

**PODRAVKA INC.
ANNUAL REPORT
FOR 2020**



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ПОДРАВНА

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



1 Introductory word

The pandemic caused by the COVID – 19 disease, and the consequent closure and restriction of movement in March 2020, required rapid adjustment and transformation of business operations to new models and working conditions. Despite the negative effects on business, such as negative exchange rate differences, rising prices of raw materials and supplies and a weaker tourist season, **Podravka managed to continue with positive business trends** in 2020, which once again confirms the Company's capacity to adjust business even in unforeseen situations.

Thus, Podravka ended the challenging 2020 with HRK 2,112.2 m of sales revenue and operating profit in the amount of HRK 167.7 m. Also, in the past period, Podravka has further strengthened its export position in all key markets. In the markets of Western Europe and Overseas Countries, during 2020 there was an increased demand for all Podravka brands. In terms of structure, the largest growth was achieved in the assortment of Vegeta, Podravka soups, Podravka canned products, Lino cream spreads, Čokolina and Podravka chutney. In addition, during 2020, Podravka achieved **significant growth in sales of products in the online channel in all markets**.

Listening to the wishes and needs of loyal consumers, Podravka **continued to innovate and expand the range of its leading brands**, whose quality was again recognized and awarded with many Superior Taste Awards – the world's most prestigious awards in the food segment. In 2020, another great jubilee was marked – 50 years of Čokolino, which is equally enjoyed by all generations and its popularity and recognition reach far beyond the borders of Croatia, so today it can be found in twenty countries around the world. Following the interest of consumers in new ingredients, innovations and healthy trends, in 2020 Podravka launched novelties in the Čokolino range – Čokolino gluten – free and Čokolino Protein Power.

Behind the top brands and extraordinary business results are people – hard – working employees of Podravka 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, Podravka **confirmed its socially responsible role in the community** again last year and implemented a number of initiatives and projects, many of which are just a continuation of a long – term practice, such as cooperation with the Croatian Red Cross, support to various humanitarian organizations, cultural and artistic projects, sports clubs, children and youth organisations, projects aimed at preserving the environment and those that promote excellence in various segments of society and contribute to improving the quality of life in the community. In times of crisis, this responsibility is especially pronounced, so due to 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 civil protection. Also, a significant donation was provided for areas damaged in the massive earthquake.

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.

Podravka is highly optimistic about the year 2021, in which, with the recovery of the economy, new opportunities for further breakthroughs in markets around the world are expected.

Management Board of Podravka Inc.

2 Podravka profile

COMPANY NAME AND HEADQUARTER LOCATION

Name and headquarter location of Podravka Inc.: Ante Starčevića 32, 48000 Koprivnica

ORGANIZATIONAL STRUCTURE

The organisational structure of Podravka Inc. follows the business operations of the **Strategic Business Area Food**. Business Units that are included in the Strategic Business Area Food are related to certain product groups:

- ŽITO AND LAGRIS, CULINARY, PODRAVKA FOOD, BABY FOOD, SWEETS AND SNACKS, 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 include **Corporate Marketing and Communications and Research and Development**, whose role is to apply corporate standards and support for marketing and development in business units.

The organizational structure of Podravka also includes **Internal Audit**, which acts as an independent function. Business operations are also 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 are 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.

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.

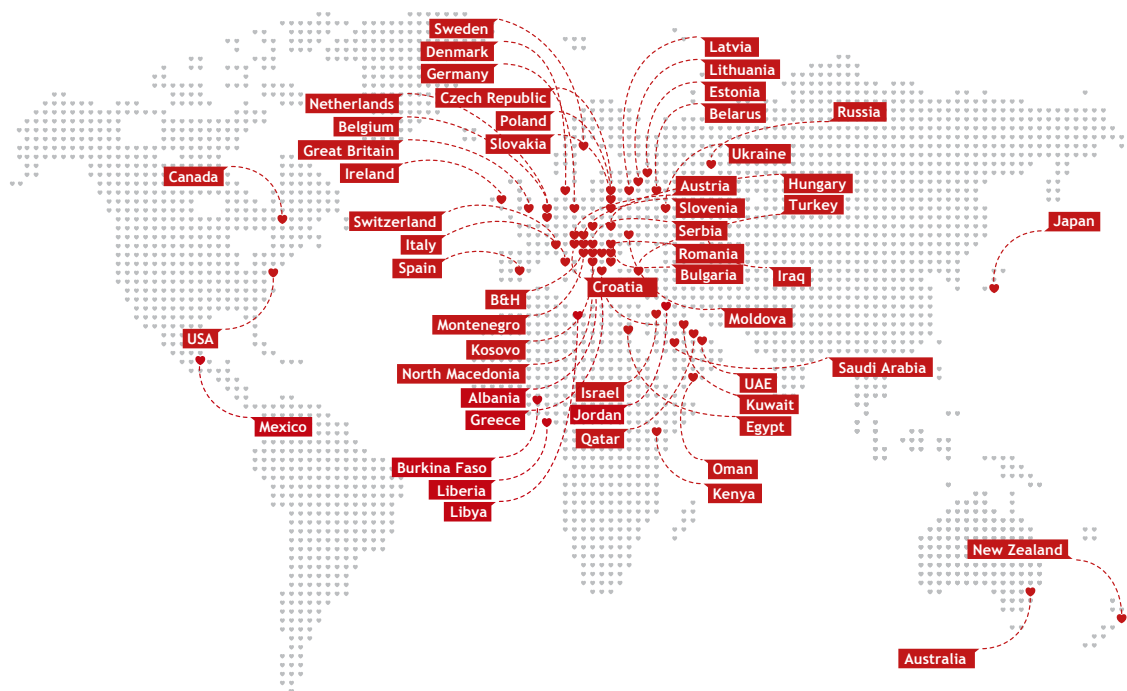
Knowledge, experience, dedication and passion are woven into the creation of **PODRAVKA SEMI – DURABLE AND DURABLE DRIED MEAT PRODUCTS AND SAUSAGES**. A high proportion of meat makes these products a valuable source of protein, and high quality raw materials and a carefully selected combination of spices 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.

LOCATION OF BUSINESS ACTIVITIES

Podravka Inc. is a multinational company that operates through subsidiaries and representative offices in **21 countries around the world on five continents** (Europe, North America, Asia, Africa and Australia).

Podravka operates abroad through 17 subsidiaries in the following countries: Slovenia, Bosnia and Herzegovina, Serbia, Northern Macedonia, Montenegro, Germany, Poland, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Russia, USA, Australia, UAE and Tanzania, and 7 representative offices Romania, Russia, Bulgaria, the Ukraine, Latvia, Kosovo and Sweden.



MARKETS IN WHICH THE COMPANY OPERATES

Podravka Inc.'s business activities take place within the Strategic Business Area (SBA) Food 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: 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, Ireland, Spain, USA, Canada, Australia and New Zealand
 - **Eastern Europe** that includes: Russia, the Ukraine, Kazakhstan, Estonia, Latvia, Lithuania, and other Eastern European countries
 - **New markets** that include the countries: MENA (United Arab Emirates, Saudi Arabia Iraq, Kuwait, Qatar, Oman, Saudi Arabia, Jordan, Lebanon, Egypt and Libya), Africa (East and West Africa) and Asian countries.

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

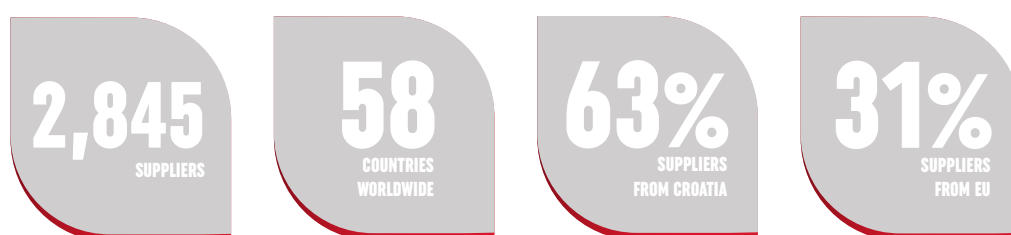
CHARACTERISTICS OF THE SUPPLY CHAIN OF PODRAVKA INC.

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

The entire procurement range of the Company 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 the 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 Purchasing department of Podravka Inc. Supplier Relationship Management is of strategic importance for the Company. 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.

The Company conducts business with direct producers, primary producers, small crafts, family farms, veterans' associations, subcontractors, distributors, wholesalers and large multinational companies.

In 2020, Podravka Inc. traded with 2845 suppliers from 58 countries worldwide. In the structure of the total supplier trading, 63% are suppliers from Croatia, while suppliers from EU member states account for 31%. The majority of business from NON EU countries takes place with suppliers from Switzerland, Northern Macedonia, Turkey and Serbia.



SIGNIFICANT CHANGES IN THE SUPPLY CHAIN OF PODRAVKA INC.

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 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.

EXTERNAL INITIATIVES

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.

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 Županija 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 Višnja, 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 Podravka is company **growth and development through the efficient management of the product range, with focus on key brands (Vegeta, Podravka, Lino), 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 the markets of the Adria region, Podravka 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 of Podravka's success are professional, creative and ambitious employees, willing to contribute to the Company's wellbeing and to invest additional efforts 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.

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 and Lino.

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.

BUSINESS INVESTMENTS

By increasing operating efficiency, additional capital is released that Podravka 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

Podravka 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. By taking care of the product range and the knowledge of our consumers we have gained throughout the years, Podravka understands their needs and provides them with high quality products, thus strengthening its own brands.

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 obligations 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.

RISKS

RISK FACTORS

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

expose the companies to increased political, economic and social risks on the other.

In addition to these external factors, Podravka 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's 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. 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 Company's potential losses, improve investor relations management, increase the Company's financial safety and integrate risk reports and analyses into the decision – making process**, thus creating additional value for the Company and matching return rates with assumed risks arising from operating activities.

FINANCIAL RISK

In the course of its business operations, Podravka 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 department 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

Podravka 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’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, Podravka 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, i.e. using “*natural hedging*”, 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.

INTEREST RISK

Podravka 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 Podravka's debts and taking into account the fact that the key interest rates are currently at low levels, **Podravka 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.

Podravka **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 – fulfillment of contractual liabilities. The exposure of Podravka 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 Podravka's liquidity.

Upon meeting all Company parameters for credit rating, business cooperation with new customers may begin or continue with current ones, with payment deferred. Receivables are analysed on a weekly basis and necessary measures are taken regarding their collection.

Protection measures are defined for individual customer categories based on financial indicators, 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, in compliance with the situation on the market.

Depending on the needs and collection status of receivables on individual markets during 2020, Podravka 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.

During 2020, Podravka did not have any significant claims related to the collection of receivables.

LIQUIDITY RISK

Podravka 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 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.

Cash flow planning is performed at the level of affiliated companies, 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 Podravka'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.), 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 of raw material.

In order to mitigate these impacts, the Company 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, 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 Podravka 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 Podravka is continuously faced with the need to promptly identify and anticipate them in order to adapt its products and brands, accordingly. As a result, Podravka 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, **Podravka 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, Podravka **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, Podravka 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

Podravka 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, Podravka acts on the intensity of product demand and thus on negotiating positions in defining the terms of business with clients.

In addition, Podravka 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'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.

Podravka **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 Podravka operates.

The entire business of Podravka 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

Podravka Inc. is **engaged in the production of food 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 business of Podravka Inc. 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 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, Podravka Inc. 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 Podravka Inc. 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.

Podravka Inc. **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 Podravka Inc. 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 Podravka Inc. 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 Podravka Inc. operates in many markets around the world.

In a competitive business environment, Podravka Inc. 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.

Podravka Inc. 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, Podravka Inc. 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 Podravka Inc. is committed.

Podravka Inc. 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, Podravka Inc. 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, Podravka Inc. 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

Podravka Inc.'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. Podravka Inc. 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 Podravka Inc. 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 Podravka Inc. has managed to maintain positive business trends, which confirms the Company's ability to adapt to unexpected circumstances.

In the shortest possible time, Podravka Inc. **fully adjusted its business processes** so that food production was able to promptly meet the increased market needs. 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 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.

Podravka Inc. **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 a bio assortment.

THE IMPACT OF THE PANDEMIC ON PODRAVKA INC.'S BUSINESS – 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. 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.

THE IMPACT OF THE PANDEMIC ON PODRAVKA INC.'S BUSINESS – 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 PODRAVKA INC.'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 Company 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 Company has successfully adapted to the new conditions in accordance with the current situation and needs.

THE IMPACT OF THE PANDEMIC ON PODRAVKA INC.'S BUSINESS – 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.



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.



"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.

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.

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'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 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.



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.

"THE KIND OF CROATIA WE NEED" HELD AT THE RESTAURANT ŠTAGE LJ

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.**

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.

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.

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*.



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.

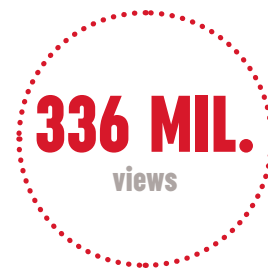
For the first time in the advertising of digital campaigns, **the TikTok social network was used**, with the aim of approaching the younger target group and presenting the content in a fun and interesting way. Vegeta, Dolcela, Kviki and Lino assisted by famous influencers tried their hand at that. But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

During the year, **17 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.

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.





