstrual pain, and pain after minor sprains and dislocations. Packaging: 10 (1x10) hard capsules in PVC//Al blister. The drug is available at pharmacies without a prescription.



BELUPO – INTERNATIONAL MARKETS

RUSSIAN FEDERATION

In 2020, the Russian market launched the prescription drug Konvilept 250 mg, 500 mg and 1000 mg film – coated tablets and the cosmetic product Panthenol foam 150 ml.

Konvilept film – coated tablets contain 250 mg, 500 mg or 1000 mg of levetiracetam, which belongs to the group of antiepileptics. Konvilept is a drug used in the treatment of seizures as monotherapy in patients over 16 years of age with newly diagnosed epilepsy, in the treatment of partial seizures with or without secondary generalization, as adjunctive therapy to other antiepileptic drugs in treatment, for partial seizures with or without secondary generalization in adults, adolescents, children and infants from the first month of age.

Panthenol foam 150 ml contains dexpanthenol (provitamin B5) and is used to protect and regenerate dry, sensitive and irritated skin. It restores and stabilizes the skin's natural protective function and thus prevents water loss, keeping the skin moist and supple. Panthenol foam can be applied in conditions of dryness and redness of the skin due to exposure to external influences such as sunlight, heat and cold. The special formulation in the form of foam is extremely gentle and easily spreadable, and is intended for the use in infants, children and adults.



POLAND

The prescription drug Tadalafil Belupo 20 mg film – coated tablets, which is used to treat erectile dysfunction in adult men, was launched onto the Polish market in October 2020.

CZECH REPUBLIC

Two prescription drugs have been marketed in the Czech Republic: Dubelotam (dutasteride 0.5 mg + tamsulosin 0.4 mg) capsules and Tadalafil Belupo 20 mg film – coated tablets and one non – prescription drug, Beldimet (dimetindene) gel 30 g.

Dubelotam is used to treat men with benign prostate enlargement (benign prostatic hyperplasia), or non – cancerous prostate growth caused by increased secretion of the hormone dihydrotestosterone. Dubelotam is a combination of two different drugs dutasteride and tamsulosin. Dutasteride reduces the production of the hormone dihydrotestosterone, which helps reduce the enlarged prostate and relieve symptoms. Tamsulosin acts by relaxing muscle cells in the prostate, allowing for easier urination and faster relief of symptoms.

Tadalafil Belupo is used to treat erectile dysfunction in adult men.

Beldimet gel contains the active substance dimethindenemaleate from a group of medicines called antihistamines. This medicine is used for short – term relief of itching that accompanies skin reactions such as rashes, hives, insect bites, sunburn and surface burns (Grade 1). Beldimet gel stops itching by blocking the action of histamine the body releases during an allergic reaction. The gel penetrates into the skin and itching and irritation are relieved within a few minutes. This drug also has a local anaesthetic effect.



SLOVAKIA

The Slovak market has marketed two new prescription drugs: Belodut (dutasteride 0.5 mg + tamsulosin 0.4 mg) capsules and Tadalafil Belupo 20 mg film – coated tablets.

Belodut is used in the treatment of men with benign prostate enlargement (benign prostatic hyperplasia), or with non – cancerous prostate growth caused by increased secretion of the hormone dihydrotestosterone.

Tadalafil Belupo is used to treat erectile dysfunction in adult men.



SLOVENIA

The Slovenian market is Belupo's international market, which in 2020 introduced the largest number of new products: six prescription and six non – prescription drugs.

The prescription drugs that entered the Slovenian market were: Abuxar (febuxostat) 80 mg and 120 mg film – coated tablets, Careza (dutasteride 0.5 mg + tamsulosin 0.4 mg) capsules, Rudakol (mebeverine) 200 mg SR capsules, Zaracet (tramadol 75 mg + paracetamol 650 mg) tablets.

Rojazol gel 40 g and Rojazol cream 30 g were placed onto the market through intervention imports of packaging in the Croatian market. Non – prescription drugs that have entered the Slovenian market are Acibel (acetylcysteine) effervescent tablets 600 mg, Acibel (acetylcysteine) effervescent tablets 200 mg, Ibubel Lin 200 mg (ibuprofen lysine 342 mg), Ibubel Lin 400 mg (Ibuprofen lysine 684 mg), Ibuprofen/Paracetamol Belupo 200 mg + 500 mg film – coated tablets and Metida (dimethindene) gel 30 g.

Abuxar (febuxostat) 80 mg and 120 mg film – coated tablets for the treatment of gout in patients with chronic hyperuricemia, in conditions where urate deposition has already occurred and in whom prior therapy with allopurinol has not been sufficiently effective or has developed intolerance to allopurinol and in impaired renal function.

Rudacol 200 mg modified – release hard capsules contain an active substance called mebeverine hydrochloride, which belongs to a group of medicines called antispasmodics with intestine effect. Rudacol eases abdominal cramps and pain, so it is used to relieve the symptoms of irritable bowel syndrome.

Careza is used in the treatment of men with benign prostate enlargement (benign prostatic hyperplasia), or with non – cancerous prostate growth caused by increased secretion of the hormone dihydrotestosterone.

Zaracet (paracetamol + tramadol 650 mg + 75 mg) film – coated tablets are a combination of tramadol and paracetamol indicated for the symptomatic treatment of moderate to severe pain.

Ibuprofen/paracetamol Belupo 200 mg + 500 mg film – coated tablets are used for short – term relief of mild to moderate pain associated with migraine, headache, back pain, menstrual pain, toothache, rheumatic and muscular pain, pain due to non – inflammatory arthritis, and for symptoms of flu, sore throat and fever.

Ibubel Lin 200 mg and Ibubel Lin 400 mg film – coated tablets belong to the group of non – steroidal anti – inflammatory drugs and anti – rheumatic drugs that relieve pain, lower fever and have anti – inflammatory effect. One Ibubel Lin 200 mg film – coated tablet contains 200 mg ibuprofen, equivalent to 342 mg ibuprofen lysine, while one Ibubel Lin 400 mg film – coated tablet contains 400 mg ibuprofen, equivalent to 684 mg ibuprofen lysine. The advantage of ibuprofen lysine is that it is rapidly released from the tablet and faster absorbed, which ensures a faster and longer lasting analgesic effect compared to the standard ibuprofen.



Ibubel Lin 200 mg (ibuprofen lysine 342 mg) and Ibubel Lin 400 mg (ibuprofen lysine 684 mg) are used for mild to moderate pain (e.g. back pain, toothache, muscle pain, joint pain, menstrual pain, neuropathic pain), acute stages of migraine with or without aura and for the treatment of tension headaches, and pain caused by common cold and flu.

Metida gel contains the active substance dimethindene maleate from a group of medicines called antihistamines. This medicine is used for short – term relief of itching that accompanies skin reactions such as rashes, hives, insect bites, sunburn and surface burns (1st degree). Metidal gel stops itching by blocking the action of histamine that the body releases during an allergic reaction. The gel penetrates into the skin and itching and irritation are relieved within a few minutes. This drug also has a local anaesthetic effect.



BOSNIA AND HERZEGOVINA

Neofen Combo (ibuprofen 200 mg + paracetamol 500 mg) film – coated tablets, Neofen rapid 200 mg (ibuprofen lysine 342 mg) and Neofen rapid 400 mg (ibuprofen lysine 684 mg) film – coated tablets are new non – prescription drugs introduced on the B&H market in 2020.

Neofen Combo film – coated tablets are a combination of two active substances: 200 mg ibuprofen and 500 mg paracetamol, so this medicine is particularly suitable for pain that requires stronger analgesia than with single ibuprofen or paracetamol. They are used for short – term relief of mild to moderate pain associated with migraines, headaches, back pain, menstrual cramps, toothache, rheumatic and muscle pain, pain due to non – inflammatory arthritis, and for cold and flu symptoms, sore throat and fever.

Neofen rapid 200 mg (ibuprofen lysine 342 mg) and Neofen rapid 400 mg (ibuprofen lysine 684 mg) belong to the group of non – steroidal anti – inflammatory drugs and anti – rheumatic drugs that relieve pain, lower fever and have anti – inflammatory effects, and are used in mild to moderate pain (e.g. back pain, toothache, muscle pain, joint pain, menstrual pain, neuropathic pain), acute stages of migraine with or without aura and for the treatment of tension headaches, and pain caused by common cold and flu.



SERBIA AND MONTENEGRO

Two new non – prescription drugs were launched onto the Serbian market in 2020: Mukobel effervescent tablets 200 mg and Mukobel effervescent tablets 600 mg, and in Montenegro Agnis film – coated tablets 50 mg.

Mukobel effervescent tablets 200 mg and Mukobel effervescent tablets 600 mg contain the active substance acetylcysteine. Acetylcysteine loosens thick, sticky mucus in the airways, making it easier to cough out. Mukobel effervescent tablets can be used to treat respiratory diseases such as asthma, bronchitis (inflammation of the tracheal mucosa), emphysema (increased air space and loss of lung elasticity), cystic fibrosis (cystic fibrosis) and bronchiectasis (permanent enlargement of the part where the bronchi separate).

Mukobel 200 mg effervescent tablets are intended for use in children older than two years and adults, while Mukobel 600 mg effervescent tablets are intended for use in adults only.

Agnis (vildagliptin) 50 mg tablets are used to treat patients with type 2 diabetes. The active substance in Agnis, vildagliptin, belongs to a group of medicines called 'oral antidiabetics'. It is used when diabetes cannot be controlled by diet and exercise alone. It also helps control blood sugar levels.

MACEDONIA

During 2020, the Macedonian market introduced three new prescription drugs: Abuxar (febuxostat) 80 mg and 120 mg film – coated tablets, Agnis (vildagliptin) 50 mg and Glika (gliclazide) 60 mg.

Abuxar (febuxostat) 80 mg and 120 mg film – coated tablets for the treatment of gout in patients with chronic hyperuricemia, in conditions where urate deposition has already occurred and in whom prior therapy with allopurinol has not been sufficiently effective or has developed intolerance to allopurinol and in impaired renal function.

Agnis (vildagliptin) 50 mg tablets are used to treat patients with type 2 diabetes.

Glyca (gliclazide) 60 mg modified – release tablets is a drug that lowers blood sugar (an oral antidiabetic that belongs to a group of medicines called sulfonylureas). GLIKA is indicated for the treatment of adult patients with non – insulin dependent diabetes mellitus (type 2), in whom the disease, or normal blood sugar level, cannot be regulated by diet, exercise or weight loss alone.

9

Employee relations

PODRAVKA

The main source of the Company's competitive advantage is human capital, and **employees, their safety, needs, motivation, satisfaction and protection continued to be a priority** for the management during 2020.

Podravka focuses great attention on the importance of responsible and ethically-based business conduct. In all its business relations, the company abides by the ethics principles and acts in line with the principles of responsibility, truthfulness, efficiency, transparency and quality.

Towards our business partners, employees and the entire social and corporate environment, the company acts in good faith, abiding by good business customs. We enable employee equality, accepting diversity, and offering equal opportunities for employment, advancement, education and rewards.

The action of these principles and policies is defined by the Podravka Group Code of Business Ethics and the Ordinance on the protection of employee dignity.

In order to achieve the strategic goals of the Group, the knowledge, skills and capacities of employees were used to the maximum.

The Company's management has **approved and supported the implementation of numerous education and training programs** for employees to enable them to acquire relevant business knowledge and further develop and upgrade the necessary skills.

Special focus was placed on specific educational programs that significantly raised awareness of corporate and information security.

Although considerable attention is paid to the protection of employee health, during the SARS-CoV-2 virus pandemic, the importance of cross – sectoral cooperation, timely reporting and education in this segment came to the fore.

In challenging times, **the digital transformation of the Company has enabled the smooth continuation of the implementation of educational programs**, and certain business segments have turned to their own sources of knowledge and competencies and shared them accordingly.

During 2020, 45 permanent workers were employed at Podravka Inc., of which 12 were trainees, and seven more trainees were employed on a temporary basis.

During the year, 98 workers employed on a temporary basis gained permanent employment, including nine workers with a trainee status.

Due to the SARS-CoV-2 virus epidemic and in order to preserve the health of employees, **wherever the nature of work allowed, employees worked from home**. For all days of work from home, overhead expenses were reimbursed in accordance with the decision of the Management Board, and they were also entitled to subsidized meals, as were other employees.

Employees who due to the circumstances were not engaged in their regular work full time, were assigned for a certain number of days during 2020 to production and logistics jobs where there was an increased need for employees.

During the year, **Podravka rewarded its employees on several occasions** and thus expressed gratitude for their contribution and commitment to achieving business results in extremely demanding and challenging conditions due to the SARS-CoV-2 virus pandemic.

Employees in production and logistics units and directly related services were rewarded with HRK 1,000 net for working in three shifts in March, given the then increased market needs for Podravka's products. In July, an additional bonus was paid to all employees in the amount of HRK 1,000 net. A one – time bonus in the amount of HRK 1,000 was paid in November on the basis of the achieved business results for the first nine months and an additional reward to employees for the achieved business results in the first eleven months in the amount of HRK 1,500.

In accordance with the Collective Agreement of the Podravka Group, **employees 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 2020, Podravka again remembered its retired employees. Although due to the unfavourable epidemiological situation it was not possible to organize a 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.



SOCIAL DIALOGUE

On 1 January 2020, Žito signed an Annex to the Collective Agreement harmonizing the Collective Agreement at the level of business activity and the new Labour Relations Act (ZDR – 1) in Slovenia. Amongst other things, the Agreement **introduced a 7.5% increase of pay grades**, raising the basic salaries of employees employed under the Collective Agreement, as well as providing some additional benefits, such as an increasing the amounts on Žito Food Cards and mentor allowances.

WORK FROM HOME

In order to protect the health of employees in the circumstances of the SARS-CoV-2 virus, **work from home was organised where possible**.

GRANARY OF HEALTH CAMPAIGN

As part of the "Granary of Health" promotional campaign for a healthy lifestyle and diet, Žito **ensures once a month a fresh dose of vitamins with fruit for all employees**. Bananas, lemons, oranges, apples, persimmons and tangerines were offered all year round. In August, they refreshed themselves with 1001 CVET COOL T teas. Employees are also encouraged to do sports, so **free yoga was organized** at the beginning of the year in Ljubljana.

A constant feature at Žito are also tips for the health and wellbeing of employees. Before the world was hit by the SARS-CoV-2 virus pandemic, awareness was raised about measures to prevent the spread of influenza and about the carpal tunnel syndrome. During the epidemic, **workers were familiarized, informed, and instructed on proper virus protection and stress management** during the COVID – 19 era. Since it is important to hear positive topics in such pandemic circumstances, the Marathon of Positive Psychology was supported and employees were allowed to attend virtual lectures held by experts. Notices on bulletin boards raised the awareness of a healthy, ergonomic and safe way of working.

In October, the month of the fight against breast cancer, in addition to raising awareness of Žito's customers, awareness – raising activities were carried out amongst employees. Numerous contents were prepared on the importance of prevention in breast cancer and the importance of preventive (self) examination, which were shared on internal channels. The 15 October, Healthy Breasts Day, was especially marked, when employees were given pink ribbons, awareness – raising brochures and Pink October bread.

These healthy activities were reported under the heading "Žitnica zdravlja (Granary of Health)" in the Drobčinica informative leaflet.

EDUCATION

The inclusion of Žito's employees in various educational programs proves that the Company **takes special care of their professional, expert and career development**.

A significant amount of the funds was earmarked for professional seminars for key staff to familiarize themselves with current topics and broaden their knowledge in their field of expertise. The school for leadership and communication influenced a better working environment, productive relationships and effective team connections for employees working in production units. According to the needs, many employees are engaged in Croatian language courses and to a lesser extent English language courses.

Within the funds received from the Ministry of Labour of the Republic of Slovenia and the European Social Fund, training in the field of successful sales was conducted for store managers and sales staff.

OTHER ACTIVITIES FOR EMPLOYEES

At the beginning of the year, **the best employee innovations were awarded** within the *Process of Continuous Improvement project*. A total of five innovations were awarded, especially to employees from DE Vič in Ljubljana, where the most innovations were presented. On Carnival Tuesday, the employees were treated to Žito donuts, on the International Women's Day, the employees were surprised with a sweet delicacy – Gorenjka pralines, and for Easter, Žito thanked its employees for their

dedicated work with Easter cakes. Gorenjka rolls were a treat for the Slovenian cyclists in their historic success – winning the first two places at the Tour de France. The second Day of Quality was organized in April when employees from development, marketing, quality system, investments, public relations and human resources connected and shared their knowledge. In December, Santa Claus visited all business units with a special Žito Christmas van and handed employees holiday gifts for their children.

BELUPO

Belupo is a **modern company with a 50 year tradition of successful business, which bases its success on high quality standards, and these high quality standards are reflected in sound human resources management**. Belupo is a pharmaceutical company that cares about people and values the importance of employees and provides career development opportunities for more than 1500 workers, because they are the bearers of all activities and **the main factor that brings Belupo a competitive advantage** in many markets.

A lot of effort and resources are invested in **improving working conditions, incentive systems, competence development, promotion and remuneration systems, increasing efficiency**, as well as in a number of other programs that contribute to Belupo's excellence in human resource management.

Competitiveness of salaries is achieved by following trends, employees are rewarded through the payment of Christmas, Easter and holiday allowances, funding of educational programs, incentives for outstanding results, rewarding innovative approaches to achieving business goals and **numerous forms of intangible incentives** such as structured internship and induction programs for new employees, an individual approach to employee motivation and career planning, days off for schooling, inclusion in the corporate system of knowledge dissemination, and a culture of praise and recognition of success.

Knowledge is the strength with which Belupo successfully faces all the challenges of the business environment and **investing in knowledge is considered an investment that returns** many times over. Belupo consists of a team of educated and dedicated professionals who, with their **enthusiasm, desire for quality and excellence**, have contributed to the growth of Belupo through all these years, and therefore, employee welfare has been a priority during the pandemic caused by the COVID – 19 disease. This is an extremely important task that requires a coordinated understanding of the needs of all employees, a clear interpretation of the guidelines and adaptation of the way people work. One of the most visible changes to the usual business is the global introduction of teleworking and working from home. This leads to certain organizational and emotional efforts. Belupo **nurtures a pleasant organizational climate**, a positive atmosphere in which employees are not afraid to try and succeed. It makes

extraordinary efforts to motivate employees to maintain a sense of belonging in times of crisis. **Good internal communication is an imperative** of every company in normal times, and in times of crisis it becomes even more important, which shows Belupo's social sensitivity. Belupo employs, expands business and builds teams of employees for working in Belupo's new factories. The Company is constantly in a search for candidates who share the values Belupo is focused on: **excellence, passion, confidence, customer satisfaction and innovation**. The ideal candidate is educated and highly motivated who strives to acquire new knowledge and shares with others the vision of Belupo being the leading pharmaceutical company in Central and Eastern Europe. In these challenging times, communication with candidates is fast and direct, adapted to new conditions and the way of working adapted to the new situation. **Trends in the education system and the labour market are continuously monitored and set**, and candidates with experience are recruited, as well as those without, because Belupo has a **high quality internship program** that helps young people gain their first work experience and become independent and competent with the support of experienced mentors. During 2020, 17 interns with secondary education and 10 with higher education were employed through the internship program of the Human Resources Development, and the other 22 newly employed workers were educated through the induction program.

As at 31 December 2020, the Belupo Group had 1,496 employees, of which 948 women and 548 men, while Belupo Inc. had 1,224 employees, of which 773 women and 451 men, which shows that **Belupo employs about 63% of women compared to 37% of men**. Such a high share of women in the structure of employees is extremely important for understanding sociological, economic and psychological aspects and consequences. Belupo **encourages motherhood** with a high birth grant in the amount of HRK 10,000, thus maximally supporting the pregnancy of its employees and emphasizing the social importance of the family. The hours of education in the amount of 43 102 prove that Belupo Inc. continues to investment in the education of employees, although due to the consequences of the pandemic there is a visible decline compared to the previous year despite alternative education opportunities that were used. The decrease in the number of hours of education is expressed in both internal and external education at Belupo Inc. due to the impossibility of holding internal knowledge transfers, various congresses and seminars, and the transition to education through various IT platforms was a challenge at one point, however, the adjustment was very fast and efficient. A total of 38,568 internal educations were conducted, of which 20,379 hours for women and 18,189 for men, while external educations were significantly lower and amounted to 4,534 hours, of which 3,070 hours were for women and 1,464 for men.



10 Activities in the field of environmental protection

PODRAVKA

Podravka Inc., as a socially responsible company, **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.

WASTE MANAGEMENT

Podravka **treats waste in accordance with legal regulations, respecting the hierarchy of waste management and following the global trend in waste management** that relies on circular economy.

In 2020, a total of 4,173.74 tons of waste was produced (of which 327.34 tons of municipal waste.)

Compared to the results for 2019, there was an **increase in the amount of non – hazardous waste** produced in Podravka Inc.

The increase in waste generated in 2020 was due to the production of a larger amount of ash from the boiler room on wood chips at the location of the industrial zone Danica, Koprivnica due to increased capacity and production compared to 2019.

