Podravka Group Annual Report for 2022

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1 Structure and ownership

Podravka is a joint stock company listed on the Prime Market of the Zagreb Stock Exchange. The Podravka Group is comprised of a number of affiliated companies owned by Podravka Inc.

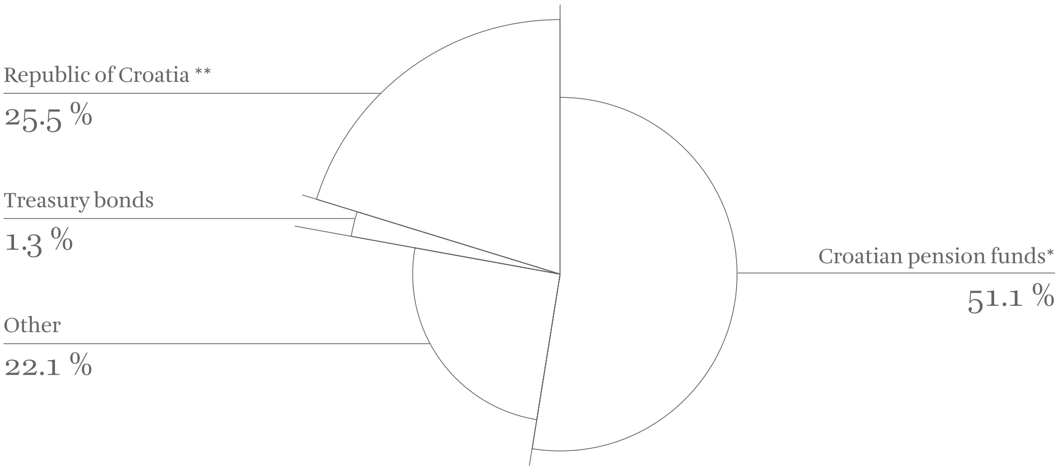
Structure of the Podravka Group

PODRAVKA INC.

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

* Podravka Inc. holds these ownership interests indirectly through its subsidiary Žito Ltd.
** Podravka Inc. holds these ownership interests indirectly through its subsidiary Belupo Inc.
*** 25% of ownership interest is held indirectly through the subsidiary Podravka-Lagris a.s., Dolni Lhota u Luhačovic
**** 15% of ownership interest is held indirectly through the subsidiary Podravka-Int. Deutschland – "Konar" GmbH
***** Business activities are suspended during 2022

Ownership structure of Podravka Inc. on 31 December 2022



* Includes all compulsory and voluntary pensions funds under the management by the pension funds: AZ, ROMF, PBZCO and ERSTE.

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

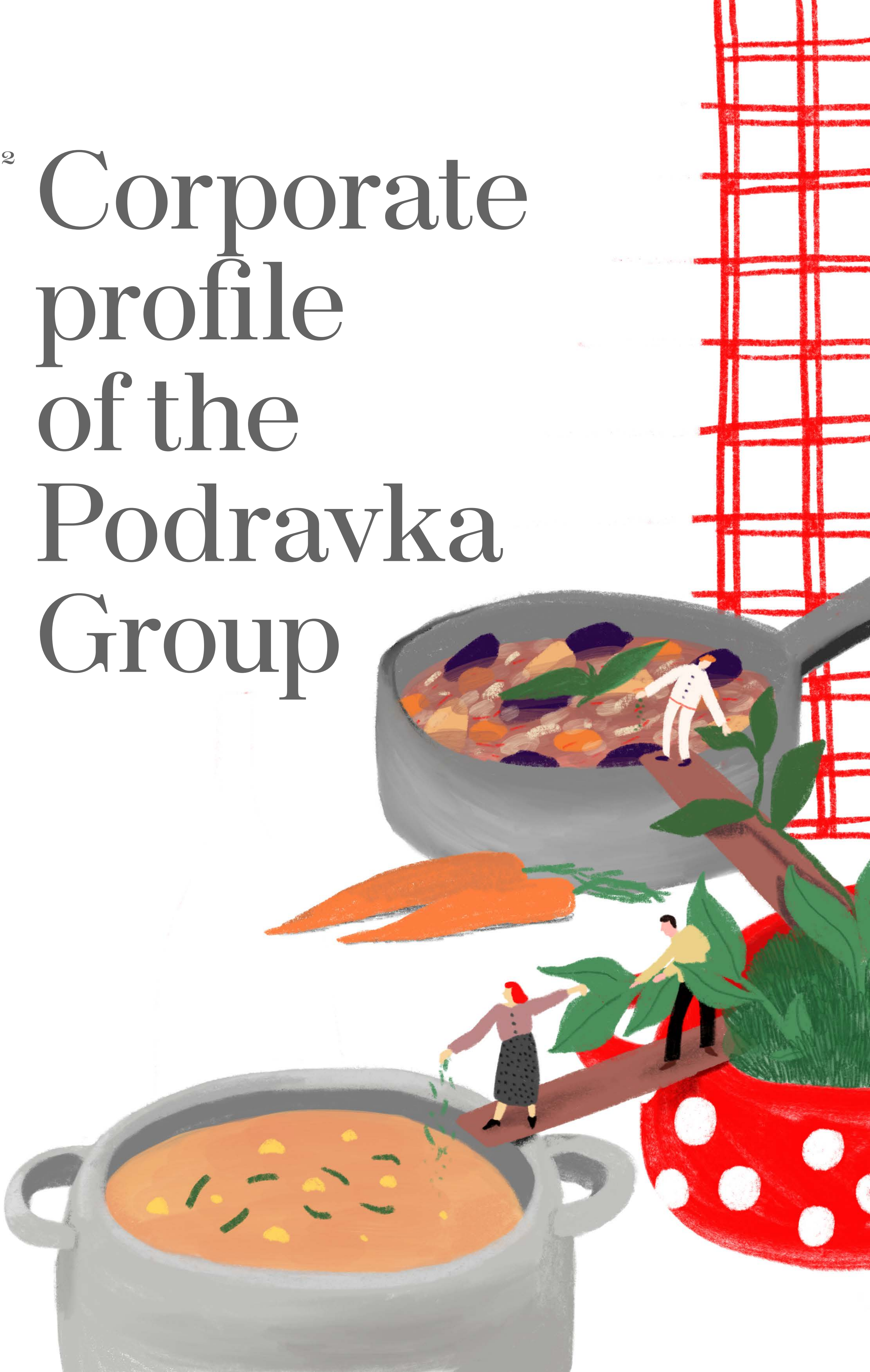
List of the 10 largest shareholders of Podravka Inc. on 31 December 2022

No.	Shareholder	Number of shares	% of ownership
1.	PBZ Croatia Osiguranje mandatory pension fund, category B	1,097,644	15.4%
2.	AZ mandatory pension fund, category B	932,563	13.1%
3.	RSC*** - Croatian Pension Insurance Institute	727,703	10.2%
4.	Erste Plavi mandatory pension fund, category B	638,248	9.0%
5.	Raiffeisen mandatory pension fund, category B	625,298	8.8%
6.	RSC*** - Republic of Croatia	452,792	6.4%
7.	Capital Fund	406,842	5.7%
8.	Pivac Brothers Meat Industry	234,697	3.3%
9.	HPB - Republic of Croatia	167,281	2.3%
10.	Treasury account	93,478	1.3%
	Other shareholders	1,743,457	24.5%
	Total	7,120,003	100.0%

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

2

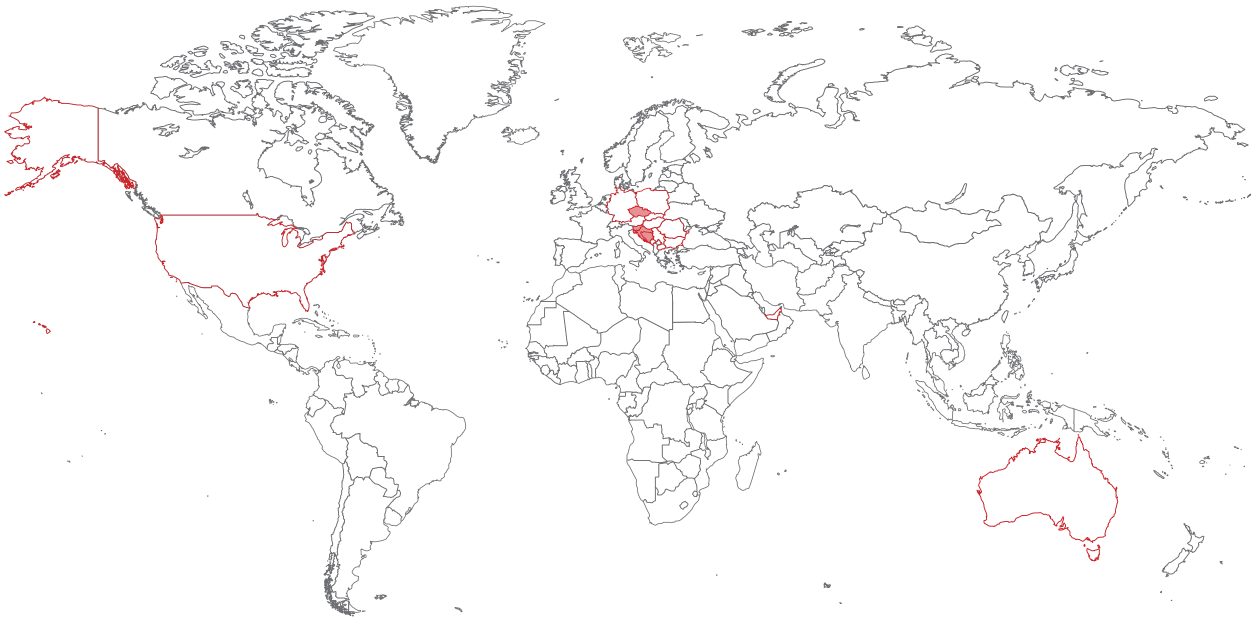
Corporate profile of the Podravka Group



- Seat: Koprivnica, Republic of Croatia
- Most internationalised company seated in the Republic of Croatia
- Leading culinary institution in the Adria region

Countries in which Podravka Inc. has production

Countries in which Podravka Inc. has a representative



75

years experience in food

50

years experience in pharmaceuticals

Own distribution network in

16 countries around the world

More than

2/3 of sales revenues achieved outside the Republic of Croatia

Portfolio featuring more than

1,800 products

6,299

employees on December 31, 2022

Of these, more than

4,500

work in Croatia

2022 sales revenues HRK

5,026.8 m

17 factories,

of which 11 in Croatia

1947

Wolfbrothers'·workshop for processing fruit becomes socially owned under the name Podravka.

1952

Production of condiments and dehydrated and sterilised vegetables begins.

1957

Production of famous Podravka soups starts.

1958

Production of meat products starts.

1959

Vegeta, universal food seasoning

1970

Product on of baby food starts.

1972

Pharmaceutical company Belupo founded and start of drug production.

1993

Podravka privatized and registered as a shareholding company.

2015

Acquisition of the Slovenian food company Žito.

2017

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

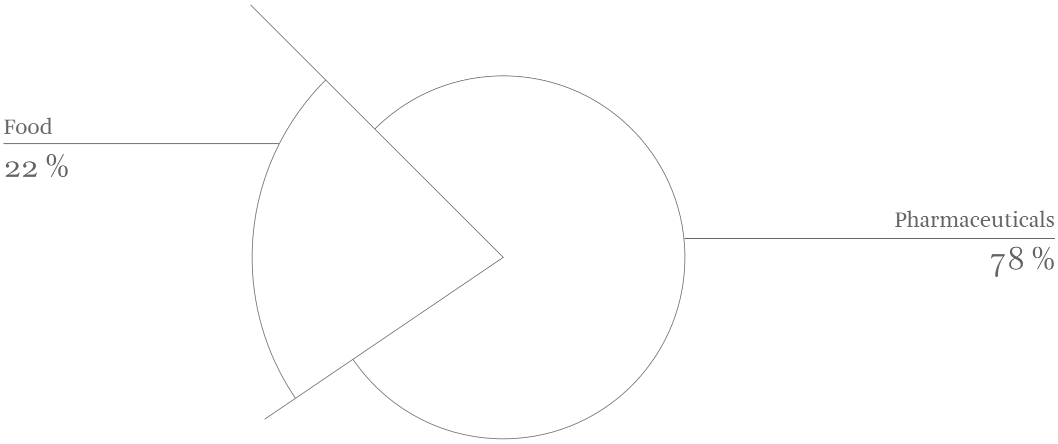
2021

Business Strategy until 2025 adopted.

2022

In its 75th year of existence, Podravka invested a total of HRK 396 million in capital investments

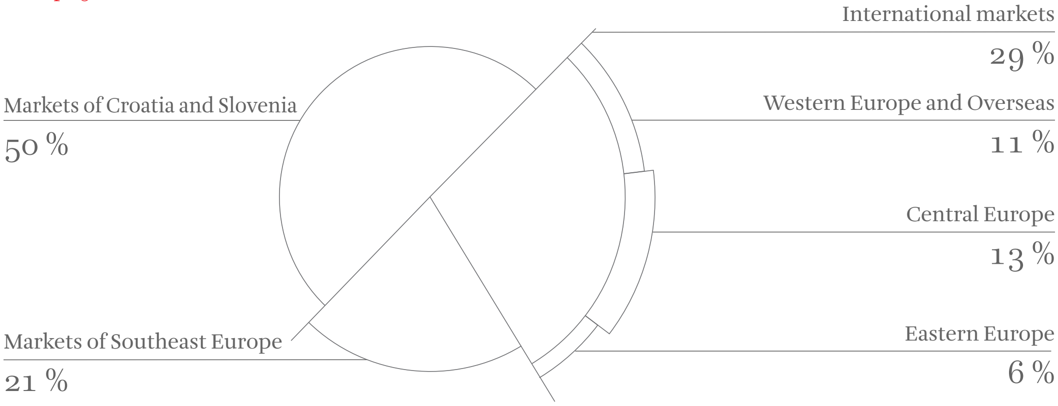
Structure of revenues from sales of the Podravka Group *by segment*



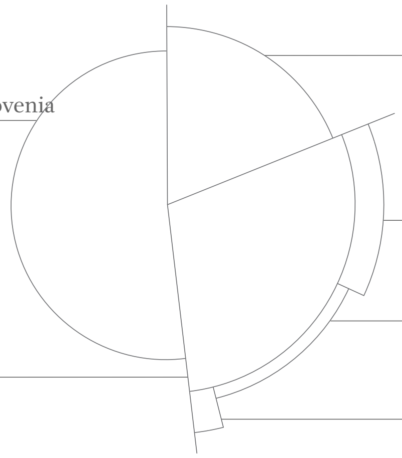
In accordance with the strategic goal to strengthen the internationalisation of business, the operations at the market level have been organised into *three main divisions:*

- *Markets of Croatia and Slovenia,*
- *Markets of Southeast Europe,* comprising Bosnia and Herzegovina, North Macedonia, Serbia, Montenegro, Kosovo, Bulgaria, Greece, and Albania,
- *International markets,* comprising Poland, Czech Republic, Slovakia, Hungary, Romania, Germany, Austria, USA, Australia and other countries.

Structure of revenues from sales of the Podravka Group *by markets*

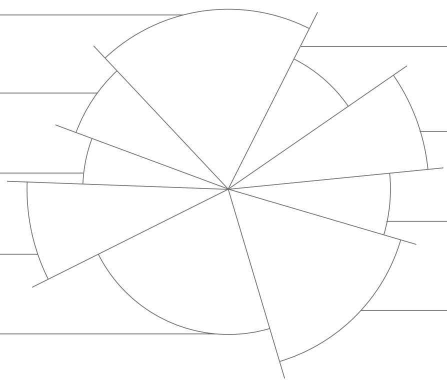


Structure of revenues from sales of the *Food segment* by markets

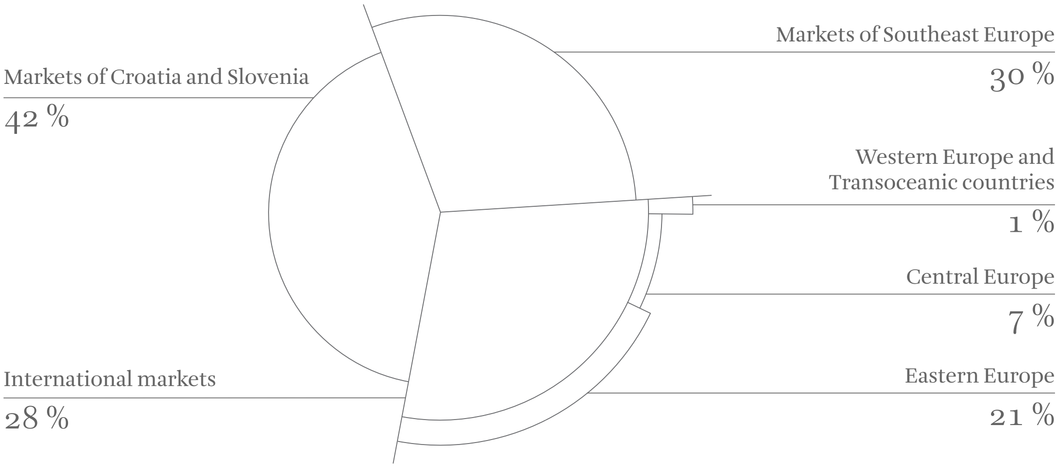


The operations of the Food segment can be monitored through operations in the business programmes associated with specific groups of products

Structure of revenues from sales of the *Food segment* by business programmes

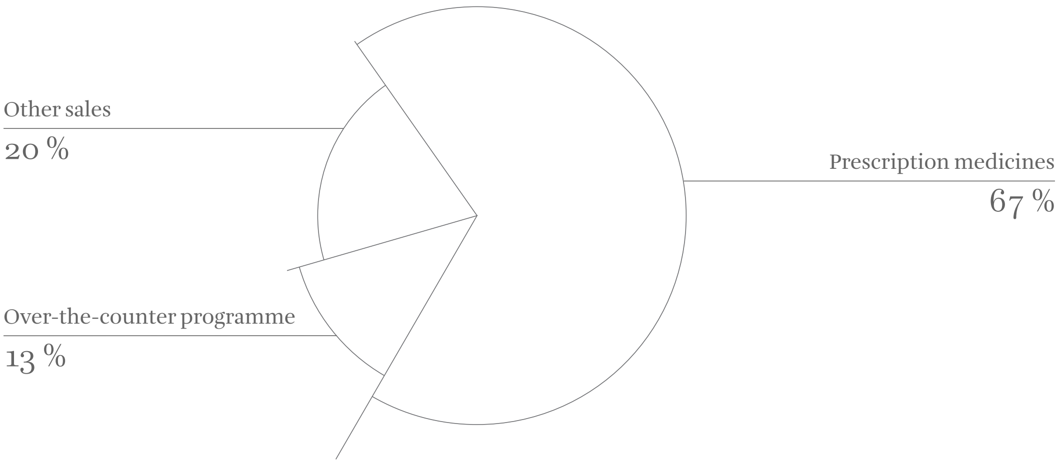


Structure of revenues from sales of the *Pharmaceutical* segment by markets



The operations of the Pharmacy segment can be monitored through groups of products:

Structure of revenues from sales of the *Pharmaceutical* segment by product groups



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

IN THE PAST YEAR, THE PODRAVKA GROUP ACHIEVED A VERY SOLID RESULT, DESPITE THE HIGHLY CHALLENGING CIRCUMSTANCES.

We have been speaking about global instability since the outbreak of the COVID-19 pandemic; however, the crisis in the Ukraine further hindered already complex operating conditions and caused significant spikes in the prices of energy and raw materials on the global market.

Achieving this result required a great deal of knowledge, capability and the exceptional engagement of all members of the Podravka Group, all its business segments, and all our employees. In the year behind us, our success is a reflection of our strategic planning, carefully planned stock management and procurement processes, and quick adaptations of how we work aimed at maximum optimisation of energy consumption.

We succeeded as we faced these challenges together, without ignoring them, or shrinking under their weight or size. Great thanks go to all of our employees.

Also, overcoming the global disturbances required us to focus on to keep up with the global competition. In addition to active portfolio management, this was performed through three key areas – optimisation of costs, investments in employees, and a strong investment cycle.

Despite the challenges, investments in modernisation and improving working conditions, introduction of new technologies and digitalisation, raising efficacy and energy efficiency have remained priorities of the Podravka Group. Investments on climate control have been completed, new production lines installed, and the expansions on the Soup and Vegeta factory started, which will be the first new production plant in 15 years. The process to digitalise production has also started, and we can be proud to have the largest rooftop solar electric plant in Croatia, on the Danica factory, thereby further increasing the share of renewable energy generation at Podravka. Further, Podravka has invested major efforts in the production of our own raw materials, which was outlined in the self-sufficiency strategy. Finally, important progress last year was made with the IT and energy reconstruction and modernisation of the Podravka headquarters in Koprivnica, refurbished after 43 years. This has significantly improved the working conditions of employees, and our investments also contribute to energy efficiency. The trend of reducing CO_2 emissions, with 9.2% less CO_2 emitted in 2022 than in 2021 is also a reflection of Podravka's actions to improve energy efficiency and increase the use of renewable energy.

Last year was also a year for Podravka to celebrate big anniversaries - 75 years of existence, 60 years of soup production, 75 years of Žito and 50 years of Belupo. In 75 years, Podravka has grown from a plant for fruit processing and jam production into a leading Croatian, as well as a true multinational food company. This is best confirmed by the fact that today Podravka has its companies in as many as 16 countries, of which production is in a total of four, and its brands can be purchased in more than 60 countries around the world.

This is great success and reason to celebrate; however, aware of the circumstances of last year, we decided to instead mark the anniversary by focusing on large investments as our investment into the future and a special monetary reward for our employees. This was yet another confirmation of our dedication to continue improving the financial rights and working conditions of our employees, especially in this period of growing inflation of retail prices. Last year, Podravka raised salaries and earnings twice, and the last increase was made after collective bargaining in December. During 2022, HRK 76.5 million more was invested in the financial position of workers in comparison to 2021. In December 2022, the incomes of Podravka workers were 18 percent higher than a year earlier.

Yet another year of uncertainty lies before us. The circumstances in which we will work and live in 2023 will largely depend on the further course of events in the Ukraine. Our strong position, however, will enable us to quickly adapt to change, to meet our strategic goals including large investments and the completion of important projects, and our dedication to carry out our new Sustainable bussines strategy.

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

4 Podravka Management Board

PURSUANT TO THE PROVISIONS OF THE PODRAVKA INC. STATUTE, the Management Board consists of three to six members appointed by the Supervisory Board. The Management Board is appointed for a term established by the Supervisory Board (to a maximum of five years), with the possibility of reappointment. If the president and individual members of the Management Board are appointed during the mandate of the existing Management Board, their mandate shall have the same duration as the Management Board in its entirety. The start of the mandate begins on the date of appointment of the Management Board, unless otherwise stipulated in a decision by the Supervisory Board.

The Management Board manages the Company business, while the functioning of the Management Board and the division of responsibilities among members of the Management Board are governed by the Rules of procedure of the Management Board.

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

IN 2022, THE MEMBERS OF THE PODRAVKA INC. MANAGEMENT BOARD WERE:

1. Martina Dalić / *president*
2. Davor Doko / *member*
3. Ljiljana Šapina / *member*
4. Milan Tadić / *member (since 24 February 2022)*
5. Ivan Ostojić / *member (since 1 July 2022)*
6. Marko Đerek / *member (until 23 February 2022)*
7. Hrvoje Kolarić / *member (until 23 February 2022)*

The earnings of the members of the Podravka Inc. Management Board are stipulated in a contract concluded with the Company, and approved by the Supervisory Board on behalf of the Company.

The members of the Podravka Inc. Management Board were not approved or paid fees for their membership in the supervisory committees of the Podravka Group companies.

During 2022, 60 sessions of the Management Board were held, with a 99.29% attendance rate of members.

CURRICULUM VITAE OF MANAGEMENT BOARD MEMBERS

MARTINA DALIĆ
President of the Management Board

Martina Dalić was re-appointed as President of the Podravka Management Board in February 2022, with the beginning of the mandate on February 24, 2022.

Martina Dalić, Phd has had a rich career and broad experience in both the private and public sector, and international institutions. Prior to taking over as CEO of Podravka d.o.o., she served as director of the corporate consulting company Callidus Certus d.o.o., which she founded.

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

She has diverse private sector experience, serving as President of the Management Board of Partner Bank Zagreb, chief economist at Privredna Bank Zagreb from 2008 to 2010, and as chief economist of Privredna Bank Zagreb, a member of the Intesta Sanpaolo Group from 2000 to 2004.

In the period from 2015 to 2016, she was a standing advisory for public finance for the International Monetary Fund in Washington, DC.

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

She graduated in economics from the Faculty of Economics, University in Zagreb, where she began her professional career as an assistant in the Department for Organisation and Management. She received her Master's degree in 1994, and Doctorate in 2012.

She is author of numerous expert and scientific papers.

DAVOR DOKO
Member of the Management Board

He was re-appointed a member of the Management Board of Podravka Inc. in February 2022.

He began his professional career in 2000 as an assistant portfolio manager in the Assets Department of Zagrebačka Bank, where he participated in establishing a company for investment fund management. He joined the team of AZ Compulsory Pension Fund in 2002, and served as a procurator and chief portfolio manager. In this role in the AZ Compulsory Pension Fund, he actively participated in portfolio management and managing the investment process. In 2006, he became a member of the Management Board of Allianza ZB, a company for the management of the compulsory pension funds, and he was responsible for investments. During his mandate, he invested in numerous companies in the pharmaceutical and food sectors, and developed good business relations with all the larger corporate banks in Croatia and international finance institutions. As the person responsible for investments in the AZ Compulsory Pension Fund, he also participated and managed all segments of the investment process.

He holds a degree in economics from the University of Zagreb. During his career, he has participated in numerous training and education sessions and conferences pertaining to investments and the capital market.

LJILJANA ŠAPINA
Member of the Management Board

She was re-appointed a member of the Management Board of Podravka Inc. in February 2022.

She has been employed at Podravka Inc. since 1984. During her career, she has gained experience in a number of manager and director positions within the company, in the departments Accounting and Finance, Retail, Gastro Sales, Frozen Programme, Joint Market Affairs, and Export Preparations. In 2012, she was director of the Import-Export Logistics service, and in 2015 took on the position of Head of the Import-Export Logistics department.

She graduated in foreign trade at the University of Zagreb. In 2012 she also obtained a master's degree.

MILAN TADIĆ

Member of the Management Board

Appointed a member of the Management Board of Podravka Inc. in February 2022.

He began his career at the Croatian Pension Insurance Fund as a legal affairs representative in 1986. In 2001, he joined Podravka d.o.o. as a specialist and director of legal affairs, and later performed the tasks of director of the Service for Legal Affairs and Contracts. In 2003, he became an advisor to the Podravka Inc. Management Board for international markets, and later executive director for key international clients. In 2005, he became executive director for Central Europe markets. In 2009, he took a position with the company Adris Group as the executive director of new and executive director of all markets for the Rovinj Tobacco Factory. He returned to Podravka in 2014, as executive director for Southeast Europe markets, and in 2015 was appointed senior vice-president for the Adria region, in 2016, he was the member of the Management Board for the company Žito d.o.o., Ljubljana, and in 2018 the procurist for the Žito Group. In 2021, he was Head Director for the Adria Region.

He holds a degree in law from the University of Osijek and completed the basic administration and managerial education programme at the Faculty of Economics, University of Zagreb. During his career he has attended numerous managerial training sessions in the field of management and sales.

IVAN OSTOJIĆ

Member of the Management Board

Appointed a member of the Management Board of Podravka Inc. in February 2022, with a start of the mandate as of 1 July 2022

He began his career in 1997 in the Ministry of Finance, in the Directorate for the Financial System and Capital Market. After completing his training, he became an advisor in that Directorate. From 2000 – 2001, he served as a member of the Executive Board of the Direction for the Supervision of Insurance Companies, and president of the Examination Commission for Holding Exams for Authorised Insurance Mediators or Agents.

In 2001, he joined the Wüstenrot Housing Trust as Head of the Loans Department and procurator, and in 2007 he was appointed a member of the Management Board responsible for sales and marketing, risk management and back office of treasury and loans.

In 1996 he received a degree from the Faculty of Tourism and Foreign Trade at the University of Dubrovnik, and in 2000 a Master's degree in political science from the University of Zagreb on the topic *"Introduction of the Euro and its influence on the Croatian banking system".*

He is a member of the Supervisory Board of Luke Ploče d.d. He holds an insurance agent licence and has completed coaching training.

HRVOJE KOLARIĆ

Member of the Management Board of Podravka Inc. until 23 February 2022

MARKO ĐEREK

Member of the Management Board of Podravka Inc. until 23 February 2022

His professional career have included the position of director of Pharmaceuticals and Business Development at Bristol Myers Squibb, director of Pharmaceuticals at PharmaSwissa, and director of PharmaSwiss d.o.o., Croatia. He has managed business processes concerning cooperations with Belupo in the production of the cardiological line of products, Pravachol. In his earlier career, he was manager of the Pharmaceutical Department at the Bristol Mayers Squibb representative office for Croatia and BiH, and manager for the allergy and respiratory product lines of the Schering Plough representative office in Croatia. He was appointed a member of the Management Board of Belupo responsible for marketing, sales and international markets in 2005, and reappointed to the same position in 2010. Two years later, he was appointed President of the Management Board of Belupo.

He graduated from the Faculty of Pharmacy and Biochemistry, University of Zagreb in 1998. He has actively participated in numerous training sessions to acquire sales and negotiation skills, training for first line management, effective sales, training in finance issues, and more. In addition to his qualifications of Master of Pharmacy, he has also attained the title of Master of Business Administration, President module, from the IEDC in Bled.

He began his professional career in 1995 as a researcher in the Pliva Research Institute, where he remained until 2003. In the period 1997 – 2002, he was a member of the initial project team for the functional design of the building of the new Research Institute in Zagreb, and in 2003, he became manager of the Pliva Research Institute. In 2004, he became the manager of development projects the Research Institute, and in 2006 transferred to Global Business Development of Pliva as director of corporate products. In 2007, he became director of market support at Pliva.

In 2009, he joined Hrvatska pošta (Croatian Post) as executive director for trading. In 2011, he moved to GlaxoSmithKline as manager of business development for Southeast Europe. In 2013, he took over the function of director of sales and hospital business for Southeast Europe at Pliva/TEVA, where he remained until 2017.

He graduated from the Faculty of Chemical Engineering and Technology, University of Zagreb in 1995 and obtained a Master of Science degree in chemistry from the same institution in 2004. He graduated from the Master of Business Administration (MBA) programme at the Erasmus - Rotterdam School of Management in Rotterdam, Netherlands.

During his career, he has participated in numerous scientific and management training programmes and the Acceleration pool education programme at Pliva.

5 Supervisory Board of Podravka Inc.

THE SUPERVISORY BOARD HAS NINE MEMBERS,

The Supervisory Board has nine members, eight of whom are elected by the shareholders at the General Assembly by a three-quarter majority of votes cast, while one member of the Supervisory Board is appointed by the Worker's Council of the Company, in the manner and by the procedure pursuant to the provisions of the Labour Act. Members of the Supervisory Board are elected or appointed to a four-year term. The start of the mandate for each member of the Supervisory board is calculated from the date of election or appointment, unless otherwise determined by a decision on election. The Supervisory Board oversees the execution of Company business, and decides on issues from its area of competence in accordance with the law, the Statute of Podravka Inc., and the Rules of procedure of the Supervisory Board.

THE MEMBERS OF THE PODRAVKA INC. SUPERVISORY BOARD IN 2022 WERE:

1. Damir Grbavac / *president (from 1 November 2022) and member (from 1 July 2022)*
2. Želimir Vukina / *president and member (until 31 October 2022)*
3. Luka Burilović / *deputy president*
4. Marina Dabić / *member*
5. Damir Felak / *member (from 8 September 2022)*
6. Ksenija Horvat / *member (worker representative)*
7. Tomislav Kitonić / *member*
8. Petar Miladin / *member*
9. Dajana Milodanović / *member (until 7 September 2022)*
10. Ivan Ostojić / *member (until 30 June 2022)*
11. Krunoslav Vitelj / *member.*

The members of the Supervisory Board and Management Board of the company are selected primarily based on their expertise, knowledge and relevant experience, taking into account the principle of equal gender representation.

Until September 2022, the Podravka Inc. Supervisory Board was comprised of a president and eight members, with a ratio of women of 33%. Since there was a change in the number of members of the Supervisory Board in the final quarter of 2022, and consequently a lower representative of women on the board (25% as of 31 December 2022), at the time of submission of a proposal to the General Assembly of the Company pertaining to the selection of new members of the Supervisory Board, the application of the principle of gender equality will be taken into consideration.

Concerning the composition of the Management Board, the Supervisory Board has set the target of 30% female representation. Since this target has been met at the level of 40% of the members of the Management Board, the Supervisory Board assesses that it has been met in full.

The Supervisory Board also supports the commitments of Podravka Inc. toward gender equality in representation at the level of the company as a whole, particularly in upper management positions.

On 31 December 2022, Podravka Inc. employed 47% women, in the segment of highly educated workers the ratio of women was 61%, while in higher management functions, this percentage was 43%. These figures place Podravka Inc. among the leading companies for gender equality, and the Supervisory Board considers that this employee structure is an excellent accomplishment.

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

The Audit Committee in 2022 operated in the following composition:

1. Ivana Matovina / *president*
2. Tomislav Kitonić / *deputy president*
3. Želimir Vukina / *member (until 31 October 2022)*
4. Damir Grbavac / *member (from 1 November 2022).*

The Renumeration Committee operated in the following composition:

1. Luka Burilović / *president*
2. Petar Miladin / *member*
3. Želimir Vukina / *member (until 31 October 2022)*
4. Damir Grbavac / *member (from 1 November 2022).*

The Appointment Committee operated in the following composition:

1. Damir Grbavac / *president (from 1 November 2022)*
2. Želimir Vukina / *president (until 31 October 2022)*
2. Luka Burilović / *member*
3. Krunoslav Vitelj / *member*

The members of the Podravka Inc. Supervisory Board are entitled to monthly renumeration confirmed in a fixed amount according to the Decision of the General Assembly on setting the renumeration for the work of members of the Company Supervisory Board.

CURRICULA VITAE OF MEMBERS OF THE PODRAVKA INC. SUPERVISORY BOARD

DAMIR GRBAVAC

President of the Supervisory Board

Damir Grbavac was appointed a member of the Supervisory Board of Podravka Inc. on 28 October 2022, with a mandate beginning on 1 November 2022. He is president of the Appointment Committee and a member of the Audit Committee and Renumeration Committee of Podravka Inc. He started his professional career in 1978 in the Đuro Đaković Group, holding a range of positions from credit officer to deputy CEO of the Holding company. In 1997, he transferred to Raiffeisenbank Austria d.d. Zagreb to the position of investment banking manager. In 1997, he was appointed to the Management Board of Raiffeisen Investment, and two years later he became president of the Management Board of Raiffeisen Vrijednosnica d.o.o. In 2003, he was appointed a consultant to the Management Board at Raiffeisenbank Austria d.d. Zagreb. From 2004 to 2021, he served as president of the Management Board of the Raiffeisen Pension Fund. Damir Grbavac also served on the Supervisory Boards of Hrvatski Telekom d.d., Zagrebačka banka d.d. and Podravka Inc. from 2017 until 2019. Additionally, he was on the executive council of the Central Deposits Register in its initial composition, and served as president of the Association of Pension Fund and Pension Insurance Fund Management Societies. He graduated from the Faculty of Economics and Business, University of Zagreb in 1978, and received his Master's degree from the same Faculty in 1985. He is a licensed manager of pension funds and pension insurance companies.

LUKA BURILOVIĆ

Deputy president of the Supervisory Board

Luka Burilović was appointed a member of the Podravka Inc. Supervisory Board in June 2022, with a mandate start date of 8 September 2022. He is president of the Renumeration Committee and a member of the Appointment Committee of Podravka Inc. He has served as President of the Croatian Chamber of Economy (HGK), since 2014, and is also a member of the Management Board of HBOR (Croatian Bank for Reconstruction and Development), president of the Croatian National Board of the International Trade Chamber, member of the Executive Board of the Association of European Chambers of Commerce, and a member of the Executive Board of the Foundation of the Croatian Academy of Science and Arts. He was president of the management board of Sladorana d.d., Assistant Minister in the Ministry of Agriculture, Forestry and Water Management, and owner and director of the company Agrotehna. He was decorated with the Medal of the Order of the Croatian Morning Star with the figure of Blaž Lorković for exceptional service to business and economics. Upon completing postgraduate specialist studies in economics and management at the Faculty of Economics, University of Osijek, he received his doctorate from the same university.

KSENIJA HORVAT

Member of the Supervisory Board

Ksenija Horvat was appointed a member of the Podravka Inc. Supervisory Board in July 2019 by the Company Worker's Council She is the representative for most unions active in Podravka, the PPDIV Union and president of the Podravka Inc. Worker's Council since 2013. She was deputy and acting president of the Supervisory Board and her entire professional career has been dedicated to Podravka.

PETAR MILADIN

Member of the Supervisory Board

Petar Miladin was appointed a member of the Podravka Inc. Supervisory Board in June 2022, with a mandate start date of 8 September 2022. He is a member of the Renumeration Committee of Podravka Inc. He has been a full tenured professor at the Faculty of Law, University of Zagreb since 2019, and also served as Vice-Dean at the faculty. He received his Master's Degree in the postgraduate scientific study programme in the field of trade law and company law at the same faculty in 1999, and his doctorate in the field of law from the same faculty in 2005.

KRUNOSLAV VITELJ

Member of the Supervisory Board

Krunoslav Vitelj was appointed a member of the Podravka Inc. Supervisory Board in June 2022, with a mandate start date of 8 September 2022. He is a member of the Appointment Committee of Podravka Inc. Since 2021 he has served as president of the Croatian Chamber of Economy (HGK) – Koprivnica County Chamber, and before that was head of the Department for Civil Protection, Fire Protection and Inspections at the Police Directorate of Koprivnica-Križevci County, advisor to the president of the Management Board for human resources and law at Podravka, and director of the HRK

– Koprivnica County Chamber. He graduated from the Faculty of Economics, University of Zagreb in 1993. In 1995 he received his Master's degree, and in 2008 attained qualifications for corporate management for members of supervisory and management boards at the same faculty.

TOMISLAV KITONIĆ
Member of the Supervisory Board

Tomislav Kitonić was appointed a member of the Podravka Inc. Supervisory Board in June 2019. He is a member of the Audit Committee of Podravka Inc. Since 2003, he has been a shareholder in the company Bik d.o.o. from Čazma, and since 2014, its 100% owner and procurator. In 2012, he became part owner of the company Moslavina proizvodi d.o.o. from Siščana. In 2015/16, he served as the appointed director for Pestova Shpk in the European Bank for Reconstruction and Development (EBRD). He was chairman of the Management Board of Ledo d.d. He graduated from the Faculty of Food Technology and Biotechnology, University of Zagreb in 1998, and completed postgraduate study of Business Administration (MBA) at the Faculty of Economics, University of Zagreb in 2006. He continued his professional development and education in Slovenia and Belgium, and attained his qualifications for corporate management for member of supervisory and executive boards in Zagreb.

MARINA DABIĆ
Member of the Supervisory Board

Marina Dabić was appointed a member of the Podravka Inc. Supervisory Board in June 2019. She is a full professor at the Faculty of Economics, University of Zagreb, and the Faculty of Economics, University of Ljubljana. She is the most cited Croatian scientist in the field of corporate economics, is head of accreditation for the Faculty of Economics, University of Zagreb, co-editor and member of editorial boards of more than 30 prestigious journals worldwide. Since 2017, she has been a regular evaluator for the European Commission prestigious projects Horizon 2020, and a reviewer for the European Science Foundation and Research Foundation Flanders (FWO). She was the chief and responsible organiser of the IEEE-TEMSCON Europe 2021 conference and a member of the executive board of IEEETEM. She is the recipient of the EFMD award for improving the quality of business education, and winner of the Phi Beta Delta award for International Scholars at CSU, Georgia, USA, winner of the best article at the Academy of International Business 2021 Award WAIB, recipient of the Mijo Mirković award for the scientific work from the Faculty of Economics, and recipient of the Coat of Arms of Slavonski Brod in 2017.

DAMIR FELAK
Member of the Supervisory Board

Damir Felak was appointed a member of the Podravka Inc. Supervisory Board in June 2022, with a mandate start date of 8 September 2022. He began his professional career in 1990 in the enterprise Šumarsko gospodarstvo, where he remained until mid-1997. In the period from 1993 to 1997, he served as Head of the municipality of Sokolovac, and from 1997 to 2001 as Deputy Prefect of Koprivnica-Križevci County. From 2002 to 2015, he worked in Hrvatske šume d.o.o. as forest manager, expert associate, forest district manager and senior expert associate, while from 2008 to 2012 he served on the management board of Hrvatske šume d.o.o. Since 2020, he has worked as a senior expert associate at Hrvatske šume d.o.o. He also served as chairman of the Croatian Chamber of Forestry and Wood Technology Engineers for ten years, and was elected to two mandates in the Croatian Parliament. He is president of the County Assembly of Koprivnica-Križevci County, and has been awarded the Homeland War Memorial Medal, Homeland Appreciation Memorial Medal and the medal of the Order of the Croatian Interlace. He graduated from the Faculty of Forestry, University of Zagreb in 1990, and in 2013 he completed postgraduate specialist study in Strategic Entrepreneurship at the Faculty of Economics, University of Zagreb, attaining the academic title of University specialist of strategic entrepreneurship.

ŽELIMIR VUKINA

President and member of the Supervisory Board until 1 November 2022

Želimir Vukina was appointed a member of the Podravka Inc. Supervisory Board in June 2019. Since 2012, he has been employed at the Vukina i Partneri d.o.o. law firm as a business consultant. During his career he was Vice-president of Pliva d.d., General director of Lura d.d., and member of the Management Board of Adris Group d.d. He graduated from the Faculty of Economics, University of Zagreb in 1985 and underwent professional development in the US, France and Slovenia.

IVAN OSTOJIĆ

Member of the Supervisory Board until 30 June 2022

Ivan Ostojić was appointed a member of the Podravka Inc. Supervisory Board in June 2021, with a mandate start date of 30 June 2021. He began his professional career in 1997 in the Croatian Ministry of Finance in the Directorate for the Financial System and Capital Markets. After completing his internship, he became an advisory in the same Directorate. During 2000–2001, he served as a member of the Executive Board of the Directorate for the Supervision of Insurance Companies, and as president of the Examination Committee for the authorised insurance agent examination. In 2001, he joined Wüstenrot Stambena Štedionica d.d. Zagreb as the head of the Loans Department and served as procurator. In 2007, he became a Member of the Executive Board of Wüstenrot Stambena Štedionica d.d. Zagreb responsible for sales and marketing, risk management and the treasury and loans back office. He graduated from the Faculty of Tourism and Foreign Trade, University of Dubrovnik in 1996, and received his Master's degree from the Faculty of Political Science, University of Zagreb in 2000, with the defence of his thesis entitled *"Introduction of the Euro and the impacts on the Croatian banking system"*. He is a member of the Supervisory Board of Luke Ploče d.d. and is a licenced insurance agent. He has taken part in coaching training.