COOLINARIKA

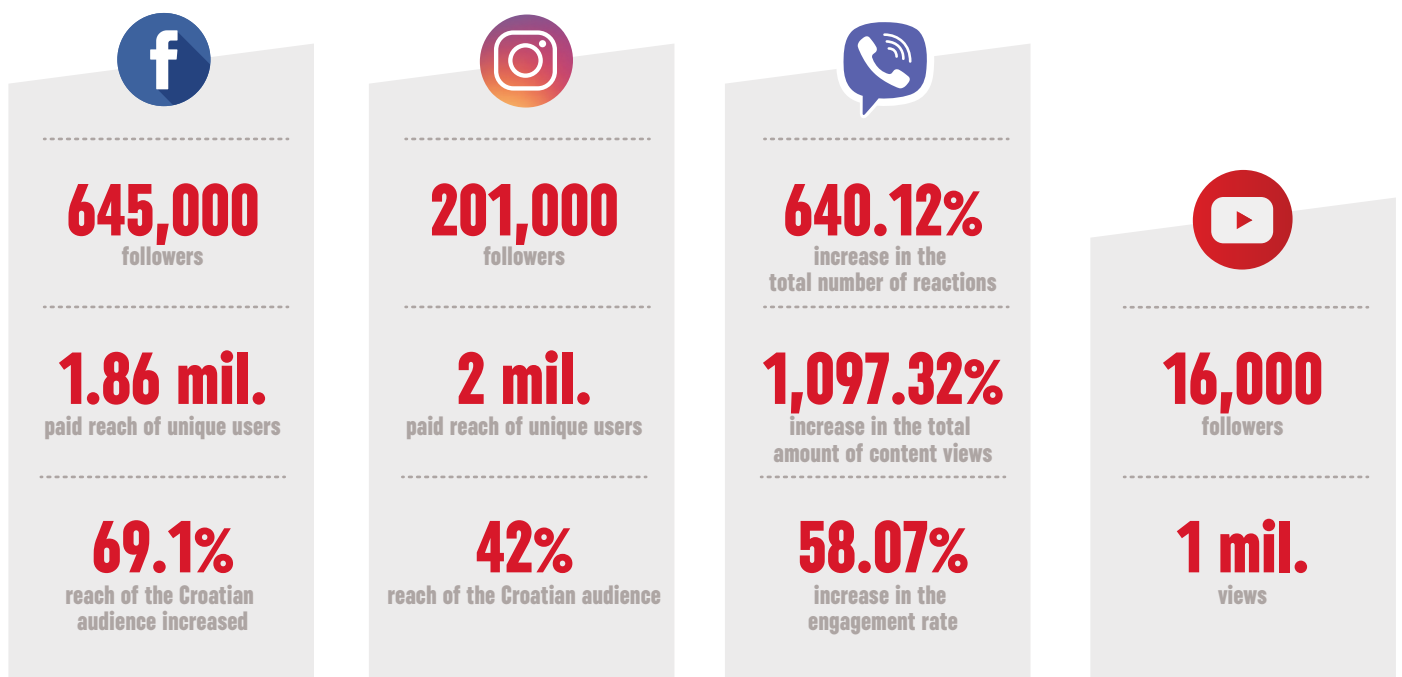
Coolinarika continues to prove its importance with **195,000 so far uploaded recipes and 207,000 registered users**. The contents of Coolinarika's website were viewed more than 336 million times in 2020. The biggest innovation in 2020 is the project of revising Coolinarika which has been devotedly worked 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

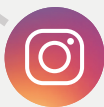
1,275,900
annual reach

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.

5 Awards and recognitions

PODRAVKA ONCE AGAIN WON MANY 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, 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 star among the winners was Lino Lada Gold 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 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.



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).

7 Certification

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.

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)	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. Vegetable Factory, Umag	
4	BRC, Issue 8 (British Retail Consortium) Global Standard for Food Safety	1. Podravka Inc. headquarters, Koprivnica 2. Soup & Vegeta Factory, Koprivnica 3. Baby Food & Cream Spreads Factory, Koprivnica	Certification Authority SGS

NO.	STANDARD	LOCATIONS	AUTHORITY
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 	<p>Halal quality Certification Centre</p> <p>*Emirates Authority for Standardization & Metrology</p>
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 <i>merc blage</i> 500 g › Bio rice vacuum 800 g › Bio biozone millet 500 g › Bio oatmeal <i>merc</i> 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
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

NO.	STANDARD	LOCATIONS	AUTHORITY
11	ISO 27001:2013	1. Podravka Inc.	Certification Authority SGS
12	ISO 45001:2018	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
- 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.

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 Trilece & 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.



9 Employee relations

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 Company, **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 Podravka pensioners and employees, all pensioners and employees who completed 30, 35 and 40 years of service in Podravka were provided with a package of Podravka products **to express gratitude to their long – time and former employees**. A Christmas package was also delivered to pensioners in December.



10 Activities in the field of environmental protection

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.

11

Impact of climate and climate change

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:

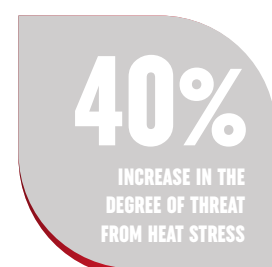
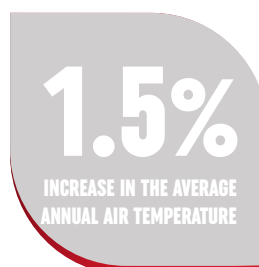
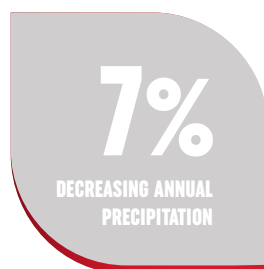
- installation of irrigation systems on some production areas (with the aim of increasing irrigated areas in the near future)
- construction of a drainage system for excess rainwater from endangered production areas (with the aim of increasing drained areas in the near future).
- **a trend of increase 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**.

12 Corporate social responsibility

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.



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 Podravka Inc. 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	15.22
Total CO ₂ emissions (scope 2)	000 t	6.61
Total CO ₂ Emissions from chipped wood ¹	000 t	10.24
Environmental Fines (Amount)	HRKm	-
Total Energy Consumption	000 MWh	124.65
Renewable Energy Use	000 MWh	25.86
Electricity Used	000 MWh	28.64
Fuel Used – Coal/Lignite	000 t	-
Fuel Used – Natural Gas	000 m ³	5,964.06
Fuel Used – Crude Oil/Diesel	000 m ³	1.86
Self Generated Renewable Electricity	000 MWh	0.73
Total Waste	000 t	4.17
Waste Recycled	000 t	1.54
Total Water Use	000 m ³	576.90
% Water Recirculated	Percentage	13%
Total Water Recirculated	000 m ³	72.31
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	9.0
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	YES
Total number of employees as at 31.12.2020	Number	3,154
Number of woman employed as at 31.12.2020	Number	1,462
Employee Average Age as at 31.12.2020	Number	46
% Disabled in Workforce as at 31.12.2020	Percentage	1.78%
Lost working hours due to work – related injuries	Number of hours	8,488
Number of work – related injuries	Number	71

³ Included in Podravka Group's Code of Ethical Principles (in Croatian), available on [https://www.podravka.com/investors/corporate – governance/ documents/](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/](https://www.podravka.com/responsibility/food-quality-and-safety/food-safety/food-safety-and-quality-system-policy/)

⁵ Available available on [https://www.podravka.hr/kompanija/odgovornost/politika – ohs/](https://www.podravka.hr/kompanija/odgovornost/politika-ohs/) (in Croatian).

SOCIAL CRITERIA – "S"	UNIT	2020
Rate of fatalities as a result of work – related injuries	Number of injuries	0
Rate of work – related injuries that resulted with lost working hours ⁶	Number of injuries	10.16
Rate of recordable work – related injuries ⁶	Number of injuries	11.10
Rate of high – consequence work – related injuries ⁶	Number of injuries	1.69
Employee Turnover %	Percentage	4.29%
% Employees Unionized	Percentage	56.40%
Number of Part – Time Employees	Number	0
Number of Temporary Employees	Number	71
Number of Contractors	Number	24
Training Policy	YES / NO	YES
Employee Training Cost	HRKm	1.8
Total Hours Spent by Firm – Employee Training	Number of hours	38,041
Total number of suppliers as at 31.12.2020	Number	2,845
Total number of domestic suppliers ⁷	Number	2,296
Quarterly earnings calls	YES / NO	NO

⁶ Calculation is based on 500 full – time workers (1.000.000 hours per year) in relation to total number of working hours during the reporting period.

⁷ Suppliers from Croatia.

GOVERNANCE CRITERIA – "G"	UNIT	2020
Size of Audit Committee	Number	3
Years Auditor Employed ⁸	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
% 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 ⁹	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 ¹⁰	Percentage	88.89%
Number of Executives as at 31.12.2020	Number	52

⁸ 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.

⁹ Podravka Inc. Management board has 5 years tenure.

¹⁰ Supervisory Board member is also the representative of workers therefore is not considered as an independent member.

GOVERNANCE CRITERIA – "G"	UNIT	2020
Number of Women Executives as at 31.12.2020	Number	12
Average Executive Age as at 31.12.2020	Number	46
Executive Age Range as at 31.12.2020	Number	35 – 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

FINANCIAL REPORT

1 Business results

INTRODUCTION NOTES

Given the Podravka Inc.'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, limiting the number of customers in supermarkets, 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. 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. 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.

Podravka Inc. 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 Inc. 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 in tables are possible due to rounding.

KEY CHARACTERISTICS OF PODRAVKA INC. BUSINESS RESULTS IN 2020

PROFITABILITY OF PODRAVKA INC.					NORMALIZED			
(in HRK millions)	2019	2020	Δ	%	2019	2020	Δ	%
Sales revenue	2,078.8	2,112.2	33.4	1.6%	2,078.8	2,112.2	33.4	1.6%
Gross profit	624.5	634.4	9.9	1.6%	624.5	634.4	9.9	1.6%
EBITDA*	229.3	267.3	38.0	16.5%	234.1	266.3	32.2	13.7%
EBIT	115.2	167.7	52.5	45.6%	136.6	167.9	31.3	22.9%
Net profit	145.2	193.8	48.6	33.5%	152.8	194.0	41.2	27.0%
Gross margin	30.0%	30.0%		-1 bp	30.0%	30.0%		-1 bp
EBITDA margin	11.0%	12.7%		+162 bp	11.3%	12.6%		+135 bp
EBIT margin	5.5%	7.9%		+240 bp	6.6%	7.9%		+138 bp
Net margin	7.0%	9.2%		+219 bp	7.3%	9.2%		+184 bp

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

In the 1 – 12 2020 period, Podravka Inc. recorded sales revenues of HRK 2,112.2m, which is HRK 33.4m (+1.6%) higher than in the comparative period. Gross profit amounted to HRK 634.4m, which is HRK 9.9m (+1.6%) higher than in the comparative period. The cost of goods sold increased by 1.6%, which resulted in a gross margin of 30.0%. The reported operating profit (EBIT) amounts to HRK 167.7m, while in the comparative period it amounted to HRK 115.2m, which is an increase of HRK 52.5m (+45.6%). A negative impact on operating profit comes from unfavourable movements in foreign exchange differences on trade receivables and trade payables (HRK -8.8m in 1 – 12 2020; HRK +4.6m in 1 – 12 2019), and a positive impact comes from savings on multiple cost levels, primarily on costs of marketing investments and selling and distribution costs. Reported net profit in the 1 – 12 2020 period amounted to HRK 193.8m, which is HRK 48.6m (+33.5%) higher compared to 1 – 12 2019. In addition, net profit was affected by negative movements of foreign exchange differences on borrowings (HRK -2.1m in 1 – 12 2020; HRK -1.0m in 1 – 12 2019), which was cancelled out by a positive impact of higher finance income and lower finance costs. Following the increase in pre – tax profit, the tax liability is HRK 20.1m higher. Normalized net profit amounted to HRK 194.0m.

As at 31 December 2020, total assets of Podravka Inc. amounted to HRK 3,056.6m, which is 0.5% higher than at the end of 2019. The significant increase on the assets side was recorded by inventories (HRK +19.4m), property plant and equipment (HRK +10.4m), investments in subsidiaries (HRK +6.0m) and deferred tax asset (HRK +4.0m), while the significant decrease was recorded by trade and other receivables (HRK -22.6m) and right – of – use assets (HRK -2.5m). On the equity and liabilities side, an increase is recorded by provisions (HRK +79.6m) and retained profit (HRK +49.8m), while a decrease is recorded by trade and other payables (HRK -44.0m) and income tax liability (HRK -14.8m). Indebtedness of Podravka Inc. decreased in the reporting period, primarily due to the repayment of a portion of borrowings, that are lower by HRK 60.4m.

Cash flow from operating activities in 1 – 12 2020 amounted to positive HRK 175.9m, due to business operations and movements in the working capital. Cash flow from investing activities at the same time amounted to negative HRK 63.1m, primarily due to cash used for the purchase of non – current tangible and intangible assets. In the same period, cash flow from financing activities amounted to negative HRK 112.7m, due to the dividend distribution and repayment of borrowings. As at 31 December 2020, cash and cash equivalents amounted to HRK 2.3m, which is at the same level as in the comparative period.

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	2019	2020
(in HRK millions)	Podravka Inc.	Podravka Inc.
Production line equipment*	0.5	-
Loans to subsidiaries**	10.0	(0.9)
Investments in real estates*	10.4	-
Claimed receivables related to relationship with Fortenova Group***	(12.1)	-
Investments in subsidiaries*	4.6	2.1
Other*	3.3	-
Total	16.7	1.2

Referred to above value adjustments: *Note 10 – Other expenses, **For 2019 Note 10 – Other expenses, for 2020 Note 9 – Other revenues, ***Note 9 – Other revenues.

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

REPORTED EBITDA CALCULATION	2019	2020
(in HRK millions)	Podravka Inc.	Podravka Inc.
Reported EBIT	115.2	167.7
+depreciation and amortization	97.5	98.4
+value adjustments	16.7	1.2
Reported EBITDA	229.3	267.3

NORMALIZED EBITDA CALCULATION	2019	2020
(in HRK millions)	Podravka Inc.	Podravka Inc.
Normalized EBIT	136.6	167.9
+depreciation and amortization	97.5	98.4
Normalized EBITDA	234.1	266.3

ONE – OFF ITEMS IN 1–12 2020 AND 1–12 2019

In the 1 – 12 2020 period, Podravka Inc. incurred HRK 4.2m costs of severance payments for employees on long – term sick leaves, HRK 5.3m of income from reversal of impairment of receivables, HRK 0.05m of cost related to the process of closing a related company in Africa, HRK 0.9m of income from value adjustment to a loan given to a related company and HRK 2.1m of costs from value adjustment of a stake in related company presented in the table Value adjustments in the “Additional tables for 1 – 12 2020” section, treated by the company’s management as one – off item. The estimated impact of these one – off items on taxes is HRK 0.03m (decreases it).

In the 1 – 12 2019 period, Podravka Inc. incurred HRK 4.8m costs of severance payments for employees on long – term sick leaves and a costs from value adjustments to non – current assets in the net amount of HRK 16.7m, presented in the table Value adjustments in the “Additional tables for 1 – 12 2020” section, treated by the company’s management as one – off item. The estimated impact of these one – off items on taxes is HRK 13.8m (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 PODRAVKA INC. PROFIT AND LOSS STATEMENT

	2019	2020
(in HRK millions)	Podravka Inc.	Podravka Inc.
Reported EBIT	115.2	167.7
+production line equipment	0.5	-
+loans to subsidiaries	10.0	(0.9)
+investments in real estate	10.4	-
+claimed receivables related to relationship with Fortenova Group	(12.1)	-
+investments in subsidiaries	4.6	2.1
+other	3.3	-
+reversal of receivable impairment	-	(5.3)
+cost related to closing of affiliated company in Africa	-	0.0
+severance payments (long term sick – leave)	4.8	4.2
Normalized EBIT	136.6	167.9
Reported Net Income	145.2	193.8
+normalizations above EBIT level	21.4	0.2
+estimated impact of normalization on taxes*	(13.8)	(0.0)
Normalized Net Income	152.8	194.0

*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 Podravka Moscow (HRK -0.9m).