In 2020, the amount of hazardous waste produced was reduced compared to 2019. One of the activities that contributed to the reduction of hazardous waste was the introduction of the environmental method in the Quality Control Lab, which generates less hazardous waste.

In 2020, the improvement of the waste management system **continued with more efficient waste sorting**, which resulted in a reduction of the generated municipal waste by 13% compared to 2019. The reduction of municipal waste was also influenced by the occurrence of the pandemic caused by the COVID – 19 disease and the introduction of work from home for some employees with the aim of protecting their health and safety.

All produced waste was submitted with the accompanying documentation to authorised waste collectors who hold effective waste management permits, in compliance with the provisions of the Act on Sustainable Waste Management.

Data on the total quantities and types of waste and manner of its respective disposal for all locations of Podravka Inc. are submitted to the Environmental Pollution Register (ROO) database maintained by the Ministry of Economy and Sustainable Development.

WASTEWATER MANAGEMENT

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

Data on the total quantities of wastewater discharged and pollutant measuring results for all locations of Podravka Inc. are submitted to the Environmental Pollution Register (ROO) database maintained by the Ministry of Economy and Sustainable Development.

ENERGY EFFICIENCY

In 2020, a number of activities were carried out with **the aim of improving the Company's energy efficiency**. In addition to replacing the existing LED lighting at the Quality Control Lab and the wastewater treatment plant, a number of activities and investments were made in the production facilities of the Baby Food and Cream Spreads Factory, Danica Factory, Soup and Vegeta Factory and Kalnik Factory in order to reduce electricity and water consumption and heat dissipation.

COMPLIANCE WITH REGULATIONS

For the purpose of timely informing employees of their obligations arising from laws and regulations concerning environmental protection, Podravka **systematically monitors all amendments to the relevant laws and regulations**. All obligations arising from the effective laws and regulations concerning environmental protection are implemented in the current internal environmental management systems.

INSPECTION CONTROLS

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

During the monitoring of legal regulations and continuous care of environmental protection, no irregularities related to non-compliance with laws and regulations concerning environmental protection were recorded in 2020, and accordingly, no significant fines or non-pecuniary sanctions were imposed.

ŽITO

- For individual segments, where applicable, Žito Ltd. has expanded the scope of RSPO certified palm fat and UTZ cocoa raw materials, which are associated with **sustainable production** of these raw materials
- **Minimization of the amount of packaging** on products is actively implemented: reduction of thickness / weight, adjustment of shape, size of packaging, without compromising the quality and safety of the product
- **"Guidelines for sustainable packaging"** have been developed to facilitate the setting and monitoring of sustainable packaging goals
- The **returnable packaging system** apart from the bakery program is now being extended to the area of frozen products
- In 2020, as in every year, Žito Ltd. **reduced the amount of generated waste**
- Žito Ltd. is also engaged in the field of **reducing the amount of food waste** by careful handling in production and logistics and consumer awareness activities related to the use of the product after the expiry date – "Best before".

WASTE MANAGEMENT

The environment is mostly polluted by waste therefore, regular waste management is systemically performed during the whole year. Waste is recorded according to work units, sorted for recycling and properly stored for thermal processing.

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

In 2020, 31 different types of waste were recorded at Belupo in the total amount of approximately 288 tonnes.

PROCESSING METHOD / PER TOTAL QUANTITY	RECYCLING	THERMAL PROCESSING	LANDFILL
Waste amount %	59.6	34.7	5.7

Proper management **resulted in the majority of waste becoming secondary raw material** that is in line with the overall purpose of saving natural resources and reducing the amount of waste disposed at landfills. Technological waste is thermally processed.

The amount of packaging waste that comes from the sales of drugs is regularly reported to the Environmental Protection and Energy Efficiency Fund and the appropriate fees are paid.

AIR PROTECTION

Belupo pays great attention to air emissions by tracking emissions of dust and organic solvents from technological drains, as well as emissions of NO₂, CO, SO₂ and CO₂ from energy drains.

During 2020, emissions at technological and energy drains were measured. Emission border values were **within allowed limits**, as proven by records, and the measurement results were reported to the Ministry of Economy and Sustainable Development.

Control of all installed air filters for reducing dust emissions was regularly performed, as well as control of absorbent devices with activated charcoal. Plant operations are automated and regeneration or replacement of activated charcoal is performed upon saturating, and computer records on monitoring plant operations allow tracking the emissions into the atmosphere. Plants in which organic solvents are used have been reported to the register at the Ministry of Economy and Sustainable Development. By keeping records of consumed organic solvents, the amounts consumed are controlled, accordingly.

For the purposes of air protection against fluorinated greenhouse gases, records were updated on all cooling devices where controlled or substitute substances that damage the ozone layer are used and authorized services provide regular maintenance and permeability control. During 2020, control of the permeability of controlled substances from cooling devices was regularly performed.

WATER PROTECTION

Water protection is performed in compliance with the Water License for wastewater discharge for Podravka's factories at the Danica site. Technological and sanitary waters are drained from the Belupo site through a separate sewage system, they are mixed with wastewater from other factories and drained to the device for mechanical and biological treatment. **Wastewater analyses are regularly performed** by authorized laboratories, according to regulations and the Water License. Due to the correct treatment of hazardous substances and waste that is not drained in the sewage system, **wastewaters satisfy border values** prescribed by the Law. Precipitation waters are drained through a separate sewage into the natural recipient.

Records are kept of all the agents used for water disinfection. **Maintenance and cleaning of the wastewater drainage system is regularly performed.**

In the case of sudden pollution of facilities and the internal drainage system, employees are obliged to act in line with the Operation Plan for Intervention Measures and Water Protection, with which they are familiar and according to the plan, **try to reduce the risks of water pollution as much as possible.**

ENVIRONMENT POLLUTION REGISTER

Using the database – ROO of the Ministry of Economy and Sustainable Development all the pollutions and emissions into the environment have been reported separately for all types of waste with the final method and location of treatment indicated, as well as the calculation of the amounts and locations of emissions discharged into air and water.

RISK MONITORING

In order to avoid the possibility of an incident with hazardous substances, the **Threat Assessment and the Protection and Rescue Operation Plan were prepared**, detailing potential effects on tangible assets, possible danger for the employees and the environment as a result of using hazardous substances, thus minimising the risk of any incident to the smallest possible level.

Amounts of hazardous substances have been updated, compliant with the Regulation and reported to the Ministry of Economy and Sustainable Development and the National Protection and Rescue Directorate.

Proper handling of hazardous substances and chemicals is an integral part of employee training, whereby **the possibility of an incident is minimized.**

COMPLIANCE WITH LEGISLATIVE REGULATIONS

Monitoring compliance with legislation regulations and their implementation into Belupo systems continued throughout 2020.

In 2020, the Ministry of the Economy and Sustainable Development inspected the implementation of regulations in the environmental segment. Belupo Inc. fully complies with all environmental regulations and no decision on violation of regulations has been issued.

11 Impact of climate and climate change

PODRAVKA – FROM THE PERSPECTIVE OF THE AGRICULTURE SECTOR IN 2020

THE CLIMATE IS CHANGING

Since the mid – 1990s, climate change has caused negative economic effects through rising air temperatures, an increasing frequency of long droughts and an increasing incidence of dangerously extreme weather events, especially in agricultural production.

In the near future, climate risks will have the greatest impact on the agricultural sector as climate variations today have reached a level where they are ready to start affecting the world food supply (quantity, quality and location of food that is produced), so there is a growing need for rapid adaptation in the agricultural sector.

Food companies, including Podravka, are finding it increasingly difficult to rely on insecure 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 high quality raw materials in the environment that could be safe and cost friendly.

Podravka, which is heavily dependent on primary raw materials, has been **continuously monitoring and analyzing the most important indicators of climate change** (air temperature, soil, precipitation amounts and intensity, solar radiation intensity, relative air and soil humidity) and climatological analyses have shown how much **the climate in this region has changed significantly in the past 30 years**.

Trends – indicators of climate change from 2000 to 2019 that will continue in 2020:

- a trend of **decreasing annual precipitation by 7%** was observed
- a trend of **decreasing average monthly precipitation** in the vegetation period (April 8%, May 5%, June 25%, July 15%, August 13%), but also in autumn months: October 4%, November 22%, December 17%.

ADJUSTMENT MEASURES TAKEN BY PODRAVKA – AGRICULTURE SECTOR:

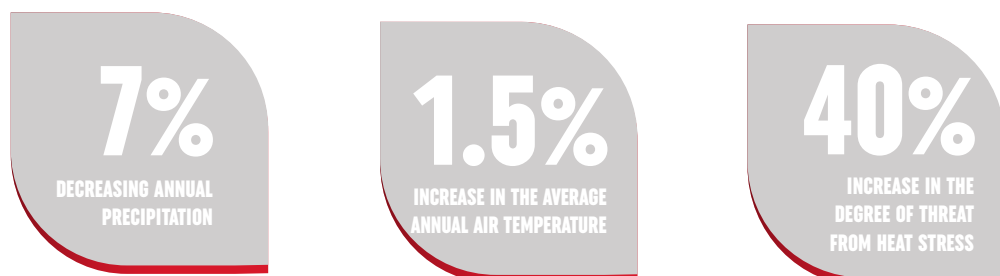
- installation of irrigation systems on some production areas (with the aim of increasing irrigated areas in the near future)
- construction of a drainage system for excess rainwater from endangered production areas (with the aim of increasing drained areas in the near future).
- a trend of **increase in the average annual air temperature** (by 1.5°C) was observed

- a trend of **increase in the average monthly air temperatures** in the vegetation period was observed (April by 1.9°C, May by 1.5°C, June by 2.2°C, July by 1.7°C, August by 1.8°C), but also in the autumn months: October by 1.3°C and November by 2.6°C
- a trend of **increase in the degree of threat from heat stress** for crops (such weather conditions stop the physiological processes in crops and reduce their quality and yields) by 40%
- a trend of **increase in the number of dry periods** (different lengths) during the year was observed.

ADJUSTMENT MEASURES TAKEN BY PODRAVKA – AGRICULTURE SECTOR:

- Research, along with agrometeorological and climatological analyses, varietal trials and selection is used to **choose the most promising, most resistant and most tolerant varieties of vegetables and field crops** to the newly created weather conditions caused by climate change, with the aim to permanently provide Podravka with **high quality primary raw materials**, and make producers in their regions more competitive on the market and enable them efficient long – term production planning (peppers, beans, peas, beetroot, carrots, cucumbers, tomatoes, wheat...).
- With the selection of new varieties that are tolerant to changed climatic conditions (e.g. extreme heat stress conditions, earlier vegetation movement, above – average warm autumns and winters), **experts from the agricultural sector advise producers on new appropriate agrotechnical measures adapted to new climate change conditions**, providing them with agrometeorological forecasts and climatological parameters for timely intervention in crops (forecasts of sowing, harvesting, protection...).
- a trend of **increased number and intensity of extreme weather events** (stormy winds, extreme rainfall, hail, spring frosts) was noticed.

Unpredictable weather conditions caused by climate change (droughts and floods) are also reflected in the pattern of mycotoxin – producing moulds and the increase in the outbreak of various food – borne diseases. They could become more common food contaminants in this region than they have been so far, which can significantly increase health risks. Therefore, Podravka's experts **closely monitor all processes of production of primary raw materials as well as their storage and processing.**



FROM THE PERSPECTIVE OF THE PRODUCTION SECTOR – EXAMPLE OF THE KALNIK FACTORY IN VARAŽDIN

In the past few years, the Kalnik factory has been **investing significant funds in increasing energy efficiency** and thus in reducing CO₂ emissions into the atmosphere.

In 2018, the old low – efficiency steam boiler was replaced with a new boiler with an efficiency of 95%. According to data analyses and comparisons with the new boiler, **gas savings of 11% were achieved**. Thus, in 2020, CO₂ emissions were reduced by 334 t.

$$\text{Gas consumption in 2020} = 1393113 \text{ m}^3$$

$$\text{Gas consumption without investment} = \frac{1393113}{0,89} = 1565296 \text{ m}^3$$

$$\text{CO}_2 \text{ emissions of natural gas} = 0.2 \frac{\text{kg}}{\text{kWh}}$$

$$\text{Average calorific value of gas} = 9.7 \frac{\text{kWh}}{\text{m}^3}$$

$$\text{Reduced CO}_2 \text{ emissions} = \frac{(1565296 - 1393113) \times 9.7 \times 0.2}{1000} = 334 \text{ t}$$

At the end of 2019 and the beginning of 2020, a solar power plant with a total connected power of 350 kW was installed on the roofs of the existing production halls. It is important to note that this project has been applied for the Rural Development Program Measure 4.2.2. for the use of renewable energy sources and is co – funded with 50% of the total investment. A solar power plant (SPP) was put into permanent operation on 13.2.2020. The projected annual production of the SPP is 735 MWh. The realized production of the SPP Kalnik in 2020 was 730 MWh. Monthly and total production are shown in Table 1.

Table 1 – Planned and realised production of the SPP Kalnik in 2020

MONTH	PRODUCTION FORECAST [KWH]	PRODUCTION REALISED IN 2020 [KWH]
January	21,858	0
February	33,667	27,840
March	60,247	63,290
April	78,868	99,980
May	94,237	91,660
June	96,790	96,280
July	101,432	102,810

MONTH	PRODUCTION FORECAST [KWH]	PRODUCTION REALISED IN 2020 [KWH]
August	90,127	97,110
September	71,378	76,870
October	46,165	42,980
November	23,535	21,440
December	16,668	10,700
TOTAL	734,972	730,960

ENVIRONMENTAL IMPACT OF THE SPP KALNIK

Unlike fossil fuel power plants, photovoltaic solar power plants in operation do not emit pollutants into the environment, i.e. the energy they produce replaces energy from conventional sources and related pollutant emissions into the atmosphere. It is assumed that energy from a solar power plant replaces energy from the most expensive and environmentally unfavourable energy sources. The European Union uses certain specific values as reference values for the release of pollutants into the environment, while the methodology of the Fund for Environmental Protection and Energy Efficiency is somewhat different from other specific values. Based on the mentioned specific values, Table 2 shows the ecological impact of the power plant in terms of reducing the emission of pollutants into the environment.

Table 2 – Environmental impact of the power plant

PARAMETRE – ENVIRONMENTAL IMPACT OF SPP	EU METHODOLOGY		FZOEU METHODOLOGY	
	SPECIFIC VALUE	TOTAL	SPECIFIC VALUE	TOTAL
Annual reduction CO ₂	886 g/kWh	651,185.19 kg	376 g/kWh	276,349.47 kg
Annual reduction NO _x	392 mg/kWh	288.11 kg	640 mg/kWh	470.38 kg
Annual reduction SO ₂	435 mg/kWh	319.71 kg	1,070 mg/kWh	786.42 kg
Annual reduction of particles	55 mg/kWh	40.42 kg	-	-

Note: Table 2 shows the estimate for the projected production of electricity, but since the difference between the projected and actual electricity is 4000 kWh, the above data can be taken as relevant.

FROM THE PERSPECTIVE OF THE LOGISTICS SECTOR

Podravka continuously develops and improves processes, products and services with the aim of reducing the negative impact on the environment. In 2020, the following improvements were made in reducing the negative impact on the environment:

- renewal of the passenger vehicle fleet
- investing in new freight vehicles.

Road transport has a major impact on climate and climate change, and it is necessary to continuously invest in new technologies in order to reduce this impact. During 2020, the Podravka Group **invested in the renewal of its passenger and freight vehicle fleet**. The purchase and operation of new EURO VI standard vehicles resulted in 12.22% less CO₂ emissions than in the previous year.

In order to protect the air from fluorinated greenhouse gases, records are kept of all refrigeration devices and serviceability and permeability control are performed through authorized services. During 2020, regular control of the permeability of controlled substances from refrigeration devices was performed.

Podravka will **continue to invest continuously in the development and improvement of processes, products, services and further renewal of the vehicle fleet with the aim of reducing the negative impact on the environment**.

BELUPO

As a socially responsible company, Belupo attaches great importance to climate protection in order to mitigate climate change. **Protecting and improving air and ozone quality, mitigating and adapting to climate change for the purpose of sustainable development are just some of the basic principles of air protection at Belupo.**

In order to mitigate climate change, and in accordance with legal regulations, the company Belupo in 2020 regularly reduced air emissions from technological and energy discharges through installed emission reduction systems. Emissions of dust and organic solvents from technological discharges as well as NO₂, CO and CO₂ emissions from energy discharges were regularly monitored. **The emission limit values were within the permitted limits**, and recorded accordingly, and the test reports were submitted to the competent ministry. In order to protect the air from fluorinated greenhouse gases, a regular control of the permeability of controlled substances from refrigeration devices was carried out during 2020 and no leaks were detected on any device.

Protecting the environment and climate and reducing the carbon footprint is one of the biggest global and regional challenges today, so Belupo will continue to strive to ensure maximum care in this segment in the coming years.

12 Corporate social responsibility

PODRAVKA

Today consumers, the users of our products and services, have become increasingly aware and placed corporate social responsibility high on their list when deciding who to trust and whose products and services to choose. Likewise, **global trends call for the integration of social responsibility into corporate governance and business strategies.**

Podravka has been promoting social responsibility since its very establishment. In more than 70 years of existence, Podravka has been a **responsible employer and liable member of the community in which it operates**, and the promotion of corporate social responsibility is one of the utmost principles of the Company.

During 2020, Podravka **implemented a number of socially responsible initiatives and projects**, many of which are, actually, just a continuation of longstanding practice, such as 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 different segments of society that contribute to improving the quality of life in the local community.

In times of crisis this responsibility is especially evident, so amidst the pandemic caused by the COVID – 19 disease, **Podravka acted as a partner to the community and provided assistance to those in need**, primarily health care institutions and the Civil Protection in the fight against the SARS-CoV-2 virus. A **respirator was donated to the Clinical Hospital in Split**, valuable protective equipment to the Civil Protection of both the Koprivnica –



Križevci County and the City of Koprivnica. Furthermore, **Podravka's management raised significant funds which were forwarded to the Croatian Red Cross.** The work of the Fire Brigade Associations of Koprivnica and the County were also supported with the **donation of a fire truck and a tank.** Also, Podravka **donated 750 packages of food products** to the Civil Protection Headquarters of the Koprivnica – Križevci County, for the needs of the Red Cross beneficiaries of Koprivnica, Križevci and Đurđevac, i.e. underprivileged families with more children from these areas. In addition, **Podravka furnished and equipped the living room of the Paediatrics ward** at the General Hospital in Koprivnica and donated funds for the purchase of necessary equipment. A respirator and five high oxygen flow therapy devices, which are used to treat the most severe forms of lung failure in COVID – 19 patients, were donated to the General Hospital in Koprivnica.

At the end of the year, after the Sisak – Moslavina County suffered a devastating earthquake, **Podravka was amongst the first companies to organize help for the victims and delivered ten tons of food products** to the towns of Topusko, Petrinja and Sisak.

ŽITO

Žito has for many years been **dedicated to social responsibility towards the environment in which it operates**, by supporting numerous projects and events to alleviate the plight of socially disadvantaged families and children and by paying special attention to its responsibility towards customers.

In February, the Company donated carnival donuts to the *Botrstvo Zveze proجاتeljev mladine Moste – Polje Project* and other charities. In the time of the SARS-CoV-2 virus pandemic, **those who take care of the health of all citizens on a daily basis and those who are socially deprived were not forgotten.** Food packages, which included Žito croissants, Gorenjka rolls, 1001 CVET teas, Zlato polje porridge and Eva tuna salad, were donated to the University Clinical Centre (UCC) Ljubljana and the Ljubljana Infectious Diseases Clinic, the homeless at the Ljubljana Homeless Shelter and truck drivers waiting at the borders with Croatia. In March, Žito's products also supported the Škis stork project (*Škisovala roda*), and in November, freshly fried donuts and sandwiches were donated to employees of the COVID – 19 ward at the Dr. Petra Držaja hospital in Ljubljana.

During the Easter holidays, Žito donated a ton of Easter walnut rolls to the staff of the Clinic for Infectious Diseases and Febrile Conditions of the University Medical Centre Ljubljana, the Department of Infectious Diseases and Febrile Conditions of the University Medical Centre Maribor, General Hospital Celje, maternity wards in Kranj and Ljubljana, rescue station and fire brigade in Ljubljana, Slovene Civil Protection and Rescue Office in Ljubljana and the public enterprise Voka Snaga. In addition, Žito joined charities that cater food to vulnerable families and individuals, including Anina zvezdica, Humanitarčko, Botrstvo program, Kralji ulice, MOL / LPP (home delivery of hot meals for dorm children) and part of the walnut roll donation was intended for them.

In spring, Šumi candies and Gorenjka rolls were donated to the TOP agency expedition to the Himalayas, who donated them to socially deprived children in Nepal; Gorenjka chocolates and rolls were also donated to the Janko Benedik Radovljica Nursing Home. Gorenjka's 1001 CVET products and teas went in packages for volunteers of the Slovenian Red Cross and Slovenian Caritas as part of Mercator's *Minute for Heroes* campaign. Throughout the year, Žito participated with its products in the project, *Dobrodelna iskrica*, organised by the most read weekly in Slovenia, *Nedeljski dnevnik*

On the last day of school in June, the students of the Gustav Šilih Elementary School in Maribor received a gift voucher for the purchase of a new apparatus for the outdoor playground as part of the Creative Kitchen competition, and on the first day at university freshmen of the Medical Faculty of the University of Maribor received Žito sandwiches and croissants were given to students of the Biotechnical Faculty of the University of Ljubljana. In autumn, mothers and children in maternity hospitals and members of some other communities were delighted with the donation of 1001 CVET teas and Gorenjka chocolate; and cooperation with the Red Cross and the Department for Protection and Rescue of Ljubljana also continued. A thousand pieces of Žito Toast were distributed for emergency supply packages to vulnerable groups at their homes.