DAJANA MILODANOVIĆ

Member of the Supervisory Board until 7 September 2022

Dajana Milodanović was appointed a member of the Podravka Inc. Supervisory Board in June 2018, with a mandate start date of 9 September 2018. Since 2020, she has worked at the Office for the development sales models and sales staff at Hrvatska poštanska banka d.d. She is a member of the City Council of the City of Đurđevac, County Assembly of Koprivnica-Križevci County, president of the Executive Council of the Maslačak kindergarten in Đurđevac, president of the Supervisory Board of the Đurđevac municipal services company, and president of the Supervisory Board of the Association of Sports Societies of Đurđevac. She was a member of the Executive Council of PORA. She graduated in Accounting and Finance at the Faculty of Economics, University of Zagreb in 2004, and in 2011 attained the title of Expert specialist in economics at the Libertas Business College in Zagreb.

IVANA MATOVINA

President of the Audit Committee of Podravka Inc.

She began her professional career in 1996 as head of accounting, and from 1997 – 2009 she worked at KPMG Croatia d.o.o. In 2011, she became a partner and director of the company Cinotti revizija d.o.o./Cinotti savjetovanje d.o.o., and in 2011 established her own companies Antares revizija d.o.o. and Antares savjetovanje d.o.o., which deal with audits, internal reviews, accounting, business consultations and education. From 2009 to 2012, she was a member of the Executive Council of the Croatian Audit Chamber, and from 2012 a member of the Board for financial reporting standards and a member of the HANFA Council. She graduated from the Faculty of Economics, University of Zagreb in 1996, specialisation Accounting and Finance. In 2000, she became a chartered accountant in Great Britain, and two years later, received the qualification of Croatian authorised auditor.

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

DURING 2022, THE PODRAVKA INC. SUPERVISORY BOARD (HEREINAFTER: SUPERVISORY BOARD) WAS IN THE FOLLOWING COMPOSITION: Damir Grbavac – *president (from 1 November 2022)*; Želimir Vukina – *president (until 31 October 2022)*; Luka Burilović – *deputy president;* Marina Dabić, Ksenija Horvat, Tomislav Kitonić, Ivan Ostojić *(until 30 June 2022),* Damir Grbavac *(from 1 July 2022)*, Petar Miladin, Dajana Milodanović *(until 7 September 2022)*, Damir Felak *(from 8 September 2022)* and Krunoslav Vitelj – *members* of the Supervisory Board.

Pursuant to the authorities granted by the provisions of the Companies Act and the Podravka Inc. Statute, the Supervisory Board performed continuous oversight over the work of Podravka Inc. and the Podravka Group during 2022, and passed decisions and conclusions on 64 agenda items covered in 13 sessions, three of which were held in writing. With regard to attendance at Supervisory Boards sessions, Mr. Vukina, Mrs. Dabić, Mr. Grbavac, Mr. Felak and Mr. Vitelj were present at all Supervisory Board sessions, while Mr. Burilović was absent from three sessions, Mr. Miladin from two sessions, and Mrs. Horvat, Mr. Kitonić, Mr. Ostojić and Mrs. Milodanović each from one session of the Supervisory Board.

The members of the Supervisory Board, with the exception of the renumeration for work in the Supervisory Board, did not receive any other payments such as travel or other expenses in 2022.

In their oversight of the work of Podravka Inc., during 2022 the Supervisory Board discussed all key issues concerning the operations of Podravka Inc. and its affiliate companies, and received regular written reports on operations, and materials with the proposed decisions of the Podravka Inc. Management Board that pursuant to the regulations considered and decided on them. The Podravka Inc. Management Board reported to the Supervisory Board on all important business events, the course of operations, and the general state of operations of Podravka Inc. and the Podravka Group.

At the session held in February 2022, the Supervisory Board passed the Decision on appointment of the president and members of the Podravka Inc. Management Board in the mandate beginning on the date 24 February 2022 and lasting until 23 February 2027.

At the session held in May 2022, the Supervisory Board received information on the operations and restructuring activities in the Žito Group, and a report on the status of implementation of the Podravka Group Strategic Plan for the period 2021–2025.

Over the year, the Supervisory Board considered the status of capital investments, and gave its approval to launch the project for the modernisation and increase of capacity for primary processing of tomatoes in continental Croatia.

At the session held in September 2022, the Podravka Inc. Supervisory Board gave its approval to the decision of the management of Žito d.o.o. on the sale of property at the location Moskovska 1, Ljubljana which received the approval of the Žito d.o.o. Supervisory Board and Žito d.o.o. General Assembly.

At the session held in December 2022, the Supervisory Board gave its approval to the Plan of Operations of the Podravka Group for 2023–2025.

The ongoing execution of the supervisory function in the best interests of Podravka Inc., shareholders and other stakeholders in accordance with the legal regulations and internal acts of Podravka Inc. was made possible by the adequate support and information the Supervisory Board received from the Management Board throughout the year. Since the Supervisory Board was regularly informed by the Management Board on all important business events, operating results, and the status of Podravka Inc. and Podravka Group, the Supervisory Board assesses that its cooperation with the Management Board is good, constructive, and effective.

The Supervisory Board operates through the following committees for the sake of efficacy of performing its functions: Audit Committee, Renumeration Committee, and Appointment Committee.

In 2022, the Audit Committee operated in the following composition: Ivana Matovina, president of the Audit Committee, Tomislav Kitonić, deputy president of the Audit Committee, and Želimir Vukina, member of the Audit Committee until 31 October 2022 and Damir Grbavac, member of the Audit Committee from 1 November 2022.

In 2022, the Audit Committee held eight sessions, one of which was held in writing. Mr. Vukina was absent from one session of the Audit Committee.

The Audit Committee regularly reported to the Supervisory Board on the adopted recommendations from its sessions.

The Audit Committee considered and gave recommendations to the Supervisory Board for the adoption of the Annual Financial Report of Podravka Inc. and Podravka Group and the report on the standing of the Company and affiliate companies for 2021, with the reports of the authorised auditors Ernst & Young d.o.o. and quarterly financial reports of Podravka Inc. and Podravka Group in 2022.

The Audit Committee also considered and discussed the Annual Report on the work of the Internal audit for 2021, quarterly reports on the work of the Internal audit in 2022, and Report on the performed follow up of recommended activities from audit projects in 2021 and 2022.

In 2022, the Appointment Committee operated in the composition: Damir Grbavac, president from 1 November 2022, Želimir Vukina, president from 31 October 2022, and Luka Burilović and Krunoslav Vitelj as members of the Appointment Committee. In 2022, the Appointment Committee held three sessions. All members of the Appointment Committee were present at all sessions. The Appointment Committee regularly informed the Supervisory Board of the adopted recommendations from its sessions.

At the session held in February 2022, the Appointment Committee considered and gave recommendations on the candidates of the Supervisory Board for the president and members of the Management Board.

At the session held in April 2022, the Appointment Committee gave its recommendations to the Supervisory Board for the proposal of the appointment of candidates Damir Grbavac and Petar Miladin as members of the Supervisory Board.

In 2022, the Renumeration Committee acted in the following composition: Luka Burilović, president of the Renumeration Committee and members of the Renumeration Committee: Želimir Vukina until 31 October 2022, Damir Grbavac from 1 November 2022, and Petar Miladin.

The Renumeration Committee held six sessions in 2022. All members of the Renumeration Committee were present at all sessions. The Renumeration Committee regularly reported to the Supervisory Board on the adopted proposals and recommendations from its sessions, and submitted the Report on its work for 2021.

The Renumeration Committee considered and confirmed the proposal of the content of the Contract on performing the work of president and members of the Management Board and forwarded it to the Podravka Inc. Supervisory Board for its decision.

The Renumeration Committee analysed the results of operations of the Podravka Group for 2021, the execution of the investment plan, implementation of the Podravka Group Strategic Plan for 2021-2025 and activities on the restructuring of operations and improvement of business processes, with the aim of assessing the contributions to the success of company operations as the foundation for the proposal of rewards for the president and members of the Management Board. Based on this, the Renumeration Committee submitted its proposal on the decision on rewards for the president and members of the Podravka Inc. Management Board for business targets achieved in 2021 to the Podravka Inc. Supervisory Board for its decision.

The Renumeration Committee considered the proposal of the Renumeration policy and the Report on the renumeration of members of the Supervisory Board and Management Board in 2021 and submitted its recommendations to the Podravka Inc. Supervisory Board to confirm the Renumeration Policy and Report on renumerations.

The Supervisory Board conducted a self-assessment of its efficacy, profile and composition, and the efficacy and composition of its committees and individual results of members. The assessment was led by the president of the Supervisory Board without the engagement of an external assessor.

The Supervisory Board confirmed that its entire composition and profile, and the composition and profile of its committees correspond to the needs and activities of Podravka Inc.

The members of the Supervisory Board and Management Board of the company are selected primarily based on their expertise, knowledge and relevant experience, taking into account the principle of equal gender representation.

Until September 2022, the Podravka Inc. Supervisory Board was comprised of a president and eight members, with a ratio of women of 33%. Since there was a change in the number of members of the Supervisory Board in the final quarter of 2022, and consequently a lower representative of women on the board (25% as of 31 December 2022), at the time of submission of a proposal to the General Assembly of the Company pertaining to the selection of new members of the Supervisory Board, the application of the principle of gender equality will be taken into consideration.

Concerning the composition of the Management Board, the Supervisory Board has set the target of 30% female representation. Since this target has been met at the level of 40% of the members of the Management Board, the Supervisory Board assesses that it has been met in full.

The Supervisory Board also supports the commitments of Podravka Inc. toward gender equality in representation at the level of the company as a whole, particularly in higher management positions.

On 31 December 2022, Podravka Inc. employed 47% women, in the segment of highly educated workers the ratio of women was 61%, while in higher management functions, this percentage was 43%. These figures place Podravka Inc. among the leading companies for gender equality, and the Supervisory Board considers that this employee structure is an excellent accomplishment.

The Supervisory Board assessed and confirmed that all the members of the Supervisory Board and its committees possess the knowledge, capabilities and expertise and actively participated in the work, dedicating sufficient time and giving an effective contribution to discussions and decision-making on all matters that were on the agenda of sessions of the Supervisory Board and its committees.

7 Key business indicators

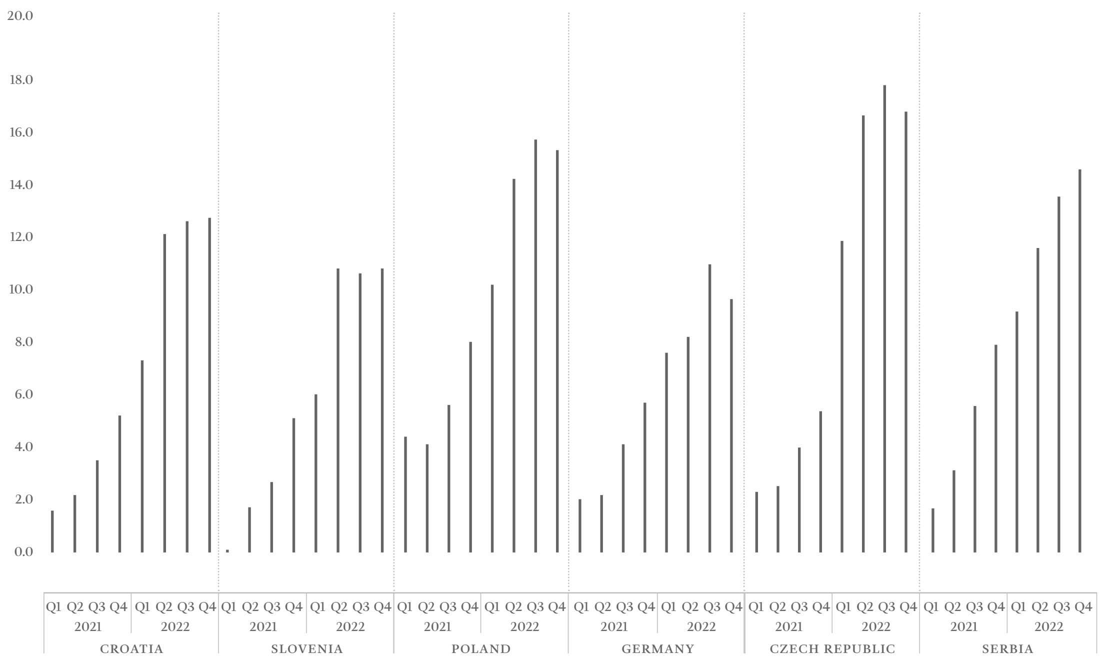
Macroeconomic *environment*

2022 WAS MARKED BY NUMEROUS GLOBAL MARKET CHALLENGES, which the Podravka Group successfully handled. The geopolitical instability and uncertainties caused by the COVID-19 pandemic was only worsened by the crisis in Ukraine, whose consequences are reflected in the strong and continued growth of prices of all raw materials, packaging and energy.

Inflation has grown to levels unseen in decades, resulting in lower real wages and a reduced purchasing power among consumers.

The main markets of the Podravka Group have not been spared the effects of this global economic turbulence. In the past period, we have succeeded in partially amortising the growth in prices of raw materials, packaging and energy and retaining growth through the optimisation of costs, product line management and discontinuing products that do not positively contribute to profitability, active management of stocks and sales prices, and increased production efficacy.

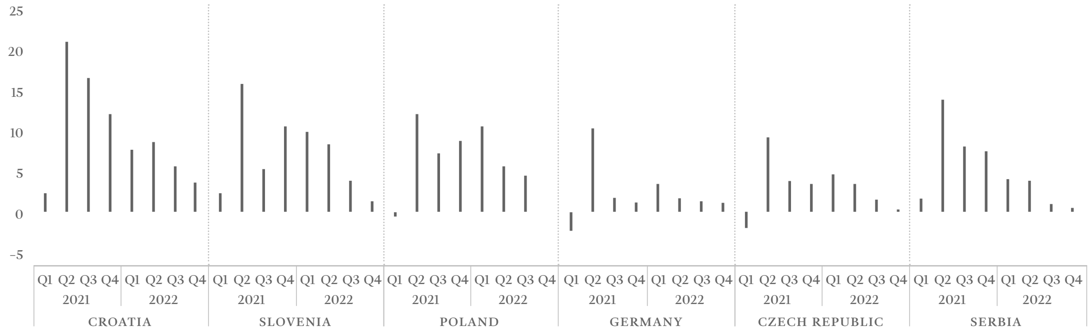
Inflation rate trends for selected countries in the period 2021 – 2022 (% compared with the same quarter of the previous year)



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

MACROECONOMIC ENVIRONMENT

Growth trends of the real GDP for selected countries in the period 2021 – 2022 (% compared with the same quarter of the previous year)



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

During 2021, Podravka launched a series of projects as part of the five-year Group strategy, and continued their implementation throughout 2022. A part of these projects was directed at increasing efficacy and raising self-sufficiency and corporate social responsibility, which in turn will raise the effectiveness of company operations to a higher level. In the past period, Podravka Group has made several significant steps forward, and the plan is to continue in that direction in the future, towards more robotisation and production automation, and the use of energy from renewable sources.

The Podravka Group is a multinational company with production in four countries, distribution companies in 16 countries including Australia and the USA, and exports its products to more than 60 markets, making it essential to continue strengthening our competitiveness. We operate on the global market and respond to global challenges. This is why ongoing investments in modernisation of operations, the introduction of new technologies and digitalisation, raising efficacy and energy efficiency are our priorities.

Key *indicators*

Number of markets where we are present
> 60

Number of continents where we are present
5

Number of markets where we are present through affiliate companies and representative offices
21

Number of employees on December 31, 2022
6,299

Sales revenues
HRK 5,026.8 mil.

Compared to 2021
+8.5 %

EBITDA
HRK 707.2 mil

Compared to 2021
+19.5 %

EBITDA margin
14.1 %

Compared to 2021
+129 bp

Normalised EBITDA
HRK 627.7 mil

Compared to 2021
+3.3 %

Normalised EBITDA margin
12.5 %

Compared to 2021
-63 bp

Net profits after MI
HRK 369.6 mil

Compared to 2021
+19.5 %

Net margin after MI
7.4 %

Compared to 2021
+68 bp

Normalised Net profit after MI
HRK 311.1 mil

Compared to 2021
+2.3 %

Normalised net margin after MI
6.2 %

Compared to 2021
-38 bp

KEY INDICATORS

Indicator	Compared to 2021
Net debt/ Normalized EBITDA 0.75	-0.01
Last share price at end of period HRK 634.0	+0.3%
Market capitalisation HRK 4,449.7 mil	+0.5 %
Return on average equity 8.3%	-48 bb
Return on average assets 6.1%	-25 bb
Dividend per share HRK 13	+HRK 4

Key *events*

GROWTH IN PRICES OF RAW MATERIALS, PACKAGING AND ENERGY

After a strong growth in the prices of raw materials, packaging and energy in the second half of 2021 due to the recovery of demand following a weakening of the pandemic and because of disturbance in the supply chain, in 2022 the Ukraine crisis caused an additional growth in the prices of all raw materials, packaging and energy sources. For example, in comparison to the start of 2021, at the end of 2022 the market price of natural gas was up 252%, wheat by 45%, soy oil by 47%, skimmed milk powder by 28%, butter by 57%, etc.[1] During the year, the rise in stock prices were even higher. These trends had a significant negative impact on the operations of the Podravka Group, primarily in the Food Segment, where the cost of raw materials, packaging and energy rose by HRK 340.3 million or 24.0% in 2022. The prices achieved in procurement procedures in 2022, and which then define the production costs in the future period, were up from 2% to 88% in comparison with procurement in 2021. The price of energy (primarily natural gas and electricity) also rose significantly, placing great pressure on the rise of expenditures.

In response to the strong growth of prices of raw materials, an entire series of measures was taken to reduce or mitigate the growth of operating costs. The costs of marketing activities were managed in such a way that the strategic goals were attempted to be met with a lower or equal level of marketing investment. In the first half of the year, all business programmes conducted an analysis of their portfolio to optimise the product line, by identifying low-profit products that were then discontinued at a defined dynamic over the rest of the year. Optimisation of the product line had a negative impact on sales, but a positive impact on the profitability of business programmes. Considering the trends in energy prices, the production dynamics were adapted to these trends, and alternative and less expensive energy sources were used in accordance with the available infrastructure for their use. In procurement, the focus was placed on the further introduction of new suppliers and achieving significant savings through competitions of multiple bidders and increasing the application of electronic auctions.

These internal measures mitigated the growth in costs; however, it was not possible to compensate for such a strong jump in prices of raw materials, packaging and energy. Consequently, in order partly mitigate the negative influence of the strong growth in prices for raw materials, packaging and energy, during the first quarter, the Podravka Group corrected the prices of food products on the international markets, in the range of 7% to 10%. In Croatia, prices of food products were increased once in 2022, at the end of the second quarter, while on other markets prices were corrected during the third quarter, and the total price

1 Source Mintec global, specialised platform for monitoring the price of traded goods. The figures represent the trends in prices as at 31.12.2022 in relation to 31.12.2020 on the world markets (Title Transfer Facility, Euronext Paris, Chicago Mercantile Exchange, New Zealand Exchange, European Energy Exchange).

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correction was in the range from 5% to 7%.

SALARIES AND EARNINGS OF WORKERS INCREASED TWICE DURING THE YEAR

During 2022, the salaries and earnings of workers were increased twice following our dedication to continuously improve the financial position of workers and to protect the value of their income from the growth inflation in retail prices. Workers of the Podravka Group in Croatia also receive a monthly non-taxable bonus on top of their salary, in a manner that is in line with the legal regulations, and together with the net salary, forms the total amount of monthly earnings paid out to workers.

The first wave of increases in 2022 took place in March, when the Podravka Inc. Management Board, despite the strong growth of uncertainty, remained committed to the decision to increase net salaries and non-taxable earnings that was adopted prior to the start of the crisis in Ukraine. The second wave of increases in 2022 took place in December following the conclusion of collective bargaining with the unions operating in the Podravka Group. Both waves of increases of salaries and earnings included Podravka Inc., Mirna d.d. and Belupo d.d.

During 2022, an additional HRK 76.5 million was invested in improving the financial position of workers in comparison to 2021. The total result of these efforts is visible in the trends of average salary levels and earnings of workers. The average net salary of employees of Podravka Inc. was 14% higher in December 2022 than in December 2021, and the average net earnings of employees of Podravka Inc. was 18% higher in December 2022 than December 2021. The steps taken to improve the financial position of workers in 2022 brought a faster growth of salaries in Podravka than the national average (8.2% in December) and inflation (13.1% in December).

The new salaries and earnings of workers during 2022 also increased in the Žito Group, in accordance with the possibilities of Žito, which is currently undergoing a restructuring process and reducing the number of employees.

INVESTMENT CYCLE OF THE PODRAVKA GROUP UNFOLDING IN LINE WITH THE ADOPTED STRATEGY

Despite the pressures on the costs of operations due to exceptional growth in the price of raw materials, packaging and energy, the investment cycle of the Podravka Group is advancing as planned. During 2022, the Podravka Group implemented capital investments worth HRK 396 million, which is twice the amount in 2021.

Investments on climate control in all production plants in Koprivnica and Varaždin have been completed. These investments have significantly improved the working conditions in these plants. The solar electric plant at the Danica location has been completed and put into operation. This investment has further increased the ratio of renewable energy in the generation of electricity and is currently the largest integrated (rooftop of an existing structure) solar electric plant in Croatia. The solar plant has an installed capacity of 3,059 kW (total of 9,272 panels) and the expected electricity generation is 3,266,470 kW per year. It was installed on the rooftops of the Soup and Vegeta factory (installed capacity of 1,744 kW), Children's

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food and cream spreads factory (installed capacity of 939 kW) and on part of the Danica Meat Industry (installed capacity of 376 kW). Pursuant to a decision of the Management Board, implementation of the second and third phases of the solar electric plant has been accelerated, and the majority of the investment is planned for completion in 2023. The investment will largely contribute to reducing the costs of electricity and will results in a higher degree of production efficacy at the production sites, while is important under conditions of strong spikes of energy prices. The second phase of solar plant installation will encompass the remaining structures at the Danica location, and the project documentation has been completed. The third phase of investments in solar power will be installed on structures at the Belupo site.

Works on reconstruction and modernisation of the administration building in Koprivnica have been completed and the building put into operations, and employees have moved back in. This is the first comprehensive refurbishment of the building since its construction in 1979. The refurbishment included IT and energy reconstruction and complete modernisation, which will significantly improve the working conditions of employees and reduce energy consumption. The comprehensive refurbishment of the building has increased the number of work places from 521 to 586, and raised the building's energy class from level D to level A. Thanks to the energy refurbishment, energy spent for heating will be decreased by about 82%, which is significant particularly in the circumstances of staggering hikes in energy prices. The works on the building were completed on time and on budget, despite numerous challenges such as increasing prices and issues with the delivery of materials, particularly after the start of the crisis in Ukraine.

A total of HRK 104.5 million was invested in the reconstruction and modernisation, including the refurbishment and modernisation of nearly 12,500 square metres of interior space, and works to the parking area and grounds.

Investments on the line for packaging bouillon cubes at the Soup and Vegeta factory were completed and put into operation, and will increase the level of production efficacy. Investments were made into new production lines at the Kalnik factory in Varaždin, which will also raise production efficacy and create the conditions for the production of new and innovative products. With an HRK 40 million investment, Podravka has introduced innovations into the production and packaging of ajvar and other products, and modernised the factory. The project was co-financed by the EU and Republic of Croatia with an HRK 19 million grant.

Investments on the production line for extruded products at the Koktail snack factory has been successfully completed. This is a nearly HRK 30 million investment to further modernise the technological process of production, improve the level of production efficacy and secure the requirements for further growth in sales of existing and new products in the breakfast cereal category. This investment has significant improved working conditions, since it has enabled automation and a continuous and aligned production process.

An investment has been completed in completely ecological and green technology for insect removal in raw materials, based on natural methods without the use of chemicals. A new investment has been launched to expand the Soup and Vegeta factory in Koprivnica, which will secure stability and security in the availability of industrial pasta

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as a strategic raw material in soup production, and will expand the capacity of soup finalisation, as soup is one of the most profitable categories of the food product portfolio. The start of commercial production is expected in the second half of 2023. An investment is ongoing to modernise and increase the capacity of primary processing of fresh tomatoes in continental Croatia, which includes the construction of a factory within the existing Kalnik factory in Varaždin. The investment will ensure an increase in the capacity of primary processing of fresh tomatoes and the continuity of production. The investment is scheduled for completion in early 2024.

An investment has been launched into a new bread production line at the Vič bakery in Slovenia. The line is valued at more than HRK 30 million and will enable an increase in capacity and efficacy. The project to construct a new logistics and distribution centre (LDC) in Koprivnica is unfolding as planned. The preliminary design has been successfully finalised, the contractor, supplier of logistics technology and supplier of warehouse shelving have been selected. The deadline for completion of the investment will be defined by the period required to deliver the technology and is currently expected in the third quarter of 2024. Construction of this LDC will increase the efficacy of the Podravka Group in the logistics and distribution segment of operations by optimising the number of warehouses, minimising internal transport and increasing cost control. It will also have a positive impact on the environment thanks to reduced CO_2 emissions.

The project to digitalise the production management system at two production sites (Soup and Vegeta factory, and the Maribor bakery) has been completed. The project has digitalised the tracking, records and control of work on production lines, thereby enabling better factory efficacy and the use of natural resources. During 2023, the remaining Podravka factories will be digitalised, with the aim of enabling *“paper-free production”*.

A programme has been launched to implement LEAN management in Podravka, with a focus on improving business processes and increasing productivity in the areas of production, maintenance and logistics. The first results are reflected through an increased efficacy of the machinery fleet and by reducing unneeded items.

An investment has been completed in agricultural machinery and irrigation in the Republic of Croatia, and the result is a three-fold increase in the land area under irrigation. Irrigated company lands that are available for planning will increase from about 15 hectares in 2021 to more than 150 hectares in 2023 and will be nearly 300 hectares in 2024. The aim of the investment is to reduce the costs of procurement of raw materials and agricultural technical services and to increase self-sufficiency and reduce reliance on imported raw materials. The further procurement of machinery and land irrigation is currently being prepared.

During 2022, investments were ongoing into the modernisation and maintenance of machinery, in line with the annual plan of investment maintenance. The majority of investments into the modernisation of the cargo fleet will result in reduced maintenance costs and increased efficacy, timeliness and reliability of transport and distribution of products, and was completed during 2022.

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RESTRUCTURING OPERATIONS AND PRODUCTION MODERNISATION IN THE ŽITO GROUP IS PROGRESSING AS PLANNED

The restructuring of operations of the Žito Group includes the unification of the bakery at a smaller number of locations and focusing on bakery production, technological modernisation of the bakery and complete alignment of business processes with the business processes at Podravka Inc. As part of the restructuring, sales have been separated from production functions, and Podravka d.o.o. Ljubljana has taken over all sales tasks for the Slovenian market for the entire Food segment portfolio, including the bakery portfolio. Changes have also been made in the leadership of the Žito Group, and in May 2022, Tomislav Bujanović took over the position of general director of Žito.

The process of consolidation of the bakery section of the Žito Group will be based at three locations – Maribor, Vrhnika, and Ljubljana (location Vič). So far, two production locations have been closed down – the bakeries in Novo Mesto and in Ljubljana (location Bežigrad), and the location in Ljubljana at Moskovska 1 is currently being closed down, since the location has been sold.

The process to increase efficacy of the production portfolio to increase profitability is underway, which is why a part of the unprofitable production categories have been discontinued, and a second part switched to outsourcing production. During 2022, the process was completed to terminate business cooperation with the production of confectionary products that produced private label products for the Žito Group. Further, in the forthcoming period, significant investments will be made into modernising the bakery segment, particularly the new production line with a higher capacity for bakery products at the Vič location, automation of the line in Maribor, and investments into infrastructure and an expansion of storage capacities for frozen products in Maribor.

As a result of the business restructuring and organisational changes, the overall efficacy of the Žito Group has been increased.

CONCLUSION OF THE PROCESS TO SELL THE PROPERTY AT THE LOCATION MOSKOVSKA 1 IN LJUBLJANA, OWNED BY THE COMPANY ŽITO D.O.O.

The sale of the property at the location Moskovska 1, Ljubljana, with a total area of 95,505 m2 is an integral part of the Strategic Plan of the Podravka Group for the period 2021 – 2025, and the three-year Business Plan of the Podravka Group for the period 2022 – 2024.

The process to sell the location began in July 2021. A structured sales process was followed and in January 2022, seven expressions of interest were received, followed by four non-binding offers in March 2022. In May 2022, two binding offers were received. Only one bidder offered the final and binding unconditional offer in the prescribed content and deadline, and the management of Žito d.o.o. passed the decision to accept the offer. Approval was granted by the Žito d.o.o. Supervisory Board, Žito d.o.o. General Assembly, and the Podravka Inc. Supervisory Board.

With the sale of the property at the location Moskovska 1, Ljubljana, Žito d.o.o. achieved sales revenues above the book value, and this revenue was included in the operating results for the fourth quarter of 2022, since the conclusion of the transaction and

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payment of the sales amount was on 14 October 2022.

POSLOVNI DNEVNIK AWARD FOR BEST INVESTOR RELATIONS

At the conference of the Zagreb Stock Exchange and Fund Industry in Dubrovnik, the 13th annual Poslovni Dnevnik awards were given out for best investor relations. On that occasion, Podravka received the 2nd place award for best investor relations. Poslovni Dnevnik, in cooperation with the Zagreb Stock Exchange, hands out this award to companies that have achieved the best investor relations, and the winners are selected based on statistical criteria pertaining to the abidance of the Exchange rules by the issuer, and based on a questionnaire conducted among the participants on the capital market. This is the second time in three years that Podravka has received this award, showing a high level of transparency in reporting, and the timely and continuous communication of all significant events on operations to investors and the public.

CHANGES TO THE ORGANISATION OF PODRAVKA INC. AND THE FOOD SEGMENT

In early March 2022, the Podravka Inc. Management Board adopted a decision to change the organisation of Podravka Inc. and the Food segment. The aim of the new organisation is to improve and advance the efficacy of the Podravka Group, to enable rapid reaction and adaptation to market changes, to clearly separate the roles and responsibility among organisational units, to clearly establish responsibility and management roles of the corporate functions of Podravka Inc. for the entire Podravka Group, and to ensure rapid and efficient communications. The reorganisation also ensured complete integration of the activities of the Žito Group in the management mechanisms of the Podravka Group, and the focus of the Žito Group on the bakery segment. In the new organisation, Podravka Inc. is divided into four business areas (Sales, Business programmes, Finance, Supply Chain) and eight corporate functions. The business area Sales has been divided into three main divisions – markets of the Republic of Croatia and the Republic of Slovenia, markets of Southeast Europe, and International markets. The current Adria region has thus been divided into two divisions to better focus on the two largest markets, Croatia and Slovenia. The business area Sales is managed by the member of the Podravka Inc. Management Board responsible for sales, Milan Tadić.

The business area Business programmes has been divided into eight business programmes (BP Cuisine, BP Soups, BP Cereals, snacks and beverages, BP Cream spreads and desserts, BP Bakery, BP Staple foods, BP Meat products, BP Fish) and Quality control and Corporate development. The portfolio of the previous business programme Žito and Lagris has been divided into the other business programmes based on which production category they belong, which bakery has been separated into its own business programme.

The management of the BP Bakery is seated in Ljubljana, though in all its activities functions within the business area Business Programmes. The business area Business programmes is managed by the member of the Podravka Inc. Management Board for business programmes, Ivan Ostojić.

The business area Finance has been divided into Corporate accounting, Treasury and Controlling, and after the reorganisation also includes Procurement and IT. The business area Finance is managed by the member of the Podravka Inc.

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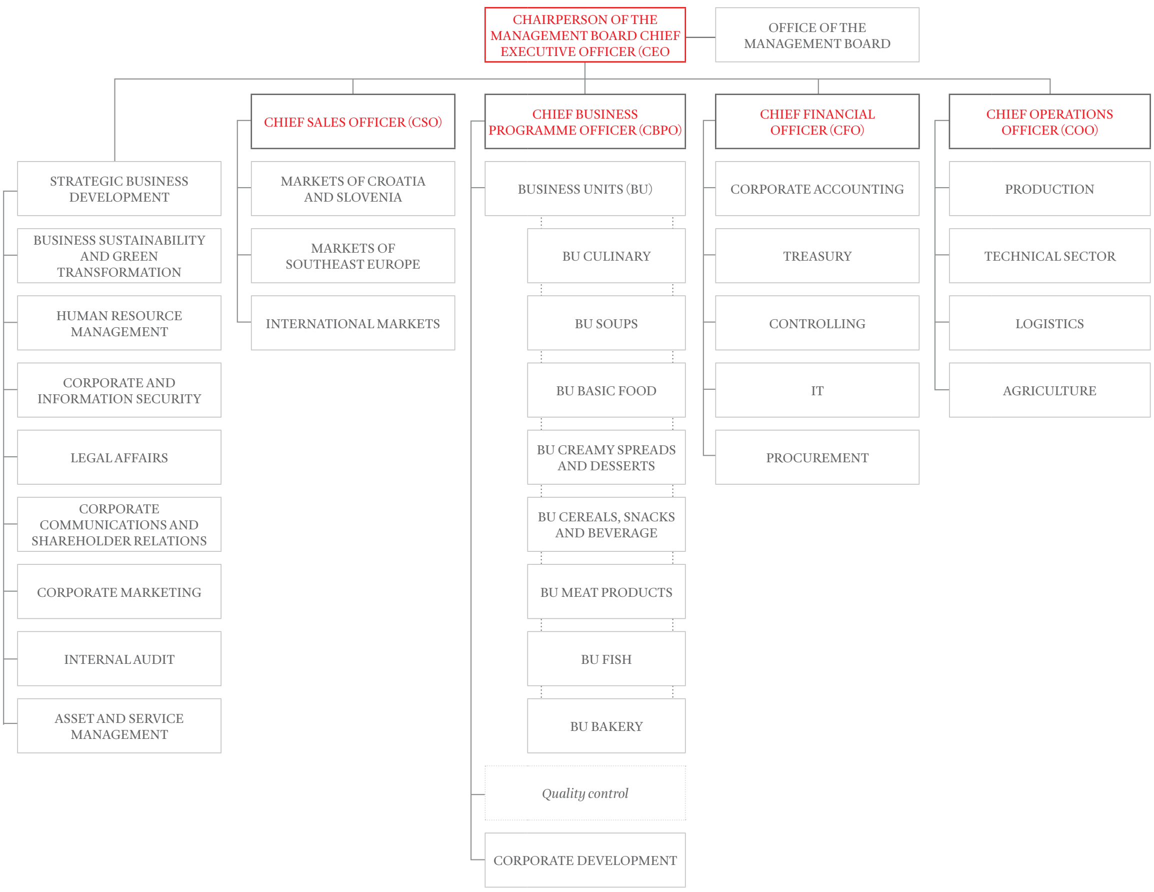
Management Board for finance, Davor Doko.

The business area Supply Chain includes Production, Technical sector, Logistics and Agriculture. The sector Production manages all factories in Croatia and Czech Republic, while the Žito Group, as a production company outside of Croatia, has completely been functionally integrated into the operations of the Podravka Group, but retains its legal status and position pursuant to the laws of the Republic of Slovenia. The business area Supply Chain is managed by the member of the Podravka Inc. Management Board for the supply chain, Ljiljana Šapina.

The corporate functions include Strategic business development, Corporate sustainability and green transformation, Human resources management, Corporate and IT security, Legal affairs, Corporate communications and shareholder relations, Corporate marketing, Internal audit, Asset and service management, and the Office of the Management Board. The corporate functions are responsible for the management of the appropriate tasks at the level of the Podravka Group, and are managed by the president of the Podravka Inc. Management Board, Martina Dalić.



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In accordance with business trends and company needs, and to place an emphasis on strategy management and the influence of green policy, a stronger role has been given to the sectors Strategic business management, and Corporate sustainability and green transformation. This is the result of the increasing global focus on sustainable business and investor focus on the non-financial part of operations. The Podravka Group has taken a proactive approach and integrated the ESG report into its Annual report, and is continually increasing the scope of information in line with the relevant regulations of the European Union, in order to provide investors with all relevant information needed for valuation.

CHANGES IN THE PODRAVKA INC. ORGANISATION HAVE RESULTED IN A PRONOUNCED APPLICATION OF THE ESG CRITERIA

In accordance with the ESG criteria and the Business Code of Ethics[2], the Podravka Group has committed to equal opportunities and equality of all employees, regardless of sex, and a zero tolerate for any form of discrimination. With 40% women on the Management Board and 25% women on the Supervisory Board on 31 December 2022, Podravka Inc. is among the leaders in gender equality in Croatia, and with the application of the new organisation on 1 April 2022, the share of women in top management has been increased from 24% to 43%. On 31 December 2022, women made up 52% of all employees in the Podravka Group, while among the highly educated workers, women made up 65%. Though there is a 1.9% difference in salary by gender, this is far below the national average (11.2%) and EU average (13.0%). In the forthcoming period, the Podravka Group intends to further decrease this wage gap between male and female employees through a number of measures. This year, the Podravka Inc. Management Board adopted the Ordinance on the internal irregularity reporting procedure and the appointment of an Irregularity officer, which regulates the procedures concerning internal irregularity reporting at Podravka Inc., and the procedure for appointing an irregularity officer, in accordance with the Act on the Protection of Persons Reporting Irregularities, with the aim of protecting the rights of its employees and creating a positive and equal working conditions.

[2] Available at https://www.podravka.hr/kompanija/investitori/korporativno-upravljanje/dokumenti.

GENERAL SHAREHOLDERS ASSEMBLY OF PODRAVKA INC. SHAREHOLDERS HELD

On 14 June 2022, the General Shareholders Assembly of Podravka Inc. was held. Pursuant to the decisions of the General Assembly, changes were made to the composition of the Supervisory Board, such that as of 1 July 2022, Damir Grbavac was appointed a new member of the Supervisory Board instead of Ivan Ostojić, who on the same day became a member of the Podravka Inc. Management Board. In September 2022, the mandate expired for four members of the Supervisory Board: Petar Miladin, Luka Burilović, Krunoslav Vitelj and Dajana Milodanović. By virtue of a decision of the General Assembly, Petar Miladin, Luka Burilović and Krunoslav Vitelj were elected for a new mandate in the Supervisory Board, while in place of Dajana Milodanović, Damir Felak was elected into the Supervisory Board. Accordingly, as of September 2022, the composition of the Supervisory Board was: Želimir Vukina, Luka Burilović, Ksenija Horvat, Krunoslav Vitelj, Tomislav Kitonić, Marina Dabić, Petar Miladin, Damir Grbavac and Damir

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Felak. Želimir Vukina resigned from his position as president and member of the Supervisory Board as of 1 November 2022 and that same day, Damir Grbavac was elected as president of the Supervisory Board.

The General Assembly confirmed the proposal for the pay-out of dividends for 2021 to shareholders of Podravka Inc. in the amount of HRK 13.00 per share. The dividends were paid out on 12 August 2022 to shareholders who as of 14 July 2022 were recorded in the Central Clearing Depositary Company (SKDD), for which SKDD has the appropriate data for the pay-out of the net amount. Taking into account the last market price of Podravka stock (HRK 600.00) on the day of dividend payment (12 August 2022), the paid amount of dividends implies a dividend yield of 2.2%. Through the continuity of dividend years over the years, the Podravka Group has placed an emphasis on the commitment to meeting the expectations set by the shareholders.

IN FEBRUARY, PODRAVKA INC. SUPERVISORY BOARD APPOINTED A NEW MANAGEMENT BOARD UNDER THE LEADERSHIP OF MARTINA DALIĆ

At the session of the Podravka Inc. Supervisory Board held on 4 February 2022, a decision was made on the appointment of the Management Board that will lead the company in the next five-year mandate, beginning on 24 February 2022. The Supervisory Board appointed Dr. Martina Dalić as the president of the Management Board, and the current members of the Management Board, Davor Doko and Ljiljana Šapina, were appointed for a new mandate. A new member of the Management Board is Milan Tadić, previously the Head Director for the Adria region at Podravka. As of 1 July 2022, the Management Board has been operating in its full composition with the arrival of Ivan Ostojić, who previously was a member of the Wüstenrot stambena štedionica and a member of the Podravka Inc. Supervisory Board. As of 24 February 2022, president of the Management Board of Belupo d.d. Hrvoje Kolarić no longer serves as a member of the Podravka Inc. Management Board, with the aim of achieving a greater focus of the Belupo d.d. Management Board on pharmaceutical operations. Meanwhile, on 24 February 2022, the Belupo d.d. Management Board was strengthened with the addition of previous member of the Podravka Inc. Management Board, Marko Đerek, thereby increasing the number of members of the Belupo d.d. Management Board to three. Upon the expiry of his mandate of the Belupo d.d. Management Board (on 3 May 2022), Hrvoje Kolarić ceased to serve as president of the Belupo d.d. Management Board, and Hrvoje Čeović was appointed the new president of the Belupo Management Board at the session of the Supervisory Board held on 13 September 2022. His mandate in the Belupo Management Board commenced on 1 October 2022 and will continue until 30 September 2025.

IMPLICATIONS OF THE RUSSIAN-UKRAINE CRISIS ON OPERATIONS OF THE PODRAVKA GROUP

In 2022, the Podravka Group achieved less than 5.1% of its total revenues on the Russian and Ukraine markets. The Russian market is highly significant for the Pharmaceutical segment in the sense of total sales revenues and profitability, while in the Food Segment, the Russian market is not as significant

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in either total sales revenues or profitability. The Podravka Inc. Management Board is continually considering all the risks associated with the Russian-Ukraine conflict, and has assessed that these risks are not a threat to the stability of operations of the Podravka Group.

OPERATIONS OF THE PODRAVKA GROUP IN THE CONDITIONS OF THE COVID–19 PANDEMIC

The first half of 2022 was still strongly marked by the COVID–19 pandemic and the epidemiological measures in effect and with varying duration in individual countries. On all markets where the Podravka Group operates, the epidemiological measures in the first quarter of 2022 created certain limitations concerning consumer behaviours and impacts on operations. In the second quarter of 2022, the epidemiological measures were completely terminated, which certainly eased daily operations. It is not possible to quantify or assess the impact of the COVID-19 pandemic on sales trends in both business segments. The recovery of Special sales channels (HoReCa buyers, institutional buyers, industrial buyers, etc.) in the Food segment was already evident in the first quarter of 2022, primarily on the markets of Croatia and Slovenia. In the reporting period, the Podravka Group received subsidies in Slovenia and Croatia in the total net amount of HRK 1.1 million, while there were no financial impacts or risks caused by the COVID-19 disease, nor any values alignments or any other situations that could be associated with the COVID–19 disease.

8 Business results and Shares

Business *results*

INTRODUCTION NOTES

At the beginning of March 2022, the Podravka Group completed the process of internal reorganization by business units and regions with the aim of increasing business efficiency. The new internal reorganization defined eight business units instead of the previous six, and a new division of regions was made, while the number of regions remained the same. An overview is presented in the *"Additional tables for 2022"* section for better understanding of business units and regions.

Podravka Group calculates EBITDA in a way that EBIT was increased by depreciation and amortization and value adjustments of non-current assets, while normalized EBITDA is calculated in a way that normalized EBIT was increased by depreciation and amortization. For transparency purposes, in addition to the reported operating results, the Podravka Group also presents normalised operating results, without the effect of items treated by management as one-off items. The overview and explanation of value adjustments of non-current assets used in the calculation of EBITDA, overview and explanations of items treated by management as one-off items and the overview of methodology of calculation of normalized result are provided in the *"Additional tables for 2022"* section.

Decimal differences are possible due to rounding.