2 Share in 1 – 12 2020

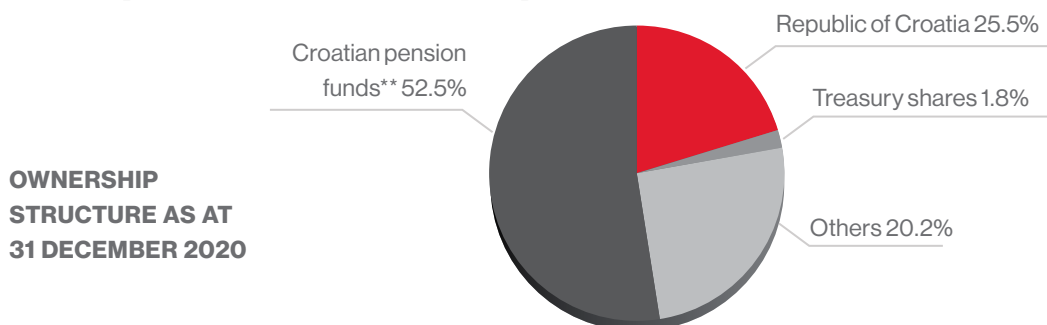
LIST OF MAJOR SHAREHOLDERS AS AT 31 DECEMBER 2020

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.

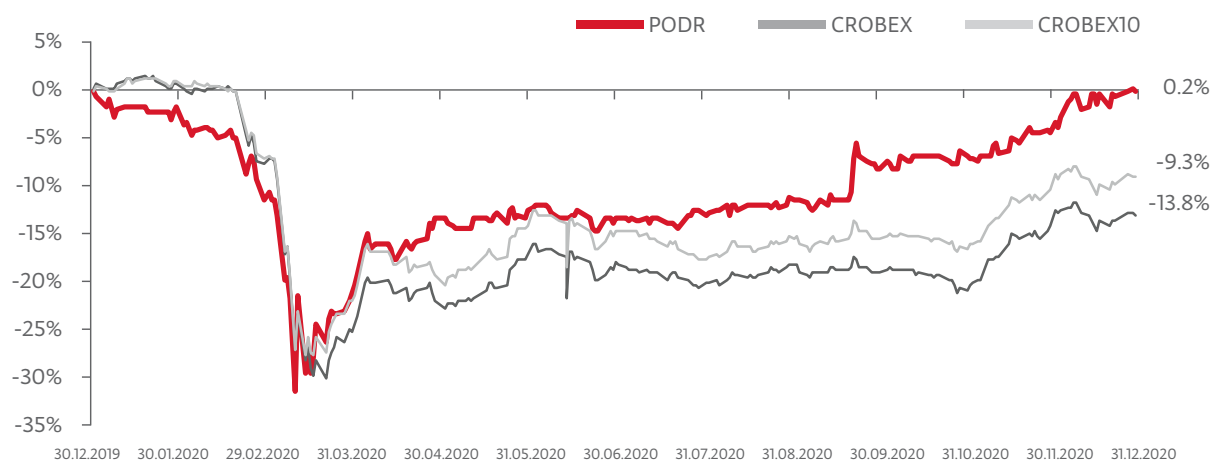
Podravka Inc. has a stable ownership structure where the most significant stake is held by the Republic of Croatia and domestic pension funds. As at 31 December 2020, the Republic of Croatia holds 25.5% stake, and domestic pension funds (mandatory and voluntary) hold a total of 52.5% stake. Podravka 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).



**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%

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.

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.

**SEPARATE
FINANCIAL
STATEMENTS FOR
THE YEAR 2020**

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

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

The annual financial statements for the Group (the Company and its subsidiaries) are published separately and issued simultaneously with the separate financial statements.

Martina Dalić
President of the Management Board




Davor Doko
Member of the Management Board




Hrvoje Kolarić
Member of the Management Board



Ljiljana Šapina
Member of the Management Board



Marko Đerek
Member of the Management Board



Podravka d.d.
Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Koprivnica, 30 April 2021

Independent auditor's report

To the Shareholders of Podravka d.d.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Podravka d.d. (the Company), which comprise the statement of financial position as at 31 December 2020, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020 and of its financial performance and its 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 financial statements* section of our report.

We are independent of the Company 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. 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 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 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 financial statements.

Key Audit Matter	How we addressed Key Audit Matter
<p>Impairment of investments in subsidiaries and related loans</p> <p>Impairments of the Company's investments in subsidiaries and related loans are disclosed in Note 10 Other expenses. In addition, Note 20 Investments in subsidiaries and Note 36 Related party transactions disclose the underlying assets in the financial statements and a description of the accounting policy and key judgements and estimates are included in Note 3 Summary of significant accounting policies and Note 6 Key accounting judgements and estimates, respectively.</p> <p>Management annually performs impairment tests for investments in subsidiaries and related loans where indicators of impairment exists. For investments identified as such, management assesses potential impairment loss by comparing the carrying amount with the recoverable amount. 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, the timing of future operating expenditure, and the most appropriate discount and long term growth rates.</p> <p>Due to complexity and judgement used in the assessment of impairment indicators, potential impact of COVID 19, and the application of valuation techniques, impairment of Company's investments in subsidiaries and related loans is considered a key audit matter.</p>	<p>Audit procedures included understanding of the investment impairment process and walk through of controls implemented within. We examined the methodology used by management to assess the carrying value of respective investment in subsidiaries and related loans to determine its compliance with IFRS as adopted by the EU and consistency of application.</p> <p>For the investments where impairment indicators were not identified by the Company, we evaluated the management's impairment indicators assessment by considering factors such as insufficient net assets, declining financial performance, or existence of any overdue loans and receivables.</p> <p>We evaluated the assumptions used in the current year assessment of impairment indicators and tested whether these assumptions are in line with the results achieved in the current year as well as current development in the industry, potential impact of COVID 19 and the Company's expectations for the key inputs.</p> <p>In respect of impairment tests performed by management, we evaluated the subsidiaries' future cash flow forecasts and the process by which they were prepared. We compared the budget inputs in the models to the approved budgets and forecast inputs in the models to management plans.</p> <p>We compared current year actual results with the figures included in the prior year forecasts to evaluate assumptions used. We also compared management's key assumption for long-term growth rate by comparing it to historical growth results and market data.</p> <p>We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis and tested the appropriateness of discount rates used in the calculation with the assistance of the specialists. We also assessed the completeness of the impairment charges by comparing calculated impairment loss with accounting records.</p> <p>We also assessed on the adequacy of the relevant disclosures in the 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>Impairment of brands</p> <p>A description of the key judgements and estimates regarding impairment of the Company's brands are included in Note 3 Summary of significant accounting policies and Note 6 Key accounting judgements and estimates. The assets are presented in Note 16 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 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 intangible assets 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 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 financial statements, the Company 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 paid 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 applicable accounting standards. 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 based on contractual terms differed from management records, 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 Company's accounting records.</p> <p>We also assessed on the adequacy of the relevant disclosures in the 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 Company's Annual Report for year 2020

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

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act. 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 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 Company'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 Company's annual report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed financial statements;

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

Responsibilities of management and Audit Committee for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's 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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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 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

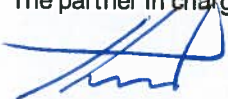
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 30 April 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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 financial statements.

Report on Regulatory requirements

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



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

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

<i>(in thousands of HRK)</i>	<i>Note</i>	2020	2019
Revenue from sales	8	2,112,160	2,078,803
Cost of goods sold	11	(1,477,751)	(1,454,255)
Gross profit		634,409	624,548
Other income	9	10,694	18,894
General and administrative expenses	11	(156,041)	(152,847)
Selling and distribution costs	11	(185,248)	(193,535)
Marketing expenses	11	(125,050)	(152,986)
Other expenses	10	(11,071)	(28,904)
Operating profit		167,693	115,170
Finance income	13	65,082	51,159
Finance expenses	14	(8,938)	(11,277)
Net finance income		56,144	39,882
Profit before tax		223,837	155,052
Income tax	15	(30,005)	(9,863)
Net profit for the year		193,832	145,189
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial loss - (net of deferred tax)		(1,484)	(639)
Total other comprehensive income		(1,484)	(639)
Total comprehensive income		192,348	144,550

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

SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

<i>(in thousands of HRK)</i>	<i>Note</i>	31 Dec 2020	31 Dec 2019
ASSETS			
Non-current assets			
Intangible assets	<i>16</i>	84,121	84,738
Property, plant and equipment	<i>17</i>	811,568	801,195
Right-of-use assets	<i>18</i>	34,370	36,822
Investment property	<i>19</i>	109,055	110,000
Investments in subsidiaries	<i>20</i>	984,250	978,279
Deferred tax assets	<i>15</i>	48,389	44,389
Non-current financial assets	<i>21</i>	37,691	37,152
Total non-current assets		2,109,444	2,092,575
Current assets			
Inventories	<i>22</i>	457,305	437,901
Trade and other receivables	<i>23</i>	486,337	508,929
Financial assets at fair value through profit and loss	<i>24</i>	49	7
Income tax receivables		145	-
Cash and cash equivalents	<i>25</i>	2,282	2,180
Non-current assets held for sale	<i>26</i>	1,075	1,075
Total current assets		947,193	950,092
Total assets		3,056,637	3,042,667
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	<i>27</i>	1,701,707	1,696,863
Reserves	<i>28</i>	510,313	430,689
Retained earnings	<i>29</i>	199,852	150,057
Total equity		2,411,872	2,277,609
Non-current liabilities			
Borrowings	<i>31</i>	92,489	152,925
Liabilities of right-of-use assets	<i>18</i>	25,830	26,925
Provisions	<i>32</i>	34,682	34,787
Total non-current liabilities		153,001	214,637
Current liabilities			
Trade and other payables	<i>33</i>	296,989	341,676
Income tax liabilities		476	15,227
Financial liabilities at fair value through profit or loss	<i>30</i>	66	292
Borrowings	<i>31</i>	166,507	166,438
Liabilities of right-of-use assets	<i>18</i>	9,946	10,730
Provisions	<i>32</i>	17,780	16,058
Total current liabilities		491,764	550,421
Total liabilities		644,765	765,058
Total liabilities and shareholders' equity		3,056,637	3,042,667

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

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

<i>(in thousands of HRK)</i>	Share capital	Reserve for treasury shares	Legal reserves	Other reserves	Retained earnings	Total
As at 1 January 2019	1,690,066	147,604	30,948	203,715	116,836	2,189,169
<i>Comprehensive income</i>						
Profit for the year	-	-	-	-	145,189	145,189
Actuarial losses (net of deferred tax)	-	-	-	(639)	-	(639)
Other comprehensive income	-	-	-	(639)	-	(639)
Total comprehensive income	-	-	-	(639)	145,189	144,550
<i>Transactions with owners recognised directly in equity</i>						
Allocation from retained earnings (note 28 (i))	-	-	5,657	43,404	(49,061)	-
Excercise of options	4,479	-	-	-	-	4,479
Fair value of share-based payment transactions (note 35)	2,318	-	-	-	-	2,318
Dividend declared	-	-	-	-	(62,907)	(62,907)
Total transactions with owners recognised directly in equity	6,797	-	5,657	43,404	(111,968)	(56,110)
As at 31 December 2019	1,696,863	147,604	36,605	246,480	150,057	2,277,609
<i>Comprehensive income</i>						
Profit for the year	-	-	-	-	193,832	193,832
Actuarial losses (net of deferred tax)	-	-	-	(1,484)	-	(1,484)
Other comprehensive income	-	-	-	(1,484)	-	(1,484)
Total comprehensive income	-	-	-	(1,484)	193,832	192,348
<i>Transactions with owners recognised directly in equity</i>						
Allocation from retained earnings (note 28 (i))	-	-	7,259	73,849	(81,108)	-
Excercise of options	(3,722)	-	-	-	-	(3,722)
Fair value of share-based payment transactions (note 35)	8,566	-	-	-	-	8,566
Dividend declared	-	-	-	-	(62,929)	(62,929)
Total transactions with owners recognised directly in equity	4,844	-	7,259	73,849	(144,037)	(58,085)
As at 31 December 2020	1,701,707	147,604	43,864	318,845	199,852	2,411,872

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

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

<i>(in thousands of HRK)</i>	<i>Note</i>	2020	2019
Profit before tax		223,837	155,052
Depreciation and amortization	11	98,371	97,489
Impairment loss on assets held for sale, property, plant, equipment and intangibles	10	-	3,746
Impairment of investment property	10	-	10,399
Reversal of impairment of non-current assets	9	-	(12,124)
Reversal of impairment of loans given and interest	9	(878)	-
Reversal of impairment of other liabilities	9	(5,299)	-
Write-off on investment	10	2,102	4,637
Impairment of given loans and interests	10	-	10,019
Remeasurement of financial assets and liabilities at FVTPL	13	(268)	166
Dividend income	13	(61,671)	(45,874)
Share-based payment transactions		8,566	2,318
Gain on disposal of property, plant, equipment	9	(829)	(716)
Gain from sale of right-of-use assets	9	(9)	-
Impairment losses on trade receivables		(316)	2,129
Liquidation of subsidiary		45	-
(Decrease)/increase in provisions		(194)	5,249
Interest income	13	(3,143)	(4,896)
Interest expense	14	6,792	9,754
Foreign exchange differences		3,597	322
		270,703	237,670
Changes in working capital:			
(Increase) in inventories		(19,404)	(69,645)
Decrease/(increase) in receivables		25,264	(24,039)
(Decrease) in payables		(45,714)	(19,927)
Cash generated from operations		230,849	124,059
Income tax paid		(48,137)	(21,700)
Interest paid		(6,814)	(10,071)
Net cash from operating activities		175,898	92,288
Cash flows from investing activities			
Increase of investments in subsidiaries		(2,102)	(3,827)
Purchase of property, plant, equipment and intangibles		(98,030)	(68,999)
Proceeds from sale of property, plant, equipment and intangibles		1,178	1,017
Loans given		(16,900)	(2,459)
Proceeds from loans given		14,490	297
Interest received		1,193	355
Dividends received		37,070	15,871
Net cash from investing activities		(63,101)	(57,745)
Cash flows from financing activities			
Proceeds from borrowings		242,517	310,638
Repayment of borrowings		(281,449)	(343,285)
Sale of treasury shares		-	6,129
Repayment of lease liabilities		(11,217)	(11,835)
Dividend paid		(62,546)	(62,177)
Net cash from financing activities		(112,695)	(100,530)
Net increase/decrease of cash and cash equivalents		102	(65,987)
Cash and cash equivalents at beginning of year		2,180	68,167
Cash and cash equivalents at the end of year	25	2,282	2,180

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

NOTES TO THE 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. In 1934, the brothers Wolf opened in Koprivnica a fruit processing unit, the predecessor of the Company. Today, the Company is one of the leading companies in industry operating in the area of South-Eastern, Central and Eastern Europe. The principal activity of the Company comprises production of a wide range of foodstuffs.