In October, the month of the fight against breast cancer, a new bread, Pink October, was designed and connected with the Lidl Slovenia retail chain. Together, in addition to raising awareness about this most common malignant disease of women in the developed world, **0.50 euros were donated from each bread sold to the Slovenian Breast Cancer Association Europa Donna**. In November, they received a donation of 5,000 euros to support their Roza program.

In December, together with the Gorenjc mobile application and the charity organization, Anina zvezdica, they participated in the Žito walnut roll charity event and donated Christmas walnut rolls for as many as 250 needy Slovenian families.



At the global, regional, national and local levels, Belupo's business is focused on partners, employees and customers. The Company bases its business on the knowledge and expertise of employees in interaction with all stakeholders in the healthcare system, guided by high ethical principles. **Human health and safety, adaptation to technological change and environmental protection are Belupo's constant concerns.** Belupo is a sponsor and donor to numerous associations of patients, sports clubs and educational, cultural and, of course, health institutions.

Corporate social responsibility is a way of managing which Belupo, working even above regulation requirements, **takes care of the needs of all its stakeholders in all business activities.** CSR is closely linked to Belupo's principles of sustainable development, which commits a business organization to making decisions, not only on the basis of financial/economic factors, but also on the basis of the social and environmental consequences of its activities.

Belupo's strategy is based on all aspects of socially responsible business, which affects business efficiency and market competitiveness. Belupo has easier and better access to capital, better manages crisis situations and risks, and on the basis of greater responsibility towards its employees and suppliers, **enjoys greater trust of its customers and consumers and thus contributes to positive business results.** It is more than evident that all participants in the health chain (patients, doctors, pharmacists ...) benefit from such a way of managing business.

Corporate social responsibility for Belupo is a voluntary way of managing the Company and acting in general. Every business decision takes into account all perspectives of the bigger picture, which includes social, environmental and economic management for the benefit of Belupo's employees, satisfaction of partners, consumers and customers, sustainable financial results and responsible and sustainable investments in the local community.

By constantly adapting to new conditions and challenges, Belupo has maintained its leading position in the pharmaceutical industry. **Belupo bases its success on values that are very important for everyone: trust, passion, innovation and creativity, excellence and partnership relations with associates, customers and consumers.**

Belupo's investments in the real economy (industry, innovation and infrastructure) and creating new jobs have enabled **decent work and sustainable economic growth.**

By hiring new workers, investing in their knowledge and skills and in safety, health and safety at work, **Belupo strengthens the community and its employees,** who are the drivers of change in the business itself, but also in the community in which they operate. Linking the brand with socially responsible behaviour and with the benefits for society as a whole, has a positive effect on the awareness of the importance of healthcare and a healthy lifestyle.

In the next business year, Belupo will continue to implement and improve its socially responsible practices. In addition to the challenges ahead, Belupo believes that together we will be **the initiators and implementers of positive changes in business in a sustainable way for socially responsible economic growth and the development of Croatian economy.**

13 ESG report

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”.*

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.

ENVIRONMENTAL CRITERIA – "E"	UNIT	2020
Total CO ₂ Emissions (scope 1)	000 t	31.22
Total CO ₂ Emissions (scope 2)	000 t	22.09
Total CO ₂ Emissions from chipped wood ¹	000 t	10.24
Environmental Fines (Amount)	HRKm	-
Total Energy Consumption	000 MWh	252.81
Renewable Energy Use	000 MWh	25.86
Electricity Used	000 MWh	77.23
Fuel Used – Coal/Lignite	000 t	-
Fuel Used – Natural Gas	000 m ³	12,653.59
Fuel Used – Crude Oil/Diesel	000 m ³	1.86
Self Generated Renewable Electricity	000 MWh	0.73
Total Waste	000 t	6.55
Waste Recycled	000 t	2.30
Total Water Use	000 m ³	936.99
% Water Recirculated	Percentage	9.68%
Total Water Recirculated	000 m ³	90.71
Environment Protection Policy ²	YES / NO	YES

¹ Chipped wood is CO₂ neutral fuel and is excluded from criteria Total CO₂ Emissions (scope 1).

² <https://www.podravka.com/responsibility/consumers/environment/environment-protection-policy/>

SOCIAL CRITERIA – "S"	UNIT	2020
Employee Protection / Whistle Blower Policy ³	YES / NO	YES
Community spending	HRKm	9.4
Human Rights Policy ³	YES / NO	YES
Policy Against Child Labor ³	YES / NO	YES
Quality Assurance and Recall Policy ⁴	YES / NO	YES
Equal Opportunity Policy ³	YES / NO	YES
Fair Remuneration Policy ³	YES / NO	YES
Business Ethics Policy ³	YES / NO	YES
Anti – Bribery Ethics Policy ³	YES / NO	YES
Occupational Health and Safety Policy ⁵	YES / NO	NO
Total number of employees as at 31.12.2020	Number	6,650
Number of woman employed as at 31.12.2020	Number	3,481
Employee Average Age as at 31.12.2020	Number	45
% Disabled in Workforce as at 31.12.2020	Percentage	3.11%
Lost working hours due to work – related injuries	Number of hours	20,637
Number of work – related injuries	Number	118
Rate of fatalities as a result of work – related injuries	Number of injuries	0
Employee Turnover %	Percentage	6.32%
% Employees Unionized	Percentage	40.90%

³ Included in Podravka Group's Code of Ethical Principles (in Croatian), available on <https://www.podravka.com/investors/corporate-governance/documents/>.

⁴ Available on <https://www.podravka.com/responsibility/food-quality-and-safety/food-safety/food-safety-and-quality-system-policy/>

⁵ Implemented in Podravka inc. and available on <https://www.podravka.hr/kompanija/odgovornost/politika-ohs/> (in Croatian).

SOCIAL CRITERIA – "S"	UNIT	2020
Number of Part – Time Employees	Number	62
Number of Temporary Employees	Number	71
Number of Contractors	Number	616
Training Policy	YES / NO	YES
Employee Training Cost	HRKm	3,9
Total Hours Spent by Firm – Employee Training	Number of hours	99,174
Total number of suppliers as at 31.12.2020	Number	10,008
Total number of domestic suppliers ⁶	Number	3,045
Quarterly earnings calls	YES / NO	NO

GOVERNANCE CRITERIA – "G"	UNIT	2020
Size of Audit Committee	Number	3
Years Auditor Employed ⁷	Number of years	1
Big 4 auditor	YES / NO	YES
Internal Audit	YES / NO	YES
Management Board Size as at 31.12.2020	Number	5
Management Board Age Range as at 31.12.2020	Number	46 – 56
Management Board Average Age as at 31.12.2020	Number	50

⁶ Suppliers from Croatia.

⁷ According to Audit Committee recommendation, Supervisory Board propose a decision on Auditor appointment for the current business year and pass the proposal to General Assembly to be accepted.

GOVERNANCE CRITERIA – "G"	UNIT	2020
% of Board Members that are Women	Percentage	20.00%
Former CEO or its Equivalent in Supervisory Board	YES / NO	NO
Chief Executive Officer Tenure as of FY End	Number of years	3
Chief Financial Officer Tenure as of FY End	Number of years	3
Last Chief Executive Officer Start Date	Date	24.02.2017
Last Chief Financial Officer Start Date ⁸	Date	01.05.2017
Average Supervisory Board Tenure as at 31.12.2020	Number of years	5
Supervisory Board diversity as at 31.12.2020	Number of women/ men	4 women, 5 men
Supervisory Board independence ⁹	Percentage	88.89%
Number of Executives as at 31.12.2020	Number	99
Number of Women Executives as at 31.12.2020	Number	37
Average Executive Age as at 31.12.2020	Number	48
Executive Age Range as at 31.12.2020	Number	31 – 65
Dual Class Unequal Voting Rights – Common Shares	YES / NO	NO
Unequal Voting Rights Stocks Issued Includes Pfd	YES / NO	NO
# Board Positions CEO Holds	Number	0

⁸ Podravka Inc. Management bord has 5 years tenure.

⁹ Supervisory Bord member is also the representative of workers therefore is not considered as an independent member.

FINANCIAL REPORT

1 Business results

INTRODUCTION NOTES

Given the Podravka Group's range of products, the situation caused by COVID – 19 disease positively impacted the sales revenues trends in the first quarter, but this impact cannot be clearly distinguished from the impact of regular demand for products. A negative impact on sales revenues arises in the second and the third quarters, while in the fourth quarter sales revenues increased. The mentioned negative impact is primarily related to restrictive measures in April and May aimed at preventing the spread of COVID – 19 disease (closing of the Gastro channel, shortened working hours of supermarkets and pharmacies, limiting the number of customers in supermarkets and pharmacies, limiting the number of medical procedures in hospitals, limiting and implementing measures in family medicine centres, limiting the number of visits of associates to doctors and pharmacists, ban on the movement of people outside the place of residence, closing of borders). The easing of the introduced measures started in mid – May, which was a positive moment, but despite this, there was no shoulder season in Croatia. Furthermore, the tourist season was weaker in the reporting than in the comparative period and it ended earlier than usual due to the worsening epidemiological situation in Croatia in mid – August, which also impacted the absence of the shoulder season. The epidemiological situation further deteriorated in the fourth quarter, causing the introduction of new restrictive measures in November and further overloading the health system. Patients' access to the healthcare system was further hindered, as was the contact of pharmaceutical associates with healthcare professionals, which results in increasingly complex work optimization in order to achieve results and makes the introduction of new preparations on the market particularly challenging. The Gastro channel (the Gastro channel includes HoReCa customers, institutional customers, industrial customers, etc.) for which the last two months of the year are traditionally very important in terms of revenues, was completely closed, the number of customers in supermarkets was limited, which reduced the frequency of customers on a daily basis, and schools and universities were partially closed.

The share of Gastro channel sales of the Adria Region in the total sales revenues of the Podravka Group decreased from 8.6% in the comparative period to 6.6% in the reporting period. The share of Gastro channel sales on international markets in the total sales revenues of the Podravka Group decreased from 1.5% in the comparative period to 1.2% in the reporting period.

Based on the difficult business conditions due to the situation caused by COVID – 19 disease, the Podravka Group received state subsidies in Slovenia, Serbia, Montenegro, Kosovo, Poland and Australia in the total estimated amount of HRK 8.3m¹ in accordance with the conditions for granting subsidies prescribed in individual countries. The situation

¹ Gross value of subsidies. In the Slovenian market, Žito Group companies were obliged to pay the crisis allowance in the amount of HRK 3.3m based on the subsidies received, so the total estimated net amount of subsidies is HRK 5.0m.

caused by COVID – 19 disease did not encourage new financial risks nor did it cause the need for provisions or impairment of assets. During 2020, financing of all business needs, maintaining liquidity, dividend distribution to shareholders and the decrease in interest rates on borrowings were ensured.

All this affected the sales revenues trends, but the effect of the restrictive measures, the weak tourist season and reintroduction of restrictive measures and deterioration of the epidemiological situation on sales revenues cannot be clearly assessed or quantified.

In August 2020, the Pharmaceuticals segment analysed the used estimate of impairment of inventories of raw materials, supplies and packaging and accordingly amended the impairment policy. The analysis showed that raw materials and packaging have increasingly long lives and that, consequently, a significant part of previously impaired raw materials and packaging is still used in production. The updated estimate of impairment will approximate the actual write – offs of raw materials and packaging.

Podravka Group calculates EBITDA in a way that EBIT was increased by depreciation and amortization 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 normalised 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 1 – 12 2020” section.

Decimal differences are possible due to rounding.

SALES REVENUES BY SEGMENT IN 2020

SALES REVENUES BY SEGMENT				
(in HRK millions)	2019	2020	Δ	%
Food	3,454.0	3,527.0	73.0	2.1%
Own brands	3,220.5	3,319.7	99.2	3.1%
Other sales	233.5	207.3	(26.2)	(11.2%)
Pharmaceuticals	955.4	976.2	20.8	2.2%
Own brands	783.4	785.8	2.3	0.3%
Other sales	172.0	190.4	18.5	10.7%
Podravka Group	4,409.4	4,503.2	93.8	2.1%
Own brands	4,003.9	4,105.4	101.5	2.5%
Other sales	405.5	397.8	(7.7)	(1.9%)

Movements of revenues of the Food segment (2020 compared to 2019):

- **Own brands** recorded HRK 99.2m higher sales (+3.1%), as a result of the increased demand for food products. The revenue growth was recorded by most business units, with the biggest absolute growth recorded by the business units Culinary and the Baby food, sweets and snacks,
- **Other sales** recorded HRK 26.2m lower sales (-11.2%), primarily as a result of lower sales of trade goods in some markets following the closure of the Gastro channel in the markets of Croatia and Slovenia (HoReCa and institutional customers – schools, kindergartens, student dorms) in April and May, difficulties in the HoReCa channel business in the third quarter due to a weak tourist season and the re – closure of the HoReCa channel in mid – November,
- Consequently, the **Food segment** recorded HRK 73.0m (+2.1%) higher sales,

Movements of revenues of the Pharmaceutical segment (2020 compared to 2019):

- **Own brands** recorded HRK 2.3m higher sales (+0.3%), as a result of the increase in demand for pharmaceutical products, primarily in the OTC drugs category,
- **Other sales** recorded HRK 18.5m (+10.7%) higher revenues, due to higher sales of trade goods in the markets of Bosnia and Herzegovina and Croatia,
- Overall, the **Pharmaceuticals segment** recorded HRK 20.8m (+2.2%) higher sales revenues,

Movements of the Podravka Group revenues (2020 compared to 2019):

- Podravka Group's **own brands** recorded a sales growth of HRK 101.5m (+2.5%),
- The revenues of **other sales** are HRK 7.7m (-1.9%) lower,
- Overall, the **Podravka Group** sales revenues are HRK 93.8m (+2.1%) higher.

SALES REVENUES BY BUSINESS UNIT AND CATEGORY IN 2020

SALES REVENUES BY BUSINESS UNIT AND CATEGORY				
(in HRK millions)	2019	2020	Δ	%
BU Culinary	934.7	1,003.1	68.4	7.3%
BU Baby food, sweets & snacks	435.9	460.8	24.9	5.7%
BU Podravka food	401.0	403.1	2.1	0.5%
BU Žito and Lagris ²	956.8	926.2	(30.6)	(3.2%)
BU Meat products	284.1	305.4	21.3	7.5%
BU Fish	207.9	221.0	13.1	6.3%
Prescription drugs	670.0	665.9	(4.1)	(0.6%)
Non – prescription programme	113.4	119.8	6.5	5.7%
Other sales	405.5	397.8	(7.7)	(1.9%)
<i>Other sales Food²</i>	233.5	207.3	(26.2)	(11.2%)
<i>Other sales Pharmaceuticals</i>	172.0	190.4	18.5	10.7%
Podravka Group	4,409.4	4,503.2	93.8	2.1%

² The difference in relation to the publication of business results for the 1–12 2019 period relates to the reclassification of one private label from the BU Žito and Lagris to the trade goods category within other sales.

Movements of revenues by business unit and category (2020 compared to 2019):

- The **Culinary business unit** recorded HRK 68.4m (+7.3%) higher sales and growth in all regions. The growth was recorded in all categories, and the largest share of the growth comes from the increased demand and sales in categories Seasonings, Soups and Monospices,
- The **Baby food, sweets and snacks business unit** recorded HRK 24.9m (+5.7%) higher sales, driven by increased demand and sales in the Powdered sweets, Baby food and Creamy spreads categories. The business unit recorded growth in all regions,
- The **Podravka food business unit** recorded HRK 2.1m (+0.5%) higher sales, due to the significant growth of the Tomato category. The revenue growth was recorded in the Central Europe, the Western Europe and the Overseas and the New markets regions,
- The **Žito and Lagris business unit** records HRK 30.6m (-3.2%) lower sales than in the comparative period. The growth in sales of most categories was unable to compensate for the decrease in sales in the categories of fresh bakery products, private labels and confectionery, primarily in the markets of Slovenia, Italy and Germany. The significant revenue growth was recorded in the Central Europe region,
- The **Meat products, meals and spreads business unit** recorded an increase in sales of HRK 21.3m (+7.5%), primarily due to the increase in sales of Canned ready – to – eat meals, Luncheon meat and Pates categories. The sales growth was recorded in all regions where we are present with this product range,
- The **Fish business unit** in the observed period recorded a revenue growth of HRK 13.1m (+6.3%) relative to the comparative period, primarily due to higher demand and sales of the Fish salads and Tuna categories. The sales growth was recorded in the Adria, the Central and the Eastern Europe regions,
- The **Prescription drugs category** recorded HRK 4.1m (-0.6%) lower sales, due to the depreciation of the Russian ruble³ in relation to the comparative period and difficult access to healthcare facilities in the conditions of COVID – 19 disease,
- The revenues of the **Non – prescription programme category** are HRK 6.5m (+5.7%) higher, as a result of the sales growth in the OTC drugs subcategory, primarily in the market of Croatia. A significant impact on the sales growth in the Croatian market comes from the increased demand and sales of the Lupocet and Neofen brands,
- The **Other sales** category recorded HRK 7.7m (-1.9%) lower sales. In the Food segment, other sales dropped by HRK 26.2m (-11.2%) primarily due to the decrease in sales in the Gastro channel (HoReCa and institutional customers – schools, kindergartens, student dorms) on the Croatian and Slovenian markets following the emergence of COVID – 19 disease (lockdown, weaker tourist season, absence of shoulder season and re – closure of the HoReCa channel and introduction of online school in November), and lower demand and sales of trade goods in the markets of the Czech Republic and Slovenia. In the Pharmaceuticals segment, other sales grew by HRK 18.5m (+10.7%), primarily due to the increase in sales of trade goods of the Farmavita company in the market of Bosnia and Herzegovina.

³ The average cumulative RUB/HRK exchange rate taken from the business system (ERP) in 2020 was 0.092023, while in 2019 it was 0.102383.

SALES REVENUES BY REGION IN 2020

SALES REVENUES BY REGION				
(in HRK millions)	2019	2020	Δ	%
Adria	3,082.6	3,111.5	29.0	0.9%
Food	2,423.9	2,409.9	(14.0)	(0.6%)
Pharmaceuticals	658.7	701.6	42.9	6.5%
WE and Overseas	466.2	505.0	38.7	8.3%
Food	465.4	502.8	37.4	8.0%
Pharmaceuticals	0.8	2.2	1.4	171.3%
Central Europe	509.5	558.4	48.9	9.6%
Food	446.2	495.2	49.0	11.0%
Pharmaceuticals	63.3	63.2	(0.1)	(0.2%)
Eastern Europe	334.9	313.3	(21.6)	(6.5%)
Food	103.3	105.9	2.6	2.5%
Pharmaceuticals	231.6	207.4	(24.3)	(10.5%)
New markets	16.1	15.0	(1.1)	(7.1%)
Food	15.2	13.2	(2.0)	(13.4%)
Pharmaceuticals	0.9	1.8	0.9	96.1%
Podravka Group	4,409.4	4,503.2	93.8	2.1%

Movements of revenues by region (2020 compared to 2019):

- The **Adria region** recorded HRK 29.0m (+0.9%) higher sales than in the comparative period. In the Food segment, the revenue decrease of HRK 14.0m (-0.6%) is recorded, where the growth of most business units to a certain degree compensated the decrease in sales of the business unit Žito and Lagris and trade goods. Revenues of the Pharmaceuticals segment are HRK 42.9m higher (+6.5%), where the biggest contribution comes from the increase in sales of prescription drugs and trade goods,
- Revenues of the **Western Europe and Overseas region** grew by HRK 38.7m (+8.3%) in the reporting period. The Food segment recorded revenue growth of HRK 37.4m (+8.0%), due to the increase in sales of almost all business units, with the biggest absolute growth generated by the business unit Culinary and the business unit Meat products, meals and spreads. This growth of business units successfully cancelled out the lower sales of the Žito and Lagris business unit, primarily in the category of fresh bakery products and private labels. The revenues of the Pharmaceuticals segment grew by HRK 1.4m (+171.3%) due to the increase in sales of prescription drugs in Western Europe,
- The **Central Europe region** recorded a revenue growth of HRK 48.9m (+9.6%). The Food segment recorded HRK 49.0m higher sales (+11.0%) due to the increase in sales of all business units. The Pharmaceuticals segment recorded a decrease in sales of HRK 0.1m (-0.2%), primarily due to the decrease in sales in the market of Poland,
- In the reporting period, revenues of the **Eastern Europe region** are HRK 21.6m lower (-6.5%). The Food segment recorded a revenue growth of HRK 2.6m (+2.5%), following the growth of most business units, with the biggest absolute growth recorded by the business unit Culinary and the business unit Fish. The Pharmaceuticals segment recorded a decrease in sales of HRK 24.3m (-10.5%), due to the depreciation of the Russian ruble⁴ in relation to the comparative period and difficult access to healthcare facilities in the conditions of COVID – 19 disease,
- The **New markets region** recorded a decrease in sales of HRK 1.1m (-7.1%) as a result of a decrease in sales of the Food segment of HRK 2.0m (-13.4%), primarily due to lower sales of trade goods and business unit Žito and Lagris. The Pharmaceuticals segment recorded a revenue growth of HRK 0.9m (+96.1%) following the increase in sales of prescription drugs and non – prescription programme.