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SALES REVENUES BY SEGMENT IN 2022

Sales revenues by segment

(in HRK millions)	2021	2022	Δ	%
Food	3,601.3	3,934.2	333.0	9.2%
Own brands	3,381.5	3,660.0	278.5	8.2%
Other sales	219.8	274.3	54.5	24.8%
Pharmaceuticals	1,030.3	1,092.6	62.3	6.0%
Own brands	820.3	874.0	53.7	6.5%
Other sales	210.0	218.6	8.6	4.1%
Podravka Group	4,631.5	5,026.8	395.3	8.5%
Own brands	4,201.8	4,534.0	332.2	7.9%
Other sales	429.8	492.9	63.1	14.7

Movements of the Food segment revenues (2022 compared to 2021):

- *Own brands* recorded HRK 278.5m (+8.2 %) higher sales due to the increase in sales of almost all business units, other than BU Fish,
- *Other sales* recorded HRK 54.5m (+24.8 %) higher sales, primarily as a result of the increase in trade goods sales in the markets of Croatia and Slovenia,
- Overall, the *Food segment* recorded HRK 333.0m (+9.2 %) higher sales.

Movements of the Pharmaceuticals segment revenues (2022 compared to 2021):

- *Own brands* recorded HRK 53.7m (+6.5 %) higher sales, as a result of the increase in sales revenues of Prescription drugs (primarily dermatological drugs and drugs for nervous system) and Non-prescription drugs,
- *Other sales* recorded HRK 8.6m (+4.1 %) higher revenues, due to the increase in trade goods sales in the markets of Bosnia and Herzegovina, and Croatia,
- Overall, the *Pharmaceuticals segment* recorded HRK 62.3m (+6.0 %) higher sales revenues.

Movements of the Podravka Group revenues (2022 compared to 2021):

- Podravka Group's *own brands* recorded an increase in sales of HRK 332.2m (+7.9 %),
- The revenues of *other sales* are HRK 63.1m (+14.7 %) higher,
- Overall, the *Podravka Group* sales revenues are HRK 395.3m (+8.5 %) higher.

BUSINESS RESULTS

SALES REVENUES BY BUSINESS UNIT AND CATEGORIES IN 2022

Sales revenues by business units and categories

(in HRK millions)	2021	2022	Δ	%
BU Culinary	761.0	763.1	2.1	0.3%
BU Soups	279.4	315.8	36.4	13.0%
BU Cereals, Snack and Beverages	304.9	321.5	16.5	5.4%
BU Creamy spreads and Desserts	231.3	236.4	5.1	2.2%
BU Bakery	569.2	630.4	61.2	10.7%
BU Basic food	719.0	862.4	143.4	19.9%
BU Meat products	307.0	326.1	19.0	6.2%
BU Fish	209.4	204.2	(5.2)	(2.5%)
Prescription drugs	696.9	733.9	37.0	5.3%
Non-prescription programme	123.3	140.1	16.7	13.6%
Other sales	429.8	492.9	63.1	14.7%
Other sales Food	*219.8*	*274.3*	*54.5*	*24.8%*
Other sales Pharmaceuticals	*210.0*	*218.6*	*8.6*	*4.1%*
Podravka Group	4,631.5	5,026.8	395.3	8.5%

Movements of sales revenues by business units and categories (2022 compared to 2021)

- The *Culinary business unit* recorded HRK 2.1m (+0.3 %) higher sales. Revenue growth was recorded in almost all markets, which mitigated the decline in revenues on the Russian market following the termination of deliveries. If that market is excluded, the Culinary revenue growth would amount to +4.7 %.
- The *Soups business unit* recorded HRK 36.4m (+13.0 %) sales growth, with the growth of market shares in most key markets, retention of leading market positions and expansion of partnerships with retail chains. The primary growth of the business units was realized in the markets of Croatia and Slovenia, and the Southeastern Europe,
- The *Cereals, Snack and Beverages business unit* recorded HRK 16.5m (+5.4 %) higher sales, through the increase in all categories, primarily in the markets of Croatia, Slovenia, and Bosnia and Herzegovina. Also, with the aim of increasing profitability, the product range was optimized by discontinuing low-profit categories, which primarily refers to the subcategory Cereals for adults,
- The *Creamy spreads and Desserts business unit* records HRK 5.1m (+2.2 %) higher sales. The revenue growth was recorded in the Markets of Croatia and Slovenia and in the Southeastern Europe region, with the retention of stable market shares,
- The *Bakery business unit* recorded HRK 61.2m (+10.7 %) sales growth, with the simultaneous

implementation of the business unit portfolio optimization with the aim of increasing profitability. Revenue growth is primarily realised due to higher sales of the categories Žito Flour, Bread and Rolls and salt bakery products, while the negative impact on revenues came from the termination of business cooperation with a manufacturer of confectionery products for which the Žito Group produced a private label, which will have positive effects on profitability,

- In the observed period, the *Basic food business unit* recorded HRK 143.4m (+19.9 %) higher sales than in the comparative period, primarily due to the increase in sales of the categories Side dishes, Vegetables and Tomato products. Sales growth was recorded in all regions, primarily in the Markets of Croatia and Slovenia, and the Central Europe region,
- In the reporting period, the *Meat products business unit* recorded HRK 19.0m (+6.2 %) higher sales compared to the same period of the previous year, with the simultaneous implementation of the business unit portfolio optimization and the discontinuing of low turnover products, primarily on the Croatian market. The revenue growth was recorded in almost all regions, mostly within the Southeastern Europe region,
- The *Fish business unit* recorded HRK 5.2m (-2.5 %) lower sales than in the comparative period, primarily due to the decrease in sales of the Tuna subcategory, due to changes in consumer consumption habits, while there was an increase in revenue of the Sardine subcategory,
- The *Prescription drugs category* recorded HRK 37.0m (+5.3 %) higher sales, due to the increase in sales of dermatological drugs and drugs for nervous system,
- The revenues of the *Non-prescription programme category* are HRK 16.7m (+13.6 %) higher, as a result of the increase in sales of the OTC drugs subcategory,
- The *Other sales category* recorded HRK 63.1m (+14.7 %) higher sales. In the Food segment, other sales grew by HRK 54.5m (+24.8 %) mainly due to the increase in trade goods sales in the Croatian market. In the Pharmaceuticals segment, other sales grew by HRK 8.6m (+4.1 %), primarily due to higher trade goods sales in the markets of Bosnia and Herzegovina, and Croatia.

SALES REVENUES BY REGION IN 2022

Sales revenues by region

(in HRK millions)	2021	2022	Δ	%
Markets of Croatia and Slovenia	2,255.2	2,507.0	251.7	11.2%
Food	1,818.2	2,047.3	229.2	12.6%
Pharmaceuticals	437.1	459.6	22.5	5.2%
Southeastern Europe	963.3	1,051.3	88.0	9.1%
Food	663.8	728.9	65.0	9.8%
Pharmaceuticals	299.5	322.4	23.0	7.7%
WE and Overseas	532.6	536.8	4.3	0.8%
Food	527.1	531.0	3.9	0.7%
Pharmaceuticals	5.5	5.8	0.4	6.8%
Central Europe	553.8	637.1	83.3	15.0%
Food	486.8	562.7	75.9	15.6%
Pharmaceuticals	67.0	74.4	7.4	11.0%
Eastern Europe	326.6	294.6	(32.0)	(9.8%)
Food	105.4	64.4	(41.0)	(38.9%)
Pharmaceuticals	221.2	230.3	9.1	4.1%
Podravka Group	4,631.5	5,026.8	395.3	8.5%

Movements of sales revenues by region (2022 compared to 2021):

- The *Markets of Croatia and Slovenia* recorded a sales increase of HRK 251.7m (+11.2 %) relative to the comparative period. Food segment revenues increased by HRK 229.2m (+12.6 %), primarily due to sales increase of the business units Bakery and Basic food and trade goods sales increase. In the market of Croatia and Slovenia, special sales channels achieved strong revenue growth of HRK 144.4m (+38.29 %), primarily due to the growth of the HoReCa channel and the growth of industrial and institutional customers. Pharmaceuticals segment revenues are HRK 22.5m higher (+5.2 %), due to higher sales of the Non-prescription programme and trade goods,
- Revenues of the *Southeastern Europe region* grew by HRK 88.0m (+9.1 %) in the reporting period. The Food segment recorded revenue growth of HRK 65.0m (+9.8 %), due to the increase in sales of almost all business units, with the largest absolute growth generated by the business units Soups and Basic food. Pharmaceuticals segment revenues are HRK 23.0m higher (+7.7 %) primarily due to Prescription drugs and trade goods sales increase,
- The *Western Europe and Overseas region* recorded HRK 4.3m (+0.8 %) higher sales. The Food segment

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recorded HRK 3.9m (+0.7 %) higher sales due to sales growth of most business units, with the largest absolute growth recorded by business units Culinary and Meat products. The Pharmaceuticals segment revenues are HRK 0.4m (+6.8 %) higher, primarily due to an increase in other sales revenues,

- Revenues of the *Central Europe region* are HRK 83.3m (+15.0 %) higher in the reporting period. The Food segment recorded revenue growth of HRK 75.9m (+15.6 %), primarily as a result of an increase in sales of the Basic food and Culinary business units. The Pharmaceuticals segment revenues are HRK 7.4m higher (+11.0 %) due to higher sales of the Prescription drugs category,
- The *Eastern Europe region* recorded a decrease in revenues of HRK 32.0m (-9.8 %) as a result of lower sales of the Food segment by HRK 41.0m (-38.9 %) and an increase in sales of the Pharmaceuticals segment of HRK 9.1m (+4.1 %), mainly due to the increase in sales of the Prescription drugs category.

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PROFITABILITY OF THE FOOD SEGMENT IN 2022

Profitability of the Food segment

(in HRK millions)	2021	2022	Δ	%
Sales revenue	3,601.3	3,934.2	333.0	9.2%
Gross profit	1,193.6	1,239.9	46.3	3.9%
EBITDA*	381.3	465.1	83.8	22.0%
EBIT	221.2	300.0	78.8	35.6%
Net profit after MI	202.4	239.6	37.2	18.4%
Gross margin	33.1%	31.5%		-163 pb
EBITDA margin	10.6%	11.8%		+123 pb
EBIT margin	6.1%	7.6%		+148 pb
Net margin after MI	5.6%	6.1%		+47 pb

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

Profitability of the Food segment — Normalized

(in HRK millions)	2021	2022	Δ	%
Sales revenue	3,601.3	3,934.2	333.0	9.2%
Gross profit	1,195.6	1,239.9	44.2	3.7%
EBITDA*	396.1	385.6	(10.5)	(2.6%)
EBIT	242.6	223.6	(19.0)	(7.8%)
Net profit after MI**	194.9	177.5	(17.4)	(8.9%)
Gross margin	33.2%	31.5%		-169 pb
EBITDA margin	11.0%	9.8%		-120 pb
EBIT margin	6.7%	5.7%		-105 pb
Net margin after MI	5.4%	4.5%		-90 pb

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

Profitability of the Food segment (2022 compared to 2021):

- In 2022, the Food segment recorded an increase in *gross profit* of HRK 46.3m (+3.9 %), while *operating profit* (EBIT) is HRK 78.8m (+35.6 %) higher. The most significant one-off impact on the profitability of Food came from the sale of property at Moskovska 1, Ljubljana, which is explained in the *"One-off items in 2022 and 2021"* section. At the normalized level, the operating

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profit (EBIT) is lower by HRK 19.0m (-7.8 %) as a result of a significant increase in certain types of costs, which could not be fully compensated by internal measures and pricing policy,

- A significant negative impact on the *operating profit* (EBIT) came from: i) an increase in the costs of raw materials, packaging and energy of HRK 340.3m (+24.0 %), ii) investing in improving the material status of employees, which resulted in an increase in staff costs of HRK 69.5m (+8.2 %), iii) an increase in transportation costs of HRK 16.5m (+13.3 %) and iv) the investment cycle, which resulted in an increase in depreciation costs of HRK 8.5m (+5.6 %). These negative impacts were partially mitigated through cost management of marketing investments, optimization of the product range, management of the production process and the use of alternative energy sources, as well as changes in procurement processes, as explained in the *"Increase in prices of raw materials, packaging and energy"* section),
- Reported *net profit after minority interests* is HRK 37.2m higher (+18.4 %), while normalized net profit after minority interests is HRK 17.4m lower (-8.9 %) compared to 2021. In addition to the impact above the EBIT level, net profit was negatively impacted by foreign exchange differences on borrowings (HRK -1.7m in 2022; HRK +1.1m in 2021), while finance costs are lower. The reported tax expense is HRK 38.9m higher than in 2021, while normalized tax expense is HRK 4.3m lower.

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PROFITABILITY OF THE PHARMACEUTICALS SEGMENT IN 2022

Profitability of the Pharmaceutical segment

(in HRK millions)	2021	2022	Δ	%
Sales revenue	1,030.3	1,092.6	62.3	6.0%
Gross profit	484.5	543.8	59.2	12.2%
EBITDA*	210.7	242.2	31.4	14.9%
EBIT	144.1	171.1	26.9	18.7%
Net profit after MI	106.9	130.0	23.2	21.7%
Gross margin	47.0%	49.8%		+274 pb
EBITDA margin	20.5%	22.2%		+171 pb
EBIT margin	14.0%	15.7%		+167 pb
Net margin after MI	10.4%	11.9%		+153 pb

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

Profitability of the Pharmaceutical segment — normalized

(in HRK millions)	2021	2022	Δ	%
Sales revenue	1,030.3	1,092.6	62.3	6.0%
Gross profit	484.5	543.8	59.2	12.2%
EBITDA*	211.5	242.1	30.5	14.4%
EBIT	146.9	175.4	28.5	19.4%
Net profit after MI	109.2	133.6	24.4	22.4%
Gross margin	47.0%	49.8%		+274 pb
EBITDA margin	20.5%	22.2%		+162 pb
EBIT margin	14.3%	16.1%		+180 pb
Net margin after MI	10.6%	12.2%		+163 pb

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

Profitability of the Pharmaceuticals segment (2022 compared to 2021):

- The Pharmaceuticals segment recorded HRK 59.2m (+12.2 %) higher *gross profit*, with an increase in gross margin from 47.0 % to 49.8 %,
- *Operating profit* (EBIT) is higher by HRK 26.9m (+18.7 %), while at a normalized level operating profit (EBIT) is higher by HRK 28.5 million (+19.4

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%). The most impact on the growth of operating profit (EBIT) came from the growth of gross profit,

- Reported *net profit after minority interests* is HRK 23.2m (+21.7 %) higher, while normalized net profit after minority interests is HRK 24.4m (+22.4 %) higher. In addition to the impact above the EBIT level, net profit after minority interests was impacted by lower finance costs and higher tax expense.

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PROFITABILITY OF THE PODRAVKA GROUP IN 2022

Profitability of the Podravka Group

(in HRK millions)	2021	2022	Δ	%
Sales revenue	4,631.5	5,026.8	395.3	8.5%
Gross profit	1,678.1	1,783.6	105.5	6.3%
EBITDA*	592.0	707.2	115.2	19.5%
EBIT	365.3	471.1	105.8	29.0%
Net profit after MI	309.2	369.6	60.4	19.5%
Gross margin	36.2%	35.5%		-75 bp
EBITDA margin	12.8%	14.1%		+129 bp
EBIT margin	7.9%	9.4%		+148 bp
Net margin after MI	6.7%	7.4%		+68 bp

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

Profitability of the Podravka Group — normalized

(in HRK millions)	2021	2022	Δ	%
Sales revenue	4,631.5	5,026.8	395.3	8.5%
Gross profit	1,680.2	1,783.6	103.5	6.2%
EBITDA*	607.7	627.7	20.1	3.3%
EBIT	389.5	399.0	9.5	2.4%
Net profit after MI	304.1	311.1	7.0	2.3%
Gross margin	36.3%	35.5%		-79 bp
EBITDA margin	13.1%	12.5%		-63 bp
EBIT margin	8.4%	7.9%		-47 bp
Net margin after MI	6.6%	6.2%		-38 bp

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

Profitability of the Podravka Group (2022 compared to 2021):

- In the observed period, the Podravka Group recorded HRK 105.5m (+6.3 %) higher *gross profit*, where a positive impact came from both business segments,
- *Operating profit* (EBIT) is HRK 105.8m (+29.0 %) higher, while at a normalized level operating

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profit (EBIT) is HRK 9.5m (+2.4 %) higher. The growth of the normalized operating profit of Pharmaceuticals compensated for the lower normalized operating profit of Food segment,

- Reported *net profit after minority interests* is HRK 60.4m higher (+19.5 %), while normalized net profit after minority interests is HRK 7.0m higher (+2.3 %). Growth in normalized net profit after minority interests at the Group level is the result of growth in normalized net profit after minority interests in Pharmaceuticals, which compensated for the lower normalized net profit after minority interests in Food segment.

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PODRAVKA GROUP'S OPERATING EXPENSES STRUCTURE

Podravka Group — reported

(in HRK millions)	2021	2022	Δ	%
Cost of goods sold	2,953.4	3,243.2	289.8	9.8%
General and administrative expenses	346.1	379.7	33.6	9.7%
Selling and distribution costs	619.4	673.1	53.7	8.7%
Marketing expenses	373.8	373.5	(0.3)	(0.1%)
Other expenses (income), net	(26.5)	(113.7)	(87.2)	329.8%
Total operating expenses	4,266.2	4,555.8	289.5	6.8%

Podravka Group — normalised

(in HRK millions)	2021	2022	Δ	%
Cost of goods sold	2,951.4	3,243.2	291.8	9.9%
General and administrative expenses	330.5	355.5	25.1	7.6%
Selling and distribution costs	619.4	673.1	53.7	8.7%
Marketing expenses	373.8	373.5	(0.3)	(0.1%)
Other expenses (income), net	(33.0)	(17.5)	15.5	(47.0%)
Total operating expenses	4,242.0	4,627.8	385.8	9.1%

Cost of goods sold increased by 9.8 % relative to the comparative period due to movements in prices of raw materials, packaging and energy, as explained in the *"Increase in prices of raw materials, packaging and energy"* section, and investments in improving the material status of employees.

In relation to the comparative period, *general and administrative expenses* are HRK33.6m higher (+9.7 %), due to investments in improving the material status of employees and higher costs of services, relative to the comparative period. On the normalized level, general and administrative expenses increased by HRK 25.1m (+7.6 %).

In the observed period, *selling and distribution costs* are HRK 53.7m (+8.7 %) higher than in the comparative period, primarily as a result of higher costs of transportation and distribution, higher energy costs and investments in improving the material status of employees.

In the reporting period, *marketing expenses* (which include marketing investments expenses and marketing department expenses) are HRK 0.3m lower (-0.1 %) than in the comparative period. At the same time, the costs of marketing investments are lower by HRK 4.3m (-2.2 %) where strategic goals were tried to be achieved with a lower or the same level of marketing investments, while the costs of the marketing department are higher by HRK 4.0m (+2.2 %) as a result of investing in improving the material status of employees.

In the reporting period, other expenses and income, net amounted to HRK -113.7m (positive impact), while in the comparative period they amounted to HRK -26.5m (positive impact). This was mainly affected by income from sale of non-operating assets which in 2022 amounted to HRK -101.8m, while last year they amounted to HRK -1.6m. Foreign exchange differences from trade receivables and trade payables in 2022 amounted HRK -7.7m, while in 2021 they amounted to HRK +13.5m. The analysis of income from the sale of non-operating assets is provided in the "*One-off items in 2022 and 2021*" section.

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KEY CHARACTERISTICS OF THE PODRAVKA GROUP'S FINANCIAL POSITION

Property, plant and equipment of the Podravka Group are HRK 59.8m or +2.7 % higher compared to 2021, due to the realized capital investments in the reporting period.

Inventories of the Podravka Group are HRK 325.0m (+34.8 %) higher than in 2021. This is a result of the strategic increase in inventories of the Food segment, with the aim of procuring sufficient amount of raw materials to ensure business continuity and control of future expenses of raw materials and packaging, but also a result of the increase in prices of raw materials and packaging.

Trade and other receivables of the Podravka Group are HRK 136.7m (-13.3 %) lower than in 2021, as a result of lower trade receivables in the Pharmaceuticals segment due to implemented new business terms with customers, which positively affected the collection period.

Cash and cash equivalents of the Podravka Group at the end of the observed period are HRK 131.8m higher (+395.7 %) compared to 2021. This is explained in the *"Key highlights of the cash flow statement in 2022"* section.

In 2022, *long-term and short-term borrowings* of the Podravka Group are HRK 140.3m higher than in 2021 due to financing current operations, whereby the maturity structure was changed. In the observed period, long-term debt is lower by HRK 111.1m, while short-term debt is higher by HRK 251.5m, in part as a result of using more favourable financing terms through short-term credit lines.

Trade and other payables of the Podravka Group are HRK 184.3m or +34.7 % higher compared to 2021. The movement is primarily a result of the increase in trade payables due to procurement of raw materials and packaging, the increase in prices of raw materials and packaging procured in the reporting period, and due to higher level of capital expenditure.

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3
Financial debt: long-term and short-term borrowings + liabilities for right-of-use assets + financial liabilities at fair value through profit or loss.
4
Net debt: Financial debt – Cash and cash equivalents.
5
Equity to assets ratio: total shareholder's equity / total assets.

Debt indicators — reported

(in HRK millions)	2021	2022	Δ	%
Financial debt[3]	493.8	633.2	139.3	28.2%
Cash and cash equivalents	33.3	165.1	131.8	395.7%
Net debt[4]	460.5	468.1	7.5	1.6%
Interest expense	6.8	5.4	(1.4)	(20.5%)
Net debt / EBITDA*	0.84	0.8	(0.1)	(6.1%)
EBIT / Interest expense**	28.9	53.3	24.4	84.4%
Equity to assets ratio[5]	75.3%	71.8%		-346 bp

*Normalizirano: Neto dug / normalizirana EBITDA
**Normalizirano: normalizirani EBIT / trošak kamata.

Debt indicators — normalized

(in HRK millions)	2021	2022	Δ	%
Financial debt[3]	493.8	633.2	139.3	28.2%
Cash and cash equivalents	33.3	165.1	131.8	395.7%
Net debt[4]	460.5	468.1	7.5	1.6%
Interest expense	6.8	5.4	(1.4)	(20.5%)
Net debt / EBITDA*	0.76	0.75	-0.01	-0.02
EBIT / Interest expense**	56.9	73.3	16.4	28.8%
Equity to assets ratio[5]	75.3%	71.8%		-346 bp

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

In 2022, the total debt of the Podravka Group related to borrowings and other interest-bearing financial liabilities amounted to HRK 633.2m, of which HRK 28.6m relates to long-term borrowings, HRK 510.4m to short-term borrowings, while HRK 94.2m relates to liabilities for right-of-use assets. The *average weighted cost of debt* on all the stated liabilities in 2022 was 0.9 %, while if right-of-use assets are excluded it was 0.7 %.

Net debt increase in 2022 relative to the comparative period is the result of an increase in short-term debt. The increase in normalized EBITDA higher than the increase in net debt led to a lower net debt to normalized EBITDA ratio. The decrease in interest expense and the increase in normalized EBIT have driven the rise in the interest coverage ratio (Normalized EBIT / Interest expense).

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KEY CHARACTERISTICS OF CASH FLOW OF PODRAVKA GROUP

(in HRK millions)	2021	2022	%
Net cash flow from operating activities	517.1	565.4	9.4%
Net cash flow from investing activities	(156.4)	(433.5)	(177.1%)
Net cash flow from financing activities	(379.2)	(0.1)	100.0%
Net increase / (decrease) of cash and cash equivalents	(18.6)	131.8	810.5%

In the observed period, net cash flow from operating activities amounted to positive HRK 565.4m as a result of operating business and dynamics of movements in the working capital.

Net cash flow from investing activities in the reporting period amounted to negative HRK 433.5m, primarily as a result of cash capital expenditures amounting to HRK 396.8m, which is by HRK +226.5m (+133.0 %) higher compared to the same period of the previous year. The most significant *capital expenditures* in 2022 were related to:

- investment in IT and energy renovation of the Office building with the aim of increasing energy efficiency and improving working conditions,
- investment in production line for extruded products in order to increase production and reduce operating expenses,
- investment in an automatic line for making bread and a shock freezer (part of the bakery concentration project) in order to improve production efficiency and reduce operating expenses,
- investment in the expansion of the Soups and Vegeta factory, which creates preconditions for the consolidation of pasta production in order to improve business,
- investment in the construction of a new logistics and distribution centre with the aim of increasing efficiency in the logistics and distribution segment of business through optimization of the number of warehouse spaces, minimization of internal transport, greater control of costs and reduction of carbon dioxide emissions,
- continuation of investment activities related to investing in the solar power plant in order to increase the use of green energy and reduce costs,
- continuation of investment activities related to investing in a fruit processing line, aseptic line and vacuum boilers, which ensures business continuity and increases productivity.

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

In 2023 *expected capital expenditures* are at a level of approximately HRK 800.0m, while in 2024 expected capital expenditures amount to HRK 600.0m and in 2025 to approximately HRK 350.0m.

In 2022, *net cash flow from financing activities* amounted to negative HRK 0.1m, and it increased by HRK 379.1m primarily due to the higher amount of borrowings received. The difference in relation to the repayment of borrowings in the balance sheet primarily relates to foreign exchange differences.

ADDITIONAL TABLES FOR 2022

NEW BUSINESS UNITS AND REGIONS

At the beginning of March 2022, the Podravka Group completed the process of internal reorganization of the Food segment with the aim of increasing business efficiency. The new internal reorganization defined eight business units instead of the previous six and a new division of regions was made.

Business units:

- *BU Culinary:* Food Seasonings,
- *BU Soups*: Soups, Instant meals,
- *BU Cereals, Snack and Beverages*: Cereals, Baby food, Snack, Tea and Beverages,
- *BU Creamy spreads and Desserts*: Creamy spreads, Desserts,
- *BU Bakery*: Bread, Rolls and salt bakery products, Sweet bakery products, Žito flour, Confectionery,
- *BU Basic food*: Condiments, Tomato products, Processed fruit, Vegetables, Podravka flour, Side dishes, Wellness food,
- *BU Meat products*: Ready meals, Pates, Dried Meat and Sausage Products, Chilled ready meals, Other products,
- *BU Fish*: Fish products, Fish salads, Fish others.

Regions:

- *Markets of Croatia and Slovenia:* Croatia, Slovenia,
- *Southeastern Europe:* Bosnia and Herzegovina, North Macedonia, Serbia, Montenegro, Kosovo, Bulgaria, Albania, Greece,
- *Western Europe and Overseas:* Germany, Austria, Switzerland, France, Great Britain, Italy, Scandinavia, Benelux, Ireland, Spain, Portugal, Malta, the USA, Canada, Australia, New Zealand, MENA, Africa, Asia, South America,
- *Central Europe:* Poland, the Czech Republic, Slovakia, Hungary, Romania,
- *Eastern Europe:* the Russian Federation, Ukraine, Kazakhstan, the Baltics, Uzbekistan, Moldova, Belarus, Armenia, Kyrgyzstan, Georgia.

BUSINESS RESULTS

HISTORICAL OVERVIEW OF SALES REVENUES BY BUSINESS UNITS AND CATEGORIES IN PERIOD 1-12

Sales revenues by business units and categories

(in HRK millions)	2019	2020	2021	2022
BU Culinary	686.8	738.0	761.0	763.1
BU Soups	241.4	259.3	279.4	315.8
BU Cereals, Snack and Beverages	272.1	288.6	304.9	321.5
BU Creamy spreads and Desserts	214.6	234.6	231.3	236.4
BU Bakery	642.1	582.1	569.2	630.4
BU Basic food	671.4	690.6	719.0	862.4
BU Meat products	287.5	309.0	307.0	326.1
BU Fish	204.6	217.5	209.4	204.2
Prescription drugs	670.0	665.8	696.9	733.9
Non-prescription programme	113.4	119.9	123.3	140.1
Other sales	405.5	397.8	429.8	492.9
Other sales Food	*233.5*	*207.3*	*219.8*	*274.3*
Other sales Pharmaceuticals	*172.0*	*190.4*	*210.0*	*218.6*
Podravka Group	4,409.4	4,503.2	4,631.5	5,026.8

BUSINESS RESULTS

HISTORICAL OVERVIEW OF SALES REVENUES

BY REGIONS IN PERIOD 1-12

Sales revenues by region

(in HRK millions)	2019	2020	2021	2022
Markets of Croatia and Slovenia	2,221.8	2,199.9	2,255.2	2,507.0
Food	1,806.3	1,765.9	1,818.2	2,047.3
Pharmaceuticals	415.5	434.0	437.1	459.6
Southeastern Europe	860.8	911.6	963.3	1,051.3
Food	617.6	644.0	663.8	728.9
Pharmaceuticals	243.2	267.6	299.5	322.4
WE and Overseas	482.4	520.0	532.6	536.8
Food	480.6	516.0	527.1	531.0
Pharmaceuticals	1.7	4.0	5.5	5.8
Central Europe	509.5	558.4	553.8	637.1
Food	446.2	495.2	486.8	562.7
Pharmaceuticals	63.3	63.2	67.0	74.4
Eastern Europe	334.9	313.3	326.6	294.6
Food	103.3	105.9	105.4	64.4
Pharmaceuticals	231.6	207.4	221.2	230.3
Podravka Group	4,409.4	4,503.2	4,631.5	5,026.8

BUSINESS RESULTS

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 periods.

Value adjustments	2021			2022		
(in HRK millions)	Group	Food	Pharma	Group	Food	Pharma
Intangible assets	7.7	6.6	1.1	7.4	3.0	4.4
Tangible assets	0.9	-	0.9	-	-	-
Total	8.6	6.6	2.0	7.4	3.0	4.4

Reported EBITDA calculation	2021			2022		
(in HRK millions)	Group	Food	Pharma	Group	Food	Pharma
Reported EBIT	365.3	221.2	144.1	471.1	300.0	171.1
+amortization and depreciation	218.2	153.5	64.7	228.7	162.0	66.7
+value adjustments	8.6	6.6	2.0	7.4	3.0	4.4
Reported EBITDA	592.0	381.3	210.7	707.2	465.1	242.2

Normalized EBITDA calculation	2021			2022		
(in HRK millions)	Group	Food	Pharma	Group	Food	Pharma
Normalized EBIT	389.5	242.6	146.9	399.0	223.6	175.4
+amortization and depreciation	218.2	153.5	64.7	228.7	162.0	66.7
+value adjustments	-	-	-	-	-	-
Normalized EBITDA	607.7	396.1	211.5	627.7	385.6	242.1

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ONE-OFF ITEMS IN 2022 AND 2021

In the 2022 period, the Food segment incurred HRK 5.5m costs of severance payments for employees, related to long-term sick leaves, operational restructuring on the Russian market and restructuring of Žito production. Income from the sale of assets amounted to HRK 101.8m, of which HRK 95.8m relates to the sale of property in Ljubljana, HRK 5.4m relates to the sale of the production plant in Poland, and HRK 0.5m relates to the sale of assets in Croatia, while HRK 0.1m relates to the sale of assets in Slovenia. Costs related to the sale of a property in Ljubljana amounted to HRK 3.2m, while HRK 2.8m relates to the cost related to the restructuring of the Žito Group. According to the new collective agreement, severance pay for retirement was increased from HRK 10 to HRK 15 thousand, which resulted in a one-off impact on the result of HRK 10.9m. Value adjustments of long-term intangible assets amounted to HRK 3.0 million. All the above is treated by the company's management as one-off items.

The Pharmaceuticals segment incurred HRK 2.2m costs of severance pays related to the operational restructuring on the Russian market, HRK 4.6m of income from sale of vehicles related to the operational restructuring on the Russian market, HRK 2.3m of difference in actuarial calculation according to the new collective agreement (the result of an increase in severance pay for retirement from HRK 10 to HRK 15 thousand) and HRK 4.4m of impairment costs on non-current intangible assets. All the above is treated by the company's management as one-off items.

The estimated impact of these one-off items on tax of Food is HRK 14.3m (increases it), and on tax of Pharmaceuticals HRK 0.8m (decreases it) and also includes the tax impact of the decrease in the Podravka Inc.'s stake in the company Podravka Russia (HRK -1.4m).

In 2021, the Food segment incurred HRK 1.8m costs of severance pays for employees on long-term sick leaves, HRK 2.0m of costs of write-offs of raw materials and packaging, HRK 6.6m of impairment of intangible assets, HRK 9.8m of provisions for estimated potential risks, HRK 0.4m of income from reversal of impairment of receivables, and HRK 1.6m of cost related to the process of closing a subsidiary in Africa. A positive effect comes from deferred tax asset in the amount of HRK 25.1m based on the revaluation of recoverability of tax on the basis of losses on financial assets. All the above is treated by the company's management as one-off items.

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

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

BUSINESS RESULTS

NORMALIZATION OF THE PROFIT AND LOSS STATEMENT BY SEGMENTS

Reported and normalized profitability		2021			2022	
(in HRK millions)	Group	Food	Pharma	Group	Food	Pharma
Reported gross profit	1,678.1	1,193.6	484.5	1,783.6	1,239.9	543.8
+write-off of raw materials and packaging	2.0	2.0	-	-	-	-
Normalized gross profit	1,680.2	1,195.6	484.5	1,783.6	1,239.9	543.8
Reported EBITDA	592.0	381.3	210.7	707.2	465.1	242.2
+write-off of raw materials and packaging	2.0	2.0	-	-	-	--
+severance payments	4.2	1.8	2.5	7.7	5.5	2.2
+reversal of impairment of receivables	(0.4)	(0.4)	-	-	-	-
+cost related to the process of closing subsidiary in Africa	1.6	1.6	-	-	-	-
+provision for estimated potential risks	9.8	9.8	-	-	-	-
+revenues from the sale of asset in Ljubljana	-	-	-	(95.8)	(95.8)	-
+revenues from the sale of the other asset[6]	(1.6)	-	(1.6)	(10.6)	(6.0)	(4.6)
+cost related to asset sale process in Ljubljana	-	-	-	3.2	3.2	-
+cost of restructuring Žito group	-	-	-	2.8	2.8	-
+actuarial calculation	-	-	-	13.2	10.9	2.3
Normalized EBITDA	607.7	396.1	211.5	627.7	385.6	242.1
Reported EBIT	365.3	221.2	144.1	471.1	300.0	171.1
+normalizations above EBITDA level	15.6	14.8	0.8	(79.5)	(79.4)	(0.1)
+value adjustments of intangible assets	7.7	6.6	1.1	7.4	3.0	4.4
+value adjustments of tangible assets	0.9	-	0.9	-	-	-
Normalized EBIT	389.5	242.6	146.9	399.0	223.6	175.4
Reported Net profit after MI	309.2	202.4	106.9	369.6	239.6	130.0
+normalizations above EBIT level	24.2	21.4	2.8	(72.0)	(76.4)	4.4
+effect of deferred tax asset	(25.1)	(25.1)	-	-	-	-
+estimated impact of normalization on taxes[7]	(4.3)	(3.8)	(0.4)	13.5	14.3	(0.8)
Normalized Net profit after MI	304.1	194.9	109.2	311.1	177.5	133.6

6 In 2021, the income from the sale of property includes the sale of a property in Ludbreg in the amount of HRK 1.6m in the Pharmaceuticals segment. In 2022, all income from the sale of property relates to the Food segment, HRK 5.4m from the sale of property in Poland, HRK 0.3m from the sale of property in Rijeka, HRK 0.1m from the sale of property owned by Mirna, and HRK 0.1m from the sale of property in Slovenia.

7 2021 also includes the tax impact of the decrease in Podravka Inc.'s stake in the company Foodpro Limited Tanzania (HRK -0.6m) and the tax impact of the impairment of the investment in the company Podravka Poland (HRK -0.3m). In 2022, the tax impact of the decrease in Podravka Inc.'s stake in the company Podravka Russia (HRK -1.4m) is included.

Share

SHARE IN 1-12 2022

List of major shareholders as at 31 December 2022

No.	Shareholder	Number of shares	% of ownership
1.	PBZ Croatia Osiguranje mandatory pension fund, category B	1,097,644	15.4%
2.	AZ mandatory pension fund, category B	932,563	13.1%
3.	RSC* - Croatian Pension Insurance Institute	727,703	10.2%
4.	Erste Plavi mandatory pension fund, category B	638,248	9.0%
5.	Raiffeisen mandatory pension fund, category B	625,298	8.8%
6.	RSC* - Republic of Croatia	452,792	6.4%
7.	Capital Fund	406,842	5.7%
8.	Pivac Brothers Meat Industry	234,697	3.3%
9.	HPB - Republic of Croatia	167,281	2.3%
10.	Treasury account	93,478	1.3%
	Other shareholders	1,743,457	24.5%
	Total	7,120,003	100.0%

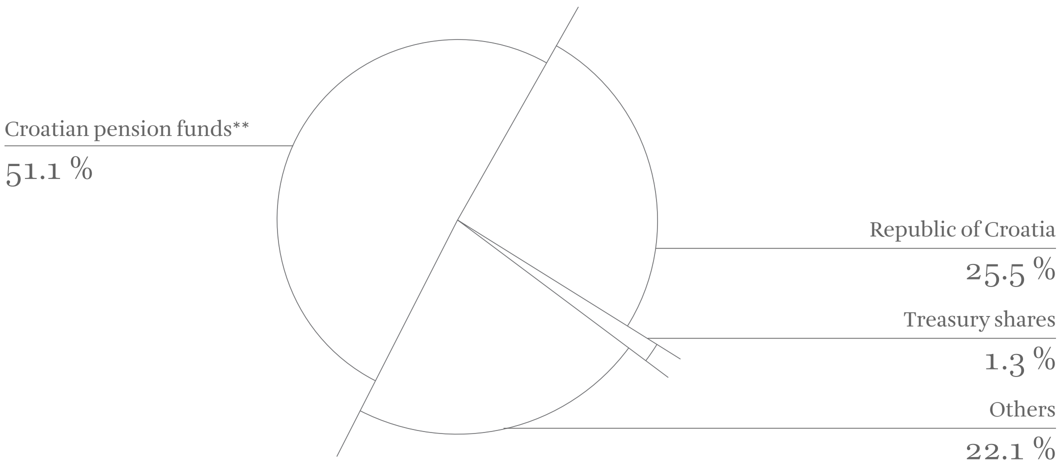
**The Restructuring and Sale Centre holds 1,241,504 shares through four accounts, Kapitalni fond Inc. holds 406,842 shares, the Republic of Croatia additionally holds 167,281 shares on a separate account.*

Podravka Inc. has a stable ownership structure where the most significant stake is held by the Republic of Croatia and domestic pension funds. A total of 7,120,003 shares have been issued at nominal price of HRK 220.0 per share. As at 31 December 2022, the Republic of Croatia holds 25.5 % stake, and domestic pension funds (mandatory and voluntary) hold a total of 51.1 % stake. Podravka Inc. has 1.3 % of treasury shares. As at 31 December 2022, Supervisory Board members owned 153 shares of Podravka Inc., while Management Board members owned 3,510 shares.

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

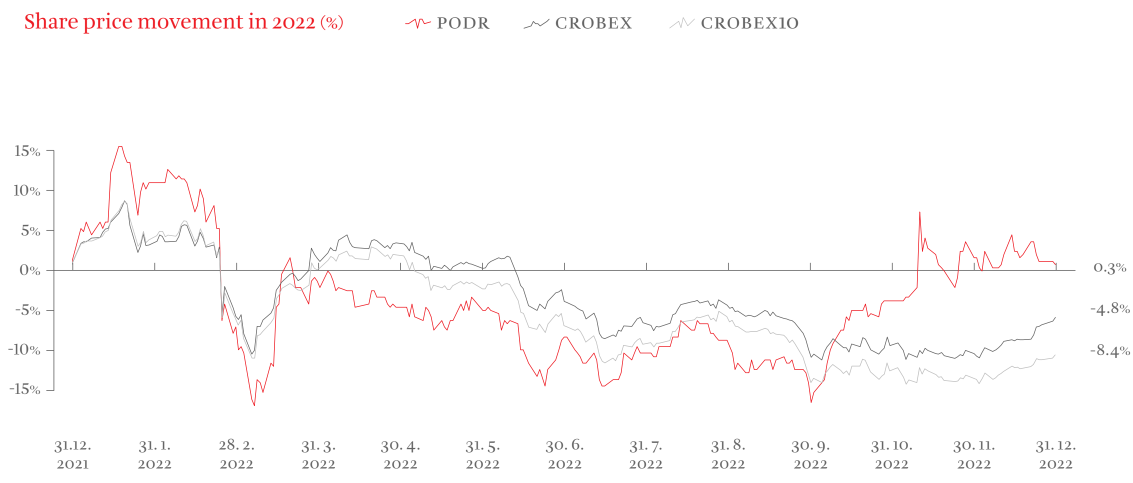
SHARE

Ownership structure as at 31 December 2022



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

Share price movement in 2022 (%)



SHARE

(closing price in HRK; closing points)	31 December 2021	31 December 2022	%
PODR	632.0	634.0	0.3%
CROBEX	2,079.4	1,979.9	(4.8%)
CROBEX10	1,262.3	1,156.2	(8.4%)

In the reporting period, the price of Podravka's share increased by 0.3 % compared to the end of 2021, while the CROBEX and CROBEX10 stock indices decreased by 4.8 % and 8.4 %, respectively.

8 The weighted average daily price in the reporting period is calculated as the sum of the weighted average daily prices in the reporting period, multiplied by the daily volume weight. The daily volume weight is calculated as a ratio of daily volume and total volume in the reporting period. The formula, *Weighted average daily price in the reporting period = Σ average daily price*(daily volume/total volume in the reporting period)*. Other indicators are calculated as the average of average daily transactions/volume/turnover in the reporting period. Block trades are excluded from the calculation.

Result on the Croatian capital market in 1 – 12 2022

(in HRK; in units[8]	2021	2022	%
Weighted average daily price	589.2	613.6	4.1%
Average daily number of transactions	13	14	6.3%
Average daily volume	1,488	1,214	(18.4%)
Average daily turnover	876,746.7	744,668.7	(15.1%)

At the annual level, the weighted average daily price of Podravka's share recorded an increase of 4.1 % relative to the comparative period. Compared to 1 – 12 2021, the average daily volume decreased by 18.4 %, the average daily turnover decreased by 15.1 %, while the average daily number of transactions is 6.3 % higher.

SHARE

Valuacija

(in HRK millions; last price and earnings per share in HRK)*	2021	2022	%
Last price	632.0	634.0	0.3%
Weighted average number of shares[9]	7,008,269	7,018,424	0.1%
Market capitalization[10]	4,429.2	4,449.7	0.5%
EV[11]	4,953.0	4,988.8	0.7%
Normalized earnings per share[12]	43.4	44.3	2.2%
EV / sales revenue	1.1	1.0	(7.2%)
EV / normalized EBITDA	8.2	7.9	(2.5%)
EV / normalized EBIT	12.7	12.5	(1.7%)
Last price / normalized earnings per share ratio (P / E)	14.6	14.3	(1.8%)

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

9
The weighted average number of shares is calculated on the basis of previous 12 months period by dividing the sum of the weighted number of shares of each individual month by the total number of calendar days in the previous 12 months. The weighted number of shares on a monthly basis is calculated by reducing the total number of issued shares by the amount of treasury shares and multiplying the difference by the number of days of that month.