The Company was established as a joint stock company under entity's registration number 010006549 and personal identification number 18928523252.

The Company 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 27.

General Assembly

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

Supervisory Board:

Members of the Supervisory Board:

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

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 FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

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

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

The Financial statements are available on the Company’s website.

These financial statements were authorised for issue by the Management Board on 30 April 2021.

(ii) Basis of measurement

The financial statements of the Company have been prepared on the historical cost basis, except where stated otherwise (see note 7).

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Investments in subsidiaries

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

Investments in subsidiaries are accounted for initially at cost and subsequently at cost less impairment losses. Investments in subsidiaries are tested annually for impairment (note 6).

3.2 Non-current assets held for sale

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 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 separate statement of financial position are not reclassified in the comparative separate statement of financial position.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Revenue recognition

The Company recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company 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 Company 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 Company considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer.

Company's sales contracts generally comprise of only one performance obligation. As such, the Company does not disclose information about the allocation of the transaction price.

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

The Company manufactures and sells its own products and goods of third parties (for which the Company is a distributor) in the wholesale market. Revenue is recognised when the Company 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 specific 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 sales of products and merchandise – retail

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

(iii) Revenue from services

Sales of services, such as private label production, are recognised in the accounting period in which the services are rendered, by reference to stage of completion, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 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 Company leases certain property (including long-term lease of agricultural land), plant and equipment.

The Company 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 Company 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 Company recognizes right-of-use assets at cost. The cost of right-of-use assets comprises of the 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 Company 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Leases (continued)

The statement of comprehensive income includes the cost of depreciation of the right-of-use assets and interest expenses on lease liabilities (see note 18.).

Leases where the significant portion of risks and rewards of ownership are not retained by the Company are classified as operating leases. Payments made under operating leases are charged to the 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 Company 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 Company 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 Company 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 Company as a lessee shall continue to recognize the transferred asset and shall recognize a financial liability equal to the transfer proceeds.

3.5 Foreign currency transactions

Transactions and balances in foreign currencies

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

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

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

3.6 Borrowings and borrowing costs

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Borrowings and borrowing costs (continued)

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

3.7 Government grants

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

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

3.8 Dividends

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

3.9 Segment reporting

A segment is a distinguishable component of the Company 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 separate level, the following segments are internally monitored and reported:

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

The Company identifies operating segments on the basis of internal reports about components of the Company 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 separate financial statements. Comparative information is presented using the comparability principle.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Taxation

(i) *Income tax*

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

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

(ii) *Deferred tax assets and liabilities*

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of 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) *Tax exposures*

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

(iv) *Value added tax (VAT)*

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the separate 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Property, plant and equipment

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

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

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

Buildings	10 to 50 years
Equipment	3 to 30 years

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

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

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.

3.12 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.

Subsequent expenditure is capitalised when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss when they are incurred. If the Company starts using the investment property, it is reclassified to property, plant and equipment.

The Company 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)

3.13 Intangible assets

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

(i) Brands and distribution rights

Product distribution rights and some brands 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 distribution rights over their useful lives estimated at 3-15 years.

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

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their 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;
- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Impairment of non-financial assets

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

3.15 Inventories

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

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

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

3.16 Trade receivables

(i) Trade receivables

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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 Company receives security instruments.

Bills of exchange received from customers with respect to outstanding trade receivables may be discounted with factoring companies prior to their maturity. If a bill of exchange bears a recourse right, the factoring company takes over the receivable management, but does not assume the credit risk of non-collection of the receivable from the original (principal) debtor. Based on factoring company's payments, the Company 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 separate 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 Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

3.20 Employee benefits

(i) *Pension obligations and post-employment benefits*

In the normal course of business through salary payment, the Company makes payments to mandatory pension funds managed 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 Company 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 Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Employee benefits (continued)

(iii) Regular retirement benefits

Benefits falling due more than 12 months after the reporting date are discounted to their present value based on the calculation performed at each reporting date by an independent actuary, using assumptions regarding the number of staff likely to earn regular retirement benefits, estimated benefit cost and the discount rate which is determined as average expected rate of return on investment in government 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 Company recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefits will be payable, estimated benefit cost and the discount rate which is determined as the average expected rate of return on investment in 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 Company recognises a provision for employee bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Share-based compensation

The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). At each reporting date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision to original estimates, if any, in the separate 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 Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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 Company 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 Company 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 Company may irrevocably elect to present subsequent changes in the instrument's fair value in OCI. This election is made on an instruments-by-instruments 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 Company 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial instruments (continued)

A Financial assets (continued)

(ii) Classification and subsequent measurement (continued)

Business model assessment

The Company 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 Company'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 Company'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 Company 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 Company's financial assets is simple and primarily relates to trade receivables without a significant financial component, loans given and short-term deposits in banks, 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 FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 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 Company 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 Company 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 Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 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 Company 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 Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company 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 Company 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 Company 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial instruments (continued)

E. Impairment of non-derivative financial assets

Recognition of impairment losses

The Company recognises loss allowances for estimated credit losses (ECLs) on:

- financial assets measured at amortised cost;
- debt instruments measured at FVOCI; and
- contract assets.

The Company 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 and contract assets 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 Company 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 Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if the receivable is past due for a period longer than the average collection period in the normal course of the Company's operations in the relevant market.

The Company assumes that the credit risk on a financial asset has increased significantly if early warning indicators have been activated in accordance with the Company's policy or contractual terms of the instrument.

The Company considers a financial asset to be fully or partially in default if:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company 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 Company 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 Company in accordance with the contract and the cash flows that the Company 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) adjusted for the macroeconomic impact. The calculation of the historical rate is adjusted for extraordinary and specific circumstances, if required.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial instruments (continued)

E. Impairment of non-derivative financial assets (continued)

Credit-impaired financial assets

At each reporting date, the Company 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 Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

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) (continued)

- **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

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 Company does not expect the adoption of the expected standards and interpretations to have a material impact on the Company's financial statements.

NOTES TO THE 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 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. 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 provide 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 (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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 had no significant impact on the financial statements of the Company.

NOTES TO THE 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 32).

(iii) Consequences of certain legal actions

The Company 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 Company's obligations arising from these legal actions are recognised on a consistent basis.

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

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

Where the Company is a plaintiff in a particular court case, any economic benefits expected to flow to the Company as a result are recognised only when virtually certain which is generally as at the date of inflow of these economic benefits. Provisions for the Company's obligations arising from legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 32).

(iv) Recoverability of trade and other receivables

The recoverable amount of trade and other receivables is estimated at present value of future cash flows discounted at the market interest rate at the measurement date. Short-term receivables with no stated interest rate are measured by the amount of original invoice if the effect of discounting is not significant. The Company regularly reviews the ageing structure of trade receivables and monitors the average collection period. In cases where debtors with extended payment periods (generally above 120 days) are identified, the Company reduces the related credit limits and payment days for future transactions and, in cases where it deems it necessary, imposes restrictions on future transactions until the outstanding balance is repaid either entirely or in part.

NOTES TO THE 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 (continued)

In cases where the Company identifies receivables toward debtors which have entered into pre-bankruptcy or bankruptcy proceedings, an impairment loss is immediately recognised in full.

By applying the percentage that reflects expectations on the non-collection of trade receivables (expected credit loss), the Company 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 Company actively negotiates with the respective debtors taking into account expectations of future business relations, significance of exposure to an individual debtor, possibilities of compensation, exercise of instruments of security (if any) or seizure of assets.

(v) Impairment testing for brands

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

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

Brands

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

The Company annually performs impairment tests in order to assess whether the recoverable amount of brands indicates potential impairment of their carrying amount whereby the primary focus is on brands where the difference between the recoverable amount and the carrying amount indicates a significant sensitivity to changes in key variables used in impairment testing. The calculation of the recoverable amount of brands is based on five-year plans for sales of products and categories which comprise a certain brand and which the Company developed bearing in mind its corporate selling 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 after tax (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 Company 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 4 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 7.96% (2019: ranging from 4.26% to 6.82%), while the applied terminal growth rate ranges from 2.30% to 3.16% (2019: ranging from 2.10% to 2.70%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) *Impairment testing for brands (continued)*
Brands (continued)

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
	44,463	128,059	135,410

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 the event 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 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 Company had no impairment losses with respect to brands. During 2020 and 2019, the Company had no impairment losses with respect to brands.

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

The Company annually performs analysis of impairment indicators for property, plant and equipment in order to assess whether their recoverable amount indicates potential impairment of their carrying amount.

For property, plant and equipment held for sale, the Company estimates their recoverable amount upon classification of such assets as held for sale based on an independent expert valuer's estimate of the fair value of these assets less costs to sell and records these assets at the lower of their carrying amount and the recoverable amount. Generally, the Company considers with significant confidence that the recoverable amount of such assets will be realized through sale or disposal in the short term and in cases where there has been a delay in disposal due to circumstances which do not require reclassification of such assets into property, plant and equipment, the Company considers whether there have been significant changes in the circumstances and expectations related to the disposal process which would require re-assessment of their fair value. If a significant change in circumstances has not occurred, but the asset relates to property which is intended to be used until disposal, the Company 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.

In 2020, the Company had no impairment costs related to property, plant and equipment, investment property and assets held for sale (2019: impairment of property and plant in the amount of HRK 3,287 thousand, impairment of equipment in the amount of HRK 459 thousand and impairment of investment property in amount of HRK 10,399 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(vii) *Impairment test for investments in subsidiaries*

The Company annually performs analysis of impairment indicators for investments in subsidiaries where indications of impairment exist, based on the results of a static analysis of the Company's exposure compared to the net assets of the subsidiary. For investments identified as such, the Company estimates the recoverable amount and compares it with the carrying amount. The calculation of the recoverable amount is generally based on five-year business plans for the respective subsidiaries which the Company developed bearing in mind its corporate selling and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories) with respect to the applicable business segment and the analysis of its competitors. The business 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 period of 2.50% for the subsidiary in the Czech Republic (2019: 2.50%), 4.0% for the subsidiary in Serbia (2019: 4.0%), 2.40% for the subsidiary in Poland (2019: 2.50%) and 1.80% for the subsidiary in Russia (2019: 1.80%).

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 as the weighted average cost of capital after tax for the respective market and the food industry (in case of the company in the Czech Republic the post-tax discount rate amounts to 4.65% (2019: 4.99%), for the company in Serbia to 8.69% (2019: 7.46%), for the company in Poland to 5.17% (2019: 5.46%) and for the company in Russia to 10.07% (2019: 8.79%). The expected rate of average annual revenue growth in the projected five-year period was 2.09% for the company in the Czech Republic (2019: 2.0%), 3.12% for the company in Serbia (2019: 3.10%), 2.0% for the company in Poland (2019: 2.20%), and 6.49% for the company in Russia (2019: 3.70%).

During 2020, the Company had impairment costs related to a share in the subsidiary FOODPRO LIMITED, Tanzania in the amount of HRK 2,102 thousand since values are not recoverable (2019: HRK 1,499 thousand Podravka -Polska Sp.z o.o, Warszawa and HRK 3,188 thousand, Podravka Int., Moscow).

During 2020, the COVID-19 pandemic did not have an impact on the going concern of the Company's operations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 7 – DETERMINATION OF FAIR VALUES

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

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

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

Fair values are categorised into different 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 Company has made the following significant fair value estimates, as further explained in detail in the following notes:

- note 21: Non-current financial assets
- note 24: Financial assets at fair value through profit or loss
- note 26: Non-current assets held for sale
- note 30: Financial liabilities at fair value through profit or loss
- note 35: Share-based payments

NOTES TO THE 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	2,064,436	2,033,215
Revenue from services	47,724	45,588
	2,112,160	2,078,803

Key customers

Sales to major customers owned or controlled by the same third party Group represent approximately 11% of the Company's total revenue in 2020 (2019: approximately 11% of the total revenue).

Third-party sales in Croatia account for 50% (2019: 54%) of the total revenue from external customers, whereas the remaining 50% (2019: 46%) represent foreign sales.

For management purposes, the Company 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 Company are as follows:

- BP Culinary
- BP Baby food, sweets and snacks
- BP Podravka Food
- BP Meat products, meat solutions and savoury spreads
- BP Fish
- BP Žito
- 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 Company'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 statement of comprehensive income.

	Segment revenues	Segment expenses	Segment depreciation	Segment profits/ (loss)
<i>(in thousands of HRK)</i>	2020	2020	2020	2020
BP Culinary	760,859	539,602	19,364	201,893
BP Baby food, sweets and snack	399,081	315,916	21,451	61,714
BP Podravka food	344,943	321,709	22,397	837
BP Meat products, solutions and spreads	275,105	264,894	12,364	(2,153)
BP Fish	141,536	138,588	2,476	472
BP Žito and Lagris	58,394	58,957	1,327	(1,890)
Other	132,242	130,730	2,459	(947)
	2,112,160	1,770,396	81,838	259,926
Financial income (note 13)				65,082
Other income (note 9)				10,694
Central administration costs				(91,856)
Other expenses (note 10)				(11,071)
Financial expenses (note 14)				(8,938)
Profit before tax				223,837

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 8 – SALES REVENUE (CONTINUED)

Segment revenues and results (continued)

	Segment revenues	Segment expenses	Segment depreciation	Segment profits/ (loss)
<i>(in thousands of HRK)</i>	2019	2019	2019	2019
BP Culinary	732,740	541,188	20,571	170,981
BP Baby food, sweets and snack	381,083	313,597	20,257	47,229
BP Podravka food	332,416	313,976	20,688	(2,248)
BP Meat products, solutions and spreads	257,708	253,827	13,398	(9,517)
BP Fish	154,636	154,097	2,312	(1,773)
BP Žito and Lagris	57,967	59,900	1,306	(3,239)
Other	162,253	148,866	2,485	10,902
	2,078,803	1,785,451	81,017	212,335
Financial income (note 13)				51,159
Other income (note 9)				18,894
Central administration costs				(87,155)
Other expenses (note 10)				(28,904)
Financial expenses (note 14)				(11,277)
Profit before tax				155,052

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 Other segment comprises the following product groups: merchandise and food services.