⁴ The average cumulative RUB/HRK exchange rate taken from the business system (ERP) in 2020 was 0.092023, while in 2019 it was 0.102383.

PROFITABILITY OF THE FOOD SEGMENT IN 2020

PROFITABILITY OF FOOD SEGMENT					NORMALIZED			
(in HRK millions)	2019	2020	Δ	%	2019	2020	Δ	%
Sales revenue	3,454.0	3,527.0	73.0	2.1%	3,454.0	3,527.0	73.0	2.1%
Gross profit	1,158.6	1,191.1	32.5	2.8%	1,159.7	1,191.1	31.4	2.7%
EBITDA*	326.4	388.1	61.7	18.9%	333.0	387.3	54.4	16.3%
EBIT	164.3	232.7	68.4	41.6%	180.2	232.0	51.7	28.7%
Net profit after MI	137.9	181.8	43.9	31.8%	139.9	181.1	41.2	29.4%
Gross margin	33.5%	33.8%		+23 bp	33.6%	33.8%		+20 bp
EBITDA margin	9.5%	11.0%		+155 bp	9.6%	11.0%		+134 bp
EBIT margin	4.8%	6.6%		+184 bp	5.2%	6.6%		+136 bp
Net margin after MI	4.0%	5.2%		+116 bp	4.1%	5.1%		+108 bp

*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.

Normalised profitability of the Food segment (2020 compared to 2019):

- In the 1 – 12 2020 period, the Food segment recorded an increase in reported **gross profit** of HRK 32.5m (+2.8%) with the gross margin of 33.8%, while normalized gross profit grew by HRK 31.4m (+2.7%). The effect of unfavourable trends in prices of raw materials and supplies was recorded throughout the reporting period and the effect in the 1 – 12 2020 period is estimated at negative HRK 33.4m⁵, primarily in relation to dried vegetables,
- The **reported operating profit (EBIT)** is HRK 68.4m (+41.6%) higher than in the comparative period, while normalized operating profit is HRK 51.7m (+28.7%) higher. In addition to the impact above the EBIT level, negative impacts on operating profit came from movements in foreign exchange differences on trade receivables and trade payables (HRK -10.4m in 1 – 12 2020; HRK +4.8m in 1 – 12 2019), the increase in staff costs of HRK 5.9m (+0.7%), while a positive impact comes from savings on marketing expenses and lower selling and distribution

⁵ Obtained as used volumes of raw materials and supplies in 1 – 12 2020*prices in 1 – 12 2020 – used volumes of raw materials and supplies in 1 – 12 2020*prices in 1 – 12 2019.

costs. The increase in staff costs is the result, among other, of improvement of employees' material rights, impacted also by the payment of awards to employees in the manufacturing, logistics and distribution segment for the exceptional efforts made to ensure the continuity of production and regular food supply,

- Reported **net profit after minority interests** is HRK 43.9m higher (+31.8%), while normalized net profit after minority interests is HRK 41.2m higher (+29.4%) compared to 1 – 12 2019. In addition to the impact above the EBIT level, the net profit was negatively impacted by foreign exchange differences on borrowings (HRK -2.7m in 1 – 12 2020; HRK -0.3m in 1 – 12 2019), which was largely mitigated by lower finance costs. Following the increase in pre – tax profit and lower amount of deferred tax asset, the tax liability is HRK 24.1m higher.

PROFITABILITY OF THE PHARMACEUTICAL SEGMENT IN 2020

PROFITABILITY OF PHARMACEUTICAL SEGMENT					NORMALIZED			
(in HRK millions)	2019	2020	Δ	%	2019	2020	Δ	%
Sales revenue	955.4	976.2	20.8	2.2%	955.4	976.2	20.8	2.2%
Gross profit	472.9	468.3	(4.6)	(1.0%)	472.9	465.5	(7.5)	(1.6%)
EBITDA*	182.6	158.6	(24.0)	(13.2%)	182.6	155.7	(26.8)	(14.7%)
EBIT	119.3	99.7	(19.6)	(16.4%)	119.3	92.9	(26.4)	(22.2%)
Net profit after MI	83.6	67.1	(16.5)	(19.8%)	83.6	63.3	(20.4)	(24.3%)
Gross margin	49.5%	48.0%		-153 bp	49.5%	47.7%		-182 bp
EBITDA margin	19.1%	16.2%		-287 bp	19.1%	16.0%		-316 bp
EBIT margin	12.5%	10.2%		-227 bp	12.5%	9.5%		-297 bp
Net margin after MI	8.8%	6.9%		-188 bp	8.8%	6.5%		-227 bp

*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.

Normalised profitability of the Pharmaceuticals segment (2020 compared to 2019):

- The Pharmaceuticals segment recorded HRK 4.6m (-1.0%) lower reported **gross profit**, while normalized gross profit is HRK 7.5m (-1.6%) lower. The reported gross margin is 48.0%, which is lower than in the comparative period, due to the sales structure, difficulties in functioning of the health system and reduced patient

access to doctors, as explained in the introductory note. In the sales structure, a share of trade goods, which have lower profitability than own brands, increased,

- Reported **operating profit (EBIT)** is HRK 19.6m lower (-16.4%), while normalized operating profit is HRK 26.4m lower (-22.2%). In addition to the impact above the EBIT level, the operating profit is primarily a result of very unfavourable movements in foreign exchange differences on trade receivables and trade payables (HRK -35.5m in 1 – 12 2020; HRK +13.8m in 1 – 12 2019), which was mitigated by lower marketing expenses and lower general and administrative expenses,
- Reported **net profit after minority interests** is HRK 16.5m lower (-19.8%), while normalized net profit after minority interests is HRK 20.4m lower (-24.3%). In addition to the impact above the EBIT level, net profit after minority interests was impacted by favourable movements in foreign exchange differences on borrowings (HRK -1.4m in 1 – 12 2020; HRK -1.9m in 1 – 12 2019), higher finance costs and lower finance income. Following the decrease in pre – tax profit, tax liability is HRK 5.0m lower.

PROFITABILITY OF THE PODRAVKA GROUP IN 2020

PROFITABILITY OF THE PODRAVKA GROUP					NORMALIZED			
(in HRK millions)	2019	2020	Δ	%	2019	2020	Δ	%
Sales revenue	4,409.4	4,503.2	93.8	2.1%	4,409.4	4,503.2	93.8	2.1%
Gross profit	1,631.5	1,659.4	27.9	1.7%	1,632.6	1,656.6	23.9	1.5%
EBITDA*	509.0	546.7	37.7	7.4%	515.5	543.1	27.5	5.3%
EBIT	283.5	332.3	48.8	17.2%	299.5	324.8	25.3	8.5%
Net profit after MI	221.6	248.9	27.3	12.3%	223.6	244.4	20.8	9.3%
Gross margin	37.0%	36.8%		-15 bp	37.0%	36.8%		-24 bp
EBITDA margin	11.5%	12.1%		+60 bp	11.7%	12.1%		+37 bp
EBIT margin	6.4%	7.4%		+95 bp	6.8%	7.2%		+42 bp
Net margin after MI	5.0%	5.5%		+50 bp	5.1%	5.4%		+36 bp

*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.

Normalised profitability of the of the Podravka Group (2020 compared to 2019):

- In the observed period, the Podravka Group recorded HRK 27.9m (+1.7%) higher reported **gross profit**, while normalized gross profit grew by HRK 23.9m (+1.5%). Cost of goods sold increased by 2.4%, which resulted in a gross margin of 36.8% in the reporting period,
- The reported **operating profit (EBIT)** is HRK 48.8m (+17.2%) higher, while normalized operating profit is HRK 25.3m (+8.5%) higher, as a result of the increase in sales in both business segments and savings realised, primarily on marketing expenses in both segments and significant savings on selling and distribution costs in the food segment. The operating profit was also impacted by very unfavourable movements in foreign exchange differences on trade receivables and trade payables (HRK -45.9m in 1 – 12 2020; HRK +18.6m in 1 – 12 2019),
- Reported **net profit after minority interests** is HRK 27.3m higher (+12.3%), while normalized net profit after minority interests is HRK 20.8m higher (+9.3%). In addition to the impact above the EBIT level, the net profit after minority interests was impacted by unfavourable movements in exchange differences on borrowings (HRK -4.1m in 1 – 12 2020; HRK -2.2m in 1 – 12 2019) which was mitigated by lower finance costs. The tax liability is HRK 19.1m higher.

PODRAVKA GROUP'S OPERATING EXPENSES STRUCTURE

PODRAVKA GROUP (in HRK millions)	REPORTED				NORMALIZED			
	2019	2020	Δ	%	2019	2020	Δ	%
Cost of goods sold	2,777.9	2,843.8	65.9	2.4%	2,776.8	2,846.6	69.9	2.5%
General and administrative expenses*	334.6	335.9	1.4	0.4%	329.8	331.7	1.9	0.6%
Selling and distribution costs	605.5	592.6	(13.0)	(2.1%)	604.9	592.6	(12.4)	(2.0%)
Marketing expenses	436.7	377.4	(59.3)	(13.6%)	436.7	377.4	(59.3)	(13.6%)
Other income (expenses), net*	(28.8)	21.2	50.0	(173.4%)	(38.3)	30.1	68.3	(178.6%)
Total operating expenses	4,125.9	4,170.9	45.0	1.1%	4,109.9	4,178.4	68.5	1.7%

*In 2019 General and administrative expenses include income and expenses related to certain reservations, which are in consolidated statement of comprehensive income distributed in other income/expenses.

Cost of goods sold in the observed period increased by 2.4% relative to the comparative period due to a higher level of sales realized, the structure of sales and the rise in prices of raw materials and supplies (estimated negative impact in the Food segment of HRK 33.4m⁶, primarily from dried vegetables). On the normalized level, cost of goods sold grew by 2.5%. Cost of goods sold was also affected by the amended policy for the impairment of raw materials, supplies and packaging in the Pharmaceuticals segment, as explained in the introductory note.

In 2020, **general and administrative expenses** grew by HRK 1.4m (+0.4%) which is at the comparative period level. On the normalized level, general and administrative expenses are HRK 1.9m higher (+0.6%).

In the observed period, **selling and distribution costs** are HRK 13.0m (-2.1%) lower than in the comparative period, primarily as a result of lower costs of daily allowances, transportation costs and energy costs. On the normalized level, selling and distribution costs are lower by HRK 12.4m (-2.0%).

In 2020, **marketing expenses** (which include expenses of marketing investments and expenses of marketing department) are HRK 59.3m lower (-13.6%) than in the comparative period. In the Food segment, marketing expenses decreased by HRK 31.8m (-12.6%), while in the Pharmaceuticals segment the decrease amounted to HRK 27.4m (-14.9%).

Other expenses (income), net amounted to HRK +21.2m, while in the comparative period they amounted to HRK -28.8m, mainly affected by negative movements in foreign exchange differences on trade receivables and trade payables that amounted to HRK -45.9m in the 1 – 12 2020 period, while in the comparative period they amounted to HRK +18.6m. This item also includes value adjustments that amount to HRK -3.9m in the reporting period, while in the comparative period they amounted to HRK +9.4m and are provided in the “Additional tables for 1 – 12 2020” section.

KEY CHARACTERISTICS OF THE PODRAVKA GROUP'S FINANCIAL POSITION

Compared to 31 December 2019, **property, plant and equipment** of the Podravka Group are HRK 9.3m or +0.4% higher, due to the regular realization of capital expenditure.

Inventories of the Podravka Group are HRK 32.2m (+3.4%) higher than as at 31 December 2019, as a result of the increase in inventories of raw materials and supplies in the Pharmaceuticals segment, following the increased demand and production volume as a result of the situation caused by COVID – 19 disease. Inventories of the Food segment are at the level of the comparative period.

Trade and other receivables of the Podravka Group are HRK 24.2m (+2.6%) higher than as at 31 December 2019 as a result of the increase in the number of days to collect receivables in the Pharmaceuticals segment on the Croatian market.

Cash and cash equivalents of the Podravka Group at the end of the observed period are HRK 3.7m lower (-6.7%) compared to 31 December 2019. This is explained in the “Key highlights of the cash flow statement in 1 – 12 2020” section.

As at 31 December 2020, **long – term and short – term borrowings** of the Podravka are HRK 92.7m lower than as at 31 December 2019. In the observed period, long – term debt is lower by HRK 166.9m due to regular repayments and refinancing aiming to achieve an optimum currency structure. Short – term debt increased by HRK 74.2m as a result of an

⁶ Obtained as used volumes of raw materials and supplies in 1 – 12 2020*prices in 1 – 12 2020 – used volumes of raw materials and supplies in 1 – 12 2020*prices in 1 – 12 2019.

increase in the current portion of long – term debt and ensuring the required liquidity level in everyday operations.

Trade and other payables of the Podravka Group are HRK 51.7m (-8.5%) lower compared to 31 December 2019. This is a result of the cash flow optimization process on the Podravka Group level.

DEBT INDICATORS (in HRK millions)	REPORTED				NORMALIZED			
	2019	2020	Δ	%	2019	2020	Δ	%
Financial debt ⁷	878.0	785.2	(92.7)	(10.6%)	878.0	785.2	(92.7)	(10.6%)
Cash and cash equivalents	55.6	51.9	(3.7)	(6.7%)	55.6	51.9	(3.7)	(6.7%)
Net debt ⁸	822.4	733.3	(89.0)	(10.8%)	822.4	733.3	(89.0)	(10.8%)
Interest expense	14.9	11.5	(3.4)	(22.8%)	14.9	11.5	(3.4)	(22.8%)
Net debt / EBITDA*	1.6	1.3	(0.3)	(17.0%)	1.6	1.4	(0.2)	(15.3%)
EBIT / Interest expense**	19.1	28.9	9.9	51.8%	20.1	28.3	8.1	40.5%
Equity to assets ratio ⁹	65.9%	69.4%		+344 bp	65.9%	69.4%		+344 bp

*Normalized: Net debt / normalized EBITDA,

**Normalized: normalized EBIT / Interest expense.

As at 31 December 2020, the total debt of the Podravka Group related to borrowings and other interest – bearing financial liabilities amounted to HRK 785.2m, of which HRK 301.2m relates to long – term borrowings, HRK 382.0m to short – term borrowings, HRK 102.0m to liabilities for right – of – use assets, while HRK 0.1m relates to financial liabilities at fair value through profit or loss. The **average weighted cost of debt** on all the stated liabilities as at 31 December 2020 was 1.1%, while if right – of – use assets are excluded it is 0.8%.

The decrease in net debt as at 31 December 2020 relative to the comparative period is a result of the repayment of a portion of borrowings compared to 31 December 2019. 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).

⁷ Financial debt: long – term and short – term borrowings + liabilities for right – of – use assets + financial liabilities at fair value through profit or loss.

⁸ Net debt: Financial debt – Cash and cash equivalents.

⁹ Equity to assets ratio: total shareholder's equity / total assets.

KEY CHARACTERISTICS OF CASH FLOW OF PODRAVKA GROUP

(in HRK millions)	2019	2020	Δ
Net cash flow from operating activities	272.9	384.5	111.5
Net cash flow from investing activities	(144.1)	(186.9)	(42.8)
Net cash flow from financing activities	(284.3)	(201.3)	83.0
Net increase / (decrease) of cash and cash equivalents	(155.5)	(3.7)	151.8

In 2020, **net cash flow from operating activities** was positive HRK 384.5m 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 186.9m, primarily as a result of capital expenditure amounting to HRK 192.4m. The most significant **capital expenditures** in 1 – 12 2020 were related to:

- Continued investing activities in Mirna Inc. related to the development of fish business, which increases capacities and competitiveness of the product range,
- Continued investing activities related to modernisation of the line for the production of creamy spreads in the factory of Baby food and creamy spreads, which increases the existing capacities and opens a possibility of expanding the product range,
- Investment in a solar power plant in the vegetable factory Kalnik, which increases the production efficiency and consequently impacts competitiveness,
- Investment in the line for slicing and packaging of sliced products in the factory Danica, which increases the capacities and production efficiency,
- Investment in the capsuling machine for the production of solid drugs in Belupo Inc., which increases the capacity and ensures the continuity of production,
- Investment in the tableting machine for the production of solid, semisolid and liquid drugs in Belupo Inc., which ensures the continuity of production and product quality,
- Investment in the reconstruction of the Štagelj facility, which creates preconditions for the facility commercialization and allows the increase in operating income and profitability of operations,
- Investment in the automatic palletisation of a portion of production in the Vegeta factory, which improves operations and enhances profitability of operations.

In 2021, **expected capital expenditures** amount to HRK 272.3m and in the 2022 – 2023 period expected capital expenditures are at a level of approximately HRK 200.0m.

In 2020, **net cash flow from financing activities** amounted to negative HRK 201.3m, mainly as a result of repayment of borrowings, dividend distribution and repayment of lease liabilities. The difference in relation to the repayment of borrowings in the balance sheet primarily relates to foreign exchange differences.

ADDITIONAL TABLES FOR 1–12 2020

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 (in HRK millions)	2019			2020		
	Group	Food	Pharma	Group	Food	Pharma
Production line equipment*	0.5	0.5	-	0.1	0.1	-
Assets held for sale*	7.4	7.4	-	-	-	-
Investments in property*	10.4	10.4	-	-	-	-
Claimed receivables related to relationship with Fortenova Group**	(12.1)	(12.1)	-	-	-	-
Reversal of impairment**	-	-	-	(4.0)	-	(4.0)
Other*	3.3	3.3	-	-	-	-
Total	9.4	9.4	-	(3.9)	0.1	(4.0)

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

The line item Other includes other value adjustments to non – current assets.

REPORTED EBITDA CALCULATION (in HRK millions)	2019			2020		
	Group	Food	Pharma	Group	Food	Pharma
Reported EBIT	283.5	164.3	119.3	332.3	232.7	99.7
+depreciation and amortization	216.0	152.7	63.3	218.2	155.3	62.9
+value adjustment	9.4	9.4	-	(3.9)	0.1	(4.0)
Reported EBITDA	509.0	326.4	182.6	546.7	388.1	158.6

NORMALIZED EBITDA CALCULATION (in HRK millions)	2019			2020		
	Group	Food	Pharma	Group	Food	Pharma
Normalized EBIT	299.5	180.2	119.3	324.8	232.0	92.9
+depreciation and amortization	216.0	152.7	63.3	218.2	155.3	62.9
+value adjustment	-	-	-	-	-	-
Normalized EBITDA	515.5	333.0	182.6	543.1	387.3	155.7

ONE - OFF ITEMS IN 1 - 12 2020 AND 1 - 12 2019

In the 1 - 12 2020 period, the Food segment incurred HRK 4.2m costs of severance payments for employees on long - term sick leaves, HRK 0.1m of cost 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 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 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).

In the 1 - 12 2019 period, the Food segment incurred HRK 4.8m costs of severance payments for employees on long - term sick leaves, HRK 1.1m of value adjustments to inventories (related to problems in procurement of raw materials from a supplier from Serbia), HRK 0.6m of provisions for the write - off of prepayment, and HRK 9.4m of value adjustments to non - current assets, treated by the company's management as one - off items. In the same period, the Pharmaceuticals segment did not record any one - off items. The estimated impact of these one - off items on tax of Food is HRK 14.0m (decreases it) and includes tax effect of capital contribution to Podravka Africa (from 31 December 2020 Foodpro Limited Tanzania) by Podravka Inc. (HRK -9.2m) and the tax effect of impairment of receivable of Podravka Inc. from Podravka Moscow (HRK -0.9m).