10
Market Capitalization: Last price * Weighted average number of shares.

11
Enterprise value: Market Capitalization + Net debt + Minority interests.

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

9 Expected development

In June 2021, the Podravka Inc. Supervisory Board gave its consent for the Podravka Group Strategic Plan for the period from 2021 to 2025 (hereinafter: Strategy). The activities and projects envisaged under the Strategy are successfully unfolding as planned, despite the many global challenges, and Podravka will continue with their implementation in the forthcoming period. The fundamental message guiding Podravka Group in the implementation of the adopted Strategy is *Creating a more flavourful world. Always with heart.*

The operationalisation of the Strategy is seen through the adoption of three-year business plans, which includes the three-year capital investment plan as an integral part. In December 2022, the three-year Business plan of the Podravka Group for the period 2023 to 2025 was adopted. This plan follows the guidelines and goals of the Strategy, and describes in detail all business activities in both segments of the Podravka Group, Food and Pharmaceutical, to be implemented in the said period.

Implementation of the adopted Strategy from 2021 to 2025 implies a strong investment cycle aimed at modernization and digitalization of production and logistics processes, energy efficiency and improvement of working conditions. Thus, during 2022, the Podravka Group invested a total of HRK 396 million in capital investments.

The Strategy encompasses both segments of the Podravka Group, Food and Pharmaceutical, through three development pillars: focus on selected markets and production categories, increased efficiency of operations through technological modernisation and digital transformation of production and logistics processes, and acquisitions. An integral part of the strategy document is the integrated implementation plan, which clearly outlines the activities and schedules for their implementation.

The planned activities pertain to investments in technical and technological modernisation, construction of the new logistics and distribution centre in Koprivnica, and more significant use of renewable energy sources so as to improve energy efficiency. Together, these pillars will contribute to increasing efficacy, reducing the carbon footprint of production and distribution of products, and aligning the overall operations of the Podravka Group with the highest standards of corporate social responsibility.

The Strategy defines the areas where progress can be made in operations that will further strengthen the capability of the Podravka Group to continuously recognise consumer needs and more quickly adapt to changes in consumer habitats, whilst retaining a high level of quality and the highest health standards of its products. In the forthcoming period, the Podravka Group aims to more closely connect with consumers through its wide selection of high quality products, remaining a reliable partner in overcoming the challenges of the contemporary lifestyle.

In the coming period, the Food segment of the Podravka Group will place an emphasis on the development of products and innovations in products and packaging that will be aimed at increasing the accessibility of Podravka products, and their adaptation to the needs and life habits of different consumer groups. The future accelerated growth and development of the Food segment will be based on product categories with a higher export potential, such as food seasonings, soups and bakery products, with a focus on the wealthier and more potent markets in Western and Central Europe. For the Croatian and Slovenian markets and the markets of Southeast Europe, in the coming period the predominant focus will be on further growth and retaining the strong market position. With this strategic approach, a significant increase is expected in the share of sales on Western and Central European markets in total sales revenues. By implementing the defined measures to raise sales efficacy, for example through the opening of new sales channels and a stronger presence in the gastro segment, and by increasing production efficiency and better quality management of personnel and processes, with further technological modernisation and digitalisation of production and logistics process, the expected result is that efficiency will be raised to a substantially higher level.

Production digitalisation represents the transition towards Industry 4.0, bringing digital transformation processes into the processing and manufacturing industries. It will enable production to be monitored in real time, maximum document digitalisation, and remove the need for manual work and paper documents. In the forthcoming period, Podravka will increase its self-sufficiency through its own agricultural production and the strengthening of cooperation, to reduce reliance on imports and to enable stable risk management in the primary supply chain.

The Strategy defines the criteria for the consideration and selection of acquisition targets. Through potential acquisitions in the Food segment, Podravka aims to strengthen its presence and market position in categories that are in the focus of further rapid development.

The second segment of the Podravka Group, Pharmaceuticals, will place the focus in the forthcoming period on a stronger growth on international markets, expanding the portfolio with products with additional anatomical-therapeutic-chemical (ATC) groups, and strong growth on the domestic market through the introduction of new products. Growth will be stimulated by the launch of new molecules in the prescription and over-the-counter programmes. The Strategy envisages an acceleration of the development process of products in the pharmaceutical segment of the company by optimising key processes and establishing tighter guidelines for monitoring efficiency. Through the optimisation of efficiency in procurement and production and logistics capacities, the aim is to improve the operational efficiency of the business. In terms of the inorganic growth of the Pharmaceutical segment, the company wishes to be an active participant and to proactively seek out acquisition portfolios and manufacturing partnerships.

10 Brands of the Podravka Group

FOOD

VEGETA is Podravka's best-known and strongest brand that for more than six decades has entered into the kitchens of consumers in more than 50 countries worldwide, from Australia to the USA. The Vegeta brand includes universal seasonings, special seasonings, cooking mixes, spices, bouillons, soups and many other products. In listening to the dietary needs and preferences of contemporary consumers, Vegeta is always offering new solutions and keeping up with the newest trends, be that in design, packaging, communications or new products. Today, Vegeta is Europe's best selling dehydrated food seasoning, adding that something species to diverse dishes to win over the hearts and tastebuds of its consumers.

The wide selection of FANT seasonings is sure to enrich all culinary skill. Fant makes it easier to prepare even the most complicated dishes, guaranteeing excellent flavour every time. The Fant product line offers a wide range of different dishes, from traditional ones to international cuisine, to new modern dishes that, thanks to Fant, can be made in either a vegetarian or classic version.

The MAESTRO brand has a long tradition on the Slovenian market, offering consumers security, the warmth of home, and the ability to explore different flavours with a constant guarantee of quality. The product line of single spices and special food seasonings under the Maestro brand has been inspiring creativity in the kitchen for more than 30 years, while the tradition of spice production is longer than 60 years.

A homemade flavour is a key value of the PODRAVKA SOUPS. They are exceptionally easy to prepare, ensuring a high quality meal in just minutes, while still leaving room for creativity. The Podravka groups continually followed the top food trends, and within the broad and diverse product line of clear and cream soups, consumers have been finding their favourite flavours for more than 60 years.

For those needing an even quicker solutions without cooking, the product line of instant FINI-MINI soups has the answer. These products are prepared in line with the demands of modern consumers. The Fini-mini brand is further expanding into the category of instant noodles on the markets of Croatia, Slovenia and BiH.

Practical preparation and delicious flavour are characteristics of the TALIANETTA pastas that enable consumers to prepare a tasty and nutritious meal in just minutes. Talianetta is the answer to the increasing consumer demand for semi-finished and instant dishes, offering fast and high quality solutions for a stand alone meal or as a side dish to other meals.

LINO reveals the rich, diverse and magical world of flavours, tasty and healthy products that are carefully prepared for happy and healthy growth. As a reliable producer of children's food for more than 50 years, Podravka offers a wide line of children's products that contain all the ingredients needed for proper growth and development. In listening to the wants and needs of consumers, the Lino product line also offers several gluten-free options.

A synonym for children's food, ČOKOLINO has always been associated with a carefree childhood, joy and moments of relaxation. Today, the Čokolino brand is a tasty, practical, and perfectly balanced cereal meal for all generations. In addition to the gluten-free options, other products in the line combine the irresistible Čokolino flavour with functional benefits that are relevant to adult consumers.

LINO LADA is a famous brand of cream spreads, thanks to the premium product quality, large selection of flavours, and wide range of packaging operations adapted to different consumer segments and consumption in all situations. Thanks to the innovations and continued investments in building the brand, today Lino Lada stands at the very top of the cream spread market, both in Croatia and in other markets of the Adria region, while the demand for Lino Lada is expanding on other international markets. In addition to cream spreads, Lino Lada is also a desirable flavour in the ice cream category, while on the impulse product shelves it can be found in cereal pillows.

Always contemporary, creative and practical, DOLCELA is constantly introducing its consumers to the tastiest desserts and new ways to make them, regardless of whether this is a quick and easy method, or advanced and independent method. In 2022, Dolcela has kept in line with current food trends, and now those who are watching their sugar intake or seeking a snack or dessert rich in protein can also enjoy the sweet life.

The KVIKI brand has been providing crispy and delicious snack foods for more than 45 years, delighting consumers with their high quality, fun and quick nibbles. The product line offers a wide range of salty baked and not fried snacks, ensuring the fullness of flavour and recognisable quality, while the carefully selected raw materials are a guarantee of the quality of the finished product. In following current trends, the entire product line of the salty snacks is sold in 100% recyclable packaging, and in recent years, new innovative surprises have been offered, such as the addition of chia seeds, linseeds or sea salt.

1001 CVET has been a beloved regional brand for half a century. Only the best quality, natural ingredients are used to prepare a range of tea blends that can be enjoyed all day long. The broad product line ensures that everyone can find the perfect tea.

PODRAVKA is the dominant market leader in the category of READY-MADE MEALS AND SAUCES. The excellent homestyle flavour and premium quality, and quick preparation times, are the main properties of this wide range of read-made dishes.

Podravka pâtés have been a beloved choice of consumers since 1958. The Podravka Chicken pâté, with its recognisable design, is special because it hides within it a wealth of flavours, thanks to the excellent quality ingredients and the unsurpassable creamy texture. In carefully following global food trends and consumer demands to eat high quality and natural foods, a new generation of Podravka chicken pâtés has been introduced, made of only the finest ingredients. Perfectly spreadable, they contain no preservatives, palm oil, or flavour enhancers. For those looking for a lower cost solution, the Piketa pâtés offer a range of different flavours and packaging options.

The flavour and quality of PODRAVKA COLD CUTS awaken positive emotions associated with the beloved flavours of childhood. For more than 60 years, these cold cuts have been an excellent protein meal for all generations, regardless of whether they are served cold, as an addition to salads, or prepared on the grill. Thanks to their practical packaging, they are an excellent choice for an outdoor picnic, or to take into the mountains or onto the beach.

Knowledge, experience, dedication and passion are woven into the creation of PODRAVKA'S SEMI-LASTING AND LASTING CURED MEAT PRODUCTS AND SAUSAGES. A high ratio of meat in the cured meat product line make these products a valuable source of protein, while the high quality ingredients and selected blend of seasonings give every product a characteristic and well-known flavour and aroma.

In 2022, the newest brand in the Podravka portfolio was introduced - O'PLANT. Over the past year, the product line in this brand was focused on a range of plant-based beverages, though in the future the O´Plant line will offer a range of products that are 100% plant-based in different product categories. The long know-how of Podravka and excellent knowledge of local flavours guarantees premium flavour and quality of the newest generation of plant-based products.

The broad line of fish products under the brands EVA and MIRELA is prepared from only the highest quality fish, led by the queen of the Adriatic – the sardine. The exceptional temperature and salinity of the Adriatic Sea is a guarantee of the premium flavour and balanced nutritional value of the Adriatic sardine. The Eva brand includes other products with tuna, mackerel, Baltic fish, fish pâtés and salads. The Eva and Mirna products are packed full of nutrition and made in a completely natural way, making them the ideal choice in a modern and balanced diet.

PODRAVKA TOMATOES are an essential ingredient in every cuisine, especially the Mediterranean cuisine, blending in perfectly with an entire series of culinary ingredients. The healthy and natural tomato products contribute to health, and inspire creativity in the preparation of quick and practical dishes, and enjoying the flavours and aromas of the Mediterranean on every occasion, year round.

For more than 70 years, Podravka fruit has been processed from only the highest quality fruits. The recipes of the leader products, such as rosehip jam, mixed fruits, or even plum jam, are identical to the original recipes, ensuring the full flavour of fruit and the most natural sweet satisfaction.

Trends have shown that the future of food is in vegetable and legume-based foods. The PODRAVKA VEGETABLES in sterilised or pickled products preserve the highest quality nutrition in foods. The products are very practical, ready to consume year round for a wide range of dishes, including salads, sides, stews, sauces and sandwiches.

The perfect texture and flavour are what makes the PODRAVKA CONDIMENTS – ajvar relish, mustard, ketchup and horseradish – the ideal accompaniment to the most diverse dishes. The flavourful and aromatic Podravka condiments are a must-have in any kitchen, and offer special culinary value, especially those that continue a true treasure trove of nutrients, so they can rightfully be called superfoods.

ZLATO POLJE is a synonym for contemporary cuisine, with products such rice, pasta, mashed potatoes, oats, semolina, and breakfast cereals. The broad product line of Zlato Polje offers products for the whole day, from breakfast cereals full of natural ingredients and vitamins, or an excellent side dish for any lunch. For a light dinner, milled products are a tasty and healthy meals.

ŽITO fresh bakery products covers the segment of semi-baked breads (melba toast), fresh bread and rolls. The product secret is a combination of tradition and innovativeness, using the best ingredients and retaining the very best of Slovenian culinary tradition in combination with modern technologies.

LAGRIS is a famous Czech brand that has been combining natural ingredients and tradition for more than 30 years. Within the broad and diverse product line, it offers rice, legume and poppyseed products, potato-based products, healthy living products, and gluten-free flours and bread mixes. The Lagris high quality is guaranteed through the certified high production standards. Lagris products are stored using unique technology in controlled conditions, thereby perfectly protecting the quality and original flavour of the products.

With more than a century of tradition, GORENJKA has become a synonym for high quality chocolate products made with the finest cocoa. Chocolate lovers will be thrilled with the wide range of Gorjenka milk and dark chocolates to enjoy and cook with, and other products such as mini-rolls, cubes and chocolate with rice.

Caramels, jelly candies, gummies, and filled candies – both children and adults will enjoy the ŠUMI candies. These candies stand out from the rest thanks to the high share of nature fruit juice, vitamins and minerals. They are free of artificial colours and flavours, and with a tradition of 145 years, are products you can trust. Herb candies are made using the original recipe with the pronounced herb flavour and natural fruit juice extracts.

NATURA is a synonym for products grown in a way that nature approves of, and Bio Natura are carefully selected organic products. Only ingredients from untouched parts of nature can ensure healthy and safe food.

PHARMACEUTICALS

On the Croatian market, BELUPO offers products in the status of Rx (prescription) medicines, over-the-counter (OTC) synthetic and plant-based medicines, dietary supplements, disinfectants, and enteral nutrition. The company is present on 12 of the existing 14 ATV categories, and is the piece leader of prescription medicines on the Croatian market based on IMS data for 2022. On the international market, Belupo is present with nearly all its brands as on the domestic market, though the product portfolio varies by market.

The Belupo portfolio of medicines is well known among business partners, patients and consumers, and the company is constantly working to expand its product line with new products that are in line with market trends.

The BELOSALIC brand (lotion, spray and ointment) is the best selling brand in the Belupo portfolio, and the best selling medicine on the markets of Russia, Ukraine, Kazakhstan and Poland. Belosalic, thanks to its active ingredients, belongs to the group of topical corticosteroids, and is classified as a *"strong corticosteroid"*. Medicines under the Belosalic brand are applied topically to the skin to reduce redness and itching caused by certain skin diseases, and have been part of the Belupo portfolio since 2000.

The brand BELOGENT also includes medicines that contain active ingredients from the group of strong corticosteroids, with the antibiotic gentamycin. Belogent is applied to skin diseases that react to local corticosteroid treatment, such as psoriasis, dermatitis, eczema, seborrhoea and other skin changes, and that have been complicated by a secondary infection caused by gentamycin-sensitive microorganisms or suspicion of such infections. The Belogent creams and ointments are the widest selling Belupo prescription medicines on the markets of Czech Republic, Slovakia and North Macedonia.

The NEOFEN brand (tablets and gel for adults and syrup and suppositories for children) containing ibuprofen is Belupo's best-selling OTC brand on the market of BiH, and also on the market of Slovenia though under the name Ibubel. It contains ibuprofen as the active ingredient, except Neofen combo that contains both ibuprofen and paracetamol. Neofen tablets relieve pain, reduce inflammation and reduce fever. Neofen Plus gel is applied for the local treatment of rheumatic pains, muscle pain, back pain, pains and swelling caused by sprains,

BELOSALIC
BETAMETAZON, SALICILNA KISELINA

BELOGENT
BETAMETAZON, GENTAMICIN

NEOFEN

strains and other sports injuries, and for neuralgia (pain caused by nerve damage). Neofen Combo is intended for adults over the age of 18 years for the short-term relief of mild to moderate pain caused by migraines, headaches, back pain, menstrual pains, toothache, rheumatic and muscle pains, pains due to non-inflammatory arthritis, and symptoms of cold and flu, sore throat and fever. This medicine is especially suitable for pain that requires a stronger analgesic than ibuprofen or paracetamol alone. Neofen children's forms (syrup and suppositories) are intended for the treatment of children over 3 months of age (Neofen suppositories 125 mg for children over the age of 2 years) and for the short-term reduction of fever, and relief of mild to moderate pains, sore throat and earache.

The IRUZID brand are tablet medicines used in the treatment of high blood pressure. This well-known brand from the cardio-segment is the best selling prescription drug in the Belupo portfolio for the BiH market.

IRUZID
lizinopril/hidroklorotiazid

Medicines under the brand NORMABEL contain diazepam as the active ingredient, and are available in tablet form or injection solution. Normabel tablets are used to treat anxiety, insomnia combined with anxiety, muscle spasm and cerebral spasms. It is also used an addition to treatment of certain forms of epilepsy (e.g., myoclonus) and for sedation in minor diagnostic and therapeutic procedures.

NORMABEL
DIAZEPAM

In examining the Belupo OTC portfolio, in 2022 as in the three years preceding, the best selling OTC brand on the Croatian market was Belupo's brand LUPOCET. Belupo is also the piece and financial leader in the ATC group N, which includes the brand Lupocet, and the ATC group M, which includes the Neofen for the Croatian OTC market according to the IMS data for 2022.

LUPOCET

11 Innovations, awards and recognitions

Research *and development*

ACTIVITIES RELATING TO THE NUTRITION STRATEGY

In recognising its influence in creating a healthy environment for its consumers, and taking responsibility for the nutritional quality of its food products, in 2014, Podravka adopted its first Nutrition Strategy for the period 2014 to 2024. In the past period, significant efforts have been made to reduce salt, sugar, saturated fatty acids and trans fats from different product categories in the Podravka portfolio. The development and innovation of the product line has primarily been focused on products with a reduced salt and sugar content, products without additives, flavour enhancers, colouring, and products enriched with proteins, vitamins, minerals and fibre. Additionally, the use of whole grains, development of products without palm oil or the use of RSPO palm oil, the development of the segment of BIO products, products for vegetarians and vegans, and gluten-free products.

In line with the times and global health guidelines, in 2022 the process to revise the Podravka Nutrition Strategy 2014 – 2024 began, with the aim of setting new, ambitious goals to offer the consumer even more new products that support sustainable options that are good for health and the environment. In February 2023, Podravka adopted a new Nutritional Strategy for the period until 2027, which confirms the focus on healthy, balanced and sustainable nutrition through the development of new and innovative products. The key goals of the Nutritional Strategy are reducing the average salt and sugar content in at least 75% of our new and innovated products by 20% compared to today, introducing at least one ingredient that supports a healthy and balanced diet in 75% of our new and innovated products at a minimum, basing at least 40% of our new and innovated products on ingredients associated with sustainable diets and supporting sustainable nutrition with 100% of our product portfolio. The direction of the Nutrition Strategy has been aligned with the legislation, Strategy and voluntary guidelines, recommendations, proposals, codes, and commitments of international organisations (FAO UN, SZO, EK), and the associations of the largest food and beverage producers.

The fundamental tool for managing the nutritional quality of Podravka products is the Nutritional profile. The scientifically approved methodology to develop nutritional profiles provides internal recommendations for the content of macro- and micro-nutrients per product serving, in line with the global public health recommendations, the Nutrition Strategy and its goals, technological possibilities, markets and more. By the end of 2022, the nutritional profile was available for all Podravka

RESEARCH AND DEVELOPMENT

categories that require nutritional tables.

In 2022, cooperation with Koprivnica-Križevaci County continued to develop standards for school meals in primary schools, at the initiation of the County. The project entitled *"Smart meals for smart kids"* is aimed at improving and standardising children's meals in 18 county primary schools. Within this project, the Podravka nutritionists created 280 standards for school meals, delivered to schools over the 42 working weeks.

In 2022, the Belupo Research and Development sector was focused on the development of new medicines, transfer of technology from partners into the Belupo production plants, and optimisation and expansion of products in the existing portfolio. Development continued for products in the dermatology group of medicines, the solid medicines in the group of drugs with anti-inflammatory and anti-rheumatic effect, cardiovascular medicines, and anti-diabetic medicines.

Research and development also participated in introducing the technology of newly registered products into production and the introduction of new analytical techniques to monitor product quality in line with the newest regulatory requirements. Activities are ongoing to improve the process of product development in line with the adopted Business Strategy of the Podravka Group.

In 2022, Research and development was actively included in different company projects in a wide spectrum of activities, and in cooperation with other sectors of Belupo, contributed to maintaining the overall quality system of Belupo. During 2022, the new dermatology product Sona Duo gel was marketed after its development in Research and development.

In 2022, Žito continued its cooperation with numerous higher education organisations in the food sector (BIC Ljubljana, pyramid Maribor) and the Faculty of Biotechnology, University of Ljubljana, enabling students to undertake their practical learning and gain precious hands-on experience.

As a large consumer of buckwheat, Žito is included in the Advisory board of the project *"Locally grown buckwheat as a raw material for high quality food production"*, financed by the Public Research Agency of the Republic of Slovenia, and the Ministry of Agriculture, Forestry and Food of the Republic of Slovenia.

As a representative of Slovenian industry, Žito actively participated in a special interdisciplinary working group for the reformulation of food products, sponsored by the Ministry of Health. The main task of the working group is to monitor and direct reformulation activities and to improve the composition of food products.

For the third year in a row, Žito has been included in the preparation of a Catalogue of food of improved composition as part of the national programme *"Dobar tek Slovenija"* and the project *"Odloči se za"* (Opt for it) in cooperation with the National Public Health Institute and the Ministry of Health and development by the Slovenian Chamber of Commerce. The suitability of food products for inclusion in the catalogue was assessed by a special expert committee based on the composition data.

RESEARCH AND DEVELOPMENT

Žito was included in the partnership for whole grain products, in which members wish to apply various activities to increase the use of whole grain ingredients in the daily diet of consumers, due to their great importance in a balanced diet. The formal signing of the inclusion was held at the AGRA Agricultural and Food Fair in Gornja Radgona.

After two years, the Podravka research and development project entitled *"Development of innovative products from vegetable processing by-products"*, co-financed from the European Regional Development Fund has been completed. The aim of the project was to separate the nutritionally valuable parts of pepper biowaste, the seeds and seed core, and to increase the efficacy of processing of ajvar by 10%. In the project, laboratory devices were developed to separate and dry pepper seeds, a conceptual design developed for a device to separate stems, cold pressed pepper seed oil, new plant-based spreads, sauces and liquid soups with flour cakes, assessment of biogas potential, purchase of laboratory devices and completion of roof repairs. The project results were presented at scientific conferences and in scientific journals, and the cold pressed pepper seed oil won a flavour award at the International Taste Institute in Brussels in 2022.

New *products*

FOOD

During 2022, the Vegeta brand, through its Natur line on the Polish market continued the project to expand into new culinary categories through the unique dual concept of the Vegeta Natur seasoning blends. The existing project line of seasoning blends was expanded with five new SKUs that were prepared according to the demands and preferred tastes of Polish consumers, and in line with global food trends.

With the aim of strengthening the brands Vegeta Natur, Vegeta Maestro and Maestro, line extensions were made available with special food seasonings in leader products (Vegeta Natur Grill 100g and Vegeta Natur chicken 100g) and innovations of larger packaging of existing range of single spices, such as curcuma, cinnamon, parsley, oregano and garlic. With this line expansion in the existing line of special products and single spices, the new product Maestro vegetable pickling seasoning 50g was released on the Slovenian market, and the new product Vegeta Maestro colourful pepper grains 14g on the Croatian market.

In the category of all-purpose food seasonings, during summer 2022, the product Vegeta 250g in a limited addition summer tin featuring the motifs of six Croatian cities was released. On the Hungarian

NEW PRODUCTS

market, new packaging for Vegeta was released with a red design, aimed at taking steps towards consumers focused on traditional sales channels. On the same market, limited edition packaging of Vegeta in a glass jar with a modern, attractive design was released. The limited edition packaging of Vegeta in a glass jar was also introduced to the Slovenian market.

Podravka soups are a nutritious and practical solution for every occasion and everyone's taste. That is why in 2022, three new soup options were marketed. Mama's soup is a rich combination of chicken and beef broth, complete with meatballs and heart-shaped pasta. Cream of pea and mint soup brings the rich flavour of vegetables with a hint of minty freshness. Cream of chicken soup features an excellent meat flavour and rich creamy texture. The soup project line was also expanded on the US market with new flavours under the Vegeta brand – these are interesting combinations of cream soups (Cream of broccoli and potato, Cream of pumpkin and sweet potato, Cream of tomato and nettle) and rich cereal soups (Rich soup with lentils, Rich soup with red quinoa, Rich five-grain soup, and Rich soup with porcini mushrooms and buckwheat).

In the category of instant meals, Podravka has introduced the popular instant noodles, Asian dishes based on fried noodles and seasonings that have won over young consumers around the world. Three new flavours of the Fini Mini/Podravka noodles have been launched: Chicken, Beef and Vegetable, in single and multi-packs, with the excellent and recognisable flavour of pasta that with the addition of seasonings, chilli and oil becomes a nutritious and tasty meal in just three minutes.

NEW PRODUCTS

With the popular Kviki pretzel sticks, pretzels and fish, a new crispy product has been launched – Kviki maxi pretzels that come in three variations – sprinkled with sea salt and superfood ingredients, linseed or chia seeds. The products are made without palm oil, baked and are very crunchy, packed in 100% recyclable packaging, as the Kviki brand continues to keep up with the current trends.

The category of children's snack is growing on the regional markets, opening opportunities for innovations and the stronger expansion of Lino children's snacks with new products. With the existing Lino cookies, that has received new packaging, two new flavours have been introduced: Multigrain and Cocoa. With the new products, the line of on-the-go products in the children's snack line has been expanded. The Lino Keksolino multigrain and cocoa cookies contain four different cereals (wheat, oat, corn and rice), are a source of vitamins, calcium and iron, and contain no palm oil.

Launching the Lino dairy desserts is a response to the dynamic nature of the category of ready-made baby foods, that is constantly in demand of new products. Last year, the design of the dairy desserts was refreshed, and can now be found in ready to eat, on-the-go packaging.

The brand 1001 Cvet teas launched a seasonal in/out product called Winter experience, ideal for enjoying during the season and holidays. The selected and sophisticated flavours of the Winter experience teas (Christmas, grandma's, garden plum, juicy peach, spicy ginger) will warm your favourite moments of the day and lead you into holiday magic.

NEW PRODUCTS

The new Easy Pack 100% recyclable packaging of Lino Lada Duo and Gold with a spoon in the lid has been met with excellent consumer response, and so it has been expanded into all markets, from Slovenia to Montenegro and proven to be a hit in the cream spread category. In order to help domestic and foreign consumers visiting Croatia connect the Lino Lada brand with the symbol of Croatian origin, the best selling flavours Lino Lada duo, Lino Lada Gold and Lino Lada milk have been linked with the famous inventions of Croatian investors, and every product has been given four different designs on the topic of recognisable inventions.

The Dolcela product line has been expanded with the new Dolcela HI proteins shakes. In addition to being rich in protein, they contain only natural sugar and so are ideal for those watching their sugar intake. They come in four irresistible flavours: Brownie, Raspberry cheesecake, Cookie, and Tiramisu. The Dolcela gluten-free product line has been expanded by another mix – the Dolcela Party cake with a delicate vanilla flavour. Proof that Dolcela is not only reserved for sweet moments is seen in the two mixes - Dolcela Savoury muffins and Dolcela Crescents. The Dolcela Savoury muffins with cheese and tomatoes has an amazing airy and soft muffin structure, and contains grated hard cheese, pieces of sundried tomato, and oregano. With the Dolcela mix, crescents are easy and quick to prepare, and are suitable for vegetarians.

Ajvar chutney has been launched in a new, practical squeeze bottle in both the mild and spicy versions. The new packaging widens the territory of use of the Podravka ajvar and popularises healthy and natural food. Podravka jalapeño ketchup is a new

NEW PRODUCTS

ketchup flavour. Jalapeño peppers are known for their very specific spiciness that has now been added to the newest Podravka ketchup, making this a unique innovation on the ketchup market in Croatia.

The Zlato Polje pasta has received a new appearance, with more modern, sophisticated and clearer packaging. All pasta, regardless of the segment has a uniform blue flag on top of the packaging that features the new, modernised Zlato Polje logo.

In the category of Podravka ready-made meals, the focus was on developing the hottest flavours in international cuisine, as trends of that food group are rising and these products are primarily intended for young consumers. Three popular new flavours were launched - Bolognese sauce, Chilli con carne, and Chicken curry – which enable consumers to enjoy the flavours and aromas of Italian, Mexican and Indian cuisine. The main properties of these new products are that they are quick to prepare, with premium flavour, highest quality ingredients, preservative-free and additive-free, and naturally rich in protein.

In continuing to follow trends, in the 2022 the pâté category presented innovated recipes for the Eva fish pâtés made of 100% selected fillets of tuna, without palm oil, preservatives, flavour and flavour enhancer in a BPA safe packaging with easy peel lid for quicker and easier opening. Four new and excellent flavours have been launched: Eva tuna classic, Eva tuna with vegetables, Eva tuna with sundried tomato, and Eva tuna with capers. For the youngest, Lino Njupalica products were launched. These are two pâtés with a rich and creamy texture

NEW PRODUCTS

adapted for children - Lino Chicken and Lino Tuna. They have a gently and creamy flavour, a subtle and delicious aroma, and fine creamy texture. They are made from natural, specially selected ingredients, and contain no flavour enhancers, flavouring, palm oil or conservatives.

The cured meats product line has been expanded with two new products: Lino chicken ham and Lino turkey ham. These are high quality hams made of chicken or turkey meat (100% breast fillet) just like kids love and should have in their daily diet. The hams are part of the Lino Njupalice brand and have a playful design in practical 60 g slice packaging. The hams are naturally rich in protein, contain chicken and turkey meat (100% breast fillet, highest quality meat position), are gluten-free, and contain no flavour enhancers or added colouring, and contain a reduced salt and fat content.

In the bakery segment, Žito has continued to expand its Drožnik bread line which contain the addition of sourdough. In the last year, the product line was expanded with white Drožnik and corn Drožnik, which achieve their typical airy structure without additional yeast. Thanks to the carefully managed and long-lasting technological process, bread and other products made with sourdough have a rich aroma and long-lasting freshness. The sourdough product line of Žito also now includes attractive rustic baguettes of 330 g and 250 g, that are called Drožeta.

The Drožnik family has also expanded into the roll segment. Rolls of 80 g and 100 g in the shape of small ciabatta have been launched and are perfect for making sandwiches and snacks. A rye loaf of 500

NEW PRODUCTS

g containing 80% rye flour has been launched. A pinch of added cumin rounds out the recognisable flavour specific to rye bread. A new modified line of toast bread has been introduced. Now, consumers can choose between the flavours special or spelt in packaging of 250 g and 500 g, flavours of butter or wholegrain in a 500 g packaging, and mixed rye and seed toast is offered in a 250 g packaging. The products stand out for their improved softness and freshness and longer shelf life.

To celebrate its 100th anniversary, Gorenjke launched a line of jubilee chocolates in retro shapes – retro chocolate (250 g) and retro chocolate powder in the same quantity. Edible chocolate has a specific, mild, bitter taste. It contains 45% cocoa mass and is excellent for the preparation of different types of chocolate desserts. Chocolate powder is also essential in the kitchen and for preparing different beverages.

NEW PRODUCTS

PHARMACEUTICALS

RX PORTFOLIO

In addition to the existing doses, the medicine Vainas HCT has received a new dose - Vainas HCT 5 mg/160 mg/12.5 mg film coated tablets. One film coated tablet contains 5 m amlodipine (in the form of amlodipine besylate), 160 mg valsartan and 12.5 mg hydrochlorothiazide. The drug is intended for the treatment of essential hypertension as a replacement therapy in adult patients, whose blood pressure is adequately control with a combination of amlodipine, valsartan and hydrochlorothiazide (HCT), taken either in the form of three single component formulas or in the form of a two-component and one-component formula.

The range of Belupo antibiotics has been expanded with a new form of penicillin in pharmaceutical form – oral suspension tablets: Amoxycillin Belupo 500 mg tablets for oral suspension and Amoxycillin Belupo 1000 mg tablets for oral suspension. The active ingredient is amoxycillin, and the drug is used to treat bacterial infections in different parts of the body. In combination with other drugs, it can also be used to treat stomach ulcers.

The dermatological group of Belupo drugs has been strengthened with the addition of new drugs in the Son brand, that come in gel pharmaceutical form. The gel is a combination of two active compounds, adapalene and benzoyl peroxide, which act together but in different ways.

Sona duo is used in the treatment of acne. One gram of gel contains 1 mg adapalene and 25 mg anhydrous benzoyl peroxide (in the form of benzoyl peroxide with water).

NEW PRODUCTS

Adapalene belongs to the group of medicines known under the name of retinoids, which specifically act on skin processes that cause acne. The second active compound, benzoyl peroxide acts as a antimicrobial agent and softens and peels the outer skin layer.

OTC PORTFOLIO

In addition to the existing 30 g packaging present on the market, Belodin A Derm gel has now been released in a larger 50 g packaging on the Croatian market.

Belodin A Derm is used for the short-term relief of itchiness that accompanies skin diseases (dermatoses), such as rash or for insect bites, sunburn and superficial first degree burns (redness of the skin). Belodin A Derm stops the itch by blocking the action of histamine, which the body releases during an allergic reaction. As the gel penetrates into the skin, the itch and irritation are relieved in just minutes. This medicine also has a local anaesthetic effect.

One gram of gel contains 1 mg dimetindene maleate as the active component. It is issued over-the-counter in pharmacies and specialised shops for the retail sale of medicinal products.

With the existing packaging of 10 film coated tablets, the OTC drug Neofen Combo 200 mg/500 mg film coated tablets have now been launched on the Croatian market in a new, larger package with 20 film coated tablets.

NEW PRODUCTS

Neofen combo contains two active compounds: ibuprofen and paracetamol. Ibuprofen belongs to the group of non-steroid anti-inflammatory drugs that relieve pain, reduce inflammation and reduce fever (ATC code: M01AE51), while paracetamol is an analgesic that also relieves pain and fever, though in a different way than ibuprofen.

It is especially suitable for pain that requires strong analgesia that with the individual use of ibuprofen or paracetamol.

One film coated tablet of Neofen combo contains 200 mg ibuprofen and 500 mg paracetamol, and is issued over the counter in the pharmacy.

On the markets of Russia and Kazakhstan, a new cosmetic product has been released to treat dandruff, Belosalik Salik shampoo with 3% salicylic acid. Belosalik shampoo is a special formula that reduces, eliminates and prevents the occurrence of dandruff, while having a calming and regenerating effect on the hair and scalp, leaving them clean and smooth. This special formula is based on 3% salicylic acid and piroctone olamine. Salicylic acid eliminates visible skin flakes, thoroughly cleaning the scalp of dandruff and sebum, while softening the skin and helping to retain a neutral pH. Piroctone olamine softens the scalp, reduces flaking and prevents the occurrence of new dandruff. It helps that scalp to stay clean and itch-free. Other active ingredients of the shampoo are panthenol and chamomile extract that calm and regenerate the skin's natural barrier to gently protect skin and scalp. Available in 100 ml and 200 ml packaging.

Digitalne *inovacije*

During 2022, Podravka celebrated its 75th anniversary with the online campaign *"Good tastes travel far"* in Croatia and the region. This topic arounds an emotional reaction from customers, as Podravka is a brand that many grew up with, creating a special connection with the brand. Through the campaign, numerous attractive video recipes from around the world were created, allowing Podravka to use this relevant content to present itself as a global company that has been operating successfully for 75 years, spreading the flavours of Croatia around the world. In the campaign, cooperation was achieved with famous people from Croatia and the region, global influencers, and our employees and consumers, who created a total of 42 recipes. The most popular influencers from 11 markets and 20 famous people from public life shared their favourite recipes that they prepared using the Podravka products. The video recipes were published on Coolinarika and the website *https://www.dobarokusdalekosecuje.com/*, and on all Podravka social media channels.

Originality, native and quick content, consistency and fun in cooperation with influencers on Tik Tok resulted in excellent results of the online campaign *"Tuned to your style"* for Vegeta universal for the Slovak market. Creativity in its full glory was shown through the creation of a special gadget (stick) for universal seasoning, which is then used to get *"mini seasoning"* that consumers can take with them wherever they do to season their food as they like. The campaign communicated to the target audience, primarily generations y and z, that any meal – kebab, sushi, meat, ice cream – anytime and anywhere can be tasty and adapted to anyone's style. This modern approach was particularly welcome by young consumers by placing seasoning in a completely different context.

As part of the Eva Easter campaign, a new and interesting campaign was held within the Digital turbine platform, through which Podravka took steps into the world of advertising in gaming applications. Since gaming applications have large numbers of users, and these numbers are increasing daily, thereby reaching a new group of people and introducing the Eva brand to them.

In mid-September, Coolinarika launched its own Tik Tok profile with the aim of attracting a new, young audience. Content creation was in collaboration with Croatian and regional influencers to feature simple and fun recipes and culinary tricks. Already in the first months, the profile had a high number of views.

In November, Coolinarika launched a modern and practical mobile application - Coolinarika Video Baker. This is a tool for recording and creating

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video recipes in the popular vertical format. In one place, videos can be recorded, edited, with the addition of stickers, musical background and voice records. All dishes within the application can be searched by ingredient and difficulty level. The application is available on Google Play and Apple store.

In the lack of a central reference place and with the aim of strengthening steps forward in the digital communications segment, the first phase was developed of the new project *"Belupoint"*, Belupo's digital education platform.

The Belupo digital education platform was designed to be a new central place for knowledge and education exclusively for health-care workers, where they can find all the information they need on Belupo medicines, expert articles, and education in the form of webinars, video materials and online courses, all in one place.

At the start of July, a new website Siliymarin.hr was built, with the aim of offering quality and reliable content on the liver, liver health, liver diseases and all the necessary information about the only herbal liver medicine on the market - Silymarin Belupo. The launched website is accompanied by the new visuals in the Internet campaign.

In October, the website for Neofen was redesigned to refresh the appearance and increase functionality to achieve a better user experience. The website has been optimised, is easier to use and more modern, which has resulted in more visits.

In 2022, Podravka Slovenia monitored the main digital trends via most social media channels. The post-pandemic period showed that consumers are continuing to follow online media. Internet campaigns, rewarding followers and online presentations, which in previous years were only add-on projects, this year have become important factors in designing activation.

Through the Lino online campaign, celebrations were held at events like the Praznične hvale and Soča outdoor festival, and the recognisability of the brands has grown on the increasingly popular social platform TikTok where the greatest success was achieved with the Lino Lada and new Fini Mini Noodles products. The greatest success on social networks was achieved with Dolcela Hi-Protein products, which were included on the menus of more than people.

Proof that 2022 was a successful year in monitoring digital trends is also seen in the more than 10 million new followers and average engagement of more than 6%.

Awards *and recognitions*

PODRAVKA'S PRODUCTS AGAIN WIN THE SUPERIOR TASTE AWARDS

The annual Superior Taste Awards celebrate consumer food and beverages. Products are assessed by a group of professional chefs and sommeliers and give a global grade over 70% based on specific criteria – first impression, appearance, aroma, flavour, texture (food) or refreshment (beverage). Members of the global association Chef & Sommelier make up the panel that decides on the awards. In 2022, eight products received STA stars. The highest grade (three stars) was given to 100% Fruit spread, blueberry jam, and Cold pressed pepper seed oil, while two STA stars went to Vegeta Natur Fix Spaghetti Bolognese, Vegeta Natur for chicken, and Žito Drožnik bread. One star went to the products Vegeta BIO, Cream of pea soup with mint, and Extra jam strawberry.

AWARD FOR BEST INVESTOR RELATIONS

At the conference of the Zagreb Stock Exchange and Fund Industry in Dubrovnik, the 13th annual Poslovni Dnevnik awards were given out for best investor relations. On that occasion, Podravka received the 2nd place award for best investor relations. Poslovni Dnevnik, in cooperation with the Zagreb Stock Exchange, hands out this award to companies that have achieved the best investor relations, and

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the winners are selected based on statistical criteria pertaining to the abidance of the Exchange rules by the issuer, and based on a questionnaire conducted among the participants on the capital market. This is the second time in three years that Podravka has received this award, showing a high level of transparency in reporting, and the timely and continuous communication of all significant events on operations to investors and the public.

PODRAVKA WON THE HGK GOLDEN KUNA AWARD FOR SUCCESS ACHIEVED IN 2021

Podravka has won the Golden Kuna award of the Croatian Chamber of Economy for economic success achieved in Koprivnica-Križevci County in 2021. Podravka was awarded in the category of large companies, and the most important criteria were excellence in operations, market success, achieved profits and employment.

VEGETA PROCLAIMED EUROPE'S BEST DEHYDRATED FOOD SEASONING BY CONSUMER CHOICE

Proof that Vegeta is Europe's best selling universal food seasoning was confirmed yet again by the Nielsen agency, based on regular panel sales reports. The collected sales data for 31 European countries showed that Vegeta is the number 1 brand in Europe in terms of volume sales in the category of dehydrated food seasonings. Under the Vegeta brand, the categories of universal food seasonings Vegeta Original and Vegeta Natur, dehydrated special food seasoning Vegeta Natur, and mono-spices are monitored.

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MOMS CHOOSE VEGETA NATUR

In thinking about who has the world's hardest job, who is on call 24/7 and 365 days a year, who decides what to cook and what to wash up with, the marketing concept *"Mom's choice"* was launched to select the best products and services amongst a national representative sample of moms. This is the first consumer satisfaction survey of products and services exclusively among moms! Every year, the project *"Mom's choice"* hands out awards to the manufacturers, and in 2022, the title of the brand most chosen by moms was Vegeta Natur.

VEGETA ORIGINAL WINS THE WOMAN'S CHOICE AWARD

The *Woman's Choice Awards* is a prestigious survey that is traditionally organised by the popular Croatian website miss7, and the greatest value of this award is that is comes straight from the consumers, without a mediator, from the women themselves who decide every day what product to buy or whose service to use. For the first year in a row, Vegeta Original took the title as a legendary food seasoning.

ŽITO'S DROŽNIK BREAD RECOGNISED AS THE MOST INNOVATIVE FOOD PRODUCT

Žito's Drožnik bread was selected at a competition for the most innovative food product in 2022, and won a special award for innovation for the reduced salt content in bread. The title was awarded at a special web presentation by the Institute for Nutritionism as part of a competition for the most innovative food products.

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Drožnik bread was created at Žito based on the knowledge of the advantages of sourdough bread. It follows food trends of the modern consumer, offering a lighter feeling and excellent flavour with less salt and long-term freshness. The year before, it received the flattering title of best sourdough bread, as decided by consumers.

Due to the production method, Drožnik bread has long lasting freshness and a very crispy crust. Its greatest advantage is the flavour that the technologists at Žito have adapted to the desires of Slovenian consumers, to give a sourdough bread that is light and delicious.

SUPERBRANDS AWARD AGAIN IN THE PODRAVKA DISPLAY CASES

The brands that offer consumers an emotional and/or physical advantage over the competitors that consumers want (consciously or subconsciously), recognise and that are willing to pay more for – those are Superbrands. Every year, the Superbrand research team conducts comprehensive research on the best brands on a given market. The awards are given to professionals in the fields of business, communications, marketing and media research. In 2022, the title of Superbrand in Hungary went to Vegeta, while in Slovakia, this award has already been given to Podravka International s.r.o. nine times.