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

The accounting policies of the reportable segments are the same as the Company'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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 8 – SALES REVENUE (CONTINUED)

Segment revenues and results (continued)

Geographical information

The Company operates in five principal geographical areas by which it reports the following sales:

<i>(in thousands of HRK)</i>	2020	2019
Region Adria	1,633,092	1,654,927
Region Western Europe and overseas countries	233,976	198,103
Region Central Europe	173,563	167,026
Region East Europe	58,775	47,698
Region New markets	12,754	11,049
	2,112,160	2,078,803

Below is a more detailed overview of countries by geographical area:

Region Adria	International markets		New markets			
Southeast Europe	Western Europe	Overseas	Central Europe	Eastern Europe		
Croatia	Germany	USA	Poland	Russian Federation	Irak	China
Slovenia	Austria	Canada	Czech Republic	Ukraine	United Arab Emirates	Japan
Bosnia and Herzegovina	Switzerland	Australia	Slovakia	Estonia	Kuwait	Israel
North Macedonia	France	New Zealand	Hungary	Lithuania	Katar	Mexico
Serbia	Great Britain		Romania	Latvia	Oman	
Montenegro	Italy			Moldova	Saudi Arabia	
Kosovo	Denmark			Belarus	Turkey	
Bulgaria	Sweden			Uzbekistan	Jordan	
Albania	Norway				Lebanon	
Greece	Ireland				Egypt	
	Spain				Libya	
					Kenya	
					Liberia	

The Company does not follow detailed breakdown of balance sheet by segment but only by the two main segments on consolidated level.

NOTE 9 – OTHER INCOME

	2020	2019
	<i>(in thousands of HRK)</i>	
Reversal of impairment of other receivables	5,299	-
Income from reversal of legal provision	2,092	47
Grant income	1,312	1,215
Reversal of impairment of loans given to subsidiary	878	-
Profit on disposal of property, plant, equipment and intangibles (note 16 & 17)	829	716
Interest income relating to trade receivables	275	203
Gains on write-off right-of-use assets	9	-
Reversal of impairment of financial assets	-	12,124
Foreign exchange gains on receivables and payables	-	4,589
	10,694	18,894

In 2020, the Company generated income from the reversal of impairment of other receivables in the amount of HRK 5,299 thousand (2019: HRK 0) and income from the reversal of impairment of loans and interest in the amount of HRK 878 thousand (2019: HRK 0).

Grant income relates to non-refundable government grants in agriculture.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTE 10 - OTHER EXPENSES

	2020	2019
	<i>(in thousands of HRK)</i>	
Trade foreign exchange differences	8,841	-
Write-off on investments (note 20)	2,102	4,637
Interest expense relating to trade payables	82	103
Impairment of investment property	-	10,399
Write-off of related party loans (note 36)	-	10,019
Impairment loss on property, plant and equipment (note 17)	-	3,746
Other	46	-
	11,071	28,904

During 2020, the Company had a loss of impairment of investments in subsidiary in the amount of 2,102 thousand (2019: HRK 4,637 thousand).

During 2020, the Company had no costs of impairment related to loans given and interest receivable from related companies (2019: HRK 2,151 thousand impairment of interest receivable on loans given).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 11 – EXPENSES BY NATURE

	2020	2019
	<i>(in thousands of HRK)</i>	
Raw material, supplies and energy	937,892	878,022
Staff costs (note 12)	432,071	432,529
Cost of goods sold	275,628	320,856
Depreciation and amortisation	98,371	97,489
Advertising and promotion	80,525	107,827
Services	71,718	67,168
Transport	21,770	18,180
Taxes and contributions independent of operating	11,815	12,244
Rental costs	7,961	6,202
Entertainment	4,576	6,609
Telecommunications	3,613	4,039
Daily allowances and other business travel	2,936	8,995
Packaging waste disposal fee	2,628	2,697
Bank charges	1,818	1,956
Professional education	908	1,343
Impairment of trade and other receivables, net	(316)	757
Changes in value of inventory	(13,633)	(21,948)
Other expenses	3,809	8,658
Total cost of good sold, selling and distribution expenses, marketing expenses and general and administrative costs	1,944,090	1,953,623

Costs of services include audit fees. Fees for the audit of the Company's financial statements amounted to HRK 1,052 thousand (2019: HRK 930 thousand). During 2020, the Company did not receive any non-audit services from the auditor.

Depreciation and amortisation include HRK 1,839 thousand of government grants for co-financing of assets (2019: HRK 1,073 thousand).

The Company 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).

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	906,425	835,845
Cost of goods sold	275,628	320,856
Staff costs	201,361	199,597
Depreciation and amortisation	58,541	57,456
Production services	19,945	20,453
Taxes and contributions independent of operating results	6,402	6,442
Other expenses (transport, rent, education etc.)	9,449	13,606
	1,477,751	1,454,255

The Company reports gross profit as revenue from the sale of products less cost of goods sold as shown in the specification above.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 11 – EXPENSES BY NATURE (CONTINUED)

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

	2020	2019
	<i>(in thousands of HRK)</i>	
Cost of goods sold	58,541	57,456
General and administrative expenses	19,515	19,118
Selling, logistics and distribution costs	18,535	19,394
Marketing expenses	1,780	1,521
	98,371	97,489

Staff costs allocated to each function are as follows:

	2020	2019
	<i>(in thousands of HRK)</i>	
Cost of goods sold	201,361	199,597
Selling, logistics and distribution costs	103,444	106,750
General and administrative expenses	97,255	96,775
Marketing expenses	30,011	29,407
	432,071	432,529

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 12 – STAFF COSTS

	2020	2019
	<i>(in thousands of HRK)</i>	
Salaries	357,836	372,667
Transportation	10,630	11,067
Share options (note 35)	8,566	2,318
Termination benefits	4,274	4,760
Other costs of employees	50,765	41,717
	432,071	432,529

As at 31 December 2020, the number of staff employed by the Company was 3,167 (2019: 3,166).

The average number of employees during 2020 is 3,225 employees (2019: 3,239 employees).

In 2020, termination and retirement benefits of HRK 4,274 thousand were paid to 42 employees (2019: termination and retirement benefits of HRK 4,760 thousand were paid to 34 employees).

Other employee costs relate mainly to the costs of meals and accommodation of employees in the amount of HRK 8,456 thousand (2019: HRK 1,983 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 costs of employees relate to Christmas, Easter expenses and other non-taxable employee benefits in the amount of HRK 17,510 thousand (2019: HRK 18,635 thousand), and holiday expenses in the amount of HRK 9,115 thousand (2019: HRK 8,089 thousand).

NOTE 13 – FINANCE INCOME

	2020	2019
	<i>(in thousands of HRK)</i>	
Dividends income from related parties	61,671	45,873
Interest on related party loans	2,995	4,739
Remeasurement of financial assets and liabilities at	268	-
Interest on term deposits	148	154
Unrealized gains on swap contracts	-	390
Other interest	-	3
	65,082	51,159

Dividend received refers to income on the basis of declared dividends in subsidiaries Belupo, d.d., Koprivnica in the amount of HRK 28,000 thousand, Žito d.o.o., Ljubljana in the amount of HRK 24,603 thousand, Podravka d.o.o.e.l., Skopje in the amount of HRK 3,025 thousand, Podravka d.o.o., Sarajevo in the amount of HRK 2,548 thousand, Podravka-International s.r.o., Zvolen in the amount of HRK 2,621 thousand and Lagris a.s., Lhota u Luhačovic in the amount of HRK 874 thousand, (2019: in subsidiaries Žito d.o.o., Ljubljana in the amount of HRK 29,586 thousand, Podravka d.o.o.e.l., Skopje in the amount of HRK 8,028 thousand, Podravka-International Kft, Budapest in the amount of HRK 3,657 thousand, Podravka-International s.r.o., Zvolen in the amount of HRK 3,439 thousand, and Lagris a.s., Lhota u Luhačovic in the amount of HRK 1,147 thousand, the remainder relates to dividends from investments in unrelated companies).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 14 – FINANCE EXPENSES

	2020	2019
	<i>(in thousands of HRK)</i>	
Interest expense and similar charges	6,792	9,754
Net foreign exchange loss on borrowings	2,146	967
Remeasurement of financial instruments at fair value	-	556
	8,938	11,277

NOTE 15 – INCOME TAX

Tax (income)/expense consists of:

	2020	2019
	<i>(in thousands of HRK)</i>	
Current income tax	33,680	24,437
Deferred income tax	(3,675)	(14,574)
	30,005	9,863

Reconciliation of the effective tax rate

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

	2020	2019
	<i>(in thousands of HRK)</i>	
Profit before taxation	223,837	155,052
Tax calculated at 18% (2019:18%)	40,291	27,909
Non-taxable income	(11,101)	(8,258)
Non-deductible expenses	1,445	1,625
Tax incentives (research and development, education and other)	(115)	(150)
Reassessment of recoverability and write-off of deferred tax	-	(11,665)
	(809)	-
Tax paid abroad	294	402
Income tax	30,005	9,863
Effective tax rate	13%	6%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 15 – INCOME TAX (CONTINUED)

Deferred tax assets

Deferred tax assets arose from the following:

2020	Opening balance	Recognised in profit or loss	Recognised directly in equity	Closing balance
<i>(in thousands of HRK)</i>				
Basis:				
Intangible assets	668	52	-	720
Property, plant and equipment/ assets held for sale	6,994	(181)	-	6,813
Provisions	6,042	1,739	325	8,106
Inventory	3,990	25	-	4,015
Financial assets	24,430	309	-	24,739
Share based payments	1,263	872	-	2,135
Receivables	1,002	50	-	1,052
Investment tax credit	-	809	-	809
	44,389	3,675	325	48,389

2019	Opening balance	Recognised in profit or loss	Recognised directly in equity	Closing balance
<i>(in thousands of HRK)</i>				
Basis:				
Intangible assets	687	(19)	-	668
Property, plant and equipment/ assets held for sale	4,571	2,423	-	6,994
Provisions	6,947	(1,047)	142	6,042
Inventory	3,501	489	-	3,990
Financial assets	12,343	12,087	-	24,430
Share based payments	1,335	(72)	-	1,263
Receivables	289	713	-	1,002
	29,673	14,574	142	44,389

The most significant effect on the increase in deferred tax assets in 2020 relates to short-term and long term provisions.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 16 – INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	Software	Distribution rights	Brands	Investments in progress	Total
Cost					
At 1 January 2019	218,807	29,410	58,514	1,538	308,269
Additions	-	-	-	15,250	15,250
Transfers	9,999	-	-	(9,999)	-
Disposals	(1,780)	-	(438)	-	(2,218)
Transfers from non-current assets	-	-	-	12	12
At 31 December 2019	227,026	29,410	58,076	6,801	321,313
Accumulated amortisation					
At 1 January 2019	(181,298)	(29,410)	(14,010)	-	(224,718)
Charge for the year	(14,075)	-	-	-	(14,075)
Disposals	1,780	-	438	-	2,218
At 31 December 2019	(193,593)	(29,410)	(13,572)	-	(236,575)
Carrying amount					
As at 31 December 2019	33,433	-	44,504	6,801	84,738
Cost					
At 1 January 2020	227,026	29,410	58,076	6,801	321,313
Additions	-	-	-	14,692	14,692
Transfers	14,508	-	-	(14,508)	-
Disposals	(312)	-	-	-	(312)
Transfers from non-current assets	-	-	-	99	99
At 31 December 2020	241,222	29,410	58,076	7,084	335,792
Accumulated amortisation					
At 1 January 2020	(193,593)	(29,410)	(13,572)	-	(236,575)
Charge for the year	(15,318)	-	-	-	(15,318)
Disposals	222	-	-	-	222
At 31 December 2020	(208,689)	(29,410)	(13,572)	-	(251,671)
Carrying amount					
As at 31 December 2020	32,533	-	44,504	7,084	84,121

Accumulated amortization and impairment losses include a total of HRK 1,510 thousand relating to accumulated impairment losses (2019: HRK 1,510 thousand of accumulated impairment losses).

The total intangible assets with indefinite useful lives as at 31 December 2020 relate to brands and amount to HRK 44,504 thousand (31 December 2019: HRK 44,504 thousand).

Intangibles in progress mostly relate to licence agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of HRK)</i>	Land and buildings	Equipment and fittings	Assets under construction	Total
Cost				
At 1 January 2019	1,799,736	1,197,818	61,139	3,058,693
Additions	-	-	53,749	53,749
Transfers	9,317	57,356	(66,673)	-
Purchase of used assets	-	101	-	101
Transfer to related companies	-	(106)	(66)	(172)
Transfer to intangible assets	-	-	(12)	(12)
Transfer from non current assets held for sale (i)	-	12	-	12
Disposals	(263)	(21,305)	-	(21,568)
Impairment	-	-	(1,615)	(1,615)
At 31 December 2019	1,808,790	1,233,876	46,522	3,089,188
Accumulated depreciation				
At 1 January 2019	(1,314,916)	(921,837)	-	(2,236,753)
Charge for the year	(31,021)	(39,414)	-	(70,435)
Used assets write-offs	-	(101)	-	(101)
Transfer to related companies	-	93	-	93
Transfer from assets held for sale	-	(12)	-	(12)
Disposals	263	21,083	-	21,346
Impairment (i)	(1,672)	(459)	-	(2,131)
At 31 December 2019	(1,347,346)	(940,647)	-	(2,287,993)
Carrying amount				
As at 31 December 2019	461,444	293,229	46,522	801,195
Cost				
At 1 January 2020	1,808,790	1,233,876	46,522	3,089,188
Additions	-	-	83,334	83,334
Transfer	18,015	47,117	(65,132)	-
Transfer from related companies	-	-	2	2
Transfer to related companies	-	(156)	(9)	(165)
Transfer to intangible assets	-	-	(99)	(99)
Transfer to investment property	-	-	(533)	(533)
Disposals	-	(20,300)	-	(20,300)
At 31 December 2020	1,826,805	1,260,537	64,085	3,151,427
Accumulated depreciation				
At 1 January 2020	(1,347,346)	(940,647)	-	(2,287,993)
Charge for the year	(31,554)	(40,519)	-	(72,073)
Transfer to related companies	-	44	-	44
Disposals	-	20,163	-	20,163
At 31 December 2020	(1,378,900)	(960,959)	-	(2,339,859)
Carrying amount				
As at 31 December 2020	447,905	299,578	64,085	811,568

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(i) During 2020, the Company had no impairment of property and equipment (2019: HRK 2,131 thousand impaired property and equipment and HRK 1,615 thousand investments under construction).

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

Mortgaged assets

As at 31 December 2020, land and buildings of the Company with a net carrying amount of HRK 340,057 thousand (2019: HRK 347,438 thousand) are pledged as collateral against the Company's borrowings.