NORMALIZATION OF THE PROFIT AND LOSS STATEMENT BY SEGMENTS

REPORTED AND NORMALIZED PROFITABILITY	2019			2020		
(in HRK millions)	Group	Food	Pharma	Group	Food	Pharma
Reported gross profit	1,631.5	1,158.6	472.9	1,659.4	1,191.1	468.3
+impairment of inventories	1.1	1.1	-	-	-	-
+revenues from return of raw materials	-	-	-	(2.8)	-	(2.8)
Normalized gross profit	1,632.6	1,159.7	472.9	1,656.6	1,191.1	465.5
Reported EBITDA	509.0	326.4	182.6	546.7	388.1	158.6
+impairment of inventories	1.1	1.1	-	-	-	-
+revenues from return of raw materials	-	-	-	(2.8)	-	(2.8)
+reversal of impairment of other receivables	-	-	-	(5.3)	(5.3)	-
+cost related to the process of closing subsidiary in Africa	-	-	-	0.2	0.2	-
+severance payments (long term sick – leave)	4.8	4.8	-	4.2	4.2	-
+provisions for the prepayment write – off	0.6	0.6	-	-	-	-
Normalized EBITDA	515.5	333.0	182.6	543.1	387.3	155.7
Reported EBIT	283.5	164.3	119.3	332.3	232.7	99.7
+normalizations above EBITDA level	6.5	6.5	-	(3.6)	(0.8)	(2.8)
+product line equipment	0.5	0.5	-	0.1	0.1	-
+assets held for sale	7.4	7.4	-	-	-	-
+investment property	10.4	10.4	-	-	-	-
+receivables related to relationship with Fortenova Group	(12.1)	(12.1)	-	-	-	-
+reversal of impairment	-	-	-	(4.0)	-	(4.0)
+other	3.3	3.3	-	-	-	-
Normalized EBIT	299.5	180.2	119.3	324.8	232.0	92.9
Reported Net profit after MI	221.6	137.9	83.6	248.9	181.8	67.1
+normalizations above EBIT level	16.0	16.0	-	(7.5)	(0.7)	(6.8)
+pre – payment fee	-	-	-	1.7	-	1.7
+estimated impact of normalization on taxes*	(14.0)	(14.0)	-	1.3	(0.0)	1.3
Normalized Net profit after MI	223.6	139.9	83.6	244.4	181.1	63.3

*In 2019 includes tax effect of capital contribution to Podravka Africa (from 31 December 2020 Foodpro Limited Tanzania) by Podravka Inc. (HRK -9.2m) and the tax effect of impairment of receivable of Podravka Inc. from Podravka Moscow (HRK -0.9m). In 2020 includes tax effect of 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).

2 Share in 1 – 12 2020

LIST OF MAJOR SHAREHOLDERS AS AT 31 DECEMBER 2020

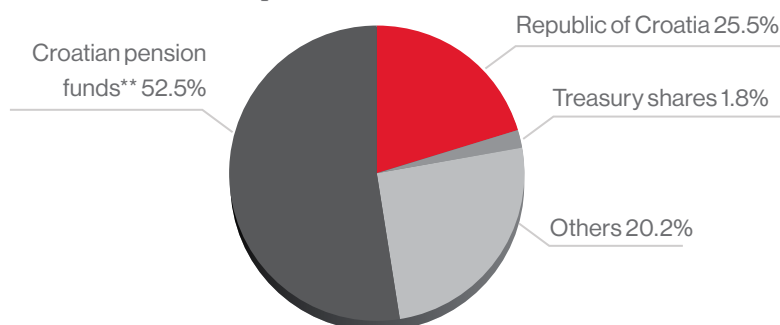
NO.	SHAREHOLDER	NUMBER OF SHARES	% OF OWNERSHIP
1	Republic of Croatia*	1,815,376	25.5%
2	PBZ Croatia Osiguranje mandatory pension fund, category B	1,097,644	15.4%
3	AZ mandatory pension fund, category B	917,563	12.9%
4	Erste Plavi mandatory pension fund, category B	724,373	10.2%
5	Raiffeisen mandatory pension fund, category B	625,298	8.8%
6	Podravka d.d. – treasury account	127,916	1.8%
	Other shareholders	1,811,833	25.4%
Total		7,120,003	100.0%

*The Restructuring and Sale Centre holds 1,241,253 shares through four accounts, Kapitalni fond d.d. holds 406,842 shares, the Republic of Croatia additionally holds 167,281 shares on a separate account.

Podravka Inc. has a stable ownership structure where the most significant stake is held by the Republic of Croatia and domestic pension funds. As at 31 December 2020, the Republic of Croatia holds 25.5% stake, and domestic pension funds (mandatory and voluntary) hold a total of 52.5% stake. Podravka Inc. has 1.8% of treasury shares. As at 31 December 2020, Supervisory Board members owned 16 shares of Podravka Inc., while Management Board members owned 970 shares of Podravka Inc.

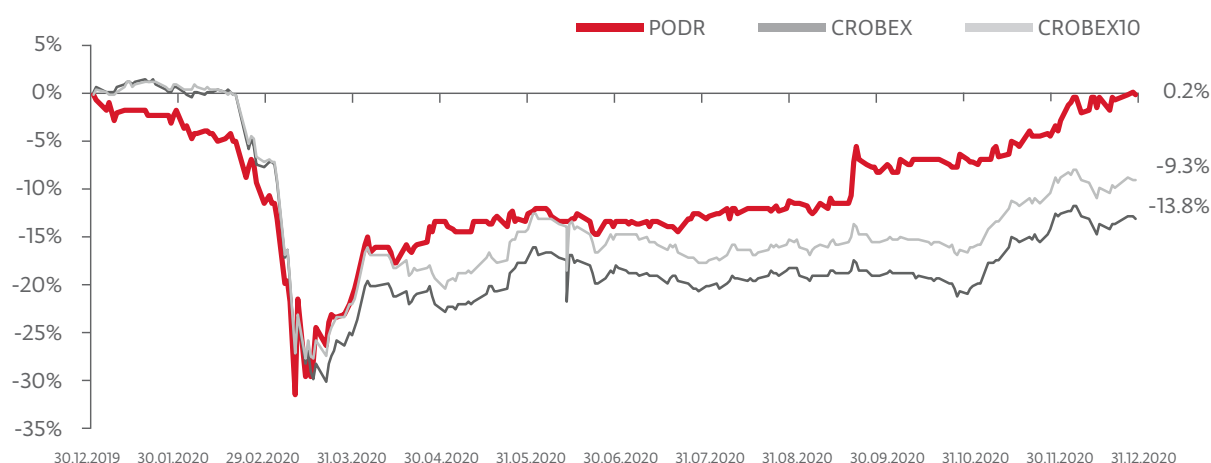
Podravka Inc.'s shares have been listed on the Prime Market of the Zagreb Stock Exchange and in six Zagreb Stock Exchange indices (CROBEX, CROBEX10, CROBEXtr, CROBEXprime, CROBEXnutr and ADRIAprime).

OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2020



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

SHARE PRICE MOVEMENT IN 1 – 12 2020



(closing price in HRK; closing points)	31 December 2019	31 December 2020	%
PODR	484.0	485.0	0.2%
CROBEX	2,017.4	1,739.3	(13.8%)
CROBEX10	1,199.9	1,087.8	(9.3%)

In the 1 – 12 2020 period, Podravka's share price remained on the comparative period level with a mild increase of 0.2%, while the comparable CROBEX and CROBEX10 stock indices dropped by 13.8% and 9.3%, respectively.

PERFORMANCE IN THE CROATIAN CAPITAL MARKET IN 1 – 12 2020

(in HRK; in units) ¹	2019	2020	%
Weighted average daily price	429.1	413.3	(3.7%)
Average daily number of transactions	12	14	10.7%
Average daily volume	1,110	1,277	15.1%
Average daily turnover	476,423.6	527,877.8	10.8%

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.

Relative to the comparative period, in the 1 – 12 2020 period, the weighted average daily price of Podravka's share decreased by 3.7%. The average daily volume increased by 15.1%, while the average daily turnover and the average daily number of transactions increased by 10.8% and 10.7%, respectively, compared to the 1 – 12 2019 period.

VALUATION

(in HRK millions; last price and earnings per share in HRK)*	2019	2020	%
Last price	484.0	485.0	0.2%
Weighted average number of shares ²	6,984,803	6,992,087	0.1%
Market capitalization ³	3,380.6	3,391.2	0.3%
EV ⁴	4,249.3	4,179.4	(1.6%)
Normalized earnings per share ⁵	32.0	35.0	9.2%
EV / sales revenue	1.0	0.9	(3.7%)
EV / normalized EBITDA	8.2	7.7	(6.6%)
EV / normalized EBIT	14.2	12.9	(9.3%)
Last price / normalized earnings per share ratio (P / E)	15.1	13.9	(8.2%)

*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.

² 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.

³ Market Capitalization: Last price * Weighted average number of shares.

⁴ Enterprise value: Market Capitalization + Net debt + Minority interests.

⁵ 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.

**CONSOLIDATED
FINANCIAL
STATEMENTS FOR
THE YEAR 2020**

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



Hrvoje Kolarić
Member of the Management Board



Marko Đerek
Member of the Management Board



Podravka d.d.
Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia



Davor Doko
Member of the Management Board



Ljiljana Šapina
Member of the Management Board



Koprivnica, 30 April 2021



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Jadranski trg 3A, 51000 Rijeka
Hrvatska / Croatia
IBAN: HR3324020061100280716
SWIFT: ESBCHR22

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 2020, 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 2020 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.

Key Audit Matter	How we addressed Key Audit Matter
<p>Impairment of brands and goodwill</p> <p>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.</p> <p>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, potential impact of COVID 19, the timing of future operating expenditure, and the most appropriate discount, long term growth rates and royalty rate.</p> <p>Considering the above mentioned, we believe that the assessment of recoverable amounts of brands and goodwill is a key audit matter.</p>	<p>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.</p> <p>We evaluated the future cash flow forecasts, including potential impact of COVID 19 effects, 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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

Key Audit Matter	How we addressed Key Audit Matter
<p>Recognition of revenue: valuation of customer discounts, incentives and rebates</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

Other information included in the Group's Annual Report for year 2020

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 2020 financial year are consistent, in all material respects, with the enclosed consolidated financial statements;
2. The enclosed Management report for 2020 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 for the year 2020 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.

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.



**Building a better
working world**

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- 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 30 April 2020, representing a total period of uninterrupted engagement appointment of 2 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 30 April 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.



**Building a better
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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 on Regulatory requirements

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

A handwritten signature in blue ink, appearing to be 'B. Horvat', is written over a horizontal line.

Berislav Horvat, President of the Management Board and certified auditor

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

30 April 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

<i>(in thousands of HRK)</i>	<i>Note</i>	2020	2019
Revenues	8	4,503,217	4,409,417
Cost of goods sold	11	(2,843,802)	(2,777,903)
Gross profit		1,659,415	1,631,514
Other income	9	23,247	50,797
General and administrative expenses	11	(335,920)	(334,585)
Selling and distribution costs	11	(592,555)	(605,548)
Marketing expenses	11	(377,441)	(436,699)
Other expenses	10	(44,401)	(21,933)
Operating profit		332,346	283,546
Financial income	13	542	874
Financial expenses	14	(18,878)	(18,569)
Net finance costs		(18,336)	(17,695)
Profit before tax		314,010	265,851
Income tax	15	(57,876)	(38,747)
Profit for the year		256,134	227,104
Other comprehensive income:			
Items that will not be reclassified to profit or loss account			
Actuarial gain/(loss) net of deferred tax		(2,602)	(1,095)
Items that can be subsequently reclassified to profit and loss account			
Exchange differences on translation of foreign operations		8,628	1,881
Total other comprehensive income		6,026	786
Total comprehensive income		262,160	227,890
Profit attributable to:			
Equity holders of the parent		248,934	221,586
Non-controlling interests		7,200	5,518
Total comprehensive income attributable to:			
Equity holders of the parent		254,473	222,278
Non-controlling interests		7,687	5,612
Earnings per share (in HRK):			
- Basic	16	35.60	31.72
- Diluted	16	35.35	31.51

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

<i>(in thousands of HRK)</i>	<i>Note</i>	31 December 2020	31 December 2019
ASSETS			
Non-current assets			
Goodwill	17	26,819	27,250
Intangible assets	18	253,155	244,559
Property, plant and equipment	19	2,222,277	2,212,979
Right-of-use assets	20	100,318	100,168
Investment property	21	117,086	118,240
Non-current financial assets	23	43,291	43,178
Deferred tax assets	15	141,411	149,065
Total non-current assets		2,904,357	2,895,439
Current assets			
Inventories	24	980,437	948,260
Trade and other receivables	25	972,996	948,767
Financial assets at fair value through profit and loss	26	106	12
Income tax receivable		2,023	5,361
Cash and cash equivalents	27	51,856	55,589
Non-current assets held for sale	28	28,873	30,393
Total current assets		2,036,291	1,988,382
Total assets		4,940,648	4,883,821
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	29	1,706,048	1,698,636
Reserves	30	951,174	853,580
Retained earnings	31	714,828	620,878
Attributable to equity holders of the parent		3,372,050	3,173,094
Non-controlling interests	32	54,932	46,334
Total shareholders' equity		3,426,982	3,219,428
Non-current liabilities			
Borrowings	34	301,194	468,088
Liability for right of use assets	20	68,642	70,218
Provisions	35	78,474	73,578
Other non-current liabilities	36	19,129	19,363
Deferred tax liability	15	39,034	39,083
Total non-current liabilities		506,473	670,330
Current liabilities			
Trade and other payables	37	554,910	606,571
Income tax payable		4,747	17,755
Financial liabilities at fair value through profit and loss	33	66	292
Borrowings	34	381,977	307,742
Liability for right of use assets	20	33,322	31,610
Provisions	35	32,171	30,092
Total current liabilities		1,007,193	994,062
Total liabilities		1,513,666	1,664,393
Total equity and liabilities		4,940,648	4,883,821

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 2020

(in HRK thousands)

	Share capital	Reserve for treasury shares	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Retained earnings	Total	Non-controlling interests	Total
As at 1 January 2019	1,691,884	147,604	58,445	189,738	61,790	339,273	516,603	3,005,337	42,369	3,047,706
<i>Comprehensive income</i>										
Profit for the year	-	-	-	-	-	-	221,586	221,586	5,518	227,104
Foreign exchange differences	-	-	-	-	-	1,787	-	1,787	94	1,881
Actuarial losses (net of deferred tax)	-	-	-	-	-	(1,095)	-	(1,095)	-	(1,095)
Other comprehensive income	-	-	-	-	-	692	-	692	94	786
Total comprehensive income	-	-	-	-	-	692	221,586	222,278	5,612	227,890
<i>Transactions with owners recognised directly in equity</i>										
Allocation from retained earnings	-	-	7,913	-	2,256	44,234	(54,403)	-	-	-
Exercise of options	(802)	-	-	-	-	-	-	(802)	-	(802)
Fair value of share-based payment transactions	7,554	-	-	-	-	-	-	7,554	-	7,554
Dividend declared	-	-	-	-	-	-	(62,908)	(62,908)	-	(62,908)
Additional acquisition of minority interests	-	-	-	-	-	1,635	-	1,635	(1,647)	(12)
Total transactions with owners recognised directly in equity	6,752	-	7,913	-	2,256	45,869	(117,311)	(54,521)	(1,647)	(56,168)
As at 31 December 2019	1,698,636	147,604	66,358	189,738	64,046	385,834	620,878	3,173,094	46,334	3,219,428
<i>Comprehensive income</i>										
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
<i>Transactions with owners and transfers recognised directly in equity</i>										
Allocation from retained earnings (note 30)	-	-	10,238	-	3,505	78,312	(92,055)	-	-	-
Subsidiary liquidation	-	-	-	-	-	-	-	-	911	911
Exercise of options	(3,708)	-	-	-	-	-	-	(3,708)	-	(3,708)
Fair value of share-based payment transactions (note 39)	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	1,706,048	147,604	76,596	189,738	67,551	469,685	714,828	3,372,050	54,932	3,426,982

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 2020

<i>(in thousands of HRK)</i>	<i>Note</i>	2020	2019
Profit for the year		256,134	227,104
Income tax	15	57,876	38,747
Depreciation and amortization	11	218,225	216,023
Liquidation of subsidiary		242	-
Impairment on property, plant, equipment and intangibles	10	132	3,746
Reversal of impairment of intangible assets	9	(4,000)	-
Reversal of impairment of other liabilities	9	(5,299)	-
Impairment loss on assets held for sale	10	-	7,410
Reversal of impairment of long term financial assets	9	-	(12,124)
Impairment of investment property	10	-	10,399
Gain from sale of right-of-use assets		(41)	(75)
Change in the fair value of financial instruments		(321)	161
Share-based payment transactions		11,120	7,554
Loss/(Gain) on disposal of property, plant, equipment and intangibles		364	(2,860)
Gain on disposal of assets held for sale		(1,320)	(1,043)
Impairment of trade receivables		(189)	2,989
Increase in provisions		4,375	7,207
Interest income		(211)	(476)
Interest expense		14,771	15,840
Effect of changes in foreign exchange rates		11,706	87
		563,565	520,688
Changes in working capital:			
Increase in inventories		(32,177)	(100,030)
Increase in trade and other receivables		(18,740)	(38,176)
Decrease in trade and other payables		(53,450)	(59,137)
Cash generated from operations		459,199	323,345
Income taxes paid		(59,953)	(33,720)
Interest paid		(14,791)	(16,684)
Net cash from operating activities		384,454	272,941
Cash flows from investing activities			
Purchase of property, plant, equipment and intangibles		(192,417)	(153,897)
Decrease of investment in subsidiary and non-related parties		-	20
Proceeds from sales of pharmacy rights		-	500
Sale of assets held for sale	28	2,091	1,628
Proceeds from sale of property, plant, equipment and intangibles		3,200	7,106
Loans given		(39)	(41)
Proceeds from loans given		71	70
Interest received		189	460
Dividends received		-	16
Net cash from investing activities		(186,905)	(144,138)
Cash flows from financing activities			
Dividend paid		(62,546)	(62,177)
Proceeds from issue of share capital		-	(12)
Sale of treasury shares		-	6,130
Proceeds from borrowings		389,411	409,950
Repayment of borrowings		(528,146)	(638,211)
Net cash from financing activities		(201,282)	(284,320)
Net decrease of cash and cash equivalents		(3,733)	(155,517)
Cash and cash equivalents at beginning of year		55,589	211,106
Cash and cash equivalents at the end of year	27	51,856	55,589

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 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.

General Assembly

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

Supervisory Board

Supervisory Board members:

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. – 07.09.2022.)
Member	Dajana Milodanović	(08.09.2018. – 07.09.2022.)
Member	Krunoslav Vitelj	(08.09.2018. – 07.09.2022.)

Management Board:

President	Martina Dalić	(04.02.2021. – 23.02.2022.)
President	Marin Pucar	(24.02.2017. – 06.01.2021.)
Member	Davor Doko	(01.05.2017. – 23.02.2022.)
Member	Marko Đerek	(19.07.2017. – 23.02.2022.)
Member	Hrvoje Kolarić	(24.02.2017. – 23.02.2022.)
Member	Ljiljana Šapina	(24.02.2017. – 23.02.2022.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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 30 April 2021.

(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 2020. 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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

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'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the COVID-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU.

IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest.

Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9.

There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. The Group does not expect the adoption of these standards and interpretations to have a material impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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/Company as of 1 January 2020:

IFRS 16 Leases – COVID-19 Related Rent Concessions (Amendment)

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted.

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate, and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR).

NOTE 5 – IMPACT OF NEW ACCOUNTING POLICIES (CONTINUED)

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of ‘material’ (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity’. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards.

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

The adoption of these standards and interpretations did not have a significant impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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:

	Goodwil	Brands	Rights
<i>Operating segment</i>	<i>(in thousands of HRK)</i>		
BP Culinary	-	8,792	-
BP Baby food, sweets and snack	-	21,144	-
BP Podravka food	-	439	-
BP Žito and Lagris	26,819	46,598	-
BP Fish	-	18,800	-
Pharmaceuticals	-	-	57,771
Other - unallocated	-	-	15,921
	26,819	95,773	73,692

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

Goodwill

Goodwill relates entirely to goodwill arising on acquisition of the subsidiary Podravka Lagris a.s. The Group annually performs an impairment test in order to assess whether the recoverable amount of goodwill indicates potential impairment of its carrying amount. The calculation of the recoverable amount of goodwill is based on five-year plans for sales on the Czech market and business plans of the subsidiary developed by the Group bearing in mind its corporate selling and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories) 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 2.50% (2019.: 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 4.65% (2019.: 4.99%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

Goodwill (continued)

As a result of the impairment testing of goodwill, the Group had no impairment losses relating to goodwill during 2020 and 2019.

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 530 basis points or a decrease in the terminal growth rate (assuming unchanged weighted average cost of capital) by 1,791 basis points.

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 2020 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.

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 4.71% to 9.61% (2019.: ranging from 4.26% to 8.42%), while the applied terminal growth rate ranges from 2.30% to 3.65% (2019.: ranging from 2.10% to 3.44%). The recoverable amount of brands resulting from the discounted cash flow method is as follows:

	Book value	Recoverable amount	
		2020	2019
Brands			
		<i>(in thousands of HRK)</i>	
Brand 1	7,380	13,868	15,297
Brand 2	15,500	67,974	76,264
Brand 3	21,144	44,855	42,554
Brand 4	439	1,363	1,295
Brand 5	3,300	6,092	7,348
	47,763	134,551	142,758

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

Brands (continued)

For brand 1, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 318 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 394 basis points. For brand 2, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 278 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 342 basis points. For brand 3, there would be an indication of a decrease in value in case of an increase in the weighted average cost of capital by 1,794 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 6,015 basis points. For brand 4, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 538 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 815 basis points. For brand 5, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 535 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 715 basis points.

During 2020 and 2019, the Group did not incur any impairment charges for brands.