AWARDS AND RECOGNITIONS

VEGETA NATUR PYRAMID FOR RED BORSCHT AMONG THE BEST IN POLAND

The Vegeta Natur pyramid for red borscht 30 g, sold on the Polish market, has been proclaimed one of the most innovative products launched in the cooking sauces and seasonings category on the Mintel website.

ONLINE CAMPAIGN FOR PODRAVKA UNIVERSAL AMONG THE BEST IN SLOVAKIA

The online campaign for Podravka universal *"Tuned to your style"* (VYLADENÉ K TVOJMU ŠTÝLU) is one of the top 14 best marketing campaigns on the Slovakian market. This is the most important competition in Slovakia in which the profession selects the most creative campaigns (Zlaty klinec/ Golden Nail).

LINO CEREALS PROCLAIMED THE COOLEST CEREALS

Lino cereals for children have been proclaimed the coolest cereals by youth, and has won the deserved *Coolest brands award powered by JoomBoos*. This is an award that is given based on Ipsos surveys among young people.

ČOKOLINO PROTEIN POWER PROCLAIMED SELECTED PRODUCT OF THE YEAR

Čokolino Protein Power has been proclaimed the Selected Product of the Year for 2022 in Croatia, amongst the company of just nine selected products that can bear this prestigious seal in this year. The research of what Croatian shoppers buy was

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conducted by the agency Nielsen IQ. The title is confirmation of the excellence and innovativeness of the Čokolino Protein Power products and a reflection of its high quality and exceptional flavour. The seal gives new consumers confirmation that the Podravka products are excellent and worthy of their trust. Čokolino Protein Power can also boast of having received the same title on the Slovenian market.

1001 CVET RECEIVES THE TRUSTED BRAND AWARD

The brand 1001 CVET has again received the *Trusted Brand* award in Slovenia, as the most trusted brand in the category of tea according to consumer opinion. As in every year, the aim of the research organised by the Mediana Institute of Market Research and Media is to reveal which brands, companies, organisations and personalities Slovenians trust most.

VEGETA IN POLAND WINS SEVERAL GOLD INNOVATION AWARDS AND TWO GOLDEN INVOICE AWARDS

As part of the largest competition on the Polish market, every year the most innovative FMCG products and retail solutions are selected. The awards are given to products and services that have revolutionised the approach to buying, made the food market more attractive and innovative, or directly influenced consumer behaviour in the past year. In 2022, the Golden Innovation award went to Vegeta Natur fix chicken/eggplant in Italian sauce with mozzarella, while Vegeta BIO won honourable mention. Vegeta Natur Fix Pasta casserole with ham, pumpkin and broccoli won honourable mention in

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the category of Pleasant Cooking.

In the 12th edition of the Golden Invoice awards in Poland, Podravka won two prizes. Podravka Passata was proclaimed the winning product in the category of other wet seasonings and sauces, while Vegeta Natur won honourable mention in the category of powdered seasoning, fixes and instant products.

VEGETA NATUR AND LINO LADA GOLD WERE WINNERS OF THE FOOD AWARDS IN HUNGARY

At the *Food Competition of the Year* held in Hungary, organised by the popular women's magazine Nők Lapja, the favourite foods in the FMCG sector are selected in 12 main categories and 47 subcategories. Based on the public vote, the winning products and recipients of the Food Awards were Vegeta Natur in the category of universal seasonings, and Lino Lada Gold in the category of hazelnut spreads.

PODRAVKA WAS AWARDED THE EMPLOYER PARTNER CERTIFICATE

Podravka received the prestigious Employer Partner certificate, which SELECTIO Group awards to companies that meet high quality standards in all areas of human resource management.
As the SELECTIO Group points out, Podravka achieved excellent results in attracting and hiring talent and developing, inspiring, motivating and rewarding employees.

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Non-financial report

Strategic approach to *sustainable business*

With the aim of integrating sustainability into all aspects of company business, and the definition of clear goals that the Podravka Group will achieved in the mid-term five-year period, the Sustainable business strategy has been drafted. Its main determinants are to reduce the negative effects on climate change, environmental protection, corporate social responsibility, and good corporate governance.

In line with the business trends focused on sustainable development and the company needs for integration of the principles of sustainable development into all business processes, the Sector for Sustainable business and green transformation was established, and is responsible for:

- Establishment, standardisation and improvement of business processes and best company practices, in line with business trends and the market;
- Management of sustainable development and non-financial reporting;
- Identification of potential to obtain support, subsidies and grants, and
- Cooperation with external partners in the certification of management systems and performance of inspections.

This business decision has placed the emphasis on strategic management of the company's sustainable development, and clearly defined the role of the new Sector in achieving that goal.

This is the result of the increasing global focus on sustainable business and investor emphasis on the sustainable business development. Through this proactive approach, the Podravka Group integrated ESG reporting into its Annual report for 2020, and is continually improving the scope and quality of information in line with the relevant EU legislation. The ultimate goal of this approach is to provide shareholders will all the relative information they need to assess the company.

Risks

RISK FACTORS

In its operations, the Podravka Group is exposed to risks that are typical for economic entities that operate on the domestic and foreign markets, particularly those in the food and pharmaceutical industries.

External factors pertain to influences such as economic, political, technological, and social risks, risks relating to changes in legislation and, in recent years, the increasing risk of the influence of climate change on individual parts of the business system. The influence of climate change on the operations of the Podravka Group is evident primarily in parts of the business system such as agricultural production and procurement, in view of market prices and the availability of certain raw materials.

Podravka Group ensures compliance with all standards governing individual areas, thereby reducing its exposure to external risk factors. Further, the Podravka Group is exposed to various internal risk factors that the company can influence through its regular business policies, procedures and decisions. With the aim of risk management, at the end of 2022, the Podravka Group adopted the *Risk Management Policy of the Podravka Group*, with the aim of defining the framework of action to effectively protect the company from financial risks, and to analyse and report on key risks through the Enterprise Risk Management (ERM) system.

ERM implies the implementation of integrated analyses and reporting on the key risks the company is exposed to, determining potential events that could negatively impact company results, and managing the identified risks. Reporting on ERM is entrusted to the Treasury Sector of Podravka Inc., which performs reporting in cooperation with other organisational units and affiliated companies of the Podravka Group, while each organisational unit or affiliated company is responsible for the active management of risks arising in their daily activities.

An integral part of the ERM is the active reporting to the Management Board on critical events that could jeopardize profitability or cause significant loss in monetary resources of the company, while these events are still in their early phase. This enables timely and appropriate decisions to be made on specific business activities, for the purpose of managing those corporate risks.

FINANCIAL RISKS

Within its operations, the Podravka Group is exposed to a range of financial risks, particularly foreign currency exchange, interest rate, price and credit risks, and liquidity risk. The Podravka Group actively manages foreign currency, interest rate, credit and liquidity risks through its adopted policies, and sets guidelines for the management of financial risks.

RISKS

FOREIGN CURRENCY EXCHANGE RISK

The Podravka Group conducts certain transactions in foreign currencies, and in that sense, is exposed to risks in the changes in exchange rates. During 2022, the highest exposure to changes in the exchange rate of the Croatian kuna (HRK) was in relation to EUR, USD, PLN, AUD, HUF and RUB.

Currency exchange risks ensue from the operations of affiliate companies on foreign markets, and the procurement of raw materials on the international market, which is largely performed in the currencies EUR and USD. Furthermore, the Podravka Group is partially financed in euro-denominated loans. Due to the currency exchange regime and activities of the Croatian National Bank (CNB) in the year preceding transition from the kuna to the euro, the volatility of exchange rates of the Croatian kuna against the year did not deviate significantly from the usual volatility of these currencies.

During 2022, the Podravka Group continued applying its model of managing transaction currency exchange risks entitled Layer hedging. This model is applied on the basket of the currency in which there is exposure for the Podravka Group. Integral parts of the model include identifying risk and measuring exposure, the process of contracting derivatives of financial instruments for the purpose of protection, and the controlling and reporting system. Additionally, the model includes parameters of exposure limits that are the triggers for contracting the prescribed protection levels. Via the Bloomberg terminals, macroeconomic projections are monitored regularly and financial instrument derivatives contracted with the aim of managing currency exchange risk. With the adoption of the *Risk Management Policy of the Podravka Group* at the end of 2022, the protection model against foreign currency risk has been improved with additional activities to monitor market trends, regular analyses of all currencies in which there is exposure, and the possibilities of contracting various financial instruments with the aim of protection of the currency exchange risk. Also, transactions from affiliate companies towards Podravka Inc. are made wherever possible in the domestic currency of the company in which the affiliated company operates. In this way, the foreign currency risk has largely been transferred from the affiliated company to Podravka Inc. which actively manages those monetary inflows and aligns them with outflows wherever possible, using natural hedging to reduce the total exposure to the currency exchange risk.

During 2022, Podravka Inc. concluded fx forward transactions with the aim of managing the currency exchange risk for the currencies EUR, AUD, CAD and USD. Podravka International Kft., Budapest, a company within the Podravka Group, achieves part of its outflows in euro due to the settlement of its obligations in that currency. During 2022, the company concluded fx forward transactions for the currency pair EUR HUF with the aim of protected against changes in the exchange rate of the forint against the euro.

INTEREST RATE RISK

The Podravka Group has contracted the majority of its bank liabilities with a fixed interest rate, and therefore is not exposed to significant interest rate risks. A smaller portion of bank liabilities

RISKS

have been contracted at variable interest rates, exposing the Podravka Group to the risk of changing interest rates, though this risk relates to a limited and minor portion of the credit portfolio. Additionally, the Podravka Group is not significantly exposed to interest rate risk arising from assets that achieved revenues from interest rates (deposits) given that these are only small amounts that are occasionally locked in.

The Podravka Group continuously monitors changes and projections of interest rates in order to ensure a timely reaction as needed.

CREDIT RISK AND COLLECTION RISK

The Podravka Group does business with creditworthy buyers, with insurance as needed, aimed at reducing the potential risk of financial loss as a consequence of default of contractual obligations. The exposure of the Podravka Group on the basis of these claims, and the credit position of other contractual parties, is monitored continuously.

The Group controls its exposure towards the most significant buyers through regular monitoring of claims, and certain measures to control collection and supply of goods, and to obtain adequate collection insurance instruments.

Business cooperation with new buyers or continued cooperation with existing buyers with delayed payment begins only once all the criteria are met for assessing creditworthiness as defined by the Group. Claims are analysed on a weekly basis and the appropriate measures taken for their collection.

Protection measures are defined in line with the financial indicators of a certain buyer, in which services that provide the necessary information (financial reports, assessments, etc) may be used. Company exposure and credit exposure are monitored and controlled through lines of credit set by the company and insurance company, and are continuously revised and changes in line with the needs and market situation.

During 2022, the Podravka Group had no significant reports of claims pertaining to the insurance of claim collection.

LIQUIDITY RISK

The Podravka Group manages liquidity risk by maintaining optimal amounts of funds in accounts, with adequate sources of financing from available lines of credit, for the purpose of the efficient management of short-term and long-term credit requirements and securing the necessary liquidity.

Continuous management of monetary flows at the level of the Podravka Group, through regular monitoring of customer claims and liabilities to suppliers, banks and other financial institutions enables the timely management of acceptable levels of liquidity needed to maintain regular operations of the Podravka Group.

Planning monetary flows is performed in all companies of the Podravka Group, in line with the guidelines set by the Treasury Sector of Podravka Inc., which aims to settle all liabilities and align other contractual relations, which largely contributes to the optimisation and efficacy of managing liquidity of the Group.

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PRICE RISK

The cost of raw materials and materials subject to changing prices on the market can have an important role in the costs of finished products. Price volatility on the market of agricultural and food raw materials is particularly pronounced, as this market is considered one of the most vulnerable markets of the modern world. The risk of inaccessible goods on the market due to increasingly common inclement weather caused by climate change (long-term drought, floods, etc.), livestock disease, the COVID-19 pandemic, energy crisis, supply chain disturbances, and political and social unrest in certain companies (current war in Ukraine) all significantly impact an increase in the price and availability of input materials.

Market disturbances on the market of pharmaceutical products, due to the significant rise in energy prices, stoppages in global supply chains, inflation, and the limited exports of raw materials from certain countries due to the priority of domestic supply (China), have significantly contributed to extending the supply deadlines and raised the costs of procurement.

In order to reduce these influences, the Podravka Group acts towards developing partnership relations with long-term suppliers, while parallelly developing relationships with new suppliers on target EU markets and third countries. Timely contracting, consolidation of procurement volumes to strengthen the market position, division of risk in part to suppliers, optimisation of processes and specification of materials, introducing replacement raw materials, alternative suppliers and actively implementing Commodity Risk Management, are just some of the activities the Group successfully applies to better forecast price movements and to reduce the risk of price volatility on the market.

RISKS ASSOCIATED WITH CLIMATE CHANGE, ON THE PRINCIPLE OF DUAL MATERIALITY

The Podravka Group operates through two fundamental business segments, Food and Pharmaceuticals. These activities are not specified in the Delegated Regulation on the EU taxonomy of climate sustainable activities, meaning that these areas do not have a significant negative impact on climate, as their production processes do not emit large quantities of greenhouse gases. Environmental protection is one of the priorities of the Podravka Group, and it is implemented through application of the principles of sustainable development and cleaner manufacturing. All activities must be aligned with the valid national legislation concerning environmental protection, and the regulations of countries in which the company operates. Where there are no national regulations, international standards are applied. For many years, the Podravka Group has rationally used the best sources of energy and raw materials, with careful waste management, and continually works to prevent negative impacts on the environment during manufacturing. By adopting the Sustainable Development Strategy at the start of 2023, the Podravka Group places further emphasis on the integration

RISKS

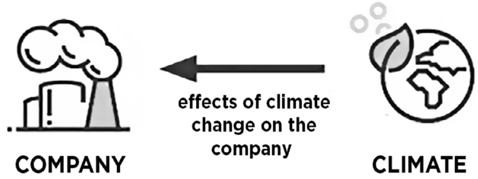
of sustainability principles into its operations as a whole. Considering the core activities, the Podravka Group can make the largest contribution to the global sustainable development targets by:

- Investing in energy efficiency and renewable energy sources;
- Reducing waste generation in production and using environmentally acceptable packaging;
- Investing in agricultural production based on sustainability principles;
- Developing products that have a nutritional composition that benefits consumer health;
- Contributing to the community and caring for company employees, and
- Ensuring transparent corporate management.

In production processes, the only greenhouse gas emitted is CO_2. The production process is increasingly using renewable energy (woodchip furnaces, solar power plant on the rooftop of the Kalnik factory in Varaždin and on the rooftops of the Danica industrial zone in Koprivnica), while the planned capital investments will further increase the share of renewable energy used at the Group level.

In 2022, at the level of the Podravka Group, out of the total amount of capital expenditure, HRK 153.1 million can be associated with taxonomy eligible activities. Investments into increasing energy efficiency of properties and plants in turn have lower energy consumption, further reduction of CO_2 emissions, and therefore a reduction in the negative environmental impact. Through the logistics and distribution part of operations (fleet), CO_2 and very small amounts of CH_4 and N_2O are emitted, which is evident in the differences between total CO_2 emissions and total GHG emissions (both figures shown in the table on the section of Impacts of operations on the environment). Investments into the fleet and the procurement and use of new cargo vehicles have reduced CO_2 emissions, and contributed to the environmental goal of preventing climate change.

In 2022, the Podravka Group emitted 37,339.1 tonnes CO_2, which is 9.2% less than in 2021. This is primarily the result of lower consumption of gas and increased use of renewable energy (wood chips), and a reduced amount of fuel consumed.



The effect of climate change on operations of the Podravka Group is most evident in the Food segment, with the greatest impacts in agricultural production, on property, and on the availability and price of certain raw materials. Negative financial impacts of extreme weather conditions associated with climate change in 2022 amounted to HRK 2.5 million, while such financial impacts were not recorded in 2021.

In *agricultural production*, negative impacts arise from climate extremes, such as a lack of precipitation during the growing season, insufficient and/or poorly distributed precipitation, increased air temperature, increased number and duration of heat waves, increased number of severe weather events (storm winds, heavy rains in short time periods, hail, spring frost, long-lasting drought, temperature extremes) which influence the appearance of pests

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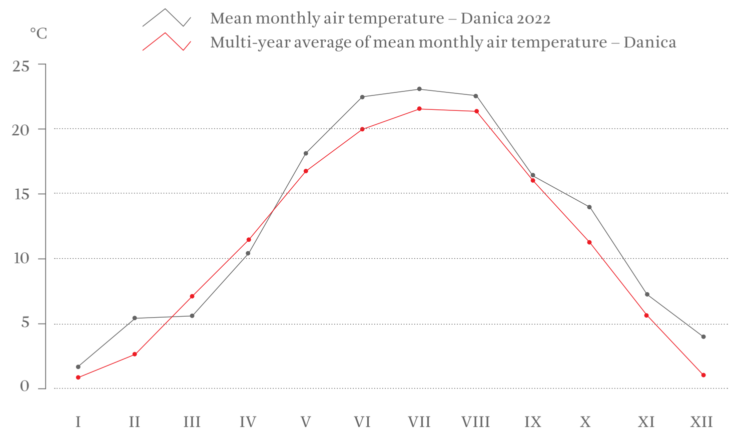
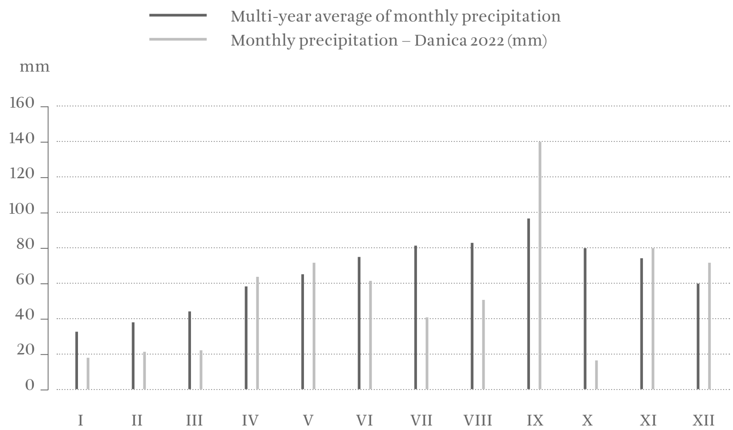
Temperature fluctuations in the daily averages are the primary negative impact of climate change on vegetable production. Vegetables, like other agricultural crops, have specific temperature requirements for each phenophase, and for the overall life cycle. The above average temperatures recorded in 2022 increased water requirements, leading to heat stress of plants and reducing yields. In 2022, above average temperatures were recorded in all months except March and April, with a precipitation deficit in the winter and summer months.

Temperature is one of the most important factors for the development, growth and yield of crops. In recent years, a trend has been noted of an increased number of days with extremely high air temperatures, which has increased the threat of our area from heat stress in agriculture from 0% to 44%. Heat stress results in the drop of buds, poor blossom development, less pollen production, reduced access to carbohydrates. An example is that air temperatures over 25°C drastically impacts pollination in tomato, which is one of the important raw materials for production in the Food segment. Drought creates the greatest problems in agricultural production, with declines in yield of up to 50%.





RISKS

Floods are another important stress that reduce agricultural yields. In 2022, following storms and excessive rain in a short time period, flood damage was recorded on certain agricultural lands. Since temperature is the most important environmental factor that influences the dynamics of insect populations, the ratio of overwintering individuals increases (due to the warm winter months). Due to above average warm summer months, the number of generations of pests increases on vegetables and other crops. Therefore, during 2022, the Podravka Group placed significant efforts into crop protection to minimise negative impacts on yields. The financial result of this was an increase in the costs of production of primary raw materials.

Storms accompanied by hail that affected a part of crops in May and June 2022 destroyed the complete planted crops of peppers and cucumbers, and part of the crops of peas and corn. Containers with seedlings intended for planting were also destroyed. Considering that the field was completely under water, it was not possible to immediately start planting of the remaining seedlings, and these were instead donated to partner farmers to avoid them from being lost on the field (seedling donation valued at approximately HRK 40,000).

In addition to storms, drought was a strong factor in 2022, negatively impacting yields and causing damages to peas. All agricultural crops were insured against damages caused by wind, storm, fire, etc., such that through the insurance, the damages caused by storms and hail to peppers, cucumbers and peas were covered in the amount of HRK 1.1 million.

The effects of climate change due to storms were also recorded on *property* in which raw and finished materials are stored. The majority of the existing warehouse spaces was constructed in times when construction standards did not forecast the extremes we face today. Storms in 2022 caused damages to several warehouse structures, and the resulting damage required repairs and adaptations of parts of the buildings, since similar weather conditions can be expected in the future period. In addition to breakage, damage was in the form of water penetrating through the roof and drainage eaves, since the large amount of water caused the collapse of the drainage system and water entered into the premises. Therefore, an unplanned HRK 0.3 million was spent on repairs to damaged warehouse space caused by storms in 2022, and the damages to stocks stored in those warehouses damaged by storms was HRK 1.1 million.

Climate change is also affecting the *availability of fish* in Mirna d.d. due to changes in wind patterns. In 2022, the spring months and partly the fall months were not suitable for fishing due to strong winds, so catches were less than expected. In addition to climate change, the valid regulations are also impacting the accessibility of fish raw materials, with the introduction of a series of limitations for the catch of small oily fish aimed at achieving sustainable fisheries. Accordingly, 15% less fish was purchased in 2022 than planned. All this is further aggravated by the increased demand at the EU level, and consequential rise in the prices of fish, which in 2022 grew 41% in comparison to the reference period.

In *procurement* of raw materials and primary agricultural raw materials, there has also been an observed effect of climate change in view of the availability and price of certain materials due to temperature shocks, drought, changes in the quantity and distribution of precipitation, and the shortened growing season. In the two most important procurement categories of agricultural traded commodities (cereals and fresh vegetables), market prices grew in 2022. For other raw materials, climate change impacted the availability and price, particularly raw materials based on tomatoes and olives due to the extreme droughts and wildfires in Portugal and Spain, and on raw materials based on corn due to 15% lower yields.

The influence of climate change also comes from changes in temperature patterns in the winter months, so in the last quarter of 2022, less natural gas was consumed than planned due to the warmer than expected winter. This also represents a positive impact on *energy costs* given the rising prices of natural gas in 2022.

ESG *report*

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

- Environmental,
- Social, and
- Corporate Governance.

The Podravka Group compiles this ESG report as a separate section of the Annual report as part of the Non-financial reporting; however, the ESG principles are integrated into the operations of the Podravka Group and are considered by the management in the making of all decisions.

The integration of ESG goals into operations of the Group is seen through the application of the precautionary principle in operations in the following manner:

- With the aim of reducing and avoiding negative environmental impacts, all business processes are carefully planned and executed so as to cause a minimum burden to the environment, investments are continually being made in new and *"green"* technologies, waste management systems and the use of biowaste from processing are improved, while guidelines for sustainable packaging are followed when choosing packaging. The Mirna Rovinj factory applies the precautionary principles by investing in the protection of aquatic resources and handling waste in a manner that protects ground and surface waters,
- With the aim of protecting employee and consumer health, employees are sent for regular health examinations, enabled to use additional health insurance; high standards of food safety and quality are applied, with a heightened sense of food safety culture; nutritionally balanced products are development and education conducted on a proper and balanced diet.

These elements are described in greater detail in the sections that apply the application of each of the ESG indicators.

ESG indicators for the Podravka Group have been prepared using selected GRI Standards[13] or part of their content for sustainability reporting.

The scope of the Non-financial reporting of the Podravka Group is equal to the scope of the Financial reporting of the Podravka Group, meaning that the entire consolidated corporate organisation is included in the calculation of ESG criteria.

Notes:

Difference in application of Environmental (E) criteria for 2020 and 2021 in relation to previously published Annual reports of the Podravka Group

13
GRI (Global Reporting Initiative) is an international, independent, non-profit standards organisation that promotes economic, ecological and social sustainability. It does this by helping countries, governments and other organisations understand and communicate their impacts on issues such as climate change, human rights, and corruption. Established in 1997 in partnership with the United Nations Environment Programme (UNEP), the GRI has developed Guidelines for sustainability reporting, and offers companies a broad framework for sustainability reporting that has been globally accepted.
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associated with the scope of data included in the calculation and the emission factors used. Also, in previous reports, assessments were used for certain data, since actual data were not available for the reporting period at the time of reporting.

Due to the complexity of the system and need to prepare the system for data collection for non-financial reporting, in previously published Annual reports of the Podravka Group for 2020 and 2021, the calculation of E criteria included only production companies (Podravka Inc., Belupo d.d., Farmavita, Žito Group, Lagris, Mirna d.d.). In this Annual report, the E criteria for the previous reporting periods have been corrected and now include the entire corporate organisation, i.e., all affiliated companies of the Podravka Group, whereby the scope of the ESG report has been equalised with that of the Financial reporting.

Derogations are also the result of corrections of the relevant emission factors used for specific energy sources for 2020 and 2021 in relation to previously published Annual reports. The availability of updated emission factors for the reporting period is limited, given the different reporting periods of specific entities in their respective countries. In this year's report, the relevant factors have been used (NIR, report of individual electricity producers/suppliers, emission factors published on the official websites of relevant national ministries or agencies) as published for 2020 and 2021, while in 2022 where the emission factors for 2022 were not available, the most recently released emission factors were used.

Influence of operations on the environment *(criteria E)*

Environmental criteria	Unit	2020	2021	2022
Total GHG emissions (scope 1)	000 t	50.0	41.2	37.4
Total GHG emissions (scope 2)*	000 t	23.5	30.0	28.5
Total CO2 emissions (scope 1)	000 t	50.0	41.1	37.3
Total CO2 emissions (scope 2)	000 t	23.5	30.0	28.5
Total CO2 emissions from wood chips**	000 t	10.2	8.5	9.4
Total penalties from environmental impacts	mil. HRK	-	-	-
Total energy consumption	000 MWh	276.3	282.3	264.7
Energy consumption from renewables	000 MWh	26.7	23.4	27.0
Electricity consumption	000 MWh	79.9	79.6	77.5
Coal consumption	000 t	-	-	-
Natural gas consumption	000 m3	12,834.4	13,501.8	11,078.0
Crude oil / diesel consumption	000 m3	3.4	3.3	2.6
Electricity generation from renewable sources	000 MWh	0.7	0.7	1.1
Energy generated from renewable sources	000 MWh	26.1	22.7	26.4
Total energy generated	000 MWh	26.1	22.7	26.4
Total waste generated	000 t	13.2	13.1	13.5
Hazardous waste generated	000 t	0.1	0.1	0.1
Recycled waste	000 t	7.2	7.5	5.7
Total water consumptions	000 m3	951.1	901.7	936.4
% recirculated water	percent	9.5	9.3	10.0
Total recirculated water	000 m3	90.7	83.6	93.6
Emissions into water	000 m3	-	-	-
Activities with a negative impact on biodiversity	Yes/no	No	No	No
Environmental protection policy ***	Yes/no	Yes	Yes	Yes

* In most cases, electricity distributors only have data on CO2 emissions during the generation of the electricity they deliver, while data on emissions of other greenhouse gases are not available. For the calculation of GHG emissions from fuel used, the most recent version of the Calculator for the calculation of GHG emissions made available by the GHG Protocol Organisation was used (https://ghgprotocol.org/calculation-tools).
**Wood chips are a CO2 neutral fuel and are not included in the calculation of total CO2 emissions (scope 1).
***https://www.podravka.hr/kompanija/odgovornost/okolis/politika-zastite-okolisa/.

INFLUENCE OF OPERATIONS ON THE ENVIRONMENT (CRITERIA E)

INFLUENCE ON CLIMATE CHANGE

ENERGY SOURCES

The Podravka Group is continually developing and improving processes, products and services with the aim of reducing the negative environmental impacts. As a large energy consumer, the Podravka Group is working towards increasing its energy efficiency and promoting long-term sustainability of its operations.

Systematic care is given to the security of energy supply and increasing energy self-sufficiency through investments into renewable energy sources and in-house generation. In the past period, a strong investment cycle was launched to increase the share of renewable sources of electrical and heat energy, with the aim of greater energy efficiency of equipment and processes. In this way, in addition to lowering costs, the emissions of greenhouse gases (primarily CO_2) were also reduced, which is in line with the Sustainable Development Strategy of the Podravka Group.

Due to the geopolitical situation, 2022 was very challenging in the sense of optimising energy consumption and controlling energy costs. In the third quarter, the supplier of natural gas for Podravka Inc. changed the contractual conditions, changing the previously fixed price to an average monthly market price of natural gas. Following the expected price shock due to increased energy prices, and with the aim of maintaining the continuity of business processes, especially production, specific measures were taken. An energy mix was used that included cheaper energy sources (wood chips, heating oil, mazut) depending on the production location. However, aware of the fact that the use of heating oil and mazut increases CO_2 emissions, production plans were altered so as to minimise the use of these energy sources. Given the reduced scope of production in the final quarter of 2022, and the warmer than usual winter, at the annual level the Podravka Group used 18.0% less natural gas, with a higher share of renewable energy sources (wood chips) in comparison with 2021.

As a result of these negative impacts on energy prices, the optimisation of production plans and the achieved energy savings, the share of energy costs at the level of the Podravka Group in total operating costs showed a small increase of 3.2% in comparison to 2.5% in 2021, while a total of 6.2% less energy was spent than in 2021. In 2022, the Podravka Group emitted 37,339.1 tonnes of CO_2, in comparison with 41,142.0 tonnes of CO_2 in 2021, which is a 9.2% decrease in emissions. This trend is primarily the result of the reduced total energy consumption, above all the reduced consumption of natural gas and the reduced consumption of diesel fuel.

In 2022, with the aim of achieving energy self-sufficiency and efficiency, the following investments were made:

- Construction and equipping of a solar plant on the Danica industrial zone in Koprivnica. The total installed capacity of the solar plant is 3059 kW (9,272 photovoltaic panels) and will product 3,266,470 kWh of electrically annually, making this the largest rooftop solar plant in Croatia,
- Energy and IT refurbishment of the administration building and restaurant, with renovation of the complete external façade, refurbishment of all working and auxiliary rooms, replacement

INFLUENCE OF OPERATIONS ON THE ENVIRONMENT (CRITERIA E)

of the heating, electrical, IT and fire protection installations, installation of highly efficient heat pumps for heating and HVAC equipment, and new lighting. The administration building has gone from a D energy class to an A energy class, while the restaurant has been upgraded from the E to B energy class,
- Climate control of the production plants of Podravka Inc. where HVAC systems based on highly efficient heat pumps have been installed in several factories,
- Reconstruction of the ammoniac cooling system of the Danica meat industry, where a glycol-based cooling circuit has been installed as the medium for heat transfer, to abide by the prescribe technological conditions in cooling chambers, thereby removing ammoniac from 66% of the workspace. Highly efficient equipment has been installed to reduce electricity consumption.

Through a technical innovation to use organic by-products as an energy source, as implemented in October 2022 by Podravka Lagris a.s., achieved savings of 119 Mwh of natural gas in the final two months of 2022. This technical innovation will contribute to an annual reduction in natural gas consumption by about 300 MWh, which will also reduce CO2 emissions.

TRANSPORT AND COOLING DEVICES

Road transport has a strong influence on climate and new investments into new technologies are continuously needed to reduce its negative impacts. Diesel fuel is the most widely used fuel in the Podravka Group fleet. In 2022, the share of diesel consumption was at 81.9% in comparison with 86.9% in 2021. In 2022, improvements were achieved in reducing negative environmental impacts with a renewal of the cargo fleet. Through the procurement and exploitation of new cargo vehicles bearing the EURO VI standard, on average 1.03% less CO2 was emitted in 2022 in comparison with the year before, despite covering more kilometres and consuming more fuel due to the growth in sales at the level of the Podravka Group.

For the purpose of protecting the air from fluorinated greenhouse gases, records are kept on all cooling devices, which are services and controlled for leakage by authorised service centres. Regular controls of leakage of controlled compounds from cooling devices was performed, and no leakages detected.

WASTE MANAGEMENT

REDUCING WASTE GENERATION IN PRODUCTION

In 2022, the Podravka Group produced a total of 11,992,8 tonnes of non-hazardous waste, of which nearly half was recycled, and 142.6 tonnes of hazardous waste, which was 4.5% less than in 2021. In 2022, there was an increase in the generation of non-hazardous waste at Podravka Inc. in relation to 2021, following a change in service providers for the handling of biodegradable waste and which due to their business processes cannot receive by-products, but these instead must be classified as waste.

Podravka Inc. aims through its activities to find optimal solutions to reduce the waste sent to landfills, by increasing the share of recycling, reuse and composting wherever possible. In relying on the circular economy guidelines, in 2022 a contract was signed with an animal food producer where part of

INFLUENCE OF OPERATIONS ON THE ENVIRONMENT (CRITERIA E)

the by-products will be used as a raw material for the production of animal foods.

The Podravka research project entitled *"Development of innovative products from vegetable processing by-products"*, co-financed with just over EUR 363,000 from the European Regional Development Fund, was completed in 2022. The main objective of the project was to research the technological options for separating nutritionally valuable parts of pepper by-products – seeds and the seed core – to increase the efficacy of the technological processing process for ajvar chutney by about 10%. The specific goals were to conceptually develop and practically confirm the separation of seeds and core on laboratory level devices, to develop new products from pepper seeds and their by-products, to develop a concept for the separation of pepper stems, and to research the biogas potential of all waste flows from Podravka's Kalnik factory in Varaždin.

In 2022, Podravka – Lagris a.s. succeeded in reducing non-hazardous waste by 12% with a growth of production in the same period in comparison to 2021. As the Czech Republic's largest producer of rice and legumes, special attention is paid to reducing pesticide use in protecting stored raw materials from pests. In 2022, 90% of raw materials were treated with the ecological method using atmospheric nitrogen, which is completely neutral to the environment. Nitrogen from inhouse production from air was used, and at the end is returned unchanged back into the atmosphere.

Belupo d.d. generates both hazardous and non-hazardous waste in its activities. Waste is sorted at the site of generation pursuant to key numbers. Special attention is given to waste that can be recycled or reused in any way. Therefore, all waste generated during 2022 was disposed of in a safe and ecologically acceptable way. Through proper management, the majority of waste becomes secondary raw materials which save natural resources and reduces the quantity of waste sent to landfills, while technological waste is thermically processed.

At Mirna d.d., the process of fish processing and production of sterilised fish tins is designed in such a way to maximally use all raw materials, to achieve waste-free production to the greatest extent possible. During fish processing, by-products (fish heads and guts) are then processed, ground, cooled, frozen and finally sold to approved entities that use the fish waste from Mirna as a raw material in the production of animal food. This reduces waste in the Mirna d.d. production process, while enabling the reuse of these materials in the production of other products.

REDUCING PACKAGING WASTE

The Podravka Group contributes to reducing waste and the sustainable management waste by selecting packaging for its many product lines. In 2022, the share of recyclable, environmentally acceptable packaging materials was 87.8% in the total procurement quantity of Podravka Inc., which is a slight increase compared to 87.4% in the comparable period.

The complete line of shrink sleeve packaging, including the brands Lino Lada, Vegeta, Maestro and Podravka, has been transferred from the use of PVC (polyvinyl chloride) foil to the more environmental acceptable and thinner PET foil. Testing is ongoing of recycled foils on universal food seasonings to ensure

INFLUENCE OF OPERATIONS ON THE ENVIRONMENT (CRITERIA E)

that the packaging is environmentally acceptable. The sticker *"recycle me"* has been added to all transport boxes. Composite flexible packaging in the Dolcela Premium line of puddings has reduced the plastic mass by 15% per unit product. The newest Lino Lada line of on-the-go packaging is in 100% recyclable packaging, as are the majority of other Lino Lada packaging, and by the end of 2023, all Lino Lada packaging will be 100% recyclable. Identical activities are being performed for other product line packaging for Podravka products, which also requires additional testing of product shelf life.

The Žito Group is reducing the quantity of packaging on products through reduced thickness/grammage, adapting the shape or size of packaging, without jeopardising product quality and safety. New ecologically acceptable materials are actively being sought out and tested, to ensure they still provide the appropriate product production. The Žito Group is introducing a 100% paper sealable recycling package for tea bags, while the programme of frozen foods, ground products, and chocolate powder have changed the composite packaging that cannot be recycled into a single-material packaging that is recyclable. Žito has also changed the packaging of long-lasting bakery products to ensure that all packaging is recyclable, while for new products and design changes on existing products also use recyclable packaging. In addition to environmentally friendly packaging, Žito is also contributing to reducing waste through its new line of smaller grammage rolls, which reduces food waste in comparison with larger grammage breads. In the total procurement of the Žito Group in 2022, the share of recyclable packaging was 94.0%.

In the Pharmaceuticals segment, the share of recyclable packaging in the total procurement was 58.0%.

PROTECTION OF WATER AND AQUATIC RESOURCES

In 2022, the Podravka Group consumed 936,429.9 m3 water, which is 3.9% more than in 2021 with the simultaneous increase in the share of recycled water in product to 10.0% in comparison with 9.3% in the previous period.

Podravka Inc. performs treatment and pre-treatment of wastewater, with analytical testing of samples by authorised laboratories in accordance with the valid legal regulations and water use permits for wastewater effluents for every location.

The project to overhaul the wastewater treatment device at the Danica industrial zone in Koprivnica began in 2021 and continued in 2022 to ensure treatment of wastewaters from all factories and organisational units on site. The project includes the construction repairs of concrete sections of the device to repair worn surfaces, to extend the life of the device, and to reduce risks of water loss into the environment due to cracking.

With the aim of water production, Mirna d.d. has a treatment device installed that enables the treatment of wastewater and its return into the public drainage system, while sludge separated during the treatment process is disposed of in an ecologically acceptable manner. During 2022, the following investments were made to reduce consumption and ensure less loss of water:

- Installation of flow regulation in the machine for washing PVC fishing crates,

INFLUENCE OF OPERATIONS ON THE ENVIRONMENT (CRITERIA E)

- Installation of floats to regulate water levels in the defrosting basin,
- Installation of new regulators for automatic regulation of flow of softened water into the device for the thermal processing of fish.

Belupo d.d. protects water by separating technological and sanitary water at the Belupo location into a separate drainage line that is mixed with the wastewater from other factories, and directed to the device for mechanical and biological treatment. An analysis of wastewater is regularly conducted by authorised laboratories, in compliance with the legal regulations and water use permit. Due to proper handling of hazardous compounds and waste that is not released into the drainage system, wastewaters meet the prescribed limit values. Runoff is drained into a separate drainage system into a natural recipient. The wastewater drainage system is regularly cleaned and maintained.

IMPACTS ON BIODIVERSITY

Podravka Inc. holds 567.7 hectares of agricultural land in Koprivnica-Križevci County, of which 65.7 ha is owned by the company and 502 ha is part of a 50-year lease. From 4,000 to 5,200 tonnes of cereal and vegetable crops are produced on these lands. The most common cereal crops are wheat, corn, rye, oat, rapeseed and buckwheat, while the most common vegetable crops are peas, beets, peppers, cucumbers and tomatoes. With the aim of achieving greater self-sufficiency in the production of primary raw materials, in addition to the existing vegetable crops, 3 ha of eggplant and 1 ha of chilli pepper were planted in 2022. Of the total vegetables used as primary raw materials in production in 2022, inhouse production met only 9.3% of the company needs.

In 2022, 155 hectares of agricultural land planted with vegetable crops were irrigated using ground water from wells. In order to conserve the agricultural land upon which Podravka grows cereals, oil crops and vegetables, alternating crop rows is strictly adhered to, green fertilisation is used, investments are made to raise and preserve quality by adding calcium and humus to the soil, crop growth is monitored using unmanned aerial vehicles to detect changes to plants (outbreak of pests or disease), and only small, affected plant surfaces (small consumption of pesticides) are treated on time.

In recent years, investments have been made into agricultural machinery with the aim of more efficient management of agricultural production, and to raise soil quality. In 2022, part of the agricultural plots received calcium inputs and new drainage, and investments were made into irrigation, procurement of agricultural machinery and an agro-weather station. The aims of the investments are to achieve more efficient production with the use of less fuel, the timely execution of agricultural operations, and achieving higher yields with less plant protection substances through the use of more precise treatments. Investment into an agro-weather station reduces the need to use machinery and reduces the use of plant protection substances. Investments in irrigation enable savings in water consumption, increase in yields and higher quality raw materials.

During 2022, no significant irregularities were recorded concerning the non-abidance of laws or regulations in the field of environmental protection, and accordingly, there were no monetary or non-monetary sanctions imposed.

Corporate social responsibility *(criteria S)*

Social criteria	Unit	2020	2021	2022
Employee protection / whistle-blower protection policy*	Yes/No	Yes	Yes	Yes
Community donations and financing	mil. HRK	21.1	22.4	23.6
Political donations	mil. HRK	0.0	0.0	0.0
Human rights protection policy*	Yes/No	Yes	Yes	Yes
Child labour avoidance policy*	Yes/No	Yes	Yes	Yes
Product guarantee and recall policy**	Yes/No	Yes	Yes	Yes
Equal opportunity policy*	Yes/No	Yes	Yes	Yes
Fair rewards policy*	Yes/No	Yes	Yes	Yes
Business ethics policy*	Yes/No	Yes	Yes	Yes
Anti-corruption and ethics policy*	Yes/No	Yes	Yes	Yes
Occupational health and safety management policy***	Yes/No	Yes	Yes	Yes
Renumeration policy****	Yes/No	No	Yes	Yes
UN global initiative for corporate social responsibility and sustainable development*****	Yes/No	No	No	No
Total number of employees on 31 December	Number	6,650	6,557	6,299
Number of women in total employees on 31 December	Number	3,481	3,437	3,292
Average age of employees on 31 December	Number	45	46	46
% disabled persons in the work force on 31 December	Percent	3.1%	3.9%	3.2%
Gender pay gap******	Percent	3.2%	2.2%	1.9%
Lost work hours due to workplace injuries*******	Hours	20,611	33,643	26,599
Number of workplace injuries*******	Number	103	110	92
Workplace injury rate resulting in fatality *******	Number	-	-	-
Workplace injury rate resulting in lost work hours*******	Number	10.8	9.3	7.7
Workplace injury rate that can be recorded*******	Number	11.4	11.8	10.0
Severe workplace injury rate	Number	1.0	1.3	0.7
% employee turnover	Percent	6.3%	6.8%	11.3%
% employees who are union members	Percent	40.9%	40.5%	40.8%

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA S)

Number of part-time employees	Number	62	70	67
Number of seasonal employees	Number	71	135	166
Number of occasional contract employees (audit, consultants)	Number	616	649	31
Worker education and training policy	Yes/No	Yes	Yes	Yes
Total cost of worker education and training	mil. HRK	3.9	3.6	5.2
Total hours spend on education and training	Hours	99,174	104,854	106,717
Total number of suppliers on 31 December	Number	10,008	10,106	10,178
Total number of domestic suppliers	Number	6,215	6,133	6,346
Quarterly conference calls with investors	Yes/No	No	No	No

*Contained within the Code of Business Ethics of the Podravka Group, available at: https://www.podravka.hr/kompanija/investitori/korporativno-upravljanje/dokumenti/

**Available at: https://www.podravka.hr/kompanija/odgovornost/kvaliteta-i-sigurnost-hrane/sigurnost-hrane/politika-sustava-sigurnosti-hrane-i-kvalitete/

***Implemented at Podravka Inc. and available at: https://www.podravka.hr/kompanija/odgovornost/politika-ohs/.

****Available in the Decision of the General Assembly in 2021 at: https://www.podravka.hr/kompanija/investitori/korporativno-upravljanje/glavna-skupstina/

*****Podravka Group is not an official party to the initiative but supports the initiative in the way that all 10 UN Global Compact principles have been integrated into its operations, code and rulebooks.