NOTE 18 – RIGHT-OF-USE ASSETS

Right-of-use assets and the movements during the period

	Land	Buildings	Equipment	Total
<i>(in thousands of HRK)</i>				
Cost				
As at 1 January 2019	12,814	4,528	24,863	42,205
Additions	-	4,339	2,915	7,254
Disposals and write-off's	-	-	(78)	(78)
Balance at 31 December 2019	12,814	8,867	27,700	49,381
Accumulated depreciation				
As at 1 January 2019	-	-	-	-
Charge for the year	326	2,413	9,846	12,585
Disposals and write-off's	-	-	(26)	(26)
Balance at 31 December 2019	326	2,413	9,820	12,559
As at 31 December 2019	12,488	6,454	17,880	36,822
Cost				
As at 1 January 2020	12,814	8,867	27,700	49,381
Additions/decrease	(846)	(13)	10,312	9,453
Disposals and write-off's	(25)	(1,268)	(5,765)	(7,058)
Balance at 31 December 2020	11,943	7,586	32,247	51,776
Accumulated depreciation				
As at 1 January 2020	326	2,413	9,820	12,559
Charge for the year	291	2,286	8,764	11,341
Disposals and write-off's	(25)	(1,193)	(5,276)	(6,494)
Balance at 31 December 2020	592	3,506	13,308	17,406
As at 31 December 2020	11,351	4,080	18,939	34,370

	2020	2019
<i>(in thousands of HRK)</i>		
As at 1 January 2020	37,655	42,205
Interest expense	556	750
Increase of lease liabilities during the year	8,880	7,202
Lease liabilities payments	(11,773)	(12,585)
Exchange rate difference	458	83
As at 31 December 2020	35,776	37,655

Current portion of long term liability for right-of-use assets	9,946	10,730
Long term liability for right-of-use assets	25,830	26,925

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 18 – RIGHT-OF-USE ASSETS (CONTINUED)

Amounts recognised in the statement of comprehensive income

	2020	2019
	<i>(u tisućama kuna)</i>	
Expenses related to short-term leases and leases of low-value assets etc.	12,151	8,898
Depreciation expense of right-of-use asset	11,341	12,585
Interest expense of lease liabilities	556	750
Total amount recognised in profit/(loss)	24,048	22,233

NOTE 19 – INVESTMENT PROPERTY

(in thousands of HRK)

Cost

Transfer from assets held for sale

At 31 December 2019

	Land	Buildings	Total
Transfer from assets held for sale	89,246	58,709	147,955
At 31 December 2019	89,246	58,709	147,955

Accumulated depreciation

At 1 January 2019

Transfer from assets held for sale

At 31 December 2019

Carrying amount

At 31 December 2019

At 1 January 2019	(14,129)	(11,960)	(26,089)
Transfer from assets held for sale	-	(1,467)	(1,467)
At 31 December 2019	(14,129)	(23,826)	(37,955)
Carrying amount	75,117	34,883	110,000

Cost

At 1 January 2020

Transfer from property, plant and equipment

At 31 December 2020

At 1 January 2020	89,246	58,709	147,955
Transfer from property, plant and equipment	-	533	533
At 31 December 2020	89,246	59,242	148,488

Accumulated depreciation

At 1 January 2020

Charge for the year

At 31 December 2020

Carrying amount

At 31 December 2020

At 1 January 2020	(14,129)	(23,826)	(37,955)
Charge for the year	-	(1,478)	(1,478)
At 31 December 2020	(14,129)	(25,304)	(39,433)
Carrying amount	75,117	33,938	109,055

Operating expenses amount to HRK 1,483 thousand (2019: HRK 1,523 thousand), while rental income from a smaller part of the property amounts to HRK 1,185 thousand (2019: HRK 1,102 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 20 – INVESTMENTS IN SUBSIDIARIES

Subsidiaries in which the Company has an ownership interest and control:

Name of subsidiary	Country	Ownership interest in%		Equity share in thousands of HRK		Principal activity
		31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.	
Žito d.o.o.	Slovenia	100.00	100.00	440,110	440,110	Sale and distribution of food and beverages
Belupo d.d.	Croatia	100.00	100.00	393,153	393,153	Production and distribution of pharmaceuticals
Podravka Lagris a.s.	Czech Republic	100.00	100.00	68,754	68,754	Rice production and sale
Podravka-Polska Sp.z o.o.	Poland	100.00	100.00	20,641	20,641	Sale and distribution of food and beverages
FOODPRO LIMITED*	Tanzania	100.00	100.00	-	-	Production and sale of food and beverages
Podravka-International Kft.	Hungary	100.00	100.00	5,343	5,343	Sale and distribution of food and beverages
Mirna d.d.	Croatia	99.23	99.23	45,128	45,128	Fish processing and production
Podravka Gulf Fze	UAE	100.00	100.00	-	-	Sale and distribution of food and beverages
Podravka-Int. Deutschland –“Konar” GmbH	Germany	100.00	100.00	1,068	1,068	Sale and distribution of food and beverages
Podravka-International s.r.o.	Slovakia	75.00	75.00	1,034	1,034	Sale and distribution of food and beverages
Podravka d.o.o. Podgorica	Montenegro	100.00	100.00	1,029	1,029	Sale and distribution of food and beverages
Podravka-International s.r.l.	Bulgaria	100.00	100.00	1,007	1,007	Sale and distribution of food and beverages
Podravka-International Pty. Ltd	Australia	100.00	100.00	801	801	Sale and distribution of food and beverages
Podravka-International s.r.l.	Romania	100.00	100.00	126	126	Sale and distribution of food and beverages
Podravka d.o.o.el. Petrovec	North Macedonia	100.00	100.00	42	42	Sale and distribution of food and beverages
Podravka d.o.o. Sarajevo	Bosnia & Herz.	100.00	100.00	40	40	Sale and distribution of food and beverages
Podravka USA Inc.	USA	100.00	100.00	636	3	Sale and distribution of food and beverages
Podravka d.o.o.	Russia	100.00	100.00	5,338	-	Sale and distribution of food and beverages
Podravka d.o.o. Beograd	Serbia	100.00	100.00	-	-	Sale and distribution of food and beverages
				984,250	978,279	

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

During 2020, the Company changed the name of its subsidiary Vegeta Podravka Limited, Tanzania to FOODPRO LIMITED, Tanzania and increased share capital of the subsidiary by a loan and interest in the gross amount of HRK 57,326 and by an additional payment in cash in the amount of HRK 2,102 thousand. In addition, during 2020 the Company increased share capital of the subsidiary Podravka-International USA Inc., New York by the amount 633 thousand and of the subsidiary Podravka d.o.o., Moscow by the amount of HRK 5,338 thousand.

The Company has adjusted HRK 2,102 thousand the value of shares in the subsidiary FOODPRO LIMITED, Tanzania.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 20 – INVESTMENTS IN SUBSIDIARIES (CONTINUED)

During 2019, the Company increased share capital of the subsidiary Mirna d.d. by the amount of HRK 40,013 thousand, the subsidiary Podravka d.o.o., Moscow by the amount of HRK 2,786 thousand and the subsidiary Podravka – International s.r.l. Bucharest by the amount of HRK 42 thousand, and established the subsidiary Podravka International E.O.O. Sofia in the amount of HRK 1,007 thousand.

In 2019, the Company impaired its share in the subsidiary Podravka d.o.o., Moscow in the amount of HRK 3,188 thousand and in the subsidiary Podravka-Polska Sp.z o.o., Warszawa of HRK 1,449 thousand.

NOTE 21 – 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)
Investments in other equity investments	559	533
Loans to related companies	519	-
Loans to third parties	5	6
Deposits and other	211	216
	37,691	37,152

Loans to related parties are described in note 36.

In 2019, in line with the Agrokor's creditors settlement, the Company 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.

In 2020 there were no changes with respect to the financial instruments.

NOTE 22 – INVENTORIES

	2020	2019
	<i>(in thousands of HRK)</i>	
Raw materials and supplies	139,540	146,148
Work in progress	25,827	26,275
Finished goods	191,052	177,290
Merchandise	100,886	88,188
	457,305	437,901

During 2020, the Company recognized net impairment loss with respect to inventories in the amount of HRK 137 thousand (2019: HRK 2,717 thousand of net impairment loss with respect to inventories). The movement in inventory impairment provision is included in the statement of comprehensive income in line item 'Cost of goods sold'.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 23 – TRADE AND OTHER RECEIVABLES

	2020	2019
	<i>(in thousands of HRK)</i>	
Trade receivables	289,815	294,294
Accumulated impairment losses on	(103,310)	(109,545)
Impairment of receivables for expected credit losses	(202)	(153)
Net trade receivables	186,303	184,596
Related party trade receivables	219,219	300,841
Provision for related party trade receivables	(10,908)	(11,380)
Loans and interest receivable from related parties	82,439	26,355
Prepaid expenses	1,515	3,047
Receivables from employees	628	922
Advances to suppliers	243	83
Net VAT receivable	-	3,281
Other receivables	6,898	1,184
	486,337	508,929

Loans given to and interest receivable from related parties include short-term loans and current portion of long-term loans given to related parties and interest receivable from related parties (see note 36).

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

	2020	2019
	<i>(in thousands of HRK)</i>	
At 1 January	121,078	152,848
Transfer (to instruments)	-	(31,526)
Reversal/increase	294	2,295
Amounts collected	(1,083)	(1,372)
Written off as uncollectible	(5,869)	(1,167)
At 31 December	114,420	121,078

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

Ageing analysis of trade receivables that are not impaired:

	2020	2019
	<i>(in thousands of HRK)</i>	
Undue	257,696	300,056
Up to 90 days	102,041	102,399
91-180 days	28,292	33,872
181-360 days	6,585	37,730
	394,614	474,057

Major customers

Trade receivables from major customers owned or controlled by the same third party Group as at 31 December 2020 amount to HRK 44,977 thousand (2019: HRK 23,103 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 24 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Forward contracts	49	7
	<u>49</u>	<u>7</u>

In 2020, the Company used forward contracts with commercial banks with the primary intention of managing the fluctuation of the exchange rates 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 49 thousand.

The nominal value of forward exchange contracts at 31 December 2020 amounted to HRK 4,786 thousand with maturities between 11 January 2021 and 8 June 2021 (2019: HRK 34,974 thousand with maturities between 14 January 2020 and 18 June 2020).

Gains and losses recognised as changes in the market value of forward exchange contracts are recognized in the statement of comprehensive income, under 'financial income/financial expenses'.

Fair value measurement

The fair value of forward exchange contracts is based on the quotation of the exchange rate. In accordance with the input variables used, the assessment is categorized in the fair value hierarchy as level 2 (see note 7).

NOTE 25 – CASH AND CASH EQUIVALENTS

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Cash in banks	2,274	2,167
Cash in hand	8	13
	<u>2,282</u>	<u>2,180</u>

Cash in banks refers to transaction accounts at commercial banks bearing an average interest rate ranging from 0.0% to 0.15%.

The Company has certain transactions in foreign currencies and cash on bank accounts mainly in HRK (HRK 1,492 thousand) and EUR (HRK 739 thousand) at 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 26 – NON-CURRENT ASSETS HELD FOR SALE

	2020	2019
	<i>(in thousands of HRK)</i>	
Land and buildings	1,075	1,075
	1,075	1,075

(i) Land and buildings

The total amount of assets held for sale relates to a property in Koprivnica and land in Žminj for which the Company is still seeking a buyer and expects to sell.

(ii) Fair value measurement

Fair value measurement is classified, according to inputs used in fair value measurement, 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:

Valuation methods and techniques	Significant unobservable inputs
<i>Property</i>	
For buildings and land, the comparative method is used	Among other factors, the estimated discount rate considers the underlying quality of the property and its location on similar locations for a comparative type of property.

NOTE 27 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	<i>(in thousands of HRK)</i>				
At 1 January 2019	6,974,228	1,566,401	177,875	(54,210)	1,690,066
Exercise of options	17,859	-	(2,162)	6,641	4,479
Fair value of share based payments	-	-	2,318	-	2,318
At 31 December 2019	6,992,087	1,566,401	178,031	(47,569)	1,696,863
At 1 January 2020	6,992,087	1,566,401	178,031	(47,569)	1,696,863
Exercise of options	-	-	(3,722)	-	(3,722)
Fair value of share based payments	-	-	8,566	-	8,566
At 31 December 2020	6,992,087	1,566,401	182,875	(47,569)	1,701,707

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 27 – SHARE CAPITAL (CONTINUED)

(i) Share-based payments

During 2020 and 2019, the Company did not purchase any treasury shares.

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

	2020		2019	
	Number of shares	% of ownership	Number of shares	% of ownership
PBZ CO OMF - Category B	1,097,644	15.42%	1,070,901	15.04%
AZ OMF category B	917,563	12.89%	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%
Kapitalni fond d.d.	415,564	5.84%	415,564	5.84%
CERP - Republic of Croatia	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	25.39%	1,849,468	25.98%
Total	7,120,003	100.00%	7,120,003	100.00%

NOTE 28 – RESERVES

	Reserves			Total
	for treasury shares	Legal reserves	Other reserves	
<i>(in thousands of HRK)</i>				
At 1 January 2019	147,604	30,948	203,715	382,267
Allocation of profits	-	5,657	43,404	49,061
Actuarial loss (net of deferred tax)	-	-	(639)	(639)
At 31 December 2019	147,604	36,605	246,480	430,689
At 1 January 2020	147,604	36,605	246,480	430,689
Allocation of profits (i)	-	7,259	73,849	81,108
Actuarial loss (net of deferred tax)	-	-	(1,484)	(1,484)
At 31 December 2020	147,604	43,864	318,845	510,313

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

(i) Allocation of profits

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, the amount of HRK 62,929 thousand for the declared dividend (9.00 HRK per share), while the remainder of HRK 1,152 thousand is retained in unallocated profit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 29 – RETAINED EARNINGS

The movement in retained earnings is as follows:

	2020	2019
	<i>(in thousands of HRK)</i>	
At 1 January	150,057	116,836
- profit for the year (after tax)	193,832	145,189
- transfer to reserves	(81,108)	(49,061)
- dividend declared	(62,929)	(62,907)
At 31 December	199,852	150,057

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 62,907 thousand, 9.00 HRK per share).

NOTE 30 – FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
	<i>(in thousands of HRK)</i>	
Forwards	66	292
	66	292

NOTE 31 – BORROWINGS

	2020	2019
	<i>(in thousands of HRK)</i>	
Non-current borrowings		
Banks in Croatia	62,813	84,546
Banks abroad	29,676	68,379
	92,489	152,925
Current borrowings		
Banks in Croatia	125,779	117,902
Banks abroad	39,569	39,074
Related party borrowings	1,159	9,462
	166,507	166,438
Total borrowings	258,996	319,363

The Company, together with related parties Belupo d.d. and Žito d.o.o. in 2016 agreed a syndicated loan with EBRD and business banks in the total amount of EUR 123 million. For refinancing a portion of the existing borrowings a total of EUR 98,850 thousand were used by the company and the two related companies. Of the total amount of the syndicated loan for refinancing, the Company used the amount of EUR 31,500 thousand. The maturity is on 16 August 2022.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 31 – BORROWINGS (CONTINUED)

As part of the above mentioned syndicated loan, the Group (Podravka d.d. and companies controlled by Podravka d.d. (subsidiaries)) is obligated to comply with the following debt covenants:

- Interest coverage ratio (ICR). The parameter is calculated as the ratio of consolidated EBITDA and consolidated interest expense for the year.
- Debt coverage ratio (DCR). The parameter is calculated as the ratio of consolidated net debt and consolidated EBITDA.
- Equity ratio (ER). The parameter is calculated as the ratio of consolidated equity and consolidated total assets.
- 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 69,245 thousand (2019: HRK 107,452 thousand) are secured by mortgages over the Company's land and buildings with a carrying amount of HRK 340,057 thousand (2019: HRK 347,438 thousand) (note 17).