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 4.79% to 7.63% (2019.: ranging from 4.26% to 6.83%), while the applied terminal growth rate ranges from 1.90% to 2.86% (u 2019.: ranging from 1.62% to 2.46%). The recoverable amount of brands resulting from the discounted cash flow method is as follows:

	Book value	Recoverable amount	
		2020	2019
		<i>(u tisućama kuna)</i>	
Brands			
Brand 1	12,939	62,615	57,160
Brand 2	3,915	20,235	21,719
Brand 3	3,008	12,622	14,652
Brand 4	913	3,323	3,279
Brand 5	658	2,271	2,458
Brand 6	692	3,715	3,043
Brand 7	286	1,394	1,487
Brand 8	250	2,887	2,755
Brand 9	3,179	9,154	10,048
Brand 10	1,917	7,387	6,899
Brand 11	283	791	875
Brand 12	2,432	7,891	8,893
Brand 13	1,805	8,942	9,671
Brand 14	1,600	4,494	4,686
Brand 15	734	2,011	1,952
Brand 16	186	1,216	1,295
Brand 17	2,199	10,022	11,182
Brand 18	2,524	5,355	5,983
Brand 19	750	2,391	2,729
Brand 20	3,675	20,972	23,096
	43,946	189,688	193,863

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

Brands (continued)

For brand 1, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 1,391 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 3,073 basis points. For brand 2, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 1,138 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 2,085 basis points. For brand 3, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 852 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 1,332 basis points. For brand 4, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 1,028 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 1,850 basis points. For brand 5, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 870 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 1,420 basis points. For brand 6, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 1,160 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 2,150 basis points. For brand 7, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 1,040 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 1,780 basis points. For brand 8, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 2,680 basis points (with unchanged terminal growth rate) or a decrease in terminal growth rate (with unchanged weighted average cost of capital) by 27,200 basis points. For brand 9, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 486 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 639 basis points. For brand 10, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 1,212 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 2,435 basis points. For brand 11, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 10 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 10 basis points. For brand 12, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 1,001 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 1,802 basis points. For brand 13, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 1,052 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 1,820 basis points. For brand 14, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 710 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 1,080 basis points. For brand 15, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 635 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 920 basis points.

For brand 16, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 1,770 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 5,250 basis points.

For brand 17, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 946 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 1,553 basis points.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

Brands (continued)

For brand 18, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 542 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 785 basis points. For brand 19, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 580 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 795 basis points. For brand 20, there would be an indication of a decrease in value in the event of an increase in the weighted average cost of capital by 1,278 basis points (with unchanged terminal growth rate) or a decrease in the terminal growth rate (with unchanged weighted average cost of capital) by 2,558 basis points.

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 (2019: HRK 36,025 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 1.90%, and normalization of the currently reduced consumption of drugs, caused by the COVID-19 pandemic, in the two following years.

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 7.69% after taxation (for assets that generate the majority of income on the Croatian market) (2019.: 8.34% after taxation).

During 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 a impairment in the amount of HRK 4,200 thousand and considers this as a one-off item (2019: no impairment costs of pharmacy rights).

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 and accordingly reversed previously recognized impairments in the amount of HRK 4,000 thousand.

Management views the cash-generating unit as a single pharmacy unit in a particular geographical area.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

Rights (continued)

Sensitivity analysis for the pharmacy unit, which is value adjusted by HRK 4,200 thousand, indicates that the decrease in value in the event of a decrease in the terminal growth rate by 100 basis points (1.00%) (with unchanged weighted average cost of capital) would amount to HRK 5,474 thousand.

Increase in the weighted average cost of capital by 100 basis points (with unchanged terminal growth rate) decrease in the pharmacy right amounted to HRK 5,870 thousand.

Circumstances that led to the indication of recognition of impairment are the appearance of a competing pharmacy in that geographical area, as a result of which weaker sales results were achieved, ie the overall business result.

The recoverable amount of this pharmacy unit is HRK 12,862 thousand.

Sensitivity analysis for the pharmacy unit whose value adjustment was revoked by HRK 8,200 thousand shows that even with a significant weakening of the terminal growth rate and weighted average cost of capital, there is still an indication of a significant reversal of value adjustment, ie the impairment test is not sensitive to key variables.

The continuous increase in sales and the achievement of better results over the past few years indicated the abolition of impairment.

The recoverable amount of this pharmacy unit is HRK 19,350 thousand.

Sensitivity analysis for investment in Deltis Pharm, in which the value adjustment was revoked by HRK 4,000 thousand, shows that even with a significant weakening of the terminal growth rate and weighted average cost of capital, there is still an indication of a significant reversal of the value adjustment, ie the impairment test is not sensitive to changing key variables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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. For production facilities, i.e. factories, in 2020, the Group engaged an independent valuer who determined the market value of properties. During 2020, the Group did not recognise any impairment of property and plant (2019: HRK 3,742 thousand). During 2020, the Group recognised the impairment of equipment in the amount of HRK 132 thousand (2019.: HRK 459 thousand).

In 2019, the Group impaired investment property in the amount of HRK 10,399 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.

Also, in 2019 the Group recognised the impairment loss on assets held for sale in Poland in the amount of HRK 1,305 thousand and assets in Tanzania in the amount of HRK 5,105 thousand.

During 2020, the COVID-19 pandemic did not have an impact on the going concern of the Podravka Group's operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 8 – SALES REVENUE

Sales revenue

	2020	2019
	<i>(in thousands of HRK)</i>	
Revenue from sale of products and merchandise	4,473,547	4,381,430
Revenue from services	29,670	27,987
	4,503,217	4,409,417

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

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.

<i>(in thousands of HRK)</i>	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	926,213	887,710	39,261	(757)
– Žito and related companies	752,381	711,476	35,659	5,247
– 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	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 8 – SALES REVENUE (CONTINUED)

	Segment revenues	Segment expenses	Segment depreciation	Segment profits/(loss)
<i>(in thousands of HRK)</i>	2019	2019	2019	2019
BP Culinary	934,698	685,601	26,035	223,062
BP Baby food, sweets and snack	435,892	361,018	23,384	51,490
BP Podravka food	401,014	395,316	23,059	(17,361)
BP Žito	956,928	916,025	39,805	1,098
<i>Žito and related companies</i>	<i>798,505</i>	<i>754,258</i>	<i>35,961</i>	<i>8,286</i>
<i>Other companies</i>	<i>158,423</i>	<i>161,767</i>	<i>3,844</i>	<i>(7,188)</i>
BP Meat products, solutions and spreads	284,135	288,954	14,851	(19,670)
BP Fish	207,918	203,266	6,633	(1,981)
Pharmaceutical	955,378	790,216	63,297	101,865
Other	233,454	236,333	2,618	(5,498)
	4,409,417	3,876,729	199,682	333,005
Finance income (note 13)				874
Other income (note 9)				50,797
Central administration costs				(78,324)
Other expenses (note 10)				(21,933)
Finance expenses (note 14)				(18,569)
Profit before tax				265,851

Balance sheet by segments

	31.12.2020			31.12.2019		
<i>(in thousands of HRK)</i>	Total	Pharmaceuticals	Nutrition Segments	Total	Pharmaceuticals	Nutrition Segments
ASSETS						
Total non-current assets	2,904,357	1,009,440	1,894,917	2,895,439	1,009,373	1,886,066
Total current assets	2,036,291	643,445	1,392,846	1,988,382	567,911	1,420,471
Total assets	4,940,648	1,652,885	3,287,763	4,883,821	1,577,284	3,306,537
LIABILITIES						
Equity	3,372,050	1,099,478	2,272,572	3,173,095	1,059,739	2,113,356
Minority interest	54,932	54,540	392	46,334	46,738	(404)
Total long-term liabilities	506,473	206,828	299,645	670,330	275,880	394,450
Total current liabilities	1,007,193	292,039	715,154	994,062	194,927	799,135
Total equity and liabilities	4,940,648	1,652,885	3,287,763	4,883,821	1,577,284	3,306,537

Group does not follow detailed breakdown of balance sheet by segment but only by the two main segments on consolidated level.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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)

	2020	2019
Region Adria	3,111,544	3,082,564
Region Central Europe	558,399	509,538
Region Western Europe and overseas countries	504,964	466,233
Region Eastern Europe	313,318	334,946
Region New markets	14,992	16,136
	4,503,217	4,409,417

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 8 – SALES REVENUE (CONTINUED)

Information about major customers

Third-party sales in Croatia account for 31% (2019: 32%) of the total revenue from external customers, whereas the remaining 69% (2019: 68%) represent foreign sales. Top 20 customers participate with 33% (2019: 32%) in the value of external sales in total income.

Sales to major customers owned or controlled by the same third party group represent approximately 11% of the Group's total revenue in 2020 (2019: approximately 10% of the total revenue). Below is a more detailed overview of countries by geographical area:

Region Adria	Western Europe and Overseas		International markets		New markets	
	Western Europe	Overseas	Central Europe	Eastern Europe		
Southeast Europe	Germany	USA	Poland	Russian Federation	Irak	China
Croatia	Austria	Canada	Czech Republic	Ukraine	United Arab Emirates	Japan
Slovenia	Switzerland	Australia	Slovakia	Kazakhstan	Kuwait	Singapore
Bosnia and Herzegovina	France	New Zealand	Hungary	Estonia	Katar	Taiwan
North Macedonia	Great Britain		Romania	Lithuania	Oman	Israel
Serbia	Italy			Latvia	Saudi Arabia	Mongolia
Montenegro	Denmark			Moldova	Turkey	Mexico
Kosovo	Sweden			Belarus	Jordan	
Bulgaria	Norway			Armenia	Lebanon	
Albania	Iceland			Kyrgystan	Egypt	
Greece	Nederlands			Uzbekistan	Libya	
	Belgium				Kenya	
	Ireland				Liberia	
	Spain					
	Portugal					

NOTE 9 – OTHER INCOME

	2020	2019
	<i>(in thousands of HRK)</i>	
Grant income	8,589	10,093
Reversal of impairment of other receivables	5,299	-
Reversal of impairment of intangible assets	4,000	-
Gain on disposal of assets held for sale	1,320	1,043
Gains on write-off right-of-use assets	41	78
Interest and foreign exchange differences on trade receivables	-	19,991
Reversal of impairment of financial assets	-	12,124
Gain on disposal of property, plant, equipment and intangibles	-	2,860
Reversal of provisions	-	29
Other income	3,998	4,579
	23,247	50,797

Grant income mainly refers to non-repayable state grants for the employment of disabled persons.

In 2020, the Group generated income from the reversal of impairment of other receivables in the amount of HRK 5,299 thousand (2019: HRK 0).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 10 – OTHER EXPENSES

	2020	2019
	<i>(in thousands of HRK)</i>	
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	-
Interest expense relating to trade payables and other	152	373
Impairment loss on property, plant and equipment (note 19)	132	3,746
Loss on disposal of assets held for sale	-	5
Impairment loss on assets held for sale (note 28)	-	7,410
Value adjustment of investments in property	-	10,399
	44,401	21,933

NOTE 11 – EXPENSES BY NATURE

	2020	2019
	<i>(in thousands of HRK)</i>	
Raw materials supplies, energy and cost of goods sold including change in inventory	2,216,360	2,147,882
Staff costs (note 12)	1,066,377	1,066,326
Services (i)	230,747	228,186
Depreciation and amortisation (ii)	218,225	216,023
Advertising and promotion	199,977	245,357
Transport	108,115	103,132
Taxes and contributions independent of operating results	25,600	26,059
Entertainment	17,846	30,702
Rental expense	16,421	14,386
Insurance premiums	14,875	15,234
Cost of disposal of packaging, administrative fees, etc	11,328	11,128
Telecommunications	10,241	10,618
Daily allowances and other business travel expenses	7,801	21,437
Bank charges	5,451	5,685
Impairment of trade receivables (note 25)	(189)	2,989
Other	542	9,591
Total cost of goods sold, selling and distribution costs, marketing costs and general and administrative costs	4,149,717	4,154,735

- (i) Costs of services include audit fees. Fees for the audit of the Group's financial statements amounted to HRK 2,798 thousand and 173 thousand HRK one-off costs of the audit of previous years (2019: HRK 2,644 thousand). During 2020, the Group did not receive any non-audit services from the auditor.
- (ii) Depreciation and amortisation include HRK 1,847 thousand of government grants for co-financing of assets (2019: HRK 1,282 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 11 – EXPENSES BY NATURE (continued)

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

	2020	2019
	<i>(in thousands of HRK)</i>	
Raw material and supplies	1,590,383	1,552,270
Cost of goods sold	579,727	554,515
Staff costs	456,971	457,169
Depreciation and amortisation	124,368	125,698
Production services	61,186	63,670
Taxes and contributions independent of operating results	12,141	9,353
Other expenses (transport, rent, education, etc)	19,026	15,228
Cost of goods sold	2,843,802	2,777,903

In 2019, the Group recognised as part of cost of goods sold HRK 1,125 thousand of impairment of inventories of frozen vegetables.

In 2020, the Group did not recognize any impairment for inventories within the cost of goods sold.

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:

	2020	2019
	<i>(in thousands of HRK)</i>	
Cost of goods sold	124,368	125,698
Selling, logistics and distribution costs	45,884	43,810
General and administrative expenses	36,672	35,348
Marketing expenses	11,301	11,167
	218,225	216,023

Staff costs allocated to each function is as follows:

	2020	2019
	<i>(in thousands of HRK)</i>	
Cost of goods sold	456,972	457,169
Selling, logistics and distribution costs	292,812	293,112
General and administrative expenses	207,363	205,304
Marketing expenses	109,230	110,741
	1,066,377	1,066,326

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 12 – STAFF COSTS

	2020	2019
	<i>(in thousands of HRK)</i>	
Salaries	915,299	938,319
Transport	25,236	25,943
Share options (note 39)	11,120	7,554
Termination benefits	6,660	6,218
Other cost of employees	108,062	88,292
	1,066,377	1,066,326

As at 31 December 2020, the number of staff employed by the Group was 6,650 (2019: 6,652). The average number of employees of the Group during 2020 is 6,721 employees (2019: 6,697 employees). In 2020, termination and retirement benefits of HRK 6,660 thousand were paid to 91 employees (2019: termination and retirement benefits of HRK 6,218 thousand were paid to 90 employees).

Other employee costs relate mainly to meal expenses in the amount of HRK 30,255 thousand (2019: HRK 17,071 thousand), since the consumption has become non-taxable receipt from September 2019 and is no longer reported within line salaries. Other significant items within other cost of employees are Christmas, Easter and other non-taxable employee benefits in the amount of HRK 26,455 thousand (2019: HRK 28,025 thousand), and holiday pay in the amount of HRK 22,425 thousand (2019: HRK 20,327 thousand).

NOTE 13 – FINANCE INCOME

	2020	2019
	<i>(in thousands of HRK)</i>	
Remeasurement of financial instruments at fair value through profit or loss	332	8
Interest on term deposits	208	378
Other interests	2	98
Unrealised gains per interest rate swap contract	-	390
	542	874

NOTE 14 – FINANCE EXPENSES

	2020	2019
	<i>(in thousands of HRK)</i>	
Interest expense and similar charges	14,772	15,840
Net foreign exchange loss on borrowings	4,106	2,173
Unrealised losses per forward	-	556
	18,878	18,569

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 15 – INCOME TAX

Income tax expense consists of:

	2020	2019
	<i>(in thousands of HRK)</i>	
Current income tax	50,503	36,605
Deferred tax expense	7,373	2,142
	57,876	38,747

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:

	2020.	2019.
	<i>(u tisućama kuna)</i>	
Dobit prije oporezivanja	314,010	265,851
Porez po stopi od 18%	56,522	47,853
Neoporezivi prihodi	(830)	(3,532)
Nepriznati rashodi	6,951	7,593
Učinak poticaja (istraživanje i razvoj, obrazovanje i dr.)	(2,542)	(3,441)
Priznavanje privremenih razlika i poreznih gubitaka prethodno nepriznatih kao odgođena porezna imovina	-	(9,675)
Privremene razlike i porezni gubici nepriznati kao odgođena porezna imovina	2,271	3,489
Iskorištenje poreznih gubitaka prethodno nepriznatih kao odgođena porezna imovina	(758)	(1,228)
Učinak primjene različitih poreznih stopa	(4,055)	(2,664)
Porez za prethodnu godinu	23	(49)
Porez plaćen u inozemstvu	294	401
Porez na dobit	57,876	38,747
Efektivna porezna stopa	18%	15%

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 2020, deferred tax asset of HRK 13,480 thousand was used from this basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 15 – INCOME TAX (CONTINUED)

Unused tax losses

In accordance with tax regulations, as at 31 December 2020 the Group has unused tax losses in the amount of HRK 79,255 thousand (2019: HRK 106,974 thousand) which consist of tax losses in Slovenia (in the amount of HRK 7,854 thousand), Tanzania (in the amount of HRK 36,850 thousand), Poland (in the amount of HRK 9,028 thousand), Germany (in the amount of HRK 8,308 thousand), Russia (in the amount of HRK 4,420 thousand), Serbia (in the amount of HRK 15 thousand) and Croatia (in the amount of HRK 12,780 thousand).

Unused tax losses carried forward were recognized as deferred tax assets in the amount of HRK 2,891 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:

	2020	2019
	<i>(in thousands of HRK)</i>	
Tax losses expiring at 31 December 2021	3,303	3,374
Tax losses expiring at 31 December 2022	4,474	4,570
Tax losses expiring at 31 December 2023	1,251	1,278
Tax losses expiring at 31 December 2024	4,408	4,698
Tax losses expiring at 31 December 2025	8,372	-
Tax losses with no expiration date	57,447	93,054
	79,255	106,974

Deferred tax assets

Deferred tax assets arise from the following:

2020	Opening balance	Acquisitions	Recognised in profit or loss	Recognised directly in equity	Foreign exchange differences	Closing balance
	<i>(in thousands of HRK)</i>					
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

2019	Opening balance	Acquisitions	Recognised in profit or loss	Recognised directly in equity	Foreign exchange differences	Closing balance
	<i>(in thousands of HRK)</i>					
Basis:						
Intangible assets	4,994	-	(453)	-	-	4,541
Property, plant and equipment	4,791	-	2,511	-	1	7,303
Financial assets	12,184	-	12,521	-	-	24,705
Provisions	11,498	-	817	224	9	12,548
Share-based payments	1,335	-	(72)	-	-	1,263
Inventories	7,086	-	4,096	-	3	11,185
Investment tax credit	100,984	-	(17,210)	-	-	83,774
Unutilised tax losses carried forward	4,043	-	(1,419)	-	120	2,744
Receivables	-	-	1,002	-	-	1,002
Other deferred tax assets	5,164	-	(5,164)	-	-	-
Deferred tax assets	152,079	-	(3,371)	224	133	149,065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 15 – INCOME TAX (CONTINUED)

Deferred tax assets (continued)

The most significant increase in deferred tax assets in 2020 relates to long-term and short-term provisions.

The most significant effect on the decrease in deferred tax assets relates to the utilisation of tax credit in the amount of HRK 13,480 thousand.

Deferred tax liability

Deferred tax liabilities arise from the following:

2020	Opening balance	Recognised in profit or loss	Foreign exchange differences	Closing balance
	<i>(in thousands of HRK)</i>			
Basis:				
Intangible assets	(11,393)	58	-	(11,335)
Property, plant and equipment	(27,690)	236	(245)	(27,699)
	(39,083)	294	(245)	(39,034)

2019	Opening balance	Recognised in profit or loss	Foreign exchange differences	Closing balance
	<i>(in thousands of HRK)</i>			
Basis:				
Intangible assets	(9,207)	(2,156)	(30)	(11,393)
Property, plant and equipment	(31,006)	3,385	(69)	(27,690)
	(40,213)	1,229	(99)	(39,083)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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 232,167 were not exercised (2019: 189,217 options). The price of all unexercised share options is lower than the share market price as at 31 December 2020. 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:

	<u>2020</u>	<u>2019</u>
Ordinary shares as at 1 January	7,120,003	7,120,003
Effect of treasury shares	(127,916)	(135,200)
Weighted average number of shares at 31 December (basic)	6,992,087	6,984,803
Effect of share based payments	50,116	46,513
Weighted average number of shares at 31 December (diluted)	7,042,203	7,031,316

Basic and diluted earnings per share for the Group as a whole was as follows:

	<u>2020</u>	<u>2019</u>
Basic earnings per share		
Profit for the year attributable to the owners of parent company (in thousands of HRK)	248,934	221,586
Basic earnings per share (in HRK)	35.60	31.72
Diluted earnings per share		
Profit for the year attributable to the owners of parent company (in thousands of HRK)	248,934	221,586
Diluted earnings per share (in HRK)	35.35	31.51

NOTE 17 – GOODWILL

(in thousands of HRK)

	<u>2020</u>	<u>2019</u>
Cost		
At 1 January	67,304	67,304
At 31 December	67,304	67,304
Accumulated impairment losses		
At 1 January	40,054	40,522
Effect of changes in the foreign exchange rates	431	(468)
At 31 December	40,485	40,054
Carrying amount at 31 December	26,819	27,250

During 2020 and 2019 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 18 – INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	Software and licences	Rights, registration files, know how	Brands	Intangible assets in progress	Total
Cost					
At 1 January 2019	250,814	241,288	202,367	28,184	722,653
Effect of foreign exchange differences	148	57	376	3	584
Additions	(114)	-	-	32,721	32,607
Transfers	11,938	8,861	-	(20,799)	-
Disposals and write-off's	(2,279)	(1,079)	(438)	(789)	(4,585)
Transfer from tangible fixed assets	-	-	-	77	77
Transfer to tangible assets	-	-	-	(22)	(22)
At 31 December 2019	260,507	249,127	202,305	39,375	751,314
Accum. amortisation and impairments					
At 1 January 2019	(208,488)	(170,757)	(107,232)	-	(486,477)
Effect of foreign exchange differences	(134)	(23)	(183)	-	(340)
Disposals and write-off's	2,279	870	438	-	3,587
Charge for the year	(15,403)	(8,122)	-	-	(23,525)
At 31 December 2019	(221,746)	(178,032)	(106,977)	-	(506,755)
Carrying amount as at 31 Dec 2019	38,761	71,095	95,328	39,375	244,559
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
Accum. 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
Charge for the year	(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 Dec 2020	39,150	73,692	95,773	44,540	253,155

Of the total amount of accumulated amortisation and impairment losses HRK 24,550 thousand relates to accumulated impairment losses (2019: HRK 24,550 thousand).