*****Calculated based on achieved work hours, by calculated the average hourly wage of female employees and the average hourly wage of male employees (including all taxable and non-taxable earnings, without severance costs) and divided by the total achieved hours paid by the employer.

*******Derogations in 2021 in relation to the Annual report of the Podravka Group for 2021 due to the specificity of the HR system in transferring sick leave time from the previous period into the considered period, and the results of expert analysis procedures.

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA S)

CONTRIBUTION TO CONSUMER HEALTH

In recognising its responsibility in the production of healthier food for consumers by raising the nutritional quality of products, in the past period, significant efforts have been invested to reduce salt, sugar, saturated fatty acids and trans-fats in different product categories in the Podravka portfolio. The development and innovation of the product line was primarily directed at products with a reduced share of *"critical"* ingredients, products without additives, flavour enhancers, colouring, and products enriched with proteins, vitamins, minerals and fibre. Additionally, the emphasis has been placed on the use of wholegrains, development of products without palm oil or the use of RSPO palm fats, development of the BIO product segment, products for vegetarians and vegans, and gluten-free products.

The Podravka Nutrition Strategy for 2014–2024 was adopted, setting goals for the development of new, healthy and environmentally friendly products. The Nutrition Strategy is aligned with the recommendations and codes of international organisations (FAO, UN, SZO, EK) and the associations of the largest food and beverage manufacturers.

A fundamental tool for managing the nutritional quality of Podravka products are the nutritional profiles. Scientifically evaluated methodologies to develop nutritional profiles represent the internal recommended criteria for the content of macro- and micro-nutrients per product serving, within the framework of the Podravka categories. They are based on the global public health recommendations, the Podravka Nutrition Strategy for 2014–2024, technological possibilities and market demands. By the end of 2022, all Podravka categories for which nutritional tables are required were covered with nutritional profiles.

Under Vegeta, the best known brand of the Podravka Group, and in response to the needs of increasingly demanding consumers in Central and Western Europe, in 2022, Podravka presented its line Vegeta BIO, containing organically growth vegetables and spices in combination with sea salt. Consumers in Australia and New Zealand were offered new bouillon made of premium ingredients and without flavour enhancers and preservatives. The Vegeta Natur line of seasoning blends for the Polish market was expanded with five new products, that are also compliance with the global dietary trends.

The Lino product line includes innovations intended for all consumers, above all children. The new Lino Keksolino multigrain and cocoa cookies contain 4 types of cereals (wheat, oak, corn and rice), are a source of vitamins, calcium and iron, and do not contain palm fat. The Kviki line contains products free of palm fat.

Innovations are also ongoing in the category of Podravka soups, where recipes have been developed in line with nutritional trends, without the use of yeast extract, palm fat, flavour enhancers or flavouring. The new soup Cream of pea with mint is a combination of nutritious peas with the light refreshment of mint in a nutritious meal.

In the category of pâtés, new products have been developed from 100% chicken breast, without

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA S)

flavouring, preservatives, palm oil or flavour enhancers, and are a source of protein. Lino hams are gluten free and free of flavour enhancers and additional colouring, and contain a reduced amount of salt and fats.

One of the most innovative products in the Podravka portfolio is Ajvar squeeze, made only from vegetables without any preservatives, gluten, artificial colouring or flavours, suitable for vegans and vegetarians, and with a practical packaging. Jalapeño ketchup is an extension of the Podravka ketchup line with all the characteristics of ketchup, i.e., contains sea salt and is free of added preservatives, artificial colours or flavours.

The brand Dolcela has enriched its products with protein and offers consumers the possibilities of having a healthy meal after sports activities and during busy days. The Dolcela Hi Protein American pancakes and Dolcela Hi Protein Shakes are free of added sugar, while the Hi Protein Instant Puddings contain 12 g of protein per serving and a reduced share of sugar.

In the bakery segment, Žito has for years been following food trends and marketing breads with favourable nutritional composition, which on average contain less salt than other breads of the market, while still retaining the level of quality and flavour. Wholegrain flour is added to bakery products to increase the nutritional value of products as much as possible. In 2022, new products were released that have a favourable nutritional composition, such as bread containing 80% rye flour and bread with the addition of sourdough that gives a characteristic aroma and has a positive impact on consumer health.

Žito is continuing its active participation in a special interdisciplinary working group to reformulate food products that operates under the sponsorship of the Slovenian Ministry of Health, with the aim of monitoring and directing activities to improve the composition of foodstuffs. For the third year in a row, Žito has been involved in the preparation of the Catalogue of food of improved composition as part of the national programme developed by the Slovenian Chamber of Commerce in cooperation with the National Public Health Institute and Ministry of Health.

Through the selection of innovation in all segments of its portfolio, Podravka is continually focusing its attention on developing products with exceptional nutritional benefits, and promoting health dietary habits among consumers. The long-term goal is to be a socially responsible company and socially responsible partner that will offer consumers the desired products, and help them to improve their health through a balanced and nutritious diet, while offer partners a product line that is in step with consumer dietary trends.

EMPLOYEE RELATIONS

Employees are the greatest value of the Podravka Group, and success is based on creative, dynamic and expert employees who with their knowledge, motivation and enthusiasm are the key to success of the Podravka Group.

In February 2023, Podravka received the prestigious Employer Partner certificate, thanks to excellent results in attracting and hiring talent and developing, inspiring, motivating and rewarding employees.

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA S)

Employee wellbeing is a permanent focus of the company, and in 2022, significant steps were made to advance the financial rights and working conditions of employees. Successful cooperation with social partners has resulted in amendments to the Collective Agreement that have significantly increased salaries and other financial earnings of workers. Additionally, excellence in achieving business results is rewarded, and talent is identified and new accomplishments recognised.

Care for employees is also transferred to their children. Increasing the gift for children, family week in which children can visit the company, and increasing awards and stipends for the children of deceased workers shows that the Podravka Group puts the welfare of employees and their families in first place.

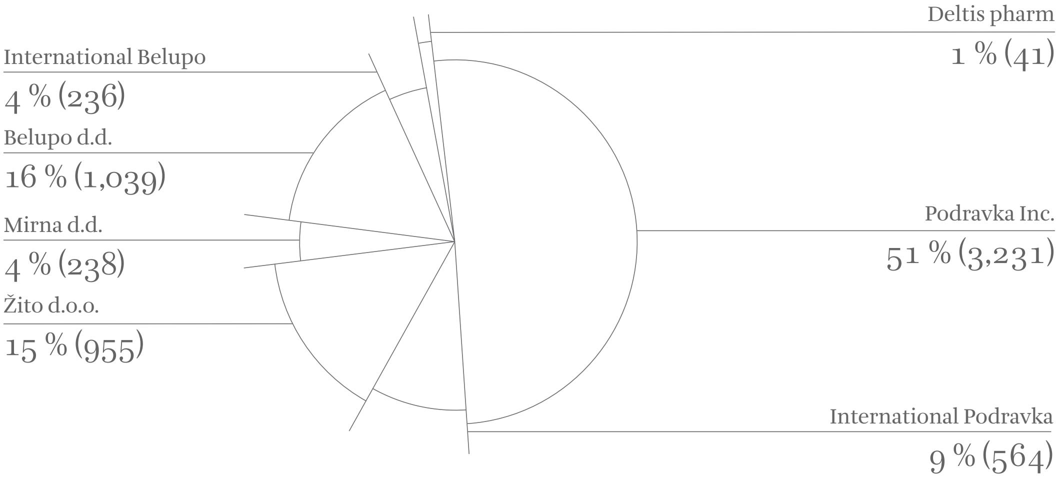
An additional step forward in communications with workers has been through the introduction of Open Door Days in the Human Resource Management Sector, and through regular management tours of factories and other business units. With the subsidence of the epidemiological situation, sector and corporate gatherings again became possible, which further strengthens the team spirit.

A comprehensive examination of corporate climate, culture and employee engagement has given everyone the opportunity to indicate the strengths of Podravka, and which areas need further improvement.

In 2022, a significant development cycle was started, which included the management and workers in order to further strengthen them with the acquisition of new knowledge, skills and competences, taking care of their physical and emotional wellbeing. With regular physical examinations and additional specialist examinations, employees also have access to the Programme of developing and building resilience in dealing with stress and unpredictable situations, both in corporate situations and in their private lives.

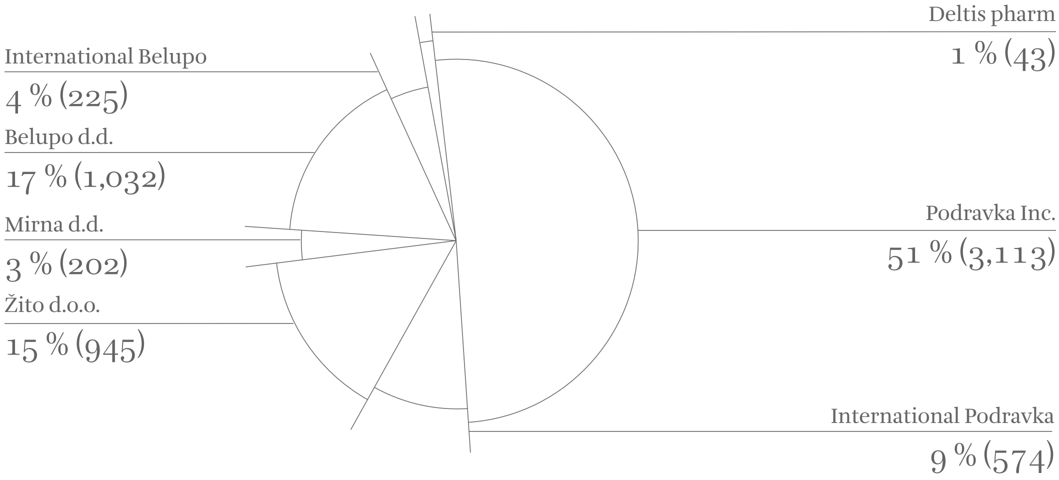
OVERVIEW OF THE BASIC HUMAN RESOURCE INDICATORS

Podravka Group on 31 December 2022 - HC - 6,299

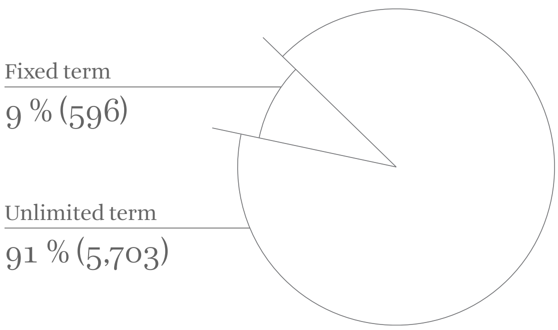


CORPORATE SOCIAL RESPONSIBILITY (CRITERIA S)

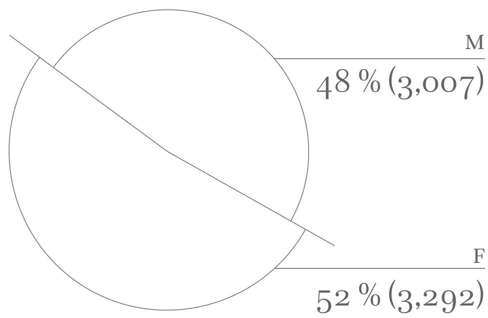
Podravka Group on 31 December 2022 -
FTE 2022. - 6,135



Group workers

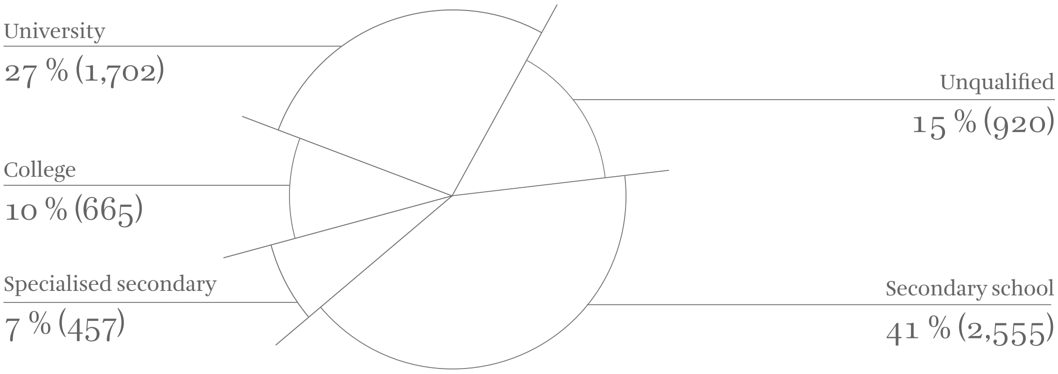


Gender structure

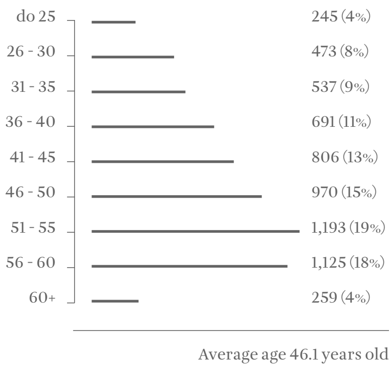


CORPORATE SOCIAL RESPONSIBILITY (CRITERIA S)

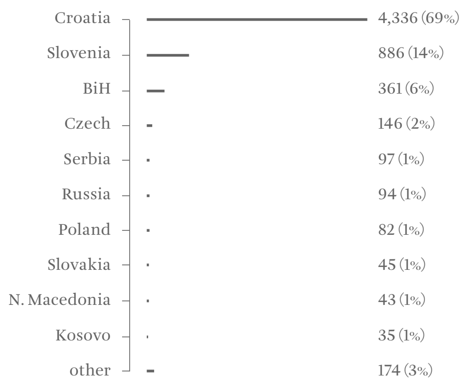
Workplace qualifications



Age structure



Citizenship



CORPORATE SOCIAL RESPONSIBILITY (CRITERIA S)

LABOUR RELATIONS

IMPROVING THE FINANCIAL RIGHTS OF WORKERS

In 2022, the Podravka Management Board, in dialogue with social partners, adopted a series of measures to improve the status and position of workers and improve their financial rights and working conditions. The initiative to increase worker salaries began in 2021 and continued into 2022. The aim of increasing the financial rights of workers is to enable workers to participate in the company results, positioning Podravka as a desirable employer, attracting young workers and retaining a highly qualified work force.

In March 2022, for the second time in under a year, worker salaries and earnings were increased. The round of salary and earning increases in March 2022 encompassed just over 3200 workers of the Podravka Group. Salary increases resulted from an increase in the coefficient for all workers, and increases of individual work complexity coefficients.

Salary increases continued in May 2022, taking an individual approach to assess worker success. This increase was aimed at workers with university qualifications who were recognised according to previously defined criteria and rules for their exceptional work efficacy and excellence, and innovativeness and contributions to company business processes.

In September 2022, negotiations began with social partners and continued until 24 November when the amended Collective Agreement was signed for Podravka Inc., Mirna d.d. and Belupo d.d. It is valid for all employees, regardless of union membership, and the following was agreed:

- Salary increase by raising the basic salary by HRK 30 and the fixed supplement by HRK 40,
- Earning increase by raising the monthly reward supplement by HRK 250 and the monthly transport supplement by HRK 50,
- Raising per diems, maternity leave amounts and gift for children to the legal maximum,
- Raising the retirement bonus from HRK 10,000 to 15,000,
- Reducing worker participation for the daily mean to EUR 0.50.

Based on the expected good results for 2022, a special reward in the amount of HRK 3,500 was agreed, of which HRK 2,000 was paid out in December 2022 and the remainder will be paid in equal instalments of HRK 125 through 2023. This has allowed for the maximum rewards amount for work results that was adopted in the autumn package of measures by the Government of Croatia.

To celebrate Podravka's 75th anniversary, the workers of Podravka Inc., Mirna d.d. and Belupo d.d received a HRK 750 net payment in October 2022. In December 2022, all workers in the international companies received a reward in the net amount of EUR 250 to mitigate the effects of inflation, in the manner permitted by the regulations of their domicile country.

During 2022, an additional HRK 76.5 million was invested in improving the financial position of workers in comparison to 2021. The total result of all these efforts is seen in the trends of average salaries and earnings of workers. In December 2022, the average net salary of workers of Podravka Inc. was 14% higher than in December 2021. The average net earnings of

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA S)

workers of Podravka Inc. was 18% higher in December 2022 than in December 2021. These steps taken to improve the financial position of workers in 2022 brought Podravka a faster growth in salaries than the national average (8.2% in December) and inflation (13.1% in December).

Net salaries and earnings of workers during 2022 also rose in the Žito Group, in line with the possibilities in Žito since it is passing through a restructuring and downsizing process.

DIALOGUE WITH SOCIAL PARTNERS

At the level of the Podravka Group, workers participate through their representatives in the Worker's Council to promote their rights and interests towards the employer, and through the institute of workers meetings and the worker's representative in the Podravka Inc. Supervisory Board.

In addition to dialogue with the Worker's Council, the Podravka Group nurtures social dialogue with unions operating in the Podravka Group: PPDIV Union, Independent Union of Podravka, Worker's Union of the Podravka Group – SINPOD, New Union, and Union of Istria, Kvarner and Dalmatia. Of the total number of employees in the Podravka Group, on 31 December 2022, 40.8% of employees were union members.

DIRECT COMMUNICATIONS WITH WORKERS

The company places a strong emphasis on communications with workers, and the president of the Management Board is often personally involved. During 2022, the president of the Management Board visited all factories on several occasions and directly communicated with the workers concerning Management Board decisions pertaining to changes in organisation, changes in salary, investments and technological improvements, and improvements in the working conditions of employees.

Furthermore, through participation in the sessions of the Worker's Council and workers meetings, held as part of the legal requirements, the Management Board of Podravka Inc. and Management Board of Belupo d.d. regularly presented operating results, thereby enabling all workers to obtain relevant information about operations.

EDUCATION AND THE DEVELOPMENT OF HUMAN RESOURCE COMPETENCIES

In 2022, a new plan for the development of management and employees was defined so as to attain the necessary knowledge, skills and competencies needed for the future. The management development programme has been structured so as to respond to individual development needs of all levels of management. In addition to adopted business knowledge and skills, a strong emphasis has been placed on the topics of cooperation, leadership and change management.

Further investments are being made into specialised business knowledge of workers in different areas – IT, product development, quality control, procurement, human resource management, and many others. The focus has been placed on additional qualifications or pre-qualifications through which expert knowledge and skills of deficit professions are acquired.

MANAGEMENT DEVELOPMENT

On the basis of the results of the Management Assessment, which encompassed both top and middle management, a two-year management development programme has been developed that will ensure the development of competencies and knowledge needed to achieve the Strategy and further company growth.

In addition to attaining and developing competencies for the leaders of the future, improving strategic, leadership, technological and corporate competencies at all levels of management, this programme also builds, motivates, inspires and engages teams.

In 2022, five modules of the programme were carried out, with an emphasis on the development of leadership skills and digital transformation. The programme will continue in 2023.

PROGRAMME TO DEVELOP LEVEL 1 MANAGER COMPETENCIES

The development of Level 1 managers is exceptionally important, as they are in daily contact with a large number of workers. In addition to business knowledge, they need to know how to motivate and engage their workers, and to openly communicate and designate work tasks. The Podravka Inc. Management Board has given its full support to developing this programme to develop this leadership level, which is set to begin in 2023.

DEVELOPMENT OF WORKERS AND TEAMS

In 2022, approval was granted to launch a programme to recognise workers with the best mastery and expertise so as to ensure the transfer of that knowledge to future generations and to create a digital knowledge database available on different platforms – machine panel, mobile phone and computer.

Team development is a programme created to improve the harmonisation of team members and to ensure good quality communication within organisational units. This programme is intended for teams that have completed larger organisation changes (mergers/separation of individual units or changes in management).

SURVEYING THE ORGANISATIONAL CLIMATE

As one of the initiatives, 16 focus groups were organised with 164 workers of Podravka Inc. to more clearly detect worker needs and their perceptions of their experiences at work to date, their relations with colleagues and superiors, and all other elements that leave the strongest impression on workers and create a specific image of Podravka as an employer.

CORPORATE SOCIAL RESPONSIBILITY (CRITERIA S)

The survey enabled clearer insight into the current *Employer Value Proposition* (EVP) of Podravka and steps needed for additional improvements were identified.

In 2022, a comprehensive survey on the organisation climate, culture and worker engagement in Croatia and affiliate companies abroad was conducted under the motto *"Your opinion matters"*. The aim was to answer the question of what workers think about working at Podravka, what is important to them at work, and what they would like to change. Also, an answer was obtained about where the company strengths lie, and where there is additional room for improvement of the climate, culture, business process and working conditions. The best assessed areas were relations with colleagues, relations with superiors, and organisation and level of information, as further confirmation of the togetherness and team spirit of Podravka workers. Based on the results, an activity plan was drawn up and work will begin to further improve worker satisfaction.

EMPLOYMENT AND ATTRACTING TALENT

EMPLOYMENT

During 2022, new recruitments were made in the seasonal workforce for the needs of Agriculture and Production, interns with university qualifications, workers in technical professions, and workers in specialist positions. The main tools were external competitions on specialised job portals and internal competitions enabling employees to develop within the company. In order for employee selection to be as efficient as possible in as little time as possible and with less spending of resources of both the candidate and Podravka as the employer, online psychological testing has been implemented.

Following the natural outflow of workers in 2022 (due to retirement), the need for workers in the technical professions in production plans was settled with the employment of workers from Nepal and Tanzania, since the domestic labour market was not able to meet the labour demands. The new workers have received everything they need for successful integration into the Podravka system, and to overcome the language and cultural barriers.

Hiring seasonal workers for work in agriculture is becoming more and more challenging every year, since the production of vegetables is in the *"outdoor factory"* and working conditions are difficult due to weather conditions (heat, mud), body position during work, etc., and this has been further exacerbated by the extremes caused by climate change. The greater need for employment was settled with domestic seasonal workers.

Newly employed persons at Podravka Inc. are included in the onboarding programme *"Welcome to our table"* to facilitate their rapid integration into the work environment and to meet the requirements of their jobs. Other companies in the Podravka Group also have onboarding programmes, with the aim of facilitating the new employees' entry into the job and the organisation.

SHAPE 2.2.

With the aim of attracting and recruiting young workers, Podravka Inc. launched the competition Shape 2.2 under the slogan *"Be a lid to our pot"*. After several rounds of selection, 25 young colleagues with up to 3 years work experience were selected and obtained the opportunity to gain their first or early work experience, skills and competencies, to become familiarised with the leading business practices in different areas in the food industry, participate in interesting and innovative projects with excellent support of experienced mentors and colleagues. The Shape 2.2 programme has been designed for them, and includes general, educational and specialist parts, with work on project tasks.

COOPERATION WITH EDUCATION INSTITUTIONS

The long-term successful cooperation between Podravka Inc. and the Žito Group with education institutions continued in 2022. The improved epidemiological situation enabled the return of a large number of students who undergo practical learning in the company. In 2022, a total of 132 students engaged in practical learning at Podravki d.d. and the Žito Group.

We are increasingly working successfully with institutions for adult education in the area of attaining additional qualifications or pre-qualifications that are needed in the workplace.

In 2022, Podravka Inc. and Belupo d.d. participated in career days, organised by education institutions and student associations. Numerous managers and experts are an active part of the academic population, and participate as guest speakers or panellists in numerous events in public venues or at faculties and business schools.

Belupo d.d. also continually stimulates cooperation with academic and educational institutions, above all the Faculty of Medicine, Faculty of Pharmacy and Biochemistry, and Faculty of Food Science and Biotechnology, University of Zagreb. This is aimed at strengthening partnership and to attract future employees from professions of the top choice for the company, with the aim of positioning the company as a top choice employer.

GENDER EQUALITY

Professional equality and equal opportunity are true instruments that turn legislation and rhetorical solutions into real and visible results. Therefore, job applications at Podravka are not gender defined and men and women are equally employed and, depending on their qualifications, have equal opportunities for development and advancement. This is also guaranteed under the Code of Business Ethics of the Podravka Group. In the past year, 49% of women advanced in Podravka Inc.

Among the workers at Podravka Group, 52% are women and among highly educated employees holding the title of Master or Doctor of Science, the share of women is 65%. The Management Board of Podravka Inc. is comprised of 40% women, which is aligned with the EU Strategy for gender equality to 2025. The percentage of women in the Podravka Inc. Management Board is higher than the Croatian average, and the average of nearly 90% of countries that are members of the OECD and G20 according to the most recent day. The share of 25% women in the Supervisory Board is also above the Croatian average.

In 2022, the Žito d.o.o. Management Board signed the special document *Zavezani k enakopravnosti med spoloma* (Committed to gender equality).

CARE FOR WORKERS

Considering the uncertain times we have been facing in the past few years, all interested workers are able to participate in the programme *Future Resilience*. The programme includes ten workshops/topics created with the aim of developing and building resilience in dealing with stress and unpredictable situations, both in business situations and in their personal lives, with telephone support of experts throughout the entire resilience building process. Telephone support for workers was no limited only to those attending the workshop, but was open to all company workers.

Workers have recognised the benefits of the programme, and the number of attendees is constantly rising.

Pursuant to the certificate of the Socially Responsible employer, received by Žito d.o.o. in 2021, the company is raising awareness of the important of a healthy work environment. Advice for a healthy life, exercise and diet are regularly published in the internet magazine *Drobtinice*, which all Žito employees receive four times a year and where they can find information about all activities, news and events at the company.

OCCUPATIONAL HEALTH AND SAFETY

OPTIMAL HEALTH PROTECTION IN CONDITIONS OF THE COVID-19 PANDEMIC

At the start of 2022, operations were still under the prominent influence of the COVID-19 pandemic, meaning circumstances of heightened caution and the evaluation of risks and possible consequences. Therefore, the Podravka Management Board passed decisions and issued instructions to actively manage the potential risks.

Workers in the corporate and administrative organisation units, who regularly work at the office, were given the option of working from home, while work in the office was performed only by workers essential for ensuring the continuity of business processes. Taking into account the employer obligations for employee remote work, the occupational safety experts provided remote workers instructions on how to properly perform their work and organise their workspace to ensure proper and ergonomic work on their computer.

The previously established implementing measures and preventative procedures for preventing the spread of the viral infection SARS-COV-2 within the organisation were further strengthened by a control mechanism in the formation of a multidisciplinary team entrusted with checking the abidance of measures and activities concerning COVID-19. They included advise on how to properly wear medicinal or face masks in closed spaces and in certain situations in open spaces, instructions for keeping physical distance whenever possible, regular maintenance of hygiene and disinfection, abiding by the limitations of the number of persons at meetings and in restaurants, and gatherings in closed and open spaces, unless necessary for maintaining the continuity of operations, and avoiding contact of workers during shift changes to reduce the possibilities of transmission of the virus and infections.

Through communications with all employees, support was provided through the available communications channels and the display of printed informational instructions and posters highlighted the individual responsibility of each person for their own health, and health of those around them, and colleagues in the workspace. Through the intranet communications channels and previously established separate e-mail address for two-way internal communications, employees were able to ask questions and receive answers on how to act in certain situations.

Through this comprehensive and structured approach, the appropriate conditions were secured for work in every segment of operations, both in production and logistics, and in administrative processes. As a result, the company did not experience any significant disturbances in the production and distribution of its products at any time, while the health of all stakeholders in company operations was optimally protected.

OCCUPATIONAL HEALTH AND SAFETY POLICY

The Occupational health and safety policy is based on the introduced standard ISO 45001. Podravka continually implements and promotes a culture of occupational health and safety of its employees, through the application and improvement of the requirements of the standard ISO 45001 and its principles, with commitments to:

- Protect the health of all employees by providing a secure and healthy work environment,
- Continuously train and educate workers so as to strengthen the competencies of employees and strengthen awareness of occupational health and safety,
- Conduct risk assessments, identification and elimination of hazards, and minimisation and control of risk for the health and safety of all stakeholders in operations,
- Operations in line with the fundamental company values, legal and regulatory requirements, valid regulations, implemented standards and recognised rules of occupational safety,
- Implementation of the set goals of occupational health and safety and monitoring the efficiency of achieving the set goals,
- Transparent communication and understanding of the needs and expectations of all interested parties enables their participation the process of improving the occupational health and safety system,
- Timely information of all stakeholders in the occupational health and safety system on the risks for security and health that they may be exposed to in the workplace and via informative brochures.

ACTIVITIES IN THE IMPLEMENTATION OF OCCUPATIONAL SAFETY

The Podravka Group is a complex business system

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with a series of technological processes that include various hazards and risks for employee health and safety. The effective management of risks is a challenge that all stakeholders in the occupational health and safety system face continually. The result of successful operation of the occupational health and safety system of the Podravka Group in 2022 was seen in the 16.4% lower number of workplace injuries and 20.9% fewer lost work hours due to workplace injuries in comparison to 2021.

The main challenges that have determined the activities in the organisation and implementation of occupational safety measures in 2022 were:

- Protection of occupational health and safety following the outbreak of the new strain of the virus SARS-COV-2 in early 2022,
- Organisation of remote work for all employees in the administration building, during the one-year works on comprehensive energy and IT reconstruction of the company headquarters, in which the continuity of business was maintained in full,
- Changes in the business organisation of the company and changes in the binding regulations in the field of occupational safety.

The Occupational safety committee was established as an advisor body of specific organisational units for the constant improvement of occupational safety, planning and supervision of the rules of occupational safety, organisation of the performance of occupational safety tasks, reporting and training, and prevention of occupational risks and risks associated with work.

Pursuant to the legal regulations and the agreement on defining working conditions of the Workers' Council, the Workers' Council was regularly notified of all important issues concerning occupational safety.

Examinations and inspections of work gear used are performed by persons authorised for occupational safety tasks to verify that they meet the safety and health requirements for work gear.

Workers have access to health care in specialised occupational health offices, and in that way have health supervision that is adequate for the hazards, detriments and strains of their work. In order to determine their health suitability for performing certain tasks, workers undergo physical examinations. Additional health care is also provided for workers through complete physical exams in health polyclinics.

In line with the requirements prescribed under special regulations, foreign workers were required to meet the conditions prescribed in the current provisions of the national legislation on workplace safety and the provisions adopted pursuant thereto, and to prepare for safe work by using the adapted literature.

During 2022, working conditions were significantly improved. After the reconstruction of the company headquarters, which included IT and energy reconstruction, employees obtained contemporary, fully equipped work stations. Testing and measuring the work environment, especially the physical factors at work stations with the aim of protecting worker health and safety, showed that the working conditions have been significantly improved in all aspects of the working environment, from efficiency systems of heating, cooling, ventilation and climate control, which were absent prior to the refurbishment, new electrical energy network, new water supply and sewage infrastructure, and better fire alarm system. The working conditions have also been improved in five factories in Koprivnica and Varaždin, in which contemporary climate control systems have been installed, enabling appropriate working conditions.

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During 2022, Podravka implemented a series of socially responsible initiatives and projects, in line with its long-standing practice and strong corporate social responsibility component. The Podravka Group provides sponsorships and donations to assist many charities, and economic, cultural, sports and scientific projects throughout Croatia.

In an economically challenging year, the Podravka Group decided to direct its aid to those most in need. At Christmas, it donated 75 palettes of food valued at HRK 750,000 to 11 locations of social grocery stores across Croatia, which held those in society who are most in need with food and hygiene supplies.

In cooperation with Croatian Caritas, Croatian Red Cross and the UNICEF office in Croatia, financial support was provided to refugees and child victims of the aggression in the Ukraine. Belupo also took part in this humanitarian campaign and sent the necessary medicines via the Croatian Red Cross. Podravka supported many projects of numerous charity associations, preschools and parishes. In addition, Podravka directed financial support to numerous institutions, donating to help the Social Welfare Centre in Koprivnica and the Cardiovascular Disease Department of Dubrava Clinical Hospital.

In 2022, cooperation continued with Koprivnica-Križevci County to develop new standards for school means in primary schools operated by the county. The project entitled *"Smart meals for smart kids"* is directed towards improving and standardising children's meals in 18 county primary schools. As part of the project, the Podravka nutritionists created 280 standards for school meals, delivered to schools during the 42 work weeks.

Further, Podravka donated financial assistance for numerous cultural events and projects, and scientific and student associations and organisations. Podravka and Belupo have always stimulated an active lifestyle, wanting to place the emphasis on the development and education of children through sport, and the importance of the role of sport in the community. In addition to being a sponsor of the FC Slaven Belupo and HC Podravka Vegeta again this year, in 2022, the Podravka Group also assisted numerous other sports clubs and associations.

Žito continued its corporate social responsibility and positive impact on the community in 2022. Numerous charity, sports, health and other projects that have a positive influence on the community were supported.

In May and June 2022, Žito assisted refugees from Ukraine by donating its products to the Slovenian Red Cross and Slovenian Philanthropy. In cooperation with the Cerknica Fire Fighting Society and Cerknica Civil Protection, in the week of devastating fires that affected Kras in July, Žito provided a donation of half a tonne of food products intended for fire fighters and the evacuated population.

For the third year in a row, Žito and Lidl Slovenia have supported the Slovenian association of Europa Donna, supporting the fight against breast cancer. The cooperation between Žito and Lidl collected a total of EUR 6400. In October, Žito participated in the 29th international charity fair organised by the Ljubljana International Women's Club, and the funds collected were donated to charity organisations that care for children. In early December, Žito supported the traditional international charity fair in Athens, where the Slovenian embassy sold goods, including those of Žito and Podravka to raise funds to charity causes.

In 2022, Žito continued its close cooperation with various higher education organisations in the area of food and diet, particularly the Faculty of Biotechnology, University of Ljubljana. Students had the opportunity to engage in practical learning and gaining experience in practical work.

Belupo also placed special emphasis on corporate social responsibility and caring for the community in its operations, and continued to do so in 2022. As a pharmaceutical company, Belupo supports health and a better quality of life, and most financial support goes to health care associations and institutions for the treatment of illnesses, as well as other charity, educational, cultural and scientific institutions and projects and sports clubs. For example, last year Belupo financially supported the projects of the Latica society for persons with intellectual handicaps, and the Ana Rukavina Foundation *"I want life"*.

SUPPLY CHAIN

Managing procurement categories and relations with suppliers are the fundamental principles of the supply chain in the Podravka Group. The entire procurement line of the Group is segmented into procurement categories for which a specific procurement strategy is defined, and initiatives and tasks for their implementation. Depending on the specificities of individual procurement categories, annual, semi-annual or monthly tenders are conducted, or bids are requested from potential suppliers on the global market through targeted market research and monitoring the competition. In 2022, the head of procurement continue to seek out alternative raw materials and suppliers. In order to secure transparency of procurement processes and to increase the efficacy of procurement functions, the sophisticated *eNabava* (eProcurement) tool is used, and digitalised procurement functions is one in a series of key levels of continued development of Procurement of the Podravka Group. The optimal division of quantities and use of the eNabava platform have achieved significant and positive financial effects. Through the use of the *eNabava* platform, 1073 activities were performed during 2022, and in these processes, cost avoidance savings were achieved in the amount of HRK 61 million, or a 4.6% lower procurement price.

Part of these savings were achieved through more intensive use of the eNabava (and eAuction) tool, to achieve savings of 4% or a lower cost of HRK 11.6

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million. In addition, the procurement process was shorted and overall transparency and efficacy of procurement increased.

Managing relations with suppliers is of strategic importance to the Podravka Group. Segmentation and a differential approach to supplies, with regard to their contribution to created added value for the company, significantly contribute to the success of operations. Creating partnership relations with key suppliers is one of the main goals of the supply chain, as partnership relations ensure the security of supply, better use of resources, and reduced costs of operations, which ultimately improve the company's competitiveness. During 2022, the focus was placed on local suppliers and on suppliers with whom the company has partnership relations, which in the situation of significant disturbances in the supply of agricultural and food products, and especially in conditions of global supply chain disturbances and geopolitical uncertainty, offers the security of product supply in the required quantity, contracted quality, and on time. In 2022, the Podravka Group traded with 10,178 suppliers, of which 6,346 were domestic suppliers. In abiding by the high quality standards for input raw materials and other materials and the necessary level of technical and technological equipment of the selected suppliers, the Podravka Group operates with direct manufacturers, primary producers, small business, family farms, veteran associations, subcontractors, distributers, wholesalers and large multinational companies.

CERTIFICATION OF MANAGEMENT SYSTEMS

No.	Standard	Scope of the certificate	Authorised body
1	ISO 9001:2015 Quality management system	1) Podravka d.d. 2) Belupo d.d.	Certification company SGS
2	HACCP according to the Codex Alimentarius	1) Podravka d.d. 2) Mirna d.d.	Certification company SGS
3	IFS Food, Version 6.1 i 7. International Featured Standards - Food	1) Podravka d.d., Soup and Vegeta factory 2) Podravka d.d., Children's food and cream spread factory 3) Podravka d.d., Production of semi-finished and finished meals 4) Podravka d.d., Kalnik factory 5) Podravka Inc., Danica production 6) Mirna d.d., Rovinj	Certification company SGS
		7) Podravka - Lagris a.s.	TÜV SÜD
4	BRC, Issue 8 British Retail Consortium Global Standard for Food Safety	1) Podravka d.d., Soup and Vegeta factory 2) Podravka d.d., Children's food and cream spread factory	Certification company SGS

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No.	Standard	Scope of the certificate	Authorised body
5	HALAL	1) Podravka d.d., Danica production 2) Podravka d.d., Soup and Vegeta factory 3) Podravka d.d., Children's food and cream spread factory 4) Podravka d.d., Kalnik factory 5) Podravka d.d., Voće factory 6) Podravka d.d., Cocktail roll factory 7) Mirna d.d., Rovinj	Centre for certification of Halal quality
6	KOSHER	1) Podravka d.d., Kalnik factory 2) Podravka d.d., Soup and Vegeta factory 3) Podravka d.d., Voće factory 4) Podravka d.d., Cocktail roll factory 5) Podravka d.d., Mlin	Rabin Kotel Da-Don
7	BIO	Podravka d.d.	Bio Garantie
8	AOECS The AOECS Standard for Gluten-Free Foods	Podravka d.d., Cocktail roll factory	Certification company SGS
9	VEGAN European Vegetarian label	1) Podravka d.d., Kalnik factory 2) Podravka d.d., Cocktail roll factory 3) Podravka d.d., Soup and Vegeta factory 4) Podravka d.d., Danica production	Friends of Animals association
10	RSPO Supply Chain Certification Standard	1) Podravka d.d., Soup and Vegeta factory 2) Podravka d.d., Children's food and cream spread factory	Certification company SGS
11	ISO 27001:2013 Information security management system	Podravka d.d.	Certification company SGS
12	ISO 45001:2018 Occupational health and safety management system	1) Podravka d.d., Koprivnica 2) Soup and Vegeta factory	Certification company SGS
13	ISO 13485:2016 Medicinal product quality management system	Belupo d.d.	Certification company UDEM Adriatic d.o.o.
14	EU GMP certificate	Belupo d.d.	HALMED (issued 2019)
15	GMP certificate Russia	Belupo d.d.	Ministry of Industry and Trade of the Russian Federation (issued in 2019)
16	GMP Certificate Ukraine	Belupo d.d.	Ukraine Regulatory Agency
17	BIO	1) PODRAVKA d.o.o., Ljubljana 2) ŽITO d.o.o., LJUBLJANA	KON-CERT Maribor, Vinarska ulica 14, 2000 Maribor

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No.	Standard	Scope of the certificate	Authorised body
18	IFS FOOD, Version 7	1) Žito d.o.o., PC Gradišče 2) Žito d.o.o., PC Kruh pecivo 3) Žito d.o.o., PC Pekarna Vrhnika 4) Žito d.o.o., PC Žito 5) Žito d.o.o., Pekarna Vič 6) Žito d.o.o., PC Gorenjka 7) Šumi bonboni d.o.o.	Certification company Quality Austria
19	Certificate V label, EUROPEAN VEGETERIAN LABEL	Žito d.o.o., Ljubljana	Institute PADMA
20	ISO 9001:2015, Quality managment system	Žito d.o.o.-Šumni bonboni d.o.o.- Podravka d.o.o., Ljubljana	SIQ Ljubljana
21	Rain forest aliance certificate, version 1.1.	Žito d.o.o., -PC Gorenjka,-PC Kruh pecivo	Ceres, Certification of Environmental Standards
22	RSPO	Žito d.o.o., Ljubljana	Bureau Veritas
23	Halal	Žito d.o.o.-Šumi bonboni d.o.o.	Islamska skupnost v Sloveniji
24	Certificate of the right to use the symbol for denoting glutn-free food *“prečrtan žitni klas”*	Žito d.o.o.-Crispy kruhki	Slovensko društvo za celiakijo

Notes: the specific scope of an individual certificate is listed on the certificate.

Corporate governance *(criteria G)*

Criteria Corporate Governance	Unit	2020	2021	2022
Number of members of the audit committee	Number	3	3	3
Number of sessions of the audit committee	Number	7	8	8
Independent of the audit committee	Percentage	100.0%	100.0%	100.0%
Period of employment of the auditor *	Years	1	1	1
Auditors from the Big 4	Yes/no	Yes	Yes	Yes
Internal audit	Yes/no	Yes	Yes	Yes
Number of members of the Management Board on 31 December	Number	5	5	5
Age range of members of the Management Board on 31 December	Number	46 - 56	47-57	38-61
Average age of members of the Management Board on 31 December	Number	50	52	54
% women on the Management Board	Percent	20.0%	40.0%	40.0%
Former CEO or equivalent on the Supervisory Board	Yes/no	No	No	No
Duration of the mandate of the president of the Management Board (CEO) on 31 December	Years	3	1	2
Duration of the mandate of the chief financial officer (CFO) on 31 December	Years	3	4	5
Date of start of the mandate of the CEO	Date	24.02.2017	04.02.2021	24.02.2022
Date of start of the mandate of the CFO**	Date	01.05.2017	01.05.2017	24.02.2022
Number of sessions of the Management Board	Number	40	57	60
Attendance of members of the Management Board at sessions	Percent	99.0%	99.3%	99.3%
Average mandate of current members of the Supervisory Board on 31 December	Years	5	5	5
Structure of the Supervisory Board by gender on 31 December	Women and men	4 women and 5 men	3 women and 6 men	2 women and 6 men
Independence of the Supervisory Board***	Percent	88.9%	88.9%	87.5%
Number of sessions of the Supervisory Board	Number	12	13	13

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Attendance of members of the Supervisory Board at sessions	Percent	58.3%	76.9%	92.2%
Number of executive functions (management) on 31 December	Number	99	94	104
Number of women in executive functions (management) on 31 December	Number	37	38	42
Average age of persons in executive functions on 31 December	Number	48	48	48
Range of ages of persons in executive functions on 31 December	Number	31-65	32-66	33-67
Higher class of regular shares with unequal voting rights	Yes/no	No	No	No
Unequal voting rights issued shares – including prefered	Yes/no	No	No	No
Number of positions in management boards held by the CEO	Number	-	-	-

*In line with the recommendations of the Audit Committee, the Supervisory Board passes the proposed decision on appointment of an auditor for the current business year and forwards it to the General Assembly for adoption.
** Podravka Inc. Management Board receives a 5-year mandate.
***A member of the Supervisory Board is also the workers' representative and therefore cannot be considered an independent member.

EXTERNAL INITIATIVES OF THE PODRAVKA GROUP

Podravka Inc. *is committed* to the following external initiatives:
- Corporate Management Code of the Croatian Agency for the Supervision of Financial Services (HANFA) and the Zagreb Stock Exchange;
- Ethics Code of the Croatian Chamber of Economy (CCE;
- Foundation of the Croatian Chamber of Economy, Koprivnica County Chamber, for the financial support of pupils and students;
- Croatian Diversity Charter, and
- Croatian Society of Food Technologists, Biotechnologists and Nutritionists (HDPNB).