The maturity of non-current borrowings is as follows:

	2020	2019
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	92,489	91,665
Between 2 and 5 years	-	61,260
	92,489	152,925

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

	2020			2019		
	HRK	EUR	HUF	HRK	EUR	HUF
	<i>(in thousand of HRK)</i>					
Non-current borrowings						
<i>Banks in Croatia</i>						
Variable interest rate	-	-	-	-	1.40%	-
Fixed interest rate	0.80%	-	-	0.83%	0.72%	-
<i>Banks abroad</i>						
Variable interest rate	-	0.94%	-	-	0.94%	-
Current borrowings						
Banks	0.67%	-	-	0.62%	-	-
Loans from related parties	-	-	3.42%	-	2.00%	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 31 – BORROWINGS (CONTINUED)

An overview of borrowings by fixed and variable interest rates is as follows:

	2020		2019	
	fixed	variable	fixed	variable
	<i>(in thousands of HRK)</i>			
Non-current borrowings	62,813	29,676	69,491	83,434
Current borrowings	126,938	39,569	80,254	86,184
	189,751	69,245	149,745	169,618

The fair value of the Company's long-term borrowings is as follows:

<i>(in thousands of HRK)</i>	Carrying	Fair	Carrying	Fair
	value	value	value	value
	2020	2020	2019	2019
Non-current borrowings				
Banks in Croatia	62,813	62,192	84,546	83,510
Banks abroad	29,676	29,677	68,379	68,379
	92,489	91,869	152,925	151,889

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

	2020	2019
	<i>(in thousands of HRK)</i>	
HRK	188,592	113,832
EUR	69,245	205,531
HUF	1,159	-
	258,996	319,363

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 Company has the following undrawn borrowing facilities:

	2020	2019
	<i>(in thousands of HRK)</i>	
Floating rate:		
- expiring within one year	256,898	212,657
	256,898	212,657

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 31 – BORROWINGS (CONTINUED)

Reconciliation of movements in liabilities with cash flows from financing activities:

	Loans	Liabilities for right-of- use assets	Share capital	Retained earnings	Total
<i>(in thousands of HRK)</i>					
At 1 January 2020	319,363	37,655	1,696,863	150,057	2,203,938
<i>Cash transactions:</i>					-
Loans received	242,517	-	-	-	242,517
Loans repayment	(281,449)	(11,217)	-	-	(292,666)
Dividend paid	-	-	-	(62,546)	(62,546)
Total cash transactions	(38,932)	(11,217)	-	(62,546)	(112,695)
<i>Non-cash transactions:</i>					
The impact of changes in exchange rates	3,138	458	-	-	3,596
Other non-cash transactions	(24,573)	8,880	-	-	(15,693)
Total other changes related to capital	-	-	4,844	112,341	117,185
At 31 December 2020	258,996	35,776	1,701,707	199,852	2,196,331

Other non-cash transactions on borrowings mainly relate to repayment of a borrowing by dividend receivable from a related company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 32 – PROVISIONS

<i>(in thousands of HRK)</i>	Jubilee awards	Unused holiday	Retirement benefits	Bonuses	Legal cases	Total
As at 31 December 2019:						
Non-current	8,903	-	13,072	-	12,812	34,787
Current	1,860	6,522	-	7,513	163	16,058
	10,763	6,522	13,072	7,513	12,975	50,845
Increase/(decrease) in provisions	1,598	5,827	2,105	10,121	(2,093)	17,558
Utilised during the year	(1,826)	(6,522)	(80)	(7,513)	-	(15,941)
At 31 December 2020	10,535	5,827	15,097	10,121	10,882	52,462
As at 31 December 2020:						
Non-current	8,844	-	15,097	-	10,741	34,682
Current	1,691	5,827	-	10,121	141	17,780
	10,535	5,827	15,097	10,121	10,882	52,462

(i) Legal cases

Legal provisions relate to a number of legal proceedings initiated against the Company which stem from regular commercial activities and court cases including former employees. The expenses relating to the provisions are included in the separate statement of comprehensive income within Other income or Administrative expenses. Based on the expert opinion of legal advisers, management believes that the outcome of these legal proceedings will not give rise to any significant losses beyond the amounts provided as at 31 December 2020.

(ii) Bonuses

In 2020, the Company recognised HRK 10,121 thousand of provisions for bonuses to management (2019: HRK 7,513 thousand).

(iii) Jubilee awards and regular retirement benefits

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

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

	2020	2019
Discount rate	0.50%	1.80%
Fluctuation rate	8.80%	9.15%
Average expected remaining working lives (in years)	22	22

Management considers the Croatian corporate bond market to be 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	10,763	13,072	9,887	11,565
Past service cost	51	(305)	45	64
Current service cost	514	527	495	452
Interest expense	50	72	182	223
Actuarial (gains) / losses	983	1,811	1,784	780
Benefits paid	(1,826)	(80)	(1,630)	(12)
At 31 December	10,535	15,097	10,763	13,072

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 33 – TRADE AND OTHER PAYABLES

	2020	2019
	<i>(in thousands of HRK)</i>	
Trade payables	185,100	224,702
Related party payables	20,632	28,090
Other liabilities	91,257	88,884
	296,989	341,676

As 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 payables include the following:

	2020	2019
	<i>(in thousands of HRK)</i>	
Salaries and other benefits to employees	33,292	35,868
Other accrued expenses	30,382	31,237
Deferred income	21,090	15,196
Dividends payable	2,585	2,202
Package waste disposal fee payable	791	1,250
Accrued interest	520	571
Net VAT payable	117	-
Taxes, contributions and other duties payable	6	17
Other payables	2,474	2,543
	91,257	88,884

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – RISK MANAGEMENT

Categories of financial instruments are as follows:

	2020	2019
	<i>(in thousands of HRK)</i>	
Financial assets at amortised cost		
Trade receivables (including bills of exchange received)	397,499	475,081
Cash and cash equivalents	2,282	2,180
Long-term loans	524	6
Long-term deposits	211	216
Short-term loans	79,554	25,331
	480,070	502,814
Financial assets at fair value through other comprehensive income		
Equity instruments	559	533
	559	533
Financial assets at fair value through profit and loss		
Financial instruments	36,397	36,397
Forward contracts	49	7
	36,446	36,404
Total financial assets	517,075	539,751
Financial liabilities at amortised cost		
Financial lease liabilities	35,776	37,656
Borrowings	258,996	319,363
Trade and interest payables	206,252	253,363
	501,024	610,382
Financial liabilities at fair value through profit and loss		
Forwards contract	66	292
	66	292
Total financial liabilities	501,090	610,674

Fair value of financial instruments

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

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

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

At the reporting date, the carrying amounts of cash and cash equivalents, short-term deposits 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 24.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

The Company 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 borrowings and leases approximates their fair values as these liabilities bear variable interest rates or fixed interest rate approximating market interest rates.

Financial risks

In its operations, Podravka 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 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 (*Escalation procedure for 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 (long- and short-term borrowings including interest swap and forwards)	259,062	319,655
Cash and cash equivalents	(2,282)	(2,180)
Net debt	256,780	317,475
Equity	2,411,872	2,277,609
Net debt to equity ratio	11%	14%

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – RISK MANAGEMENT (CONTINUED)

Financial risk management

Credit risk management

Credit risk refers to the risk that counterparties will default on their contractual obligations resulting in a possible financial loss for the Company. The Company adopted “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.

The Company 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 Company’s exposure and the credit ratings of its counterparties are continuously monitored.

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

Risk mitigation instruments for individual groups of customers are defined based on the financial performance ratios for individual customers, using 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.

Depending on the needs and collection of receivables, in 2020 the Company contracted insurance of receivables for the selected market group. 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 in order to reduce the risk of possible non-collection.

During 2020, the Company did not have significant damage claims related to the insurance of receivable collection.

The Company’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 Podravka.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management

The Company 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, 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 Company's operating purposes.

During 2020, the improvement in the cash flow planning process was continued, initiated in previous years, which additionally optimized the Company's liquidity.

Liquidity risk analysis

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

The tables have been drawn up based on the undiscounted cash flows 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 Company.

<i>as at 31 December 2020</i>	Net book value	Contracted cash flow	Up to one year	1 - 5 years	over 5 years
	<i>(in thousands of HRK)</i>				
<i>Non-interest bearing liabilities:</i>					
Trade and interest payables	206,252	206,253	206,253	-	-
Forward contracts	66	66	66	-	-
	206,318	206,319	206,319	-	-
<i>Interest bearing liabilities:</i>					
Loans and borrowings	258,996	260,891	168,057	92,834	-
Lease liabilities	35,776	41,970	10,420	15,718	15,832
	294,772	302,861	178,477	108,552	15,832
	501,090	509,180	384,796	108,552	15,832
<i>Non-interest bearing assets:</i>					
Trade receivables (including interests)	397,499	397,499	397,499	-	-
Financial instruments	36,956	36,956	-	36,956	-
Cash and cash equivalents	2,282	2,282	2,282	-	-
Forward contracts	49	49	49	-	-
	436,786	436,786	399,830	36,956	-
<i>Interest bearing assets:</i>					
Short-term loans	80,078	83,060	82,444	616	-
Long-term deposits	211	211	-	211	-
	80,289	83,271	82,444	827	-
	517,075	520,057	482,274	37,783	-
Net liquidity position	15,985	10,877	97,478	(70,769)	(15,832)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – 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 cash flow	Up to one year	1 - 5 years	over 5 years
	<i>(in thousands of HRK)</i>				
<i>Non-interest bearing liabilities:</i>					
Trade and interest payables	253,363	253,363	253,363	-	-
Forward contracts	292	292	292	-	-
	253,655	253,655	253,655	-	-
<i>Interest bearing liabilities:</i>					
Loans and borrowings	319,363	322,877	168,808	154,069	-
Financial lease liabilities	37,656	46,439	11,706	15,729	19,004
	357,019	369,316	180,514	169,798	19,004
	610,674	622,971	434,169	169,798	19,004
<i>Non-interest bearing assets:</i>					
Trade receivables (including interests)	475,081	475,081	475,081	-	-
Financial instruments	36,930	36,930	-	36,930	-
Cash and cash equivalents	2,180	2,180	2,180	-	-
Forward contracts	7	7	7	-	-
	514,198	514,198	477,268	36,930	-
<i>Interest bearing assets:</i>					
Long-term and short-term loans	25,337	26,880	26,880	-	-
Long-term deposits	216	216	-	216	-
	25,553	27,096	26,880	216	-
	539,751	541,294	504,148	37,146	-
Net liquidity position	(70,923)	(81,677)	69,979	(132,652)	(19,004)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks

(i) *Interest rate risk management*

The Company continuously monitors interest rate changes and projections so that it can respond in a timely manner if necessary. Given that the Company 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 Company is not significantly exposed to interest rate risk.

At the reporting date, exposure to changes in interest rates on borrowings and loans in accordance with the agreed dates of changes in interest rates is as follows:

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
EURIBOR based bank loans	69,245	152,619
TZMF based bank loans	-	17,000
	<u>69,245</u>	<u>169,619</u>

*TZMF- Treasury bills of the Ministry of Finance

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(i) *Interest rate risk management (continued)*

Interest rate sensitivity analysis (continued)

The estimated effect of an increase in interest rates of 50 basis points on the Company'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 currently applicable interest rates	69,850	40,034	29,816	-
At currently applicable interest rates + 50 basis points	70,171	40,281	29,890	-
Effect of increase of interest rate by 50 basis points	(321)	(247)	(74)	-

<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 currently applicable interest rates	171,591	87,512	54,669	29,410
At currently applicable interest rates + 50 basis points	172,556	88,147	54,943	29,466
Effect of increase of interest rate by 50 basis points	(965)	(635)	(274)	(56)

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

(ii) *Price risk*

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

The cost of raw materials could have a significant role in the cost of finished products that the Company manufactures, therefore, it is subject to fluctuations of market prices of agricultural and food 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

Risks of raw material procurement and product delivery

The Company realises most of the procurement on the domestic market, 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 Company'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 Company 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 Company actively works on the mitigation and/or elimination of the risk of procurement of raw materials and availability of products.

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 Company, 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 Company'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), 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.

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 Company'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 Company for the purpose of best estimates of price movements and the minimisation of market price volatility risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(iii) Currency risk

The carrying amounts of the Company'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)	174,690	277,318	115,880	154,077
USA (USD)	2,241	5,559	21,247	37,942
Poland (PLN)	30	5,312	19,759	31,419
Australia (AUD)	14	-	13,032	15,297
Russia (RUB)	-	-	15,520	26,736
Other currencies	2,392	1,490	12,816	5,013
	179,367	289,679	198,254	270,484

Foreign currency sensitivity analysis

The Company 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, USD, RUB, AUD and PLN.

During 2020, the Company 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 forward transactions are contracted based on projections, in line with the "Layer hedging" model.

Currency risks arise from operations with related parties in foreign markets and the purchase of food raw materials in the international market which is largely in EUR and USD. In addition, the Company has a part of borrowings denominated in EUR.

During 2020, the Company continued to apply the model of managing transaction currency risk. 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, the Company 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 against the EUR.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – 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:

	31 Dec 2020	31 Dec 2019
EUR	7.536898	7.44258
USD	6.139039	6.649911
AUD	4.709678	4.651031
PLN	1.666312	1.749261
RUB	0.082025	0.107431

The following table details the Company's sensitivity to a 1% increase in Croatian kuna against the relevant foreign currencies where the Company has significant exposure (EUR, USD, RUB, AUD and PLN). 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		USD exposure	
	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Increase/(decrease) of net result	(588)	(1,232)	190	324

	RUB exposure		AUD exposure	
	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Increase/(decrease) of net result	155	267	130	153

	PLN exposure	
	2020	2019
	<i>(in thousands of HRK)</i>	
Increase/(decrease) of net result	197	261

NOTE 34 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

(iv) Sales function based risks

The Company generates 50% (2019: 54%) of its revenue on the domestic market, whereas 50% (2019: 46%) of the sales are generated on international markets. The Company determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

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

The Company is making efforts through harmonization and optimization of existing pricing policies and price levels for existing markets in the EU/CEE to secure a basis for the continuing successful long-term growth and avoid decrease 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 Company seeks to constantly improve the processes and meet market conditions. In the food industry, where the focus is on products and brands, the Company complies with legislative, health and manufacturing regulations. Clear legal regulation creates most of the production and sales processes within the Company 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 Company 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.