The total intangible assets with indefinite useful lives as at 31 December 2020 amount to HRK 169,465 thousand and relate to brands and other rights.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of HRK)</i>	Land and buildings	Equipment	Assets under construction	Total
Cost				
At 1 January 2019	2,897,033	2,393,515	103,128	5,393,676
Effect of foreign exchange differences	2,183	1,223	31	3,437
Additions	363	2,114	118,812	121,289
Transfers	13,276	128,200	(141,476)	-
Disposals and write-off's	(3,285)	(51,563)	(104)	(54,952)
Transfer to assets held for sale (i)	(28,151)	(676)	-	(28,827)
Transfer to intangible assets	-	-	(55)	(55)
Transfer from assets held for sale	-	12	-	12
Impairment of assets	-	-	(1,615)	(1,615)
At 31 December 2019	2,881,419	2,472,825	78,721	5,432,965
Accum. depreciation and impairments				
At 1 January 2019	(1,644,204)	(1,492,827)	(327)	(3,137,358)
Effect of foreign exchange differences	(1,945)	(550)	-	(2,495)
Disposals and write-off's	1,351	50,851	-	52,202
Charge for the year	(54,062)	(99,896)	-	(153,958)
Transfer to assets held for sale	23,090	676	-	23,766
Impairment of non-current assets	(1,672)	(459)	-	(2,131)
Transfer from assets held for sale	-	(12)	-	(12)
At 31 December 2019	(1,677,442)	(1,542,217)	(327)	(3,219,986)
Carrying amount as at 31 Dec 2019	1,203,977	930,608	78,394	2,212,979
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 (ii)	-	-	(533)	(533)
Impairment of assets	-	-	(132)	(132)
At 31 December 2020	2,911,493	2,541,466	94,888	5,547,847
Accum. 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
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

During 2020, the Group impaired equipment in the amount of HRK 132 thousand (2019: HRK 459 thousand).

(i) During 2020, the Group transferred property, plant and equipment to intangible assets in the amount of HRK 99 thousand (2019: HRK 55 thousand).

(ii) During 2020, the Group transferred property, plant and equipment to investment property in the amount of HRK 533 thousand (2019: HRK 0 thousand).

During 2019, the Group impaired property and equipment in the amount of HRK 2,131 thousand and investments under construction in the amount of HRK 1,615 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets under construction relate mainly to investments in modernisation of production capacities and extension of the product range.

During 2020, the Group had no investments related to interest expense capitalisation in property and equipment. During 2019, the Group had investments under which interest expense in the amount of HRK 40 thousand was capitalised in property and equipment using the estimated capitalisation rate of 1.21%.

Mortgaged assets

The Group has a syndicated loan agreed with the EBRD and several business banks in the total amount of EUR 123 million. The properties of Podravka d.d., Belupo d.d. and Žito d.o.o. (users of the syndicated loan) were pledged as a security instrument. In addition to instruments for the syndicated loan, the Group has pledged assets also for other borrowings.

Buildings, land and equipment of the Group with a net carrying amount of HRK 712,307 thousand (2019: HRK 894,856 thousand) are pledged as collateral against the Group's borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 20 – RIGHT-OF-USE ASSETS

Movements in right-of-use assets:

<i>(in thousands of HRK)</i>	Land	Buildings	Total land and buildings	Equipment	Total
Cost					
As at 1 January 2019	12,814	49,038	61,852	50,354	112,206
Additions	-	12,053	12,053	13,418	25,471
Disposals and write-off's	-	(1,120)	(1,120)	(370)	(1,490)
Balance at 31 December 2019	12,814	59,971	72,785	63,402	136,187
Accumulated depreciation					
As at 1 January 2019	-	-	-	-	-
Charge for the year	325	13,864	14,189	22,058	36,247
Exchange rate effect	-	68	68	50	118
Disposals and write-off's	-	(242)	(242)	(104)	(346)
Balance at 31 December 2019	325	13,690	14,015	22,004	36,019
As at 31 December 2019	12,489	46,281	58,770	41,398	100,168
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
Charge for the year	291	14,786	15,077	22,117	37,194
Exchange rate effect	-	15	15	(21)	(6)
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

Movements in lease liabilities for right-of-use assets:

	2020	2019
	<i>(in thousands of HRK)</i>	
As at 1 January	101,828	112,206
Interest expense	2,595	2,773
Increase of lease liabilities during the year (net)	37,152	24,327
Lease liabilities payments	(39,246)	(38,119)
Exchange rate difference	(365)	641
As at 31 December	101,964	101,828
Current portion of long term liability for right-of-use assets	33,322	31,610
Long term liability for right-of-use assets	68,642	70,218

Amounts recognised in the statement of comprehensive income:

	2020	2019
	<i>(in thousands of HRK)</i>	
Depreciation expense of right-of-use asset	37,194	36,247
Expenses related to short-term leases and leases of low-value assets etc.	26,392	23,401
Interest expense of lease liabilities	2,595	2,773
Total amount recognised in profit/(loss)	66,181	62,421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 21 – INVESTMENT PROPERTY

<i>(in thousands of HRK)</i>	<i>Total</i>
Cost	
As at 1 January 2019	167,378
Exchange rate effect	65
Disposals and write-off's	(799)
Transfer from non-current assets held for sale	(8,508)
Transfer from property, plant and equipment	(10,399)
Balance at 31 December 2019	<u>147,737</u>
Accumulated depreciation	
As at 1 January 2019	(33,191)
Exchange rate effect	(23)
Disposals and write-off's	303
Charge for the year	(2,177)
Transfer to non-current assets held for sale	5,591
Balance at 31 December 2019	<u>(29,497)</u>
Net book value at 31 December 2019	<u>118,240</u>
Cost	
As at 1 January 2020	147,737
Exchange rate effect	129
Transfer from property, plant and equipment	533
Balance at 31 December	<u>148,399</u>
Accumulated depreciation	
As at 1 January 2020	(29,497)
Exchange rate effect	(24)
Charge for the year	(1,792)
Balance at 31 December 2020	<u>(31,313)</u>
Net book value at 31 December 2020	<u>117,086</u>

In 2020, the Group reclassified a portion of property, plant and equipment in Croatia to investment property in the amount of HRK 533 thousand.

In 2019, the Group reclassified a portion of investment property in Slovenia to non-current assets held for sale in the amount of HRK 2,917 thousand.

In addition, in 2019 the Group impaired land and building in Rijeka in the amount of HRK 10,399 thousand.

According to the independent expert valuer's estimate, the fair value of property does not indicate the need for further impairment. Operating expenses amount to HRK 1,483 thousand (2019: HRK 1,523 thousand), while rental income from the property amounts to HRK 2,967 thousand (2019: HRK 2,929 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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	2020	2019	Principal activity
Belupo d.d., Koprivnica	Croatia	100.00%	100.00%	Production and distribution of pharmaceuticals
Belupo doel, 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
Mima d.d., Rovinj	Croatia	99.23%	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 ****	Bugarska	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
Vegeta Ltd.***	Kenya	0.00%	80.00%	Sale and distribution
Podravka Gulf Fze, Jebel Ali, Dubai	UAE	100.00%	100.00%	Sale and distribution
Žito d.d., 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

****80% of ownership interest is held through the subsidiary Vegeta Podravka Limited, Dar es Salaam

****In 2020, the subsidiary Vegeta Ltd. Kenia was liquidated.

*****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.

***** In 2019, the Group established the subsidiary Podravka International EOOD Sofia

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 23 – NON-CURRENT FINANCIAL ASSETS

	2020	2019
	<i>(in thousands of HRK)</i>	
Financial instruments	54,133	54,133
Impairment of financial instruments	(17,736)	(17,736)
Equity instruments	5,379	5,292
Other receivables and deposits	1,510	1,483
Loans receivable	5	6
	43,291	43,178

In 2019, in line with the Agrokor's creditors settlement, the Group recorded financial instruments in return for trade receivables from customers owned or controlled by the same third party group in the gross amount of HRK 54,133 thousand. During 2019, it reversed the impairment of financial instruments in the amount of HRK 12,124 thousand.

Equity instruments mainly relate to investments in unquoted equity instruments.

In 2020 there were no changes with respect to the financial instruments.

NOTE 24 – INVENTORIES

	2020	2019
	<i>(in thousands of HRK)</i>	
Raw materials and supplies	350,229	335,782
Work in progress	39,538	35,827
Finished goods	436,252	419,979
Merchandise	154,418	156,672
	980,437	948,260

In 2020, the Group recognised impairment loss with respect to inventories in the amount of HRK 9,533 thousand (2019: HRK 1,673 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'.

In August 2020, the Pharmaceuticals segment analyzed the used estimation of value adjustment of stocks of raw materials and packaging and in accordance with that analysis changed the value adjustment policy. The analysis showed that raw materials and packaging have longer shelf life and that consequently a significant part of previously impaired raw materials and packaging is used in production. The updated estimation of impairment will approximate actual write-off trends in raw materials and packaging.

The change in assessment resulted in lower costs contained in products sold in the amount of HRK 2,919 thousand (before taxes) for 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 25 – TRADE AND OTHER RECEIVABLES

	2020	2019
	<i>(in thousands of HRK)</i>	
Current receivables		
Trade receivables	1,113,357	1,085,898
Impairment of receivables for expected credit losses	(1,139)	(1,255)
Impairment of receivables	(189,427)	(196,781)
Net trade receivables	922,791	887,862
Prepaid expenses	17,352	18,468
Net VAT receivable	10,723	21,663
Advances to suppliers	5,659	9,341
Receivables from employees	1,292	1,826
Loans given	8	15
Other receivables	15,171	9,592
	972,996	948,767

In 2019, in line with the Agrokor's creditors settlement, the Group reclassified trade receivables from third parties owned or controlled by the same third party Group to non-current financial assets.

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

	2020	2019
	<i>(in thousands of HRK)</i>	
At 1 January	198,036	230,779
Increase	2,815	5,654
Amounts collected	(3,004)	(2,665)
Transfer to financial assets	-	(31,526)
Written off as uncollectable	(7,281)	(4,206)
At 31 December	190,566	198,036

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:

	2020	2019
	<i>(in thousands of HRK)</i>	
Non due	719,819	728,401
0-90 days	181,420	140,786
91-180 days	15,484	12,499
181-360 days	6,068	6,176
	922,791	887,862

Major customers

Trade receivables from major customers owned or controlled by the same third party from regular business Group as at 31 December 2020 amount to HRK 122,805 thousand (2019: HRK 102,241 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 26 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Forward contracts	106	12
	<u>106</u>	<u>12</u>

During 2020, the Group used forward contracts entered into with commercial banks with the intention of managing the fluctuations of foreign currencies with respect to the purchase and sale of foreign currencies. The positive fair value of these instruments as at 31 December 2020 amounted to HRK 106 thousand.

The nominal value of currency forwards, according to the exchange rate contracted in the forward contracts, as at 31 December 2020 amounted to HRK 8,826 thousand with the contracts maturing in the period from 11 January 2021 and 8 June 2021 (2019: HRK 39,135 thousand with maturities between 14 January 2020 and 18 June 2020).

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

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Cash with banks	51,378	49,849
Cash in hand	478	328
Short-term deposits – up to 3 months	-	5,412
	<u>51,856</u>	<u>55,589</u>

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 15,390 thousand), EUR (HRK 13,530 thousand), HUF (HRK 5,638 thousand), PLN (HRK 5,539 thousand) and HRK (HRK 2,763 thousand), while in other currencies it holds HRK 8,996 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 28 – NON-CURRENT ASSETS HELD FOR SALE

	2020	2019
	<i>(in thousands of HRK)</i>	
Land and buildings	26,133	27,450
Equipment	2,740	2,943
	28,873	30,393

In 2020, the Group sold a portion of non-current assets held for sale with the carrying value of HRK 771 thousand and realised gain on sale in the amount of HRK 1,320 thousand.

Of the total amount of land and buildings held for sale, HRK 11,747 thousand relates to land and buildings in Poland, HRK 1,153 thousand to land and buildings in Tanzania, HRK 3,957 thousand to land and buildings in Croatia and HRK 9,276 thousand on the market of Slovenia.

In 2019, the Group recognised impairment of land and buildings held for sale in Poland in the amount of HRK 1,305 thousand and the impairment of land, buildings and equipment in Tanzania in the amount of HRK 6,105 thousand.

In 2019, the Group reclassified land and buildings in Croatia and Slovenia to assets held for sale in the amount of HRK 7,982 thousand.

Fair value measurement

Land and property held for sale in the amount of HRK 28,873 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. During 2019, land, buildings and equipment in Poland and Tanzania were impaired.

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
<i>Property</i> For buildings and land, cost and comparative methods are 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.
<i>Equipment</i> For equipment, the cost method is used.	

Equipment held for sale

The amount of HRK 2,740 thousand as at 31 December 2020 relates to equipment in the production plant in Tanzania (2019: HRK 2,943 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 29– SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pcs)	(in thousands of HRK)			
At 1 January 2019	6,974,228	1,566,401	179,692	(54,209)	1,691,884
Exercise of options (i)	17,859	-	(7,443)	6,641	(802)
Fair value of share based payments (i)	-	-	7,554	-	7,554
At 31 December 2019	6,992,087	1,566,401	179,803	(47,568)	1,698,636
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

As at 31 December 2020, the Company's share capital amounted to HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 127,916 relates to treasury shares (2019: 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 2020, the Company did not purchase any treasury shares (2019: 0 treasury shares).

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

Structure of ownership	2020		2019	
	Number of shares	% of ownership	Number of shares	% of ownership
PBZ CO OMF - Category B	1,097,644	15.04	1,070,901	15.04
AZ OMF category B	917,563	12.68	902,874	12.68
CERP - Croatian Pension Insurance Institute	727,703	10.22	727,703	10.22
Erste Plavi OMF category B	724,373	10.17	724,316	10.17
Raiffeisen OMF category B	625,298	8.78	625,298	8.78
CERP - Republic of Croatia	415,564	5.84	415,564	5.84
Kapitalni fond d.d.	406,842	5.71	406,842	5.71
HPB - Republic of Croatia	167,281	2.35	167,281	2.35
Treasury account	127,916	1.80	127,916	1.80
AZ Profit ODMF	101,840	1.43	101,840	1.43
Other shareholders	1,807,979	25.98	1,849,468	25.98
Total	7,120,003	100.00	7,120,003	100.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 30 – RESERVES

<i>(in thousands of HRK)</i>	Reserves for treasury shares	Legal reserves	Reserves for reinvested profit	Statutory reserves	Other reserves	Total
At 1 January 2019	147,604	58,445	189,738	61,790	339,273	796,850
Allocation of profits (note 31)	-	7,913	-	2,256	44,234	54,403
Foreign exchange rate differences	-	-	-	-	1,787	1,787
The effect of acquiring additional minority interest	-	-	-	-	1,635	1,635
Actuarial losses (net of tax)	-	-	-	-	(1,095)	(1,095)
At 31 December 2019	147,604	66,358	189,738	64,046	385,834	853,580
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

The legal reserve is required under Croatian law according under which the Group is committed to build up legal reserves to a minimum of 5% of the profit for the year until the total reserve reaches 5% of the share capital. Both legal reserves and reserves for treasury shares, as well as reserves for reinvested profits, are non-distributable. Other reserves mainly relate to (non-distributable) reserves required by the Company's Articles of Association and foreign exchange translation reserves related to subsidiaries abroad.

(i) Transfers within capital and reserves

In 2020, the General Assembly reached a decision to allocate the Company's profit from 2019 in the amount of HRK 145,189 thousand as follows: the amount of HRK 7,259 thousand to legal reserves, the amount of HRK 73,849 thousand to other reserves and the amount of HRK 62,929 thousand for the declared dividend (9.00 HRK per share), while the remainder amount of HRK 1,152 thousand is retained in unallocated profit.

In addition, in 2020, in accordance with the decision of its General Assembly, the subsidiary Belupo d.d. allocated the Company's profit as follows: the amount of HRK 2,979 thousand to legal reserves, the amount of HRK 3,505 to statutory reserves and HRK 4,463 thousand to other reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 31 – RETAINED EARNINGS

Movement in retained earnings is presented as follows:

	2020	2019
	<i>(in thousands of HRK)</i>	
At 1 January	620,878	516,603
- transfer to legal and other reserves	(92,055)	(54,403)
- dividend declared	(62,929)	(62,908)
- profit for the year	248,934	221,586
At 31 December	714,828	620,878

At 30 April 2020, the General Assembly reached a decision to allocate the Company's profit for the declared dividend in amount of HRK 62,929 thousand, 9.00 HRK per share (2019: HRK 62,908 thousand, 9.00 HRK 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 99.23% in the related company Mirna d.d. Summary financial information for the company Farmavita d.o.o., Sarajevo as at 31 December 2020 (excluding consolidation eliminations) and for the company Mirna d.d. are as follows:

31 December 2020	Mirna d.d.	Farmavita
<i>(in thousands of HRK)</i>		
Non-controlling interest	0.8%	35.0%
Statement of financial position		
Non-current assets	72,761	77,300
Current assets	49,479	138,759
Current liabilities	(117,844)	(52,825)
Non-current liabilities	(14,068)	(26,782)
Net assets	(9,672)	136,452
Statement of comprehensive income for the period		
Sales revenue	85,145	226,922
Profit after tax	(11,058)	21,884
Other comprehensive income	(58)	516
Total comprehensive income for the period	(11,116)	22,400
Statement of cash flows		
Net increase in cash and cash equivalents	(3)	13,652

The movement in non-controlling interest was as follows:

	2020	2019
	<i>(in thousands of HRK)</i>	
Balance at 1 January	46,334	42,369
Subsidiary liquidation	911	-
Effect of acquiring non-controlling interests	-	(1,647)
Foreign exchange differences	487	94
Share in current year profit	7,200	5,518
Balance at 31 December	54,932	46,334
Relating to:		
<i>Mirna d.d.</i>	<i>392</i>	<i>(404)</i>
<i>Farmavita d.o.o.</i>	<i>54,540</i>	<i>46,738</i>

NOTE 33 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
	<i>(in thousands of HRK)</i>	
Forwards	66	292
	66	292

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – BORROWINGS

	2020	2019
	<i>(in thousands of HRK)</i>	
Non-current borrowings		
Banks in Croatia	201,441	242,601
Banks abroad	99,602	225,283
Finance lease	151	204
	301,194	468,088
Current borrowings		
Banks in Croatia	235,891	157,417
Banks abroad	145,862	149,674
Finance lease	224	651
	381,977	307,742
Total borrowings	683,171	775,830

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, Podravka d.d., Belupo d.d. and Žito d.o.o. used a total of EUR 98,850 thousand. The maturity is on 16 August 2022.

As part of the above mentioned syndicated 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 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 equity and consolidated total assets.
- d) Cash flow cover ratio (CFC). The parameter is calculated as the ratio of consolidated cash flows and consolidated debt repayments.

Bank borrowings in the amount of HRK 379,272 thousand (2019: HRK 543,371 thousand) are secured by mortgages over the Group's land and buildings and movables with a net carrying value of HRK 712,307 thousand (Note 19).