Podravka Inc. also *supports* the following voluntary external initiatives:
- OECD Guidelines for corporate management;
- The United Nations Global Compact, as the largest global initiative for corporate social responsibility and sustainable development, such that all 10 principles from the agreement have been integrated into operations through internal codes and ordinances;
- Global Food Safety Initiative (GFSI) which issues guidelines and criteria for GFSI recognised certification schemes (IFS, BRC, SQF, GLOBAL G.A.P., FSSC 2000, etc.) Podravka supports the GFSI guidelines and criteria such that it is certified according to GFSI recognised standards of food safety (IFS and BRC), and has adopted the Supply chain security

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policy and Food safety and quality system policy;
- Roundtable on Sustainable Palm Oil (RSPO) certification of part of the company's product line, which represents the independent assessment in the supply chain of palm oil,
- BIO certification of organic products and their distribution, through which food is produced ecologically and supports sustainability and biological diversity,
- GMO-free food policy.

Belupo d.d. *is committed* to the following external initiatives:
- Code of Ethics of the Croatian Medicines Producers Association HUP,
- Code of Conduct of the European Generic Drug Association (EGA) in interaction with the scientific community,
- Foundation of the Croatian Chamber of Economy, Koprivnica County Chamber, for the financial support of pupils and students,
- Environmental protection community in the economy Section of the Koprivnica County Chamber.

Žito d.o.o. *is committed* to the following external initiatives:
- Responsibility of the Slovenian bakery sector for a 5% reduction of salt in breads by the end of 2022, and an increase in the content of wholegrain ingredients in bakery products,
- Partnership for wholegrain products, aimed at increasing the use of wholegrain ingredients in the daily diet of consumers.

Mirna d.d. *is committed* to supporting and participating in the initiatives of the City of Rovinj and Istria County to protect the environment and the Adriatic Sea.

STATEMENT ON THE APPLICATION OF THE CORPORATE GOVERNANCE CODE

Management of Podravka Inc. submits a Statement on the Application of the Corporate Governance Code on the basis of the Accounting Act.

As the parent company, Podravka Inc. continuously monitors the development of regulations in the area of corporate governance and improves relations with shareholders, investors, and the public, applying high standards in mutual communications.

In acting in accordance with the valid legislation of the Republic of Croatia and abiding by the special corporate governance guidelines of the OECD and Code of Corporate Governance of HANFA and the Zagreb Stock Exchange, Podravka Inc. was among the first joint stock companies whose shares are listed on the market to develop a Code of Corporate Governance, to equalise the rights of all shareholders and to ensure an open, professional and transparent approach in relations with investor and the general public.

The key corporate governance principles that Podravka Inc. abides by are:

- Transparency of operations,
- Clearly defined rules of procedures for the Management Board, Supervisory Board and its committees, and the General Assembly,
- Avoiding conflicts of interest,
- Effective internal control, and
- Efficient system of responsibility.

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Podravka Inc. and its affiliate companies in Croatia and abroad support the ethical principles and principles of modern corporate governance.

With the aim of having a better corporate governance system, Podravka Inc. adopted the Conflict of Interest Management Policy, which establishes the mechanisms for early recognition of possible conflicts of interest, prevents their occurrence, and measures aimed at removing their consequences and for general prevention to be taken in the case a conflict of interest is detected.

Aware of the importance of responsibly and ethnically based conduct in operations, Podravka Inc. has adopted the *Code of Business Ethics of the Podravka Group* (hereinafter: *Code of Ethics*), with which it is committed to abiding by the principles of ethics in all business relations and has accepted the obligation to act in accordance with the principles of responsibility, truthfulness, efficiency, transparency, quality, acting in good faith, and abiding by good business customs towards business partners, the corporate and social environment, and its employees. The Code of Ethics defines the corporate principles that encompass legality and transparency in operations, professionalism and objectivity, public relations, product quality, a safe working environment, stance towards the environment, and relations with the community. In addition to corporate principles, the Code of Ethics also defines the principles of conduct that include the secrecy and confidentiality of information, communications, attitudes towards Company assets, management style, conflict of interest, criteria for business gifts, meals and representation, and the strictest prohibition of corruption, bribes, extortion and all similar conduct. The Code of Ethics also strictly prohibits the exploitation of child labour.

The Podravka Group continually promotes policies of diversity and non-discrimination. Employee diversity is one of the strengths of Podravka Inc., and all employees are equal. Any form of discrimination or harassment of employees on the basis of bias or prejudice is prohibited, such as discrimination due to race or ethnic group, skin colour, sex, language, religion, political or other beliefs, national or social origin, financial status, union membership, education, social position, marital or family status, age, health condition, disability, genetic heritage, gender identity, expression or sexual orientation, and any other characteristics protected under the applicable laws.

Podravka Inc. encourages equality among all employees, and offers equal opportunities for employment, education, advancement and reward of all its employees. In line with this policy, Podravka Inc. is a signatory of the Croatian Charter of Diversity.

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/*.

Podravka Inc. applies the Renumeration policy as approved by the Company General Assembly and confirmed for a period of four years, from 2022 to 2025. The principles of the Renumeration policy are established such that they ensure competitiveness and stimulate the attractiveness and interest in the

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position of member of the Company Management Board with the suitably qualified profile of an expert with the necessary capabilities, skills and experience.

The consolidated Annual financial reports of the Company and Annual report on the standing of the Company are submitted as singular annual reports of the Podravka Group, which includes the affiliated company Podravka Inc.

The company Podravka Inc. 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, shareholders attain the right to vote in person, via a legal representative, or proxy. The right to participate and use the right to vote at the General Assembly is held by shareholders entered into the computer system of the Central Clearing Depository Company, and who register to participate at the General Assembly at least seven days prior to the convening of the General Assembly.

The General Assembly may legally decide if at least 30% (thirty percent) of the total number of shares with the right to vote are represented. The General Assembly is chaired by the president of the General Assembly, who is appointed by the Supervisory Board at the proposal of the Management Board.

At the General Assembly, shareholders, representatives and shareholder proxies vote via ballots marked with the number of votes belonging to an individual participant of the General Assembly.

All materials relating to the composition and convening of the General Assembly are available on the Podravka Inc. website at the link: *https://www.podravka.hr/kompanija/investitori/korporativno-upravljanje/glavna-skupstina/.*

MANAGEMENT SYSTEMS

MANAGEMENT OF COMPANY BUSINESS PROCESSES

Efficient company management systems are the result of ongoing recognition and introduction of market demands, work to maintain and improve the system in accordance with standards, the regulations of the Republic of Croatia, European Union and other countries in which Podravka operates, and the implementation of food safety and quality systems.

As a leading food company in Southeast, Central and Eastern Europe, Podravka is certified according to the leading standards in food safety IFS Food *(International Featured Standard-Food)* and BRCGS Food Safety (*British Retail Consortium Global Standard*) which confirm the safety of company products. The leading standards in the food industry by which the company operates today are built upon the fundamental management system in compliance with the standard ISO 9001 Quality management systems.

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The high quality of products is ensured through the quality of all ingredients, modern technological processes, and knowledge applied in production, as well as the defined business processes that ensure the set goals are met.

Maintaining and improving the established management system relies on mutual cooperation and good communication with suppliers, buyers and all interested parties in the food supply chain. Meeting customer demands is one of the company's primary goals, and it enjoys the loyalty of numerous customers in the region and the world who have recognised the value and quality of products that are safe for consumption and acceptable for the environment.

The efficacy of management systems is achieved through ongoing employee training to ensure they possess a high level of technological knowledge and corporate governance. In managing business processes and creating new trends of both products and operations, the company tradition is always respected.

A part of the company product line is certified according to the RSPO (*Roundtable on Sustainable Palm Oil*) standard that ensures the sustainable development of the palm oil industry. Podravka proves its consciousness and support of the concepts of sustainability and preservation of biological diversity through certification of part of its products with the BIO certificate for organic products.

In order for the management of business processes to be effective, the company considers the potential risks throughout its operations, and has set up a culture of proactive and preventative action. The Podravka Group pays special attention to the system based on assessment of critical points throughout the supply chain, for the purpose of protection against intentional contaminations and fraud.

With the introduction of the supply chain security system, Podravka has committed to implementing food protection system through the Food Defence methodology and the Food Fraud assessments.

Security of the Podravka supply chain is performed in line with the leading food safety standards, *IFS Food* and *BRCGS Food Safety*, and in line with the criteria of the Customs-Trade Partnership Against Terrorism (C-TPAT) of the USA, and the Authorised Economic Operator (AEO) programme of the European Union.

BRAND MANAGEMENT

On most of the markets in which the Podravka Group operates, the business conditions are challenging due to the local, regional and global competition, and due to recent global events and a real drop in consumer spending power, increasing client strength, and new market and consumer trends. During 2022, the greatest impacts were from the war in Ukraine which has strongly spurred the growth of prices of raw materials and energy, resulting ultimately in a jump in retail prices of products. The Russian-Ukraine conflict directly impacts the global security of food supply and affordable food prices. In the situation when consumers have become extremely price sensitive, but also demanding concerning the functional characteristics of products, the success of companies oriented towards products of recognisable brands relies greatly on their ability to be innovative, different, while remaining price relevant. The advantage of the Podravka Group is

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a secure supply chain and sufficient quantities of goods, and customer faith in the brands and product quality. Consumer habits, tastes and preferences are constantly changing, therefore the Podravka Group is constantly facing the need for their timely identification and forecasting in order to adapt its products and brands to those changes. The result is the continuous design and development of innovative solutions, in line with customer and client expectations, since this is an exceptionally important factor in achieving sales plans and overall business results. Through these continuous innovations within the existing product line, and launching new categories and groups of products, Podravka has confirmed that it is the leader of food trends in Croatia, and beyond.

MANAGEMENT OF BUSINESS SEGMENTS

The company views the achievement of its goals through organic and inorganic growth of operations, and places great importance on its influence on the possibility of that growth, through optimisation and prioritisation of strategic segments of product categories, markets and sales channels. The Podravka Group pays great attention to the evaluation and making of decisions on strategic investments, and consideration of opportunities that can potentially create added value for investors. Furthermore, special attention is paid to monitoring and analysing products, segments, distribution channels and markets, for which it is assessed that they do not have long-term potential to achieve the desired business results or that they have particular market potential. Through acquisition activities, expanding operations onto new markets, and developing new products and distribution channels, the Podravka Group is further internationalising its operations and diversifying its product portfolio. In this way, it is reducing the risk of business dependence on a specific product, market or business partner. In the corporate environment marked by constant change and market challenges, the Podravka Group is aiming to retain its position through continuous adaptations, especially in the distribution part, examining the efficacy of distribution, and the development of new and different route-to-market strategies to make the existing model more efficient.

MANAGEMENT OF CLIENT RELATIONS

The Podravka Group is aware of the exceptional importance of developing and maintaining relations with its clients so as to ensure the desired position of its products in sales locations on the global market. Through its marketing strategy, innovations, plans for recognisable and unique activities at sale locations, and execution of activities oriented towards strengthening the individuality and recognisability of brands, the Podravka Group acts to intensify product demand, while strengthening negotiation positions when defining business terms with clients. Additionally, the Podravka Group invests efforts to secure the conditions for the continued and successful long-term growth and to evade profit margin erosions by optimising the existing price policies, maximising the use of the synergy effect, raising efficacy, and adapting price levels on existing markets.

MANAGEMENT OF HUMAN RESOURCE RISKS

The foundation of success of the Podravka Group and a feature of its employees is business ethics and excellence, dedication to achieving goals, growth and development. Respect, trust and teamwork based on dialogue and transparency form a strong basis for ongoing progress.

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Through a series of proactive measures, the Podravka Group creates an environment in which employees are engaged and loyal. The Company recognises and rewards individuals who achieve excellent results, show exceptional effort, and stimulate innovation and efficiency.

OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM

In 2020, Podravka implemented the Occupational health and safety management system (ISO 45001:2018) in its Soup and Vegeta factory (production, warehousing and distribution of dried semi-finished products, food seasonings, dehydrated soups, sauces, semi-finished meals, spice blends and mono-spices).

During the supervisory audit in 2022, the management system proved to be fully compliant with the requirements of the standard according to which the audit was performed.

The process of verifying the management system proved to be capable of ensuring permanent suitability, adequacy, and efficacy of the management system.

INFORMATION SECURITY SYSTEM

Due to the digital transformation of operations, exponential growth in cyberattacks have been detected in recent years. In nearly all relevant reports, the risk of cybernetic attacks has been listed as the greatest risk for the cessation of operations in the corporate environment.

In line with trends and true threats, the security of information systems is one of the key foundations for the continuity of operations, as any incident in this segment has the potential for massive financial damages caused by a longer cessation of business processes.

During 2022, due to the pandemic caused by the SARS-COV-2 virus, working from home became the *"new normal"* for part of employees who are able to perform their work in this way. The appearance of a series of phishing e-mails on the COVID-19 topic was detected, of which users were warned via the intranet and through warning e-mails. On nearly all mobile devices possessing the adequate technical prerequisites, business data protection systems were implemented, in addition to multifactor authentication (MFA).

A strong investment cycle has continued into advanced tools for the protection of the IT system, such as network traffic analysers, tool for automated PEN test, central log management system, and network segmentation.

Despite all these challenges caused by the SARS-COV-2 virus pandemic, thanks to the increased efforts of the sector of Corporate and Information Security and IT, no significant security incidents were recorded that would cause inaccessibility of the IT system and consequentially impact the continuity of company operations.

Report on requirements prescribed by the *Taxonomy Regulation*

The Paris Agreement was signed in 2015 as the first global climate agreement to be binding for all signatory countries. The primary goal of the Agreement is to cap the increase global average temperature at 2°C above the level in the pre-industrial period, and to invest further efforts aimed at reducing the increase of the global average temperature to 1.5°C above the level in the pre-industrial period. The European Union has compiled the Green Plan, which lists the target of reducing CO_2 emissions by 55% by 2030, and establishing a climate neutral Union by 2050. For the purpose of achieving these climate targets, the European Union has established a regulatory framework centred around the key document for climate sustainable activities, the EU Taxonomy Regulation.[14]

The Taxonomy Regulation defines six environment objectives:

1. climate change mitigation;
2. climate change adaptation;
3. sustainable use and protection of water and marine resources;
4. transition to a circular economy;
5. pollution prevention and control;
6. protection and restoration of biodiversity and ecosystems.

Pursuant to the Disclosure Delegated Regulation[15] and the criteria for the technical verification for the first two (climate) objectives as defined in the EU Taxonomy Climate Delegated Regulation,[16], the Report on the requirements prescribed by the Taxonomy Regulation in the second year of reporting will encompass only the first two environment objectives: climate change mitigation and climate change adaptations, meaning that the focus of reporting continues to primarily be on greenhouse gas emissions.

Though the core activities of the Podravka Group are taxonomy-non-eligible, certain revenues, capital expenditures and operating expenditures can be associated with taxonomy-eligible activities as described in the Disclosure Delegated Regulation. All taxonomy-eligible activities, as outlined and defined in this report, are analysed according to the technical screening criteria listed in the Climate Delegated Regulation for each of the climate objectives, and for *"Does no significantly harm"* (DNSH) criteria for the remaining environment objectives.

The drafting of this report required a multidisciplinary approach. The coordination, collection and calculation were performed by the sector

14 (EU) 2020/852
15 (EU) 2021/2178
16 (EU) 2021/2139

REPORT ON REQUIREMENTS PRESCRIBED BY THE TAXONOMY REGULATION

Corporate sustainability and green transformation, with the assistance of employees from production (factory directors and technical services), the technical sector, logistics and finance (controlling and accounting).

An analysis of revenues and expenditures by activity was conducted in accordance with the Disclosure Delegated Regulation and Climate Delegated Regulation. The first established the list of capital expenditures (CAPEX) that can be associated with taxonomy-eligible activities in compliance with the Climate Delegated Regulation. Following this, each item was examined to determine whether it meets the technical screening criteria for the first two environment objectives, and the DNSH contribution to the remaining objectives. Though a significant share of capital investments is aligned with the technical screening criteria for the objective of climate change mitigation, it was not possible to determine whether the same do no significant harm for the objective climate change adaptation, as no assessments of climate risk and sensitivity analysis were performed for capital investments, since these are not an integral part of the investment studies of the capital investments of the Podravka Group, nor do the relevant national regulations require the performance of such assessments or analyses.

KEY PERFORMANCE INDICATORS OF REVENUES (KPI REVENUES)

The Podravka Group achieves revenues from two segments of operations (Food and Pharmaceuticals), i.e., its two core activities involve the production of food and manufacture of pharmaceutical products. Pursuant to the EU Taxonomy, the main business activities of the Podravka Group are not on the list of taxonomy activities and as such as considered to be *taxonomy-non-eligible activities*, meaning that their activity cannot significantly contribute to reducing CO_2 emissions and therefore contribute to achieving the first two environment objectives, climate change mitigation and climate change adaptation. It is expected that the core business activities of the Podravka Group will be encompassed by the EU Taxonomy in the forthcoming period, and will be classified as eligible for the remaining four environment objectives.

In 2022, the Podravka Group achieved external sales revenues[17] in the amount of HRK 5026.8 million. Of the total achieved external revenues, revenues from the sale of electrical energy and revenues from the sale of by-products in the production of food products can be associated with taxonomy-eligible activities.

The production process of the Food segment generates by-products that the Podravka Group sells to buyers who use those by-products as raw materials. In 2022, HRK 0.9 million was achieved in revenues from the sale of by-products (food waste from the production process), which can be associated with the taxonomy-eligible activity 5.5 Collection and transport of non-hazardous waste in source segregated fractions.

A total of 255.9 MWh of electricity was generated using solar photovoltaic technology and sold to the grid, generating revenues of HRK 0.1 million. This revenue can be associated with the taxonomy-eligible activity 7.6. Installation, maintenance and repair of renewable energy technologies. This activity is

17 Sales revenues are explained in the financial report of the Annual Report on page 49

REPORT ON REQUIREMENTS PRESCRIBED BY THE TAXONOMY REGULATION

associated with the production of electricity from solar plants of the Podravka Group on the rooftop of its Kalnik factory in Varaždin and solar plant at the Danica location in Koprivnica. The electrical energy produced by the solar plants is used for inhouse purposes, and only the surplus generated is sold to the grid and revenues are generated from this sale.

In 2022, HRK 103.8 million in revenue was generated from the sale of non-operational assets that can be associated with taxonomy-eligible activity 7.7. Acquisition and ownership of buildings. These revenues do not enter into external sales revenues. These revenues are part of other revenues and are not part of the external sales of the Podravka Group.

In 2022, at the level of the Podravka Group, HRK 4.6 million in revenue was generated from the sale of vehicles associated with the restructuring of operations on the Russian market, and which can be associated with taxonomy-eligible activity 6.5. Transport by motorbikes, passenger cars and light commercial vehicles. These revenues are part of the other revenues and are not part of the external sales of the Podravka Group.

Key performance indicators of revenues (KPI Revenues) are calculated such that the numerator is the revenues associated with activities 5.5., 6.5., 7.6. and 7.7. are calculated to be in the total amount of HRK 109.4 million, while the denominator consists of the total external sales revenues and revenues from the sale of non-operational assets and gains from asset write-offs with the right of use, in the total amount of HRK 5,138.8 million.

From the above, it is calculated that the *key performance indicator of Revenues* (*KPI Revenue*) for the Podravka Group in 2022 *is 2.1%*.

				SUBSTANTIAL CONTRIBUTION CRITERIA						*DNHS CRITERIA ("DOES NOT SIGNIFICANTLY HARM")*										
Economic activities (1)	Code(s) (2)	Absolute turnover (3)	Proportion of turnover (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum safeguards (17)	Taxonomy-aligned proportion of turnover, year N *18)	Taxonomy-aligned proportion of turnover, year N-1 (19)	Category (enabling activity or) (20)	Category (transitional activity) (21)
		IN 000 HRK	%	%	%	%	%	%	%	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	%	%	O	P
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1 ENVIRONMENTALLY SUSTAINABLE ACTIVITIES (TAXONOMY-ALIGNED)																				
Revenues of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0.00	0.0%																	
A.2 Taxonomy-eligible, but environmentally unstainable activities (not Taxonomy-aligned activities)																				
Collection and transport of non-hazardous waste in source segregated fractions	5.5	852.2	0.0%																	
Transport by motorbikes, passenger cars and light commercial vehicles	6.5	4,623.7	0.1%																	
Installation, maintenance and repair of renewable energy technologies	7.6	95.6	0.0%																	
Acquisition and ownership of buildings	7.7	103,824.5	2.0%																	
Taxonomy-eligible, but environmentally unstainable activities (not Taxonomy-aligned activities) (A.2)		109,395.9	2.1%																	
Total (A.1. + A.2.)		109,395.9	2.1%																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Revenues from taxonomy-non-eligible activities (B)		5,029,369.5	97.9%																	
Total (A+B)		5,138,765.4	100.0%																	

REPORT ON REQUIREMENTS PRESCRIBED BY THE TAXONOMY REGULATION

KEY PERFORMANCE INDICATOR CAPEX (KPI CAPEX)

Capital investments (capital expenditures) at the Podravka Group level imply investments that resulted in an increase in the long-term tangible and intangible assets in the reporting period, as the result of invoiced and advanced amounts for a certain line item in the minimum amount of HRK 3500.00.

The methodology to calculate the taxonomy-eligible KPI CAPEX for 2022 differs from the methodology applied in the 2021 Annual Report. Considering that core activities for which the Podravka is registered and from which it generates revenues are taxonomy-non-eligible, the calculation of KPI CAPEX for 2021 was based on the selection of capital expenditures that resulted in an increase in energy efficiency and investments in renewable energy sources. The consumption of energy was the basis for the calculation of CO_2 emissions, and so the selection of investments was made on the assumption that every capital expenditure that results in a reduction in energy consumption (i.e., increases energy efficiency) and investments in renewable energy source results in reduced CO_2 emissions, and consequently contribute to achieving the first two objectives defined in the EU Taxonomy: climate change mitigation and climate change adaptation.

An analysis of the capital expenditures achieved in 2022 identified though capital expenditures that can be associated with and that correspond to the description of environmentally sustainable activities as defined in the Climate Delegated Regulation[18] and this amount of those capital expenditures was calculated into the numerator for the calculation of the KPI CAPEX. In 2022, this totalled HRK 185.9 million at the level of the Podravka Group. The numerator also includes the increase in the position of assets with the right of use that are divided into activities 6.5. (HRK 12.8 million), 6.6. (HRK 1.3 million) and 7.7. (HRK 18.7 million), while the small increases of those positions pertains to machinery and equipment, which was not included in the numerator. Only invoiced investments, and not advanced payments, were factored into the calculation of the KPI CAPEX.

In 2022, the capital expenditures of the Podravka Group that can be associated with environmentally sustainable activities are:

- 4.24. Production of heat/cool from bioenergy
- 5.4. Renewal of waste water collection and treatment
- 6.5. Transport by motorbikes, passenger cars and light commercial vehicles
- 6.6. Freight transport services by road
- 7.1. Construction of new buildings
- 7.2. Renovation of existing buildings
- 7.3. Installation, maintenance and repair of energy efficiency equipment
- 7.5. Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings
- 7.6. Installation, maintenance and repair of renewable energy technologies
- 7.7. Acquisition and ownership of buildings

All capital expenditures that can be associated with taxonomy-eligible activities were analysed according to the technical screening criteria for the first two environment objectives and according to

18 (EU) 2021/2139

REPORT ON REQUIREMENTS PRESCRIBED BY THE TAXONOMY REGULATION

the DNHS criteria, and were identified as not being taxonomy-aligned. It was not possible to determine that significant contribution criteria were met with the aim of mitigating climate change, considering that the technical screening criteria for a significant contribution is the existence of a comprehensive assessment of the climate risks and sensitivities, which is not a mandatory and integral part of investments studies in the procedures of the Podravka Group. Therefore, in 2022, no assessments of climate risk were carried out. Investment studies include analyses of investment feasibility and accompanying documentation in line with the valid and relevant national regulations.

The total amount of Taxonomy-eligible capital expenditures for the Podravka Group in 2022 was HRK 185.9 million, which gives the numerator of the KPI CAPEX, while the denominator contains the amount of HRK 431.5 million, which represents the sum of increases of the following positions:

- Assets with the right of use,
- Tangible assets,
- Intangible assets,
- Use of assets.

From the above, it ensues that the *key performance indicator of expenditures* (KPI CAPEX) of the Podravka Group for 2022 *is 43.1%*.

				SUBSTANTIAL CONTRIBUTION CRITERIA						DNHS CRITERIA (“DOES NOT SIGNIFICANTLY HARM”)										
Economic activities (1)	Code(s) (2)	Absolute capital expenditures (3)	Proportion of capital expenditures (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum safeguards (17)	Taxonomy-aligned proportion of capital expenditures, year N *18)	Taxonomy-aligned proportion of capital expenditures, year N-1 (19)	Category (enabling activity or) (20)	Category (transitional activity) (21)
		IN 000 HRK	%	%	%	%	%	%	%	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	%	%	O	P
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1 Environmentally sustainable activities (Taxonomy-aligned)																				
Capital expenditures from environmentally sustainable activities (Taxonomy-aligned) (A.1)		0.0	0.0%																	
A.2 Taxonomy-eligible, but environmentally unstainable activities (not Taxonomy-aligned activities)																				
Production of heat/cool from bioenergy	4.24.	262.5	0.1%																	
Renewal of waste water collection and treatment	5.4.	1,520.4	0.4%																	
Transport by motorbikes, passenger cars and light commercial vehicles	6.5.	18,156.4	4.2%																	
Freight transport services by road	6.6.	16,681.8	3.9%																	
Construction of new buildings	7.1.	1,921.1	0.4%																	
Renovation of existing buildings	7.2.	98,753.7	22.9%																	
Installation, maintenance and repair of energy efficiency equipment	7.3.	13,839.6	3.2%																	
Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	7.5.	115.5	0.0%																	
Installation, maintenance and repair of renewable energy technologies	7.6.	11,577.9	2.7%																	
Acquisition and ownership of buildings	7.7.	23,092.8	5.4%																	
Taxonomy-eligible, but environmentally unsustainable activities (not Taxonomy-aligned activities) (A.2)		185,921.7	43.1%																	
Total (A.1. + A.2.)		185,921.7	43.1%																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Revenues from taxonomy-non-eligible activities (B)		245,622.1	56.9%																	
Total (A+B)		431,543.8	100.0%																	

REPORT ON REQUIREMENTS PRESCRIBED BY THE TAXONOMY REGULATION

KEY PERFORMANCE INDICATORS OF OPERATING EXPENDITURES (KPI OPEX)

Pursuant to the Disclosures Delegated Regulation[19], the operating expenditures (OPEX) that enter into the calculation of the KPI OPEX pertain to research and development, building refurbishment measures, short-term loans, maintenance and repairs, and all other direct expenditures into the daily servicing of property, plants and equipment performed by the company or a third party to whom such tasks are entrusted, and which are necessary for the proper function of those assets.
In 2022, the calculation methodology was slightly amended in relation to 2021. In 2021, ongoing maintenance costs included only those capital investments that were included in the numerator of the KPI CAPEX calculation. In 2022, the scope of the KPI OPEX was expanded pursuant to the Disclosures Delegated Regulation. The calculation was conservative, and the numerator included only those costs identified as taxonomy-eligible, while assessments were not performed for individual expenditure items where the analysis did not enable the separation of taxonomy-eligible expenditures.
In 2022, the numerator for the calculation of the KPI OPEX was HRK 225.3 million, which included:

- Salary expenditures for employees working on research and development, and cleaning and maintenance tasks,
- Expenditures for cleaning services for buildings and commercial space,
- Expenditures for materials for maintaining cleanliness,
- Expenditure for ongoing maintenance,
- Expenditures for materials for ongoing maintenance,
- Various expenditures associated with vehicle maintenance,
- Lease expenditures (short-term lease).

The numerator was HRK 27.7 million, which included:
- Expenditures of ongoing maintenance associated with capital expenditures associated with eligible activities,
- Salary expenditures of employees working on cleaning tasks,
- Expenditures of cleaning services,
- Expenditures associated with the fleet,
- Lease expenditures for commercial space and properties,
- Lease expenditures for passenger vehicles,
- Lease expenditures for cargo vehicles.

As in the case of capital expenditures, operating expenditures can be associated with taxonomy-eligible activities pursuant to the technical screening criteria for the first two environmental objectives and, in line with the *"does not significantly harm"* criteria, were identified as not bring taxonomy-aligned since it was not possible to determine that the significant contribution criterion was met for the object climate change mitigation, since the technical screening criteria for the significant contribution is the existence of a comprehensive assessment of climate risks and sensitivities.

From the above, it was determined that the *key performance indicator* OPEX (KPI OPEX) for the Podravka Group in 2022 *is* 12.3%.

19 (EU)2021/2178, Annex I., points 1.1.3.1. and 1.1.3.2.

				SUBSTANTIAL CONTRIBUTION CRITERIA						*DNHS CRITERIA (“DOES NOT SIGNIFICANTLY HARM”)*										
Economic activities (1)	Code(s) (2)	Absolute capital expenditures (3)	Proportion of capital expenditures (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum safeguards (17)	Taxonomy-aligned proportion of capital expenditures, year N *18)	Taxonomy-aligned proportion of capital expenditures, year N-1 (19)	Category (enabling activity or) (20)	Category (transitional activity) (21)
		IN 000 HRK	%	%	%	%	%	%	%	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	%	%	O	P
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1 Environmentally sustainable activities (taxonomy-aligned)																				
Operating expenditures from environmentally sustainable activities (Taxonomy-aligned) (A.1)		0.0	0.0%																	
A.2 Taxonomy-eligible, but environmentally unstainable activities (not taxonomy-aligned activities)																				
Renewal of waste water collection and treatment	5.4.	204.9	0.1%																	
Transport by motorbikes, passenger cars and light commercial vehicles	6.5.	2,213.4	1.0%																	
Freight transport services by road	6.6.	2,549.4	1.1%																	
Renovation of existing buildings	7.2.	36.3	0.0%																	
Acquisition and ownership of buildings	7.7.	22,695.9	10.1%																	
Taxonomy-eligible, but environmentally unstainable activities (not Taxonomy-aligned activities) (A.2)		27,699.9	12.3%																	
Total (A.1. + A.2.)		27,699.9	12.3%																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Revenues from taxonomy-non-eligible activities (B)		197,573.5	87.7%																	
Total (A+B)		225,273.4	100.0%																	

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Consolidated Financial statements

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

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

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

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

Martina Dalić
President of the Management Board

Davor Doko
Member of the Management Board

Ljiljana Šapina
Member of the Management Board

Milan Tadić
Member of the Management Board

Ivan Ostojić
Member of the Management Board

Podravka d.d.
Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia
Koprivnica, 4 April 2023

PODRAVKA
PREHRAMBENA INDUSTRIJA d.d.
KOPRIVNICA 173

Building a better working world

Ernst & Young d.o.o.
Radnička cesta 50, 10 000 Zagreb
Hrvatska / Croatia
MBS: 080435407
OIB: 58960122779
PDV br. / VAT no.: HR58960122779

Tel: +385 1 5800 800
Fax: +385 1 5800 888
www.ey.com/hr

Banka / Bank:
Erste & Steiermärkische Bank d.d.
Jadranski trg 3A, 51000 Rijeka
Hrvatska / Croatia
IBAN: HR3324020061100280716
SWIFT: ESBCHR22

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Podravka d.d.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Podravka d.d. (the Company) and its subsidiaries (together- the Group), which comprise the consolidated statement of financial position as at 31 December 2022, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for opinion

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

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

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

Key audit matters

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

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

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

Building a better working world

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

Other information

Management is responsible for the other information. Other information comprises the Management Report, Non-financial Report and Corporate Governance Statement included in the Group's Annual Report, but does not include consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information.

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

With respect to the Management Report, Non-financial Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act, whether the Non-financial Report is prepared in accordance with the requirements of Article 21a of the Accounting Act and whether the Corporate Governance Statement includes the information specified in Article 22 and 24 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 and Corporate Governance Statement is consistent, in all material respects, with the enclosed consolidated financial statements;

2. the enclosed Management Report is prepared in accordance with requirements of Article 21 and 24 of the Accounting Act;

3. the enclosed Non-financial Report is prepared in accordance with requirements of Article 21a of the Accounting Act; and

4. the enclosed Corporate Governance Statement includes the information specified in Article 22 and 24 of the Accounting Act.

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

Responsibilities of management and Audit Committee for the consolidated financial statements

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Company on 18 June 2019. Our appointment has been renewed annually by General Assembly of Shareholders, with the most recent reappointment on 14 June 2022, representing a total period of uninterrupted engagement appointment of 4 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 4 April 2023 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 consolidated financial statements.

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

Independent report on the compliance of consolidated financial statements prepared pursuant to Article 462 (5) of the Capital Market Act (Official Gazette 65/18, 17/20,83/21 and 151/22) applying the requirements of the Delegated Regulation (EU) 2018 / 815 on establishing of single electronic reporting format for issuers (the ESEF Regulation).

We have conducted a reasonable assurance engagement on whether the consolidated financial statements, as contained in the attached electronic file PodravkaGroup-2022-12-31.zip, are prepared, for the purposes of public disclosure pursuant to Article 462, paragraph 5 of the Capital Market Act, in all material respects in accordance with the requirements of the ESEF Regulation.

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

- the public disclosure of consolidated financial statements included in the annual report, in XHTML format and
- selecting and using XBLR codes in accordance with ESEF regulation.

Audit Committee is responsible for overseeing the preparation of the consolidated financial statements in ESEF format as part of the financial reporting process.

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

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

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

The aim of our procedures was to assess whether:

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

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

Conclusion
Based on the procedures performed and evidence gathered, the consolidated financial statements presented in ESEF format for the year ended on 31 December 2022, contained in the aforementioned attached electronic file and prepared pursuant to Article 462 paragraph 5 of the Capital Market Act prepared for public disclosure, are prepared in all material respects in line with the requirements of Articles 3, 4 and 6 of the ESEF Regulation. Further to this conclusion, as well as the opinion contained in this independent auditor's report related to accompanying consolidated financial statements and annual report for the year ended 31 December 2022, we do not express any opinion on the information contained in these presentations or on any other information contained in the aforementioned file.

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

ERNST & YOUNG
d.o.o.
Zagreb, Radnička cesta 50

Berislav Horvat
President of the Management Board and Certified auditor

4 April 2023

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

(in thousands of HRK)	***Note***	**2022**	**2021**
Revenues	*8*	5,026,830	4,631,519
Cost of goods sold	*11*	(3,243,188)	(2,953,381)
Gross profit		**1,783,642**	**1,678,138**
Other income	*9*	128,100	34,983
General and administrative expenses	*11*	(379,678)	(346,110)
Selling and distribution costs	*11*	(673,128)	(619,421)
Marketing expenses	*11*	(373,454)	(373,762)
Other expenses	*10*	(14,417)	(8,529)
Operating profit		**471,065**	**365,299**
Financial income	*13*	884	1,782
Financial expenses	*14*	(9,065)	(7,801)
Profit before tax		**462,884**	**359,280**
Income tax	*15*	(85,535)	(41,458)
Profit for the year		**377,349**	**317,822**
Other comprehensive income:			
Items that will not be reclassified to profit or loss account			
Actuarial profit/(loss) - (net of deferred tax)		6,069	(969)
Items that can be subsequently reclassified to profit and loss account			
Exchange differences on translation of foreign operations		4,439	365
Total other comprehensive income		**10,508**	**(604)**
Total comprehensive income		**387,857**	**317,218**
Profit attributable to:			
Equity holders of the parent		369,631	309,221
Non-controlling interests		7,718	8,601
Total comprehensive income attributable to:			
Equity holders of the parent		380,006	308,754
Non-controlling interests		7,851	8,464
Earnings per share (in HRK):			
- Basic	*16*	52.6	44.1
- Diluted	*16*	52.2	43.4

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

(in thousands of HRK)	***Note***	**31 December 2022**	**31 December 2021**
ASSETS			
Non-current assets			
Goodwill	*17*	29,206	28,103
Intangible assets	*18*	241,716	249,235
Property, plant and equipment	*19*	2,266,313	2,206,453
Right-of-use assets	*20*	83,935	93,234
Investment property	*21*	105,601	115,406
Non-current financial assets	*23*	43,159	43,209
Deferred tax assets	*15*	127,801	150,101
Total non-current assets		**2,897,731**	**2,885,741**
Current assets			
Inventories	*24*	1,258,731	933,710
Trade and other receivables	*25*	889,347	1,026,086
Financial assets at fair value through profit and loss	*26*	91	-
Debit instruments at amortized cost		299,621	-
Income tax receivable		4,015	6,426
Cash and cash equivalents	*28*	165,103	33,306
Non-current assets held for sale	*29*	32,427	23,683
Total current assets		**2,649,335**	**2,023,211**
Total assets		**5,547,066**	**4,908,952**
EQUITY AND LIABILITIES			
Shareholders' equity			
Issued capital	*30*	1,566,401	1,566,401
Share premium	*30*	186,705	191,489
Treasury shares	*30*	(42,447)	(39,387)
Reserves	*31*	1,234,883	1,090,288
Retained earnings	*32*	966,234	822,186
Attributable to equity holders of the parent		**3,911,776**	**3,630,977**
Non-controlling interests	*33*	71,005	63,289
Total shareholders' equity		**3,982,781**	**3,694,266**
Non-current liabilities			
Borrowings	*35*	28,605	139,740
Lease liabilities	*20*	47,113	62,769
Non-current provisions for employee benefits		57,229	52,825
Other non-current provisions	*36*	35,308	34,265
Other non-current liabilities	*37*	21,091	18,445
Deferred tax liability	*15*	31,392	37,984
Total non-current liabilities		**220,738**	**346,028**
Current liabilities			
Trade and other payables	*38*	715,610	531,316
Income tax payable		27,182	2,419
Financial liabilities at fair value through profit and loss	*34*	-	35
Borrowings	*35*	510,371	258,884
Lease liabilities	*20*	47,083	32,403
Current provisions for employee benefits		41,918	42,221
Other current provisions	*36*	1,383	1,380
Total current liabilities		**1,343,547**	**868,658**
Total liabilities		**1,564,285**	**1,214,686**
Total equity and liabilities		**5,547,066**	**4,908,952**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

(in thousands of HRK)	**Issued capital**	**Share premium**	**Treasury shares**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
As at 1 January 2021	**1,566,401**	**187,215**	**(47,568)**	**951,174**	**714,828**	**3,372,050**	**54,932**	**3,426,982**
Comprehensive income								
Profit for the year	-	-	-	-	309,221	309,221	8,601	317,822
Foreign exchange differences	-	-	-	502	-	502	(137)	365
Actuarial losses (net of deferred tax)	-	-	-	(969)	-	(969)	-	(969)
Other comprehensive income	**-**	**-**	**-**	**(467)**	**-**	**(467)**	**(137)**	**(604)**
Total comprehensive income	**-**	**-**	**-**	**(467)**	**309,221**	**308,754**	**8,464**	**317,218**
Transactions with owners and transfers recognised directly in equity								
Allocation from retained earnings (note 31)	-	-	-	139,548	(139,548)	-	-	-
Exercise of options	-	(1,986)	8,181	-	812	7,007	-	7,007
Fair value of share-based payment transactions	-	6,260	-	-	-	6,260	-	6,260
Dividend declared	-	-	-	-	(63,127)	(63,127)	-	(63,127)
Additional acquisition of minority interests (note 33)	-	-	-	33	-	33	(107)	(74)
Total transactions with owners recognised directly in equity	**-**	**4,274**	**8,181**	**139,581**	**(201,863)**	**(49,827)**	**(107)**	**(49,934)**
As at 31 December 2021	**1,566,401**	**191,489**	**(39,387)**	**1,090,288**	**822,186**	**3,630,977**	**63,289**	**3,694,266**
Comprehensive income								
Profit for the year	-	-	-	-	369,631	369,631	7,718	377,349
Foreign exchange differences	-	-	-	4,306	-	4,306	133	4,439
Actuarial profit (net of deferred tax)	-	-	-	6,069	-	6,069	-	6,069
Other comprehensive income	**-**	**-**	**-**	**10,375**	**-**	**10,375**	**133**	**10,508**
Total comprehensive income	**-**	**-**	**-**	**10,375**	**369,631**	**380,006**	**7,851**	**387,857**
Transactions with owners and transfers recognised directly in equity								
Allocation from retained earnings (note 31)	-	-	-	134,289	(134,289)	-	-	-
Exercise of options	-	(14,672)	23,631	-	(264)	8,695	-	8,695
Fair value of share-based payment transactions (note 40)	-	9,888	-	-	-	9,888	-	9,888
Dividend declared	-	-	-	-	(91,030)	(91,030)	-	(91,030)
Purchase of treasury shares (note 30)	-	-	(26,691)	-	-	(26,691)	-	(26,691)
Additional acquisition of minority interests (note 33)	-	-	-	(69)	-	(69)	(135)	(204)
Total transactions with owners recognised directly in equity	**-**	**(4,784)**	**(3,060)**	**134,220**	**(225,583)**	**(99,207)**	**(135)**	**(99,342)**
As at 31 December 2022	**1,566,401**	**186,705**	**(42,447)**	**1,234,883**	**966,234**	**3,911,776**	**71,005**	**3,982,781**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

(in thousands of HRK)	***Note***	**2022**	**2021**
Profit before tax		**462,884**	**359,280**
Depreciation and amortization	*11*	228,712	218,166
Impairment on property, plant and equipment	*10*	59	766
Impairment of intangible assets	*10*	7,390	7,674
Impairment on trade receivables and other receivables		5,273	533
Reversal of impairment of loans given and interest		(254)	-
Impairment of long term financial assets	*10*	84	-
Gain on disposal of non-current assets		(104,488)	(396)
Remeasurement of financial assets and liabilities at FVTPL		(126)	75
Share-based payment transactions		9,888	6,260
Gain on disposal of assets held for sale		(7,447)	(5,272)
Increase in provisions		11,880	20,046
Interest income	*13*	(728)	(613)
Dividend income and similar		(27)	(12)
Interest expense	*14*	6,646	7,784
Foreign exchange differences		3,207	(950)
Total adjustments		**160,069**	**254,061**
Changes in working capital:			
(Increase)/Decrease in inventories		(325,021)	46,727
Decrease/(Increase) in receivables		140,962	(53,649)
Increase/(Decrease) in payables		177,441	(23,058)
Cash generated from operations		**616,335**	**583,361**
Income taxes paid		(44,444)	(58,224)
Interest paid		(6,467)	(8,077)
Net cash from operating activities		**565,424**	**517,060**
Cash flows from investing activities			
Purchase of property, plant, equipment and intangibles		(396,780)	(170,264)
Investment in debt instruments at amortised cost	*27*	(299,495)	-
Proceeds from sale of assets held for sale	*28*	22,457	11,532
Proceeds from sale of property, plant, equipment and intangibles		239,280	1,669
Loans given		(15)	(3)
Proceeds from loans given		298	20
Interest received		728	613
Dividends received		27	12
Net cash from investing activities		**(433,500)**	**(156,421)**
Cash flows from financing activities			
Dividend paid		(91,071)	(62,782)
Additional acquisition of minority interests		(204)	(74)
Purchase of treasury shares	*29*	(26,691)	-
Sale of treasury shares		20,827	7,983
Proceeds from borrowings		674,035	226,847
Repayment of borrowings		(535,911)	(512,326)
Repayment of leases		(41,112)	(38,837)
Net cash from financing activities		**(127)**	**(379,189)**
Net (decrease) of cash and cash equivalents		**131,797**	**(18,550)**
Cash and cash equivalents at beginning of year		33,306	51,856
Cash and cash equivalents at the end of year	28	**165,103**	**33,306**

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

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

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

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

The Company's shares were listed on the official market of the Zagreb Stock Exchange until 27 December 2018, since when they have been listed on the Prime Market of the Zagreb Stock Exchange. The shareholder structure is shown in note 30.
Podravka d.d. is the ultimate parent company of the Group.
During 2022, there were no changes in the Company's name or other identification of the reported entity.