Competition risk

The Company 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 Company is paying attention to in order to be different from competition.

In addition, the reputation of the brand, or the Company, is intangible value that differentiates it from the competition and creates the advantage. The fact that the Company 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – RISK MANAGEMENT (CONTINUED)

Business risks management (continued)

Competition risk (continued)

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 Company 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.

Risks of IT system disruptions

The Company intensely uses IT systems that enable it to efficiently manage the Company, 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 Company 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 Company 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 Company 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 Company's IT systems is additionally reduced.

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 Company's employees.

Risks of dependency on management and key employees

The Company considers its employees to be its treasure and strongly relies on them as one of the major competitive advantages. Recognition, investment and valuation of their knowledge, innovation and work, encouraging individuality as well as team work, with dynamic, creative and successful people are the basis to achieve the Company'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 Company's operations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34 – RISK MANAGEMENT (CONTINUED)

Business risks management (continued)

Risks of dependency on management and key employees (continued)

The Company endeavours to keep the existing staff at all levels, it puts a significant focus on improving the employees' status, it values the efforts made by the employees that contribute to the company's growth and development on a daily basis.

Through many education programmes, the acquisition of new knowledge, skills and work methods is ensured, used to predict possible risks of today's business and respond to a challenging competitive environment, so the Company tries to reduce the risk of unfavourable qualification structure by professional training and education of employees. Redundancy programmes of high quality are used to impact the age structure of the Company.

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.

To meet the assumptions for long-term achievement of its goals, the Company continuously evaluates management results.

In addition, the Company uses a number of other proactive measures and controls to keep these risks, as much as possible, at a satisfactory level.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 35 – SHARE-BASED PAYMENTS

Employee share options

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

All the terms and conditions apply, unless circumstances arise as provided in each of the contracts applicable to the periods that implies an early termination of a mandate, breach of contractual provisions, leaving the company, relocation within the company, 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</i>			
As at 1 June 2016	2,000	Employment until contracted vesting period	30.06.2023.
As at 12 December 2017	2,000	Employment until contracted vesting period	30.06.2023.
As at 12 December 2017	4,000	Employment until contracted vesting period	31.12.2022.
As at 12 December 2017	2,000	Employment until contracted vesting period	30.09.2021.
As at 17 March 2017	2,000	Employment until contracted vesting period	31.12.2022.
As at 17 May 2017	17,000	Employment until contracted vesting period	31.12.2022.
As at 21 July 2017	5,000	Employment until contracted vesting period	31.12.2022.
As at 1 May 2018	2,000	Employment until contracted vesting period	31.12.2022.
As at 31 July 2018	40,500	Employment until contracted vesting period	31.12.2023.
As at 31 July 2018	2,000	Employment until contracted vesting period	30.06.2023.
As at 10 December 2019	32,500	Employment until contracted vesting period	31.12.2024.
As at 28 May 2019	10,000	Employment until contracted vesting period	31.12.2024.
As at 28 May 2019	2,500	Employment until contracted vesting period	30.06.2023.
As at 29 September 2020	32,500	Employment until contracted vesting period	31.12.2025.
As at 2 December 2020	16,500	Employment until contracted vesting period	31.12.2025.
Total	172,500		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 35 – SHARE-BASED PAYMENTS (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 (note 7). 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 in kuna	111	99
Share price in kuna at grant date (weighted average)	414	381
Exercise price in kuna (weighted average)	381	362
Expected volatility (weighted average)	18%	17%
Expected life (weighted average in years)	2.7	2.8
Risk-free interest rate (based on government bonds)	3.79%	4.50%

Expense recognised in profit or loss	2020	2019
	<i>(in thousands of HRK)</i>	
Equity-settled share-based payment transactions	8,566	2,318

In accordance with the input variables used, the estimate is categorised in the fair value hierarchy as level 1 (note 7).

The exercise price of share options for key management falls within the range HRK 317 to HRK 429.

Movement in the 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	143,217	362	130,160	332
Exercised	(19,717)	325	(31,943)	335
Granted	49,000	485	45,000	482
At 31 December	172,500	381	143,217	362
Unused as at 31 December	40,500	355	23,717	329

As at 31 December 2020, there are 172,500 of outstanding options (2019: 143,217 options). During 2020, 19,717 options were exercised (2019: 31,943 options).

The weighted average exercise price of outstanding options at the end of 2020 is HRK 381 (2019: HRK 362). 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 2.7 years at year end (2019: 2.8 years).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36 – RELATED PARTY TRANSACTIONS

Transactions with subsidiaries

REVENUE

Sales revenue

	Revenue from sale of products and merchandise		Revenue from services	
	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Company:				
Podravka d.o.o. Sarajevo, Sarajevo	150,358	158,445	707	800
Podravka d.o.o. Ljubljana, Ljubljana	132,456	115,885	2,088	2,570
Podravka-Polska Sp.z o.o., Warsaw	97,321	93,695	741	829
Podravka d.o.o. Beograd, Beograd	83,579	80,096	605	917
Podravka-Int.Deutschland-"Konar" GmbH, Munchen	72,208	64,859	379	296
Podravka d.o.o.el. Petrovec, Petrovec	64,255	59,884	541	510
Podravka USA Inc, New York	47,209	39,032	522	475
Podravka-International Pty. Ltd., Silverwater	33,935	29,241	77	75
Mirna d.d., Rovinj	32,114	45,099	2,680	2,537
Podravka d.o.o., Moscow	31,696	29,439	1	1
Podravka d.o.o. Podgorica, Podgorica	26,296	32,534	176	365
Podravka International s. r. l, Bucharest	18,395	-	5	-
Podravka-International s r.o., Zvolen	18,074	13,677	294	260
Podravka-International Kft., Budapest	15,878	14,967	181	246
Podravka – Lagris a.s., Dolni Lhota in Luhačovic	13,319	11,683	650	675
Podravka EOOD, Sofija	2,629	-	-	-
Žito d.o.o., Ljubljana	799	1,302	3,421	3,611
Belupo d.d., Koprivnica	72	86	24,646	20,311
Ljekarne Deltis Pharm, Koprivnica	7	5	2	-
Podravka Gulf Fze, Jebel Ali	-	-	-	6
Šumi bomboni d.o.o., Ljubljana	-	-	-	11
Žito maloprodaja d.o.o., Ljubljana	-	-	-	4
Belupo d.o.o.el Skopje, Skopje	-	-	18	18
Belupo d.o.o. Ljubljana, Ljubljana	-	-	29	29
Farmavita d.o.o. Sarajevo, Vogošće	-	-	355	355
Total related party sales	840,600	789,929	38,118	34,901

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36 – RELATED PARTY TRANSACTIONS (CONTINUED)

REVENUE (continued)

Investment revenue

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Dividends from subsidiaries	61,671	45,857
Interest income	2,995	4,739
	<u>64,666</u>	<u>50,596</u>

EXPENSES

Payments to Supervisory Board , members of the Management Board and directors

Payments of members of the Management Board and directors:

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Salaries, bonuses and other benefits paid	26,336	27,140
Share-based payments reimbursement	-	153
	<u>26,336</u>	<u>27,293</u>

Management of the Company's which consists of the Management Board and directors has 34 person (2019: 33 person).

During the year 2020, there were no execution of options by the active members of the Management Board (2019: HRK 153 thousand). For details see note 35.

During 2020, members of the Company's Supervisory Board were paid HRK 2,006 thousand (2019: HRK 1,615 thousand).

LOANS RECEIVABLE

Loans receivable

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
At beginning of year	25,331	66,352
Increase during the year	75,807	2,446
Repayments received	(15,966)	(35,779)
Write-offs	-	(7,868)
Other changes	(5,095)	-
Foreign exchange difference	(4)	180
At end of year	<u>80,073</u>	<u>25,331</u>
Maturity: within one year	(79,554)	(25,331)
Non-current loans receivable	<u>519</u>	-

During 2020, the Company's receivables for loans given increased by the total amount of HRK 75,807 thousand and mainly relate to loans granted to Mirna d.d.

In 2019, the Company impaired loans given to companies FOODPRO LIMITED, Tanzania, Vegeta Limited, Kenya and Podravka Gulf FZE, Dubai in the total amount of HRK 7,868 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36 – RELATED PARTY TRANSACTIONS (CONTINUED)

LOANS RECEIVABLE (CONTINUED)

Loans receivable (continued)

The reported net receivables from related parties include loans to subsidiaries as follows:

	Interest rate	2020	2019
		<i>(in thousands of HRK)</i>	
Mirna d.d., Rovinj	3.42% p.a.	79,398	24,128
Podravka-International S.R.L., Bucharest	3,42% p.a.	338	-
Podravka Gulf FZE, Dubai	3.42% p.a.	337	591
Podravka-International USA Inc., New York	3.42% p.a.	-	612
		80,073	25,331

The average interest rate is 3.42 % p.a. The maturity of long-term loans is as follows:

	2020	2019
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	338	-
Between 2 and 5 years	181	-
	519	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36 – RELATED PARTY TRANSACTIONS (CONTINUED)

TRADE RECEIVABLES AND PAYABLES

	Current trade receivables		Current trade payables	
	2020	2019	2020	2019
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Company:				
Podravka d.o.o. Beograd, Beograd	55,682	60,942	-	142
Mirna d.d., Rovinj	25,253	68,598	3,688	7,349
Podravka-Polska Sp.z o.o., Warsaw	19,761	31,418	-	5,313
Podravka d.o.o. Ljubljana, Ljubljana	17,453	15,480	-	-
Belupo d.d., Koprivnica	14,967	2,309	400	394
Podravka-International Pty. Ltd., Silverwater	13,034	15,299	-	-
Podravka d.o.o. Sarajevo, Sarajevo	11,543	29,152	-	347
Podravka USA Inc., New York	11,133	10,408	-	-
Podravka d.o.o., Moscow	10,031	21,465	-	-
Podravka d.o.o. Podgorica, Podgorica	9,143	14,731	53	-
Podravka International S. R. L., Bucharest	7,449	-	-	-
Podravka-Int.Deutschland-„Konar“ GmbH, Munchen	4,075	7,845	-	-
Podravka – Lagris a.s., Dolni Lhota in Luhačovic	2,279	2,647	609	573
Podravka d.o.o.el Petrovec, Petrovec	2,273	4,435	37	22
Žito d.o.o., Ljubljana	1,706	1,201	14,741	11,326
Podravka-International Kft., Budapest	1,289	1,723	169	506
Podravka-International s r.o., Zvolen	890	1,668	-	-
Podravka EOOD, Sofia	224	-	-	-
Farmavita d.o.o. Sarajevo, Vogošća	118	119	-	-
Belupo d.o.o. Ljubljana, Ljubljana	7	7	-	-
Ljekarne Deltis Pharm, Koprivnica	1	3	6	8
FOODPRO LIMITED, Dar es Salaam	-	5	-	-
Podravka Gulf Fze, Dubai	-	-	929	2,110
Žito maloprodaja d.o.o., Ljubljana	-	5	-	-
Belupo d.o.o.el Skopje, Skopje	-	1	-	-
Total related party receivables and payables	208,311	289,461	20,632	28,090

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36 – RELATED PARTY TRANSACTIONS (CONTINUED)

OTHER RECEIVABLES

Other interest receivables from related parties

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Mirna d.d., Rovinj	2,471	763
FOODPRO Limited, Dar es Salaam	1,274	6,992
Podravka Gulf FZE, Dubai	323	408
Podravka International S. R. L., Bucharest	2	-
Podravka International USA Inc., New York	-	2
Vegeta Limited Kenia	-	106
Write-offs	(1,185)	(7,247)
	<u>2,885</u>	<u>1,024</u>

In accordance with the previously stated amount of loans given to Mirna d.d. during 2020, the interest amount increased.

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Belupo d.d., Koprivnica	207,264	335,256
Podravka – Lagris a.s., Dolni Lhota in Luhačovic	63,364	64,334
Mirna d.d., Rovinj	58,527	65,262
Podravka d.o.o. Beograd, Beograd	1,346	1,329
Podravka - International Kft, Budapest	754	744
Podravka International S. R. L., Bucharest	-	1,231
Podravka Polska Sp. z.o.o., Warsaw	-	298
	<u>331,255</u>	<u>468,454</u>

BORROWINGS

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Podravka - International Kft, Budapest	1,159	-
Žito d.o.o., Ljubljana	-	9,462
	<u>1,159</u>	<u>9,462</u>

In 2020, the Company received a short-term borrowing from the related company Podravka-International Kft, Budapest in the amount of HUF 56.0 million with maturity until 7 September 2021, and an interest rate of 3.42%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36 – RELATED PARTY TRANSACTIONS (CONTINUED)

INTEREST PAYABLE

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Podravka-International Kft., Budapest	3	-
Žito d.o.o., Ljubljana	-	16
	<u>3</u>	<u>16</u>

NOTE 37 – CONTINGENT LIABILITIES

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Guarantees – related parties	331,255	468,454
Guarantees – third parties	7,289	14,224
	<u>338,544</u>	<u>482,678</u>

Guarantees mainly relate to the potential liability of the Company on the basis of Customs Authorities' guarantee, guarantees for regular repayment of advances, guarantees for transit procedures, and partly relate to performance guarantees given to customers.

With respect to guarantees and warranties granted, contingent liabilities have not been recognised in the separate statement of financial position as at 31 December, as management estimated that as at 31 December 2020 and 2019 it is not probable that they will result in liabilities for the Company.

NOTE 38 – COMMITMENTS

In 2020, the purchase costs of tangible fixed assets contracted with suppliers amounted to HRK 18,305 thousand (2019: HRK 10,840 thousand), which are not yet realised or recognised in the statement of financial position.

Contracted payments of liabilities under the contract on mutual guarantees concluded with Belupo d.d. and Žito d.o.o. amount to HRK 1,866 thousand (2019: HRK 4,569 thousand).

The future payments under operating leases in 2020 relate to the usage of IT equipment, mobile phone and other operating leases as follows:

	<u>2020</u>	<u>2019</u>
	<i>(in thousands of HRK)</i>	
Up to 1 year	6,184	3,916
From 1 to 5 years	5,612	6,472
	<u>11,796</u>	<u>10,388</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 39 – 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 40 – 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

Davor Doko
Member of the Management Board

Hrvoje Kolarić
Member of the Management Board

Ljiljana Šapina
Member of the Management Board

Marko Đerek
Member of the Management Board



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