The lease liabilities of the Group are as follows:

	Minimum lease		Finance cost		Present value	
	2020	2019	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>					
Up to 1 year	236	676	(12)	(25)	224	651
Between 1 and 5 years	158	209	(6)	(5)	151	204
Total	394	885	(18)	(30)	375	855

Included in the consolidated financial statements within:

Current borrowings	224	651
Non-current borrowings	151	204
	375	855

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – BORROWINGS (CONTINUED)

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

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	217,940	220,001
Between 2 and 5 years	83,254	248,087
	<u>301,194</u>	<u>468,088</u>

Fixed and variable interest rates by major currencies are as follows:

	<u>2020</u>			<u>2019</u>		
	HRK	EUR	Other	HRK	EUR	Other
<i>Non-current borrowings</i>						
Banks in Croatia						
variable interest rate	0.57%	-	-	-	1.40%	-
fixed interest rate	0.75%	-	-	0.83%	1.36%	-
Banks abroad						
variable interest rate	-	0.94%	-	-	0.94%	-
fixed interest rate	-	-	4.79%	-	-	4.72%
Leases						
variable interest rate	-	-	4.80%	-	6.02%	4.80%
<i>Current borrowings</i>						
Banks						
variable interest rate	0.51%	-	0.99%	0.51%	-	2.75%
fixed interest rate	0.67%	-	-	0.93%	-	2.94%

An overview of borrowings by fixed and variable interest rates is as follows:

	<u>2020</u>		<u>2019</u>	
	<u>fixed</u>	<u>variable</u>	<u>fixed</u>	<u>variable</u>
	<i>(in thousands of HRK)</i>			
Non-current borrowings	147,903	153,291	238,253	229,835
Current borrowings	174,957	207,020	119,429	188,313
	<u>322,860</u>	<u>360,311</u>	<u>357,682</u>	<u>418,148</u>

The average weighted cost of debt on the Group's interest-bearing liabilities as at 31 December 2020 was 0.84% (31 December 2019: 1.21%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – BORROWINGS (CONTINUED)

The carrying amounts and fair values of the Group's long-term borrowings are as follows:

	Carrying value		Fair value	
	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>			
Non-current borrowings				
Banks in Croatia	201,441	242,601	200,133	241,845
Banks abroad	99,602	225,283	99,867	225,749
Finance leases	151	204	151	204
	301,194	468,088	300,151	467,798

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

	2020	2019
	<i>(in thousands of HRK)</i>	
Croatian kuna	437,332	113,832
EUR	217,699	623,656
Other currencies	28,140	38,342
	683,171	775,830

The share of borrowings in EUR has been reduced, so the impact of changes in the EUR exchange rates is not significant for the amount of borrowings.

The Group has the following undrawn borrowing facilities:

	2020	2019
	<i>(in thousands of HRK)</i>	
Available for withdrawal	408,715	341,591
	408,715	341,591

These comprise unused short-term revolving facilities, guarantees and letters of credit which the Group has available with several commercial banks, bearing a variable interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – BORROWINGS (CONTINUED)

Reconciliation of movements in liabilities with cash flows from financing activities:

<i>(in thousands of HRK)</i>	Loans	Finance leases	Share capital	Other reserves	Retained earnings	Non-controlling interests	Total
At 1 January 2020	775,830	101,828	1,698,636	385,834	620,878	46,334	3,629,340
<i>Cash transactions:</i>							
Loans received	389,411	-	-	-	-	-	389,411
Loans repayments	(491,496)	-	-	-	-	-	(491,496)
Repayment of lease liabilities	-	(36,651)	-	-	-	-	(36,651)
Dividend paid	-	-	-	-	(62,546)	-	(62,546)
Total cash transactions	(102,085)	(36,651)	-	-	(62,546)	-	(201,282)
<i>Non-cash transactions:</i>							
Effect of change in exchange rates	9,240	(304)	-	8,141	-	487	17,564
Actuarial gains (net of deferred tax)	-	-	-	(2,602)	-	-	(2,602)
Transfer from retained earnings (note 31)	-	-	-	78,312	(92,055)	-	(13,743)
Liquidation of subsidiary	-	-	-	-	-	911	911
Other non-cash transactions	186	41,890	-	-	-	-	42,077
Gain from right-of-use assets write-off	-	(4,800)	-	-	-	-	(4,800)
Total other changes related to equity	-	-	7,412	-	248,551	7,200	263,163
At 31 December 2020	683,171	101,964	1,706,048	469,685	714,828	54,932	3,730,627

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 35 – PROVISIONS

<i>(in thousands of HRK)</i>	Jubilee awards	Unused holiday accruals	Retirement benefits	Bonuses	Legal cases	Total
As at 31 December 2019						
Non-current	16,274	-	31,759	-	25,545	73,578
Current	2,374	15,755	-	11,800	163	30,092
At 1 January 2020	18,648	15,755	31,759	11,800	25,708	103,670
Increase of provisions	2,875	9,754	5,391	15,088	1,124	34,232
Utilised during the year	(2,865)	(10,913)	(1,594)	(11,645)	(240)	(27,257)
At 31 December 2020	18,658	14,596	35,556	15,243	26,592	110,645
Non-current	16,467	-	35,556	-	26,451	78,474
Current	2,191	14,596	-	15,243	141	32,171
	18,658	14,596	35,556	15,243	26,592	110,645

(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 2020.

(ii) Bonuses

As at 31 December 2020, the Group recognised HRK 15,243 thousand of provisions for bonuses to management (2019: HRK 11,800 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:

	2020	2019
Discount rate	0.50% - 3.17%	1.8% - 3.28%
Fluctuation rate	4.60% - 12.50%	4.69% - 11.85%
Average expected remaining working lives (in years)	21	21

The management believes that the Croatian corporate bond market is a deep market.

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

<i>(in thousands of HRK)</i>	2020		2019	
	Jubilee awards	Retirement benefits	Jubilee awards	Retirement benefits
At 1 January	18,648	31,759	17,199	29,847
Past service cost	195	405	477	513
Current service cost	1,088	1,611	1,036	1,308
Interest expense	70	51	237	238
Actuarial (gains) / losses	1,522	3,324	2,330	1,375
Benefits paid	(2,865)	(1,594)	(2,631)	(1,522)
At 31 December	18,658	35,556	18,648	31,759

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36 – OTHER LONG-TERM LIABILITIES

	2020	2019
	<i>(in thousands of HRK)</i>	
Deferred income on government incentives	18,755	18,874
Other long-term liabilities	374	489
	19,129	19,363

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

	2020	2019
	<i>(in thousands of HRK)</i>	
Trade payables	338,402	406,551
Other payables	216,508	200,020
	554,910	606,571

At 31 December 2020 and 31 December 2019, 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:

	2020	2019
	<i>(in thousands of HRK)</i>	
Accrued expenses	87,113	73,370
Salaries and other benefits to employees	77,904	80,755
Deferred income	29,825	23,802
Taxes, contributions and other duties payable	7,334	5,173
Dividends payable	2,585	2,202
Advances received	1,520	2,102
Accrued interest	836	856
Packaging waste disposal fee payable	784	1,244
Other payables	8,607	10,516
	216,508	200,020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 38 – RISK MANAGEMENT

Categories of financial instruments are as follows:

	2020	2019
	<i>(in thousands of HRK)</i>	
Financial assets at amortised cost		
Long-term loans (note 23)	5	6
Long-term deposits (note 23)	1,510	1,483
Short-term loans (note 25)	8	15
Trade receivables (including bills of exchange) (note 25)	922,791	887,862
Cash and cash equivalents (note 27)	51,856	55,589
	976,170	944,955
Financial assets through other comprehensive income		
Equity instruments	5,379	5,292
Financial assets at fair value through profit or loss		
Financial instruments	36,397	36,397
Forward contracts (note 26)	106	12
	36,503	36,409
Total financial assets	1,018,052	986,656
Financial liabilities at amortised cost		
Finance lease liabilities (note 34)	375	855
Borrowings (note 34)	682,796	774,975
Lease liabilities (note 20)	101,964	101,828
Trade and interest payables (note 37)	339,238	407,407
	1,124,373	1,285,065
Financial liabilities at fair value through profit or loss		
Forward contract (note 33)	66	292
	66	292
Total financial liabilities	1,124,439	1,285,357

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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:

	2020	2019
	<i>(in thousands of HRK)</i>	
Debt (non-current and current borrowings including forwards)	683,237	776,122
Cash and cash equivalents	(51,856)	(55,589)
Net debt	631,381	720,533
Equity	3,426,982	3,219,428
Net debt to equity ratio	18%	22%

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 ratio of operating profit before depreciation and amortization (EBITDA) and net debt as part of its compliance with the terms of the syndicated loan agreement (see note 34).

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 2020, 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 2020, Belupo, Podravka Moscow, Podravka Lagris, Podravka Poland and the Žito Group insured their receivables with insurers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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 Group's exposure and the credit ratings of its counterparties are continuously monitored. The Group accepts new customers and continues cooperation with existing customers with payment delays subject to meeting the company's credit risk parameters. Receivables are analysed on a weekly basis and necessary measures are taken with respect to their collection.

Risk mitigation instruments are defined based on the financial performance ratios for individual customers, using 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 2020, the Podravka Group did not have significant damage claims related to the insurance of receivable collection.

The Group's exposure to major customers

Following the progress of the extraordinary administration procedure over the Agrokor concern companies headquartered in Croatia and their takeover by the Fortenova group, Podravka continues its business cooperation with companies of the Fortenova group, regularly monitoring its receivables and exposure.

The COVID-19 virus pandemic has had and is having an impact on the somewhat slower collection of receivables, primarily from activities that were or are currently closed (hospitality and tourism) to prevent the spread of the virus, but without a significant impact on liquidity of the Podravka Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

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.

During 2020, the improvement in the cash flow planning process was continued, initiated in previous years, which additionally optimized the Podravka Group's liquidity.

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.

<i>as at 31 December 2020</i>	Net book value	Contracted cashflow			over 5 years
		Up to one year	1 - 5 years		
		<i>(in thousands of HRK)</i>			
<i>Non-interest bearing liabilities:</i>					
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	-
<i>Interest bearing liabilities</i>					
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
<i>Non-interest bearing assets:</i>					
Trade receivables	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	-
<i>Interest bearing assets:</i>					
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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management (continued)

Liquidity risk analysis (continued)

<i>as at 31 December 2019</i>	Net book value	Contracted cashflow	Up to one year	1 - 5 years	over 5 years
		<i>(in thousands of HRK)</i>			
<i>Non-interest bearing liabilities:</i>					
Forward contracts	292	292	292	-	-
Trade and interest payables	407,407	407,407	406,728	679	-
	407,699	407,699	407,020	679	-
<i>Interest bearing liabilities</i>					
Lease liabilities	855	885	673	212	-
Borrowings	774,975	790,471	314,310	476,161	-
Lease liabilities	101,828	116,339	34,923	57,036	24,380
	877,658	907,695	349,906	533,409	24,380
	1,285,357	1,315,394	756,926	534,088	24,380
<i>Non-interest bearing assets:</i>					
Trade receivables (including bills of exchange)	887,862	887,862	887,862	-	-
Financial instruments	41,689	41,689	-	41,689	-
Forward contracts	12	12	12	-	-
Cash and cash equivalents	55,589	55,589	55,589	-	-
	985,152	985,152	943,463	41,689	-
<i>Interest bearing assets:</i>					
Long-term loans	21	21	21	-	-
Long-term deposits	1,483	1,483	828	655	-
	1,504	1,504	849	655	-
	986,656	986,656	944,312	42,344	-
Net liquidity position	(298,701)	(328,738)	187,386	(491,744)	(24,380)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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 and taking into account the fact that key reference interest rates are currently at low levels, the Podravka Group is not significantly exposed to interest rate risk.

Exposure to changes in interest rates on borrowings and loans in accordance with the agreed dates of changes in interest rates is as follows:

<i>(in thousands of HRK)</i>	2020	2019
EURIBOR based bank loans	217,698	382,560
EURIBOR based finance lease	375	852
TZMF bill of exchange based loans*	125,318	17,000
PRIBOR based bank loans**	16,922	17,737
	360,313	418,149

* 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:

<i>as at 31 December 2020</i>	Contractual cash flows	up to 1 year	from 1 to 2 years	from 2 to 5 years
		<i>(in thousands of HRK)</i>		
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)	(483)	(200)

<i>as at 31 December 2019</i>	Contractual cash flows	up to 1 year	from 1 to 2 years	from 2 to 5 years
		<i>(in thousands of HRK)</i>		
At current interest rates	423,667	191,953	139,387	92,326
At current interest rates + 50 basis points	426,331	193,638	140,192	92,501
Effect of increase of interest rate by 50 bp	(2,664)	(1,684)	(805)	(175)

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)

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, etc.), and in the last year also in the segment of meat and meat products following the increased demand for pork in the market of China due to the swine fever.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(iii) Currency risk

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

	Liabilities		Assets	
	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
European Union (EUR)	493,350	687,905	227,427	270,163
Bosnia and Herzegovina (BAM)	38,499	43,873	146,334	129,865
Czech (CZK)	33,361	36,040	15,874	18,975
Poland (PLN)	24,008	24,002	42,167	46,063
Russia (RUB)	9,108	8,179	143,252	150,658
Other currencies	22,651	27,117	114,573	116,593

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 2020 to changes in the exchange rate of the Croatian kuna against EUR, BAM, CZK, PLN and RUB.

During 2020, the Podravka Group contracted derivative financial instruments to hedge currency risk, aimed at hedging the planned exchange rate for 2020. 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 2020, 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 2020, 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. For the purposes of active monitoring and minimising the currency risk, in 2020 fx forward contracts were concluded as available instruments of hedging against change 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 2020, a subsidiary entered into fx forward transactions for EUR HUF rate aimed at hedging the EUR exchange rate change.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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 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:

	<u>31.12.2020</u>	<u>31.12.2019</u>
EUR	7.5369	7.4426
BAM	3.8536	3.8053
PLN	1.6663	1.7493
CZK	0.2880	0.2924
RUB	0.0820	0.1074

The following table details the Podravka Group's sensitivity to a 1% increase in Croatian kuna against the relevant foreign currencies where the Podravka Group has significant exposure (EUR, BAM, RUB, PLN and CZK). The sensitivity analysis includes only outstanding cash items in foreign currency and their translation at the end of the period based on the percentage change in currency exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit where Croatian kuna 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	
	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Increase/(decrease) of net result	(2,659)	(4,177)	(175)	(171)
	BAM exposure		PLN exposure	
	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Increase/(decrease) of net result	1,078	860	182	221
	RUB exposure			
	2020	2019		
	<i>(in thousands of HRK)</i>			
Increase/(decrease) of net result	1,341	1,425		

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

(iv) Sales function based risks

The Podravka Group generates 31% (2019: 32%) of its revenue on the Croatian market, whereas 69% (2019: 68%) of the sales are generated on international markets.

The Podravka Group determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

As for 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

At the time of the crisis caused by the COVID-19 virus, a risk of overflow occurred, i.e. the risk of the influx of surplus goods from EU countries that would have directed their exports to Asian markets in previous years. It is crucial to use own comparative advantages and, in accordance with the policy of development of domestic production, to use the potential that the Group has, in order to be able to compete with other producers on the European market.

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Business risks management (continued)

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.

On 18. December 2020 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.

Risks of dependency on management and key employees

The Group strongly relies on its employees as one of the major competitive advantages. Employees are the highest value of the Group, i.e. their abilities and skills, used to achieve the Group's goals and create added value.

The labour market is characterised by slightly lower mobility compared to previous periods as a result of the crisis caused by the pandemic. The loss of key employees and finding new ones on the labour market and their introduction into the business may still have a significant impact on the Group's operations. Therefore, the Group endeavours to keep the existing staff at all levels.

Continued improvement in business processes requires, among other things, changes in the qualification structure of employees, so the Group tries to reduce the risk of unfavourable qualification structure by professional training and education of employees.

Special educational programs significantly raise awareness of corporate and information security, which is one of the key skills for successful work from home for management and workers in the era of the coronavirus pandemic.

A well-developed model rotates employees in accordance with the increased needs of work in production and logistics units, and adjusts the description and manner of performing work in marketing and sales teams.

The Group continuously evaluates management results to meet the assumptions for long-term achievement of its goals.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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. The vesting period normally starts at the date of option contract signed. Options are acquired separately for each business year. All the terms and conditions apply, unless circumstances arise as provided in each of the contracts applicable to the periods that implies an early termination of a mandate, breach of contractual provisions, leaving the Group, relocation within the Group, in which case such an option generally becomes exercisable within six months from the occurrence of any of the circumstances described above. The following share-based payment options were effective as at 31 December 2020:

Date of issue	Number of options	Vesting terms	Contracted vesting period
<i>Options granted to key management of the Group</i>			
As at 1 June 2016	2,000	Service during the contracted vesting period	30.06.2023.
As at 12 December 2017	2,000	Service during the contracted vesting period	30.06.2023.
As at 12 December 2017	4,000	Service during the contracted vesting period	31.12.2022.
As at 12 December 2017	2,000	Service during the contracted vesting period	30.09.2021.
As at 17 March 2017	2,000	Service during the contracted vesting period	31.12.2022.
As at 17 March 2017	17,000	Service during the contracted vesting period	31.12.2022.
As at 21 July 2017	5,000	Service during the contracted vesting period	31.12.2022.
As at 1 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	31.12.2022.
As at 31 July 2018	40,500	Service during the contracted vesting period	31.12.2023.
As at 31 July 2018	2,000	Service during the contracted vesting period	30.06.2023.
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 4 October 2018	4,000	Service during the contracted vesting period	31.12.2023.
As at 10 December 2019	32,500	Service during the contracted vesting period	31.12.2024.
As at 28 May 2019	10,000	Service during the contracted vesting period	31.12.2024.
As at 28 May 2019	2,500	Service during the contracted vesting period	30.06.2023.
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	4,167	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	32,500	Service during the contracted vesting period	31.12.2025.
As at 2 December 2020	16,500	Service during the contracted vesting period	31.12.2025.
Total share options	232,167		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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	2020	2019
Fair value at grant date (weighted average)	113	102
Share price at grant date (weighted average)	415	385
Exercise price (weighted average)	410	364
Expected volatility (weighted average)	18%	17%
Expected life (weighted average in years)	2.2	3.1
Risk-free interest rate (based on government bonds)	3.78%	4.39%

Expense recognised in profit or loss	2020	2019
	<i>(in thousands of HRK)</i>	
Equity-settled share-based payment transactions	11,120	7,554

The exercise price of share options for key management is in the range HRK 316.52 to HRK 429.13.

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

	2020		2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 January	189,217	364	173,744	328
Exercised	(19,717)	325	(50,027)	333
Granted	62,667	485	65,500	482
Outstanding at 31 December	232,167	410	189,217	364
Unused at 31 Dec	40,500	355	23,717	329

As at 31 December 2020, there are 232,167 of outstanding options (2019: 189,217 options). In 2020, 19,717 options were exercised (2019: 50,027 options).

The weighted average exercise price of outstanding options at the end of 2020 is HRK 410 (2019: HRK 364). The price of all unexercised share options is lower than the share market price as at 31 December 2020. The weighted average remaining validity of options is 2.2 years at year end (2019: 3.1 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Payments of members of the Management Board and directors		
Salaries, bonuses and other benefits paid	47,645	47,230
Share-based payments reimbursement	-	4,686
	<u>47,645</u>	<u>51,916</u>

Management of the Group which consists of the Management Board and directors has 65 person (2019: 65 person).

During the year 2020, there were no execution of options by the active members of the Management Board and directors (2019: HRK 4,686 thousand). For details see note 39.

During the year 2020, a total of HRK 2,521 thousand (2019: HRK 2,113 thousand) was paid at Group level on behalf of members of the Supervisory Board.

NOTE 41 – CONTINGENT LIABILITIES

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Guarantees and warranties given	28,433	29,134
	<u>28,433</u>	<u>29,134</u>

Guarantees and warranties mainly relate to the potential liability of Podravka d.d. on the basis of customs guarantees and guarantees for transit procedures and guarantees for regular repayment of advances and contingencies on the basis of customs guarantees and payment guarantees to the Croatian Ministry of Economy, Entrepreneurship and Crafts of the Belupo Group, contingencies for performance guarantees of the Žito Group, and contingencies on the basis of customs guarantees of Podravka d.o.o. Belgrade.

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 2020 and 2019, it is not probable that they will result in liabilities for the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 42 – COMMITMENTS

In 2020, the purchase costs of tangible fixed assets contracted with suppliers amounted to HRK 37,163 thousand (2019: HRK 51,057 thousand), which are not yet realised or recognised in the consolidated statement of financial position.

The future payments under operating leases in 2020 relate to the usage of IT equipment, as follows:

	2020	2019
	<i>(in thousands of HRK)</i>	
Up to 1 year	8,112	6,966
From 1 to 5 years	14,167	9,459
	<u>22,279</u>	<u>16,425</u>

NOTE 43 – EVENTS AFTER THE REPORTING PERIOD

Marin Pucar, the President of the Management Board of Podravka and the Croatian Employers' Association, one of our most prominent businessmen, passed away on 6 January 2021 after a serious illness, in the General Hospital in Koprivnica.

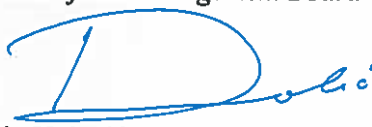
At its meeting held on 3 February 2021, the Supervisory Board of Podravka d.d. unanimously elected Martina Dalić, PhD, as the new President of the Management Board of Podravka d.d. The mandate of the newly appointed President of the Management Board will last until 23 February 2022, i.e. until the expiration of the mandate of the current Management Board.

NOTE 44 – APPROVAL OF FINANCIAL STATEMENTS

The financial statements were adopted by the Management Board and approved for issue on 30 April 2021.

Signed on behalf of the Company on 30 April 2021:

Martina Dalić
President of the Management Board



Hrvoje Kolarić
Member of the Management Board



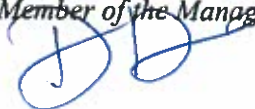
Marko Đerek
Member of the Management Board



Podravka d.d.

Ante Starčevića 32
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Republic of Croatia

Davor Doko
Member of the Management Board



Ljiljana Šapina
Member of the Management Board