General Assembly

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

Supervisory Board:
Members of the Supervisory Board in 2022:

President	Želimir Vukina	(01.07.2019. - 31.10.2022.)
President	Damir Grbavac	(01.11.2022. - 30.06.2026.)
Deputy President	Luka Burilović	(08.09.2018. - 07.09.2026.)
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	Damir Felak	(08.09.2022. - 07.09.2026.)
Member	Petar Miladin	(08.09.2018. - 07.09.2026.)
Member	Dajana Milodanović	(08.09.2018. - 07.09.2022.)
Member	Krunoslav Vitelj	(08.09.2018. - 07.09.2026.)
Member	Ivan Ostojić	(30.06.2021. - 30.06.2022.)

Management Board:

President	Martina Dalić	(04.02.2021. - 23.02.2027.)
Member	Davor Doko	(01.05.2017. - 23.02.2027.)
Member	Marko Đerek	(19.07.2017. - 23.02.2022.)
Member	Hrvoje Kolarić	(24.02.2017. - 23.02.2022.)
Member	Ljiljana Šapina	(24.02.2017. - 23.02.2027.)
Member	Milan Tadić	(24.02.2022. - 23.02.2027.)
Member	Ivan Ostojić	(01.07.2022. - 23.02.2027.)

More detailed information is presented in note 45.

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

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

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

Changes in accounting policies are explained in note 5.

These financial statements were authorised for issue by the Management Board on 4 April 2023.

(ii) Basis of measurement

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

(iii) Functional and presentation currency

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of Podravka d.d. ("the Company") and entities controlled by Podravka d.d. (its subsidiaries) as at and for the year ended 31 December 2022. Control is achieved if the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(i) Subsidiaries

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

(ii) Business combinations

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

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

(iii) Non-controlling interests

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

(iv) Loss of control over subsidiaries

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

(v) Transactions eliminated on consolidation

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Goodwill

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

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

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

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

3.3 Non-current assets held for sale

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

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

3.4 Revenue recognition

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Revenue recognition (continued)

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

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

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

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

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

(iii) Revenue from services

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

(iv) Finance income

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

3.5 Leases

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases (continued)

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

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

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

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

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

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

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

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

Sale and leaseback

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Foreign currency transactions

(i) Transactions and balances in foreign currencies

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

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

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

(ii) Group companies

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

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

(iii) Net investment in Group companies

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

3.7 Borrowings and borrowing costs

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Government grants

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

3.9 Dividends

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

3.10 Segment reporting

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

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

- BU Culinary
- BU Soups
- BU Cereals, Snacks and Beverages
- BU Creamy spreads and Desserts
- BU Bakery
- BU Basic Food
- BU Fish
- BU Meat products
- Pharmaceuticals
- Other sales

The Group identifies operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (which was identified as being the Management Board of the Company) in order to allocate resources to the segments and to assess their performance. During 2022, the Group reconsidered internal monitoring and reporting by segments and accordingly defined business programs with associated product groups and improved the methodology of calculating profits of business segments. Details on the operating segments are disclosed in note 8 to the consolidated financial statements. Comparative information is presented using the comparability principle.

3.11 Taxation

(i) Income tax

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

Income tax for the current year is calculated on the basis of the tax laws enacted at the balance sheet date in countries where the Company and its subsidiaries operate and earn taxable profit.
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Taxation (continued)

(ii) Deferred tax assets and liabilities

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

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

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

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

(iii) Investment tax credits

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

(iv) Tax exposure

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

(v) Value added tax (VAT)

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Property, plant and equipment

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

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

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

Buildings	10 to 50 years
Equipment	3 to 30 years

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

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

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

3.13 Investment property

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Intangible assets

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

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

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

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

(ii) Computer software

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Impairment of non-financial assets

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is expensed immediately. In situation when an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

3.16 Inventories

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

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

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

3.17 Trade receivables

i) Trade receivables

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Trade receivables (continued)

ii) Bills of exchange

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

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

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

3.18 Cash and cash equivalents

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

3.19 Share capital

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

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

3.20 Employee benefits

(i) Pension obligations and post-employment benefits

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

(ii) Termination benefits

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Employee benefits (continued)

(iii) Regular retirement benefits

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

(iv) Long-term employee benefits

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

(v) Short-term employee benefits

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

(vi) Share-based payments

The Group operates a remuneration plan in the form of stock options and shares. Certain members of management receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for equity instruments.

Share-based payments to employees for services rendered that were settled by equity instruments are measured at fair value of the equity instruments at the grant date. The fair value of share-based payments settled by equity is recognized as expenditure over the period of acquiring the conditions, based on estimates relating to equity instruments for which conditions will eventually be vested. At the end of the reporting period estimates of the number of equity instruments expected to be vested are reviewed, and the impact of the revision is reflected in the statement of comprehensive income and in reserves for employee benefits which are settled by equity instruments.

3.21 Provisions

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments

A. Financial assets

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at:

- amortised cost;
- fair value through other comprehensive income (FVOCI) – debt instruments;
- fair value through other comprehensive income (FVOCI) – equity instruments;
- or FVTPL (fair value through profit or loss).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instruments that is not held for trading, the Group may irrevocably elect to present subsequent changes in the instrument's fair value in OCI. This election is made on an instrument-by-instrument basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

A Financial assets (continued)

(ii) Classification and subsequent measurement (continued)

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Trade receivables are held in the business model of holding for the purpose of collection.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, relevant for the purpose of classifying financial assets at amortised cost, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing the main criterion, i.e. whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

The structure of the Group's financial assets is simple and primarily relates to trade receivables without a significant financial component, loans given and short-term deposits in banks at fixed interest rates, while forward contracts are of insignificant amount. This significantly reduces the complexity of the assessment whether the financial assets meet the criterion of 'solely payments of principal and interest'.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

A Financial assets (continued)

(ii) Classification and subsequent measurement (continued)

Subsequent measurement and gains and losses

The table below provides an overview of key provisions of the accounting policy used by the Group for subsequent measurement of financial assets and recognition of gains and losses on each class of financial assets:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt instruments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity instruments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the instruments. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

B. Financial liabilities

(i) Recognition and initial measurement

Debt securities are initially recognised when they are originated. All other financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification and subsequent measurement

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

C. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

D. Derivative financial instruments and hedging activities

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

(i) Hedge accounting

The Group designates individual derivative instruments as hedging instruments against commodity price risk, exchange rate risk, and interest rate risk by applying fair value hedge or cash flow hedge. The hedge against commodity price risk is recorded and calculated as fair value hedge or as cash flow hedge, depending on the nature of the transaction.

When establishing a hedging relationship, the Group records the relationship between the hedging instrument and the hedged item, together with the risk management objectives and the strategy for conducting various hedging transactions. Furthermore, when establishing the hedging relationship and on each reporting date, the Group documents whether the hedging instrument is effective in offsetting changes in the fair value or cash flows of the hedged item that can be attributed to the hedged risk, and that is when the hedging relationship meets all of the following requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk is not decisive for changes in value resulting from that economic relationship and
- the hedging ratio in the hedging relationship is equal to the ratio resulting from the amount of the hedged item that the entity actually hedges against the risk and the amount of the hedging instrument that the entity actually uses to hedge the amount of the item from the risk.

If the hedging relationship ceases to meet the hedging effectiveness requirements related to the hedging ratio, but the risk management objective for that particular hedging relationship remains the same, the Group adjusts the hedging ratio for the established hedging relationship (i.e. rebalances the hedging) to again meet the eligibility criteria.

(ii) Fair value hedge.

In case of need and according to a decision, the Group uses fair value hedge for changes in the value of inventories of goods that the Group uses in its business and are exposed to fluctuations in market prices and for firm obligations arising from contractual agreements for the purchase of goods. A change in the fair value of eligible hedging instruments is recognized in the income statement in the line “Financial expenses or Financial income” except when the hedged item is an equity instrument designated to be carried at fair value through other comprehensive income. In this case, the change in fair value is recognized through other comprehensive income.

The carrying amount of a hedged item that is not measured at fair value is adjusted for the change in fair value attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at fair value through other comprehensive income, the carrying amount is not adjusted because it is already recorded and measured at fair value, but the hedging gain or loss is recognized in profit or loss instead of other comprehensive income. When the hedged item is an equity instrument for which the fair value through other comprehensive income option has been selected, the gain or loss from the hedge remains in other comprehensive income to match that of the hedging instrument. When hedging gains or losses are recognized in the income statement, they are recognized on the same line as the hedged item.

(iii) Cash flow hedge

In case of need and according to a decision, the Group adopts cash flow hedge for anticipated very likely transactions of purchase of goods that the Group uses in its business and are exposed to fluctuations in market prices.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

D Derivative financial instruments and hedging activities (continued)

(iii) Cash flow hedge (continued)

The effective part of changes in the fair value of derivative instruments and other eligible hedging instruments that are designated and suitable as cash flow hedges is recognized in other comprehensive income and accumulated in the item “Cash flow hedge reserves”, limited to the cumulative change in the fair value of the hedged item since inception of the hedging relationship. The profit or loss related to the ineffective part is recognized immediately in the profit and loss account and is included in the item “Financial expenses or Financial income”. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or non-financial liability, gains and losses previously recognized in other comprehensive income and accumulated in equity are reclassified and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income.

Furthermore, if the Group expects that part or all of the loss accumulated in the cash flow hedge reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Group ceases to account for hedge accounting only when the hedging relationship (or part thereof) ceases to meet the eligibility criteria (taking into account also rebalancing, if applicable). This includes cases when the hedging instrument expires or is sold, terminated or settled. The cessation is calculated prospectively.

In the case of a fair value hedge, the adjustment of the fair value of the book value of the hedged item resulting from the hedged risk is amortized in the income statement from that date. When cash flow hedges are involved, any gain or loss recognized in other comprehensive income and accumulated in the cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is immediately reclassified to profit or loss.

During 2022 and 2021, Group had no transactions related to hedge accounting.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

E. Impairment of non-derivative financial assets

Recognition of impairment losses

The Group recognises loss allowances for expected credit loss (ECL)s on:

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

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

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

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 360 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are estimate of credit losses. Credit losses are measured as the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. Regular external trade receivables that are not past due and uncollected receivables past due up to 360 days from the maturity date are impaired using the percentage that reflects the expectations of the non-collection of trade receivables (ECL). The percentage of impairment is determined on the basis of the average of the previous three-year period (historical rate) separately for each of the Group's companies, adjusted for the macroeconomic impact. The calculation of the historical rate is adjusted for extraordinary and specific circumstances, if required.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

E Impairment of non-derivative financial assets (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a significant delay of payment by the borrower;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off of financial assets

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group has a policy of writing off the gross carrying amount of a financial asset upon the legal statute of limitation and it generally expects no recovery of the amount written off.

3.23 Reclassification of items in the Consolidated Statement of Changes in Equity

In accordance with the EU Transparency Directive by which ESMA (European Securities and Markets Authority) introduces the obligation to implement ESEF (European single electronic format based on the XBRL format) for Issuers, the Group has reclassified items of the Statement of Changes in Equity with the aim of optimal use of valid taxonomy.

The effects of reclassification are as follows:

Consolidated Statement of Changes in Equity

(in thousands of HRK)	**2021 before reclassification**	**Reclassification**	**2021 after reclassification**
Reserve for treasury shares	147,604	(147,604)	-
Legal reserves	86,308	(86,308)	-
Reinvested profit reserve	189,738	(189,738)	-
Statutory reserves	70,172	(70,172)	-
Other reserves	596,466	(596,466)	-
Other reserves	-	1,090,288	1,090,288
Total	**1,090,288**	**-**	**1,090,288**

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date of issue of these financial statements, the following standards, amendments and interpretations issued by the International Accounting Standards Board are not yet effective.

- **Amendments to IAS 12** *Income Taxes:* Deferred Tax related to Assets and Liabilities arising from a Single Transaction, issued on 7 May 2021 (effective date for annual periods beginning on or after 1 January 2023).

- **Amendments to IAS 1** *Presentation of Financial Statements* and IFRS Practice Statement 2: Disclosure of Accounting policies, issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).

- **Amendments to IAS 8** *Accounting policies, Changes in Accounting Estimates and Errors:* Definition of Accounting Estimates, issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).

At the date of authorization of these financial statements the following standards, revisions and interpretations issued by the International Accounting Standards Board were not yet adopted by the EU:

- **Amendments to IAS 1** *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current*, issued on 23 January 2020 and 15 July 2020 respectively.

- **Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback, issued on 22 September 2022**.

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

NOTE 5 – IMPACT OF NEW ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2022:

- **Amendments to IFRS 3** *Business Combinations;* **IAS 16** *Property, Plant and Equipment;* **IAS 37** *Provisions, Contingent Liabilities and Contingent Assets* and ***Annual Improvements 2018-2020***, all issued on 14 May 2020, (effective date for annual periods beginning on or after 1 January 2022).

The adoption of these standards and interpretations did not have a significant impact on the Group's financial statements.

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

(i) Deferred tax assets recognition

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

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

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see note 36).

(iii) Consequences of certain legal actions

The Group is involved in a number of legal actions which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal actions, and the provisions for the Group’s obligations arising from these legal actions are recognised on a consistent basis.

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

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

Where the Group is a plaintiff in a particular court case, any economic benefits expected to flow to the Group as a result are recognised only when virtually certain which is generally as at the date of inflow of these economic benefits.

Provisions for the Group’s obligations arising from legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 3.21 and 36).

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(iv) Recoverability of trade and other receivables

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

The Group regularly reviews the ageing structure of trade receivables and monitors the average collection period. In cases where debtors with extended payment periods are identified, the Group reduces the related credit limits and payment days for future transactions and, in cases where it deems it necessary, imposes restrictions on future transactions until the outstanding balance is repaid either entirely or in part. In cases where the Group identifies receivables toward debtors which have entered into pre-bankruptcy or bankruptcy proceedings, an impairment loss is immediately recognised in full.

By applying the percentage that reflects expectations on the non-collection of trade receivables (expected credit loss), the Group impairs undue regular external trade receivables and past due uncollected receivables up to 360 days from the maturity date.

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

(v) Impairment testing for goodwill, brands and rights

The Group tests goodwill, brands and rights for impairment on an annual basis in accordance with accounting policy 3.14. For the purposes of impairment testing, goodwill, brands and rights with indefinite useful lives and brands and rights with finite useful lives have been allocated to cash generating units within reportable segments at their net carrying amount at the reporting date as follows:

	Goodwil	Brands	Rights
	(in thousands of HRK)		
Operating segment			
BU Culinary	-	7,202	-
BU Soups	-	-	-
BU Cereals, Snack and Beverages	-	26,640	-
BU Creamy spreads and Desserts	-	-	-
BU Bakery	-	33,267	-
BU Basic food	29,206	7,006	-
BU Meat products	-	-	-
BU Fish	-	18,800	-
Pharmaceuticals	-	-	53,938
Other - unallocated	-	-	17,635
	29,206	**92,915**	**71,573**

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

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Impairment testing for goodwill, brands and rights (continued)

Goodwill

Goodwill relates entirely to goodwill arising on acquisition of the subsidiary Podravka Lagris a.s. The Group annually performs an impairment test in order to assess whether the recoverable amount of goodwill indicates potential impairment of its carrying amount. The calculation of the recoverable amount of goodwill is based on five-year plans for sales on the Czech market and business plans of the subsidiary developed by the Group bearing in mind its corporate selling and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories) and the analysis of its competitors.

The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five-year period amounting to 2.00% (2021: 2.00%). Cash flows created from such plans are discounted using the post-tax discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for goodwill as the weighted average cost of capital after tax for the Czech market and the food industry and amounts to 8.04% (2021: 5.25%).

As a result of the impairment testing of goodwill, the Group had no impairment losses relating to goodwill during 2022 and 2021.

The sensitivity analysis of presumptions indicates the need for the impairment of goodwill in case of an increase in the weighted average cost of capital rate by 55 basis points or a decrease in the terminal growth rate (assuming unchanged weighted average cost of capital) by 129 basis points.

Brands

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

The Group annually performs impairment tests in order to assess whether the recoverable amount of brands indicates potential impairment of their carrying amount whereby the primary focus is on brands where the difference between the recoverable amount and the carrying amount indicates a significant sensitivity to changes in key variables used in impairment testing. The calculation of the recoverable amount of brands is based on five-year plans for sales of product and categories which comprise a certain brand and which the Group developed bearing in mind its corporate and marketing strategy, trends on relevant markets where the brands are sold (such as estimated movements in gross domestic product, market share of relevant products and categories) and the analysis of its competitors.

Cash flows created from such plans are discounted using the post-tax discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for brands as the weighted average cost of capital (WACC) for the primary market the brand is sold on and the food industry.

For the purpose of recoverable amount of brands whose dominant market is the Markets of Croatia and Slovenia, as at 31 December 2022 the Group applied an income approach – the method of non-payment of royalties.

The basis of the method of non-payment of royalties is that the value of intangible assets equals the amount that the owner would pay for the licence over the assets if it had not been owned, i.e. the value equals post-tax discounted expenses saved if royalties, i.e. the compensation for the use of trademarks, are not paid.

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Impairment testing for goodwill, brands and rights (continued)

Brands (continued)

When calculating the recoverable amount of brands whose dominant market is the Markets of Croatia and Slovenia (a total of 5 brands), rates equal to the weighted average cost of capital after tax (WACC) per individual market and the food industry were used, ranging from 6.97% to 12.61% (2021: ranging from 3.34% do 7.09%), while the applied terminal growth rate range from 2.93% to 3.40% (2021: the applied terminal growth rate for all brands is 2%). The recoverable amount of brands resulting from the discounted cash flow method is as follows:

	Book value		**Recoverable amount**	
	2022	**2021**	**2022**	**2021**
Brands	*(in thousands of HRK)*			
Brand 1	6,299	6,299	8,454	21,886
Brand 2	15,500	15,500	113,835	81,954
Brand 3	21,144	21,144	23,389	76,831
Brand 4	439	439	1,421	2,490
Brand 5	3,300	3,300	10,981	8,412

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Impairment testing for goodwill, brands and rights (continued)

Brands (continued)

Valuation technique	Brand	Significant inputs	Value	Sensitivity of the input to fair value
Method of non-payment of royalties	Brand 1	Weighted average cost of capital	2022: 8.01% 2021: 4.02%	Increase in weighted average cost of capital by 179 basis points (2021: 413) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 9 thousand (2021: HRK 55 thousand)
		Terminal growth rate	2022: 3.01% 2021: 2.00%	Decrease in terminal growth rate with unchanged weighted average cost of capital by 226 basis points (2021: 515) would result in a decrease in fair value in the amount of HRK 9 thousand (2021: HRK 32 thousand)
Method of non-payment of royalties	Brand 2	Weighted average cost of capital	2022: 10.71% 2021: 6.19%	Increase in weighted average cost of capital by 6,449 basis points (2021: 1,981) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 5 thousand (2021: HRK 27 thousand)
		Terminal growth rate	2022: 3.00% 2021: 2.00%	Even in case of a significant decrease in the terminal growth rate with unchanged weighted average cost of capital, there will be no decrease in fair value of the brand (2021: 8,100 basis points – decrease of HRK 25 thousand)
Method of non-payment of royalties	Brand 3	Weighted average cost of capital	2022: 7.47% 2021: 3.66%	Increase in weighted average cost of capital by 50 basis points (2021: 454) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 25 thousand (2021: HRK 30 thousand)
		Terminal growth rate	2022: 2.93% 2021: 2.00%	Decrease in terminal growth rate with unchanged weighted average cost of capital by 59 basis points (2021: 571) would result in a decrease in fair value in the amount of HRK 18 thousand (2021: HRK 27 thousand)
Method of non-payment of royalties	Brand 4	Weighted average cost of capital	2022: 6.97% 2021: 3.34%	Increase in weighted average cost of capital by 983 basis points (2021: 666) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 6 thousand (2021: HRK 7 thousand)
		Terminal growth rate	2022: 3.00% 2021: 2.00%	Decrease in terminal growth rate with unchanged weighted average cost of capital by 1,700 basis points (2021: 950) would result in a decrease in fair value in the amount of HRK 1 thousand (2021: HRK 18 thousand)
Method of non-payment of royalties	Brand 5	Weighted average cost of capital	2022: 12.61% 2021: 7.09%	Increase in weighted average cost of capital by 2,519 basis points (2021: 841) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 7 thousand (2021: HRK 10 thousand)
		Terminal growth rate	2022: 3.40% 2021: 2.00%	Even in case of a significant decrease in the terminal growth rate with unchanged weighted average cost of capital, there will be no decrease in fair value of the brand (2021: 1,460 basis points – decrease of HRK 26 thousand)

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Impairment testing for goodwill, brands and rights (continued)

Brands (continued)

When calculating the recoverable amount of brands whose dominant market is the Slovenian market (a total of 17 brands), rates equal to the weighted average cost of capital after tax (WACC) per individual market and the food industry were used, ranging from 6.94% to 11.27% (2021: ranging from 3.34% to 5.22%) while the applied terminal growth rate ranges from 2.18% to 3.04% (2021: ranging from 1.69% to 2.00%).

The recoverable amount of brands resulting from the discounted cash flow method is as follows:

	Book value		Recoverable amount	
	2022	**2021**	**2022**	**2021**
	(in thousands of HRK)			
Brands				
Brand 1	12,902	12,872	44,707	90,546
Brand 2	3,908	3,899	30,008	38,676
Brand 3	2,999	2,992	7,420	22,333
Brand 4	910	908	3,294	5,459
Brand 5	656	654	1,807	1,494
Brand 6	690	689	1,433	7,365
Brand 7	286	285	1,161	2,870
Brand 8	-	249	-	1,697
Brand 9	3,169	3,162	29,449	18,236
Brand 10	1,912	1,907	5,802	14,457
Brand 11	283	282	679	1,976
Brand 12	2,425	2,419	3,853	13,887
Brand 13	1,799	1,795	43,073	18,032
Brand 14	1,595	1,591	16,226	8,137
Brand 15	732	730	3,319	2,471
Brand 16	-	185	-	2,133
Brand 17	2,193	2,187	5,134	16,794
Brand 18	2,516	2,510	8,100	7,597
Brand 19	-	746	-	4,604
Brand 20	3,664	3,656	65,407	44,360

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Impairment testing for goodwill, brands and rights (continued)

Brands (continued)

Valuation technique	Brand	Significant inputs	Value	Sensitivity of the input to fair value
Method of non-payment of royalties	Brand 1	Weighted average cost of capital	2022: 7.86% 2021: 4.20%	Increase in weighted average cost of capital by 1,519 basis points (2021: 1,563) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 57 thousand (2021: HRK 9 thousand)
		Terminal growth rate	2022: 2.28% 2021: 1.70%	Decrease in terminal growth rate with unchanged weighted average cost of capital by 4,148 basis points (2021: 3,421) would result in a decrease in fair value in the amount of HRK 43 thousand (2021: HRK 7 thousand)
Method of non-payment of royalties	Brand 2	Weighted average cost of capital	2022: 6.94% 2021: 3.40%	Increase in weighted average cost of capital by 2,956 basis points (2021: 1,294) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 10 thousand (2021: HRK 13 thousand)
		Terminal growth rate	2022: 2.92% 2021: 2.00%	Even in case of a significant decrease in the terminal growth rate with unchanged weighted average cost of capital, there will be no decrease in fair value of the brand (2021: 2,480 basis points – decrease of HRK 12 thousand)
Method of non-payment of royalties	Brand 3	Weighted average cost of capital	2022: 6.97% 2021: 3.30%	Increase in weighted average cost of capital by 623 basis points (2021: 916) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 3 thousand (2021: HRK 20 thousand)
		Terminal growth rate	2022: 2.97% 2021: 2.00%	Decrease in terminal growth rate with unchanged weighted average cost of capital by 917 basis points (2021: 1,410) would result in a decrease in fair value in the amount of HRK 2 thousand (2021: HRK 14 thousand)
Method of non-payment of royalties	Brand 4	Weighted average cost of capital	2022: 8.24% 2021: 4.40%	Increase in weighted average cost of capital by 1,676 basis points (2021: 1,310) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 3 thousand (2021: HRK 8 thousand)
		Terminal growth rate	2022: 2.58% 2021: 2.00%	Decrease in terminal growth rate with unchanged weighted average cost of capital by 5,458 basis points (2021: 2,700) would result in a decrease in fair value in the amount of HRK 6 thousand (2021: HRK 12 thousand)
Method of non-payment of royalties	Brand 5	Weighted average cost of capital	2022: 7.40% 2021: 5.50%	Increase in weighted average cost of capital by 990 basis points (2021: 496) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 3 thousand (2021: HRK 2 thousand)
		Terminal growth rate	2022: 2.18% 2021: 1.80%	Decrease in terminal growth rate with unchanged weighted average cost of capital by 1,858 basis points (2021: 739) would result in a decrease in fair value in the amount of HRK 3 thousand (2021: HRK 24 thousand)

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Impairment testing for goodwill, brands and rights (continued)

Brands (continued)

Valuation technique	Brand	Significant inputs	Value	Sensitivity of the input to fair value
Method of non-payment of royalties	Brand 6	Weighted average cost of capital	2022: 6.97% 2021: 3.30%	Increase in weighted average cost of capital by 453 basis points (2021: 1,366) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 3 thousand (2021: HRK 7 thousand)
		Terminal growth rate	2022: 3.00% 2021: 2.00%	Decrease in terminal growth rate with unchanged weighted average cost of capital by 620 basis points (2021: 2,780) would result in a decrease in fair value in the amount of HRK 3 thousand (2021: HRK 14 thousand)
Method of non-payment of royalties	Brand 7	Weighted average cost of capital	2022: 6.97% 2021: 3.30%	Increase in weighted average cost of capital by 1,373 basis points (2021: 1,366) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 4 thousand (2021: HRK 14 thousand)
		Terminal growth rate	2022: 3.00% 2021: 2.00%	Decrease in terminal growth rate with unchanged weighted average cost of capital by 3,100 basis points (2021: 2,700) would result in a decrease in fair value in the amount of HRK 3 thousand (2021: HRK 12 thousand)
Method of non-payment of royalties	Brand 9	Weighted average cost of capital	2022: 6.97% 2021: 3.30%	Increase in weighted average cost of capital by 3,913 basis points (2021: 666) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 1 thousand (2021: HRK 35 thousand)
		Terminal growth rate	2022: 3.00% 2021: 2.00%	Even in case of a significant decrease in the terminal growth rate with unchanged weighted average cost of capital, there will be no decrease in fair value of the brand (2021: 900 basis points – decrease of HRK 15 thousand)
Method of non-payment of royalties	Brand 10	Weighted average cost of capital	2022: 8.81% 2021: 4.70%	Increase in weighted average cost of capital by 1,249 basis points (2021: 1,876) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 2 thousand (2021: HRK 19 thousand)
		Terminal growth rate	2022: 2.94% 2021: 2.00%	Decrease in terminal growth rate with unchanged weighted average cost of capital by 2,764 basis points (2021: 5,750) would result in a decrease in fair value in the amount of HRK 3 thousand (2021: HRK 8 thousand)
Method of non-payment of royalties	Brand 11	Weighted average cost of capital	2022: 7.05% 2021: 3.40%	Increase in weighted average cost of capital by 625 basis points (2021: 10) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 4 thousand (2021: HRK 125 thousand)
		Terminal growth rate	2022: 2.97% 2021: 2.00%	Decrease in terminal growth rate with unchanged weighted average cost of capital by 917 basis points (2021: 5) would result in a decrease in fair value in the amount of HRK 3 thousand (2021: HRK 64 thousand)

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Impairment testing for goodwill, brands and rights (continued)

Brands (continued)

Valuation technique	Brand	Significant inputs	Value	Sensitivity of the input to fair value
Method of non-payment of royalties	Brand 12	Weighted average cost of capital	2022: 8.91% 2021: 4.70%	Increase in weighted average cost of capital by 379 basis points (2021: 1,407) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 2 thousand (2021: HRK 41 thousand)
		Terminal growth rate	2022: 2.82% 2021: 2.00%	Decrease in terminal growth rate with unchanged weighted average cost of capital by 542 basis points (2021: 3,000) would result in a decrease in fair value in the amount of HRK 7 thousand (2021: HRK 12 thousand)
Method of non-payment of royalties	Brand 13	Weighted average cost of capital	2022: 7.07% 2021: 3.40%	Increase in weighted average cost of capital by 14,893 basis points (2021: 1,336) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 4 thousand (2021: HRK 16 thousand)
		Terminal growth rate	2022: 2.96% 2021: 2.00%	Even in case of a significant decrease in the terminal growth rate with unchanged weighted average cost of capital, there will be no decrease in fair value of the brand (2021: 2,650 basis points – decrease of HRK 24 thousand)
Method of non-payment of royalties	Brand 14	Weighted average cost of capital	2022: 8.76% 2021: 4.50%	Increase in weighted average cost of capital by 7,274 basis points (2021: 1,104) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 3 thousand (2021: HRK 32 thousand)
		Terminal growth rate	2022: 2.92% 2021: 2.00%	Even in case of a significant decrease in the terminal growth rate with unchanged weighted average cost of capital, there will be no decrease in fair value of the brand (2021: 1,939 basis points – decrease of HRK 28 thousand)
Method of non-payment of royalties	Brand 15	Weighted average cost of capital	2022: 7.23% 2021: 4.80%	Increase in weighted average cost of capital by 1,587 basis points (2021: 684) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 4 thousand (2021: HRK 14 thousand)
		Terminal growth rate	2022: 3.04% 2021: 1.90%	Decrease in terminal growth rate with unchanged weighted average cost of capital by 4,204 basis points (2021: 993) would result in a decrease in fair value in the amount of HRK 5 thousand (2021: HRK 16 thousand)
Method of non-payment of royalties	Brand 17	Weighted average cost of capital	2022: 7.02% 2021: 3.40%	Increase in weighted average cost of capital by 578 basis points (2021: 963) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 9 thousand (2021: HRK 5 thousand)
		Terminal growth rate	2022: 2.98% 2021: 2.00%	Decrease in terminal growth rate with unchanged weighted average cost of capital by 838 basis points (2021: 1,550) would result in a decrease in fair value in the amount of HRK 10 thousand (2021: HRK 27 thousand)

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Impairment testing for goodwill, brands and rights (continued)

Brands (continued)

Valuation technique	Brand	Significant inputs	Value	Sensitivity of the input to fair value
Method of non-payment of royalties	Brand 18	Weighted average cost of capital	2022: 11.27% 2021: 5.20%	Increase in weighted average cost of capital by 2,253 basis points (2021: 658) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 6 thousand (2021: HRK 23 thousand)
		Terminal growth rate	2022: 2.62% 2021: 2.00%	Even in case of a significant decrease in the terminal growth rate with unchanged weighted average cost of capital, there will be no decrease in fair value of the brand (2021: 950 basis points – decrease of HRK 18 thousand)
Method of non-payment of royalties	Brand 20	Weighted average cost of capital	2022: 6.97% 2021: 3.30%	Increase in weighted average cost of capital by 10,053 basis points (2021: 1,646) with unchanged terminal growth rate would result in a decrease in fair value in the amount of HRK 8 thousand (2021: HRK 20 thousand)
		Terminal growth rate	2022: 2.99% 2021: 2.00%	Even in case of a significant decrease in the terminal growth rate with unchanged weighted average cost of capital, there will be no decrease in fair value of the brand (2021: 4,080 basis points – decrease of HRK 6 thousand)

During 2022, the Group recognised brand impairment in the amount of HRK 2,088 thousand (2021: HRK 671 thousand).

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Impairment testing for goodwill, brands and rights (continued)

Rights

Rights relate to registration files (pharmaceutical segment), distribution rights relating either to a specific segment or to several segments combined and acquired rights for operating pharmacies (pharmaceutical segment). Registration files and distribution rights have finite useful lives over which they are amortised and impaired in the event circumstances arise which indicate a need for impairment in excess of the regular amortisation charge. Pharmaceutical rights relate to acquired rights to perform pharmaceutical activities that are fully allocated to the segment "Pharmaceuticals". In accordance with local legislation such rights do not expire (the Group does not expect regulatory changes in this respect).

The Group annually performs impairment tests in order to assess whether the recoverable amount of pharmaceutical rights indicates potential impairment of their carrying amount. Rights with an unlimited useful lives are allocated for the purpose of impairment testing to cash-generating units within the business segments and their net carrying value at the reporting date is HRK 40,025 thousand (2021: HRK 40,025 thousand).

The recoverable value of cash-generating units is determined by calculations of value in use based on projections of discounted cash flows on the basis of financial plans approved by the Management Board, which cover a five-year period from the reporting date.
Key assumptions on which projections of future discounted cash flows are based include an average revenue growth rate in the five-year period of 2.6%.

In cash flows after the five-year period, a terminal growth rate of 2 % was used, and the present value of net future cash flows was calculated using discount rates based on the average weighted cost of capital of 8.14% after taxation (for assets that generate the majority of income on the Croatian market) (2021: 5.89% after taxation).

During 2022, the Group recognised impairment costs on rights in the amount of HRK 4,375 thousand (2021: HRK 7,003 thousand).

During 2022, the Group did not have impairment cost on pharmacy rights (2021: the Group did not have impairment cost on pharmacy rights). Following the impairment test, the Group further compared similar transactions on the pharmacy market through revenue and operating profit multipliers that also indicate that the fair value of pharmacy rights is higher than the carrying amount. Management views the cash-generating unit as a single pharmacy unit in a particular geographical area.

Three pharmacy units show sensitivity to key assumptions.

Sensitivity analysis for the pharmacy unit with a carrying value of HRK 12,862 thousand at the reporting date (2021: HRK 12,862 thousand) indicates that with the terminal growth rate of 0.5% (with unchanged weighted average cost of capital) there would be a need for impairment in the amount to HRK 574 thousand. The sensitivity analysis also shows that with an increase in the weighted average cost of capital by 80 basis points (to 8.94%), with unchanged terminal growth rate from key assumptions, the value of the impairment would be HRK 884 thousand.

Sensitivity analysis for the pharmacy unit with a carrying value of HRK 19,350 thousand at the reporting date (2021: HRK 19,350 thousand) indicates that with the terminal growth rate of 1.5% (with unchanged weighted average cost of capital) there would be a need for impairment in the amount to HRK 797 thousand. The sensitivity analysis also shows that with an increase in the weighted average cost of capital by 50 basis points (to 8.64%), with unchanged terminal growth rate from key assumptions, the value of the impairment would be HRK 1,134 thousand.

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

The Group annually performs analysis of impairment indicators for property, plant and equipment in order to assess whether the recoverable amount indicates potential impairment of their carrying amount. In 2022, the Group did not recognise impairment of property and plant (2021: HRK 766 thousand). During 2022, the Group recognised impairment of equipment in the amount of HRK 59 thousand (2021: did not recognise any impairment of equipment).

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

During 2022, the COVID-19 pandemic did not have an impact on the going concern of the Podravka Group's operations.

NOTE 7 – DETERMINATION OF FAIR VALUES

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

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

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

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

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

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

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

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

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

- note 23: Non-current financial assets
- note 26: Financial assets at fair value through profit or loss
- note 29: Non-current assets held for sale
- note 34: Financial liabilities at fair value through profit or loss
- note 40: Share-based payments

NOTE 8 – SALES REVENUE

Sales revenue

	2022	2021
	(in thousands of HRK)	
Revenue from sale of products and merchandise	4,998,979	4,604,342
Revenue from services	27,851	27,177
	5,026,830	**4,631,519**

For management purposes, the Group is organised in business units based on the similarity in the nature of individual product groups and has identified reportable segments in accordance with quantitative thresholds for segment reporting. The reportable segments of the Group are as follows:

- BU Culinary
- BU Soups
- BU Cereals, Snacks and Beverages
- BU Creamy spreads and Desserts
- BU Bakery
- BU Basic Food
- BU Fish
- BU Meat products
- Pharmaceuticals
- Other sales

The reportable segments are part of the internal financial reporting to the Management Board which was identified as the chief operating decision maker. The Management Board reviews the internal reports regularly and assesses the segment performance, and uses those reports in making operating decisions.

Segment revenues and results

Set out below is an analysis of the Group's revenue and results by its reportable segments, presented in accordance with IFRS 8 *Operating segments* and a reconciliation of segment profits to profit or loss before tax as presented in the consolidated statement of comprehensive income. The revenue presented below relates to third-party sales. Inter-segment revenues are eliminated on consolidation. In 2022, the Group improved methodology of segment revenue calculation, which resulted in a change in the presented data for 2021.

(in thousands of HRK)	Segment revenues 2022	Segment expenses 2022	Segment depreciation 2022	Segment profits/(loss) 2022
BU Culinary	763,098	528,486	15,548	219,064
BU Soups	315,830	221,298	7,788	86,744
BU Cereals, Snack and Beverages	321,459	245,962	15,977	59,521
BU Cream spreads and Desserts	236,429	202,316	14,706	19,407
BU Bakery	630,430	570,470	23,565	36,394
BU Basic food	862,432	820,169	33,444	8,819
BU Meat products	326,069	322,108	12,075	(8,114)
BU Fish	204,220	204,150	7,193	(7,123)
Other sales	274,283	236,923	5,088	32,273
Pharmaceutical	1,092,581	845,657	66,665	180,259
	5,026,831	**4,197,539**	**202,049**	**627,244**
Finance income (note 13)				884
Other income (note 9)				128,100
Central administration costs				(269,862)
Other expenses (note 10)				(14,417)
Finance expenses (note 14)				(9,065)
Profit before tax				**462,884**

NOTE 8 – SALES REVENUE (CONTINUED)

Segment revenues and results (continued)

(in thousands of HRK)	Segment revenues 2021	Segment expenses 2021	Segment depreciation 2021	Segment profits/(loss) 2021
BU Culinary	761,041	504,512	16,402	240,127
BU Soups	279,443	182,898	7,789	88,756
BU Cereals, Snack and Beverages	304,947	230,386	14,429	60,132
BU Cream spreads and Desserts	231,339	184,713	12,803	33,823
BU Bakery	569,246	530,756	19,239	19,251
BU Basic food	719,045	689,067	35,043	(5,065)
BU Meat products	307,043	295,597	12,050	(604)
BU Fish	209,372	207,504	7,794	(5,926)
Other sales	219,788	195,531	4,525	19,732
Pharmaceutical	1,030,254	832,714	64,659	132,881
	4,631,518	**3,853,678**	**194,733**	**583,107**
Finance income (note 13)				1,782
Other income (note 9)				34,983
Central administration costs				(244,262)
Other expenses (note 10)				(8,529)
Finance expenses (note 14)				(7,801)
Profit before tax				**359,280**

Balance sheet by segments

(in thousands of HRK)	31.12.2022 Total	31.12.2022 Pharmaceuticals	31.12.2022 Nutrition Segments	31.12.2021 Total	31.12.2021 Pharmaceuticals	31.12.2021 Nutrition Segments
ASSETS						
Total non-current assets	2,897,731	897,463	2,000,268	2,885,741	955,882	1,929,859
Total current assets	2,649,335	722,007	1,927,328	2,023,211	629,985	1,393,226
Total assets	**5,547,066**	**1,619,470**	**3,927,596**	**4,908,952**	**1,585,867**	**3,323,085**
LIABILITIES						
Equity	3,911,776	1,281,129	2,630,647	3,630,977	1,177,600	2,453,377
Minority interest	71,005	71,005	-	63,289	63,106	183
Total long-term liabilities	220,738	48,876	171,862	346,028	138,931	207,097
Total current liabilities	1,343,547	218,460	1,125,087	868,658	206,230	662,428
Total equity and liabilities	**5,547,066**	**1,619,470**	**3,927,596**	**4,908,952**	**1,585,867**	**3,323,085**

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

NOTE 8 – SALES REVENUE (CONTINUED)

Segment revenues and results (continued)

BU Culinary comprises the following product groups: Universal seasonings, Special seasonings, Monospices and salts, Bouillons, and Food mixes.

BU Soups comprises the following product groups: Soups, and Instant meals.

BU Cereals, Snack and Beverages comprises the following product groups: Cereals, Baby food, Snack, Tea, and Beverages.

BU Creamy spreads and desserts comprises the following product groups: Creamy spreads, and Desserts.

BU Bakery comprises the following product groups: Bread, Rolls and salt bakery products, Sweet bakery products, Žito flour, and Confectionery.

BU Basic Food comprises the following product groups: Condiments, Tomato products, Processed fruit, Vegetables, Podravka flour, Side dishes, and Wellness food.

BU Meat products comprises the following product groups: Ready meals, Pates, Dried Meat and Sausage Products, Chilled ready meals, and Other products.

BU Fish comprises the following product groups: Fish products, Fish salads, and Fish others.

The Pharmaceutical segment comprises the following: ethical drugs (medically prescribed drugs), non-prescription program (drugs for which no medical prescription is required), nutraceuticals and trade goods and services. Pharmaceuticals segment is regulated by the Croatian Institute for Health Insurance, which provides prescription drug prices and by the relevant regulatory authorities in connection with the registration of medicines in the Croatian market. Foreign markets in this segment have similar regulation characteristics.

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

Business unites (BU) comprise own brands, B2B, private labels and service production.

The accounting policies of the reportable segments are the same as the Group’s accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, other income, other expenses, finance expenses, and income tax expense.

Geographical information

The Group operates in five principal geographical areas by which it reports third-party sales:

(in thousands of HRK)	**2022**	**2021**
Markets of Croatia and Slovenia	2,506,952	2,255,248
Southeastern Europe	1,051,314	963,282
Central Europe	637,104	553,824
Western Europe and Overseas	536,832	532,565
Eastern Europe	294,628	326,600
	5,026,830	**4,631,519**

NOTE 8 – SALES REVENUE (CONTINUED)

Information about major customers

Third-party sales in Croatia account for 32% (2021: 32%) of the total revenue from external customers, whereas the remaining 68% (2021: 68%) represent foreign sales. Top 20 customers participate with 32% (2021: 32%) in the value of external sales in total income.

Sales to major customers owned or controlled by the same third party group represent approximately 9% of the Group's total revenue in 2022 (2021: approximately 10% of the total revenue). Below is a more detailed overview of countries by geographical area:

Markets of Croatia and Slovenia	**Southeastern Europe**	**International markets**				
		Western Europe and Overseas			**Central Europe**	**Eastern Europe**
		Western Europe	**Overseas**			
Croatia	Bosnia and Herzegovina	Germany	USA	Libya	Poland	Russian Federation
Slovenia	North Macedonia	Austria	Canada	Kenya	Czech Republic	Ukraine
	Serbia	Switzerland	Australia	Burkina Faso	Slovakia	Kazakhstan
	Montenegro	France	New Zealand	China	Hungary	Estonia
	Kosovo	Great Britain	Irak	Japan	Romania	Lithuania
	Bulgaria	Italy	United Arab Emirates	Singapore		Latvia
	Albania	Denmark	Kuwait	Taiwan		Moldova
	Greece	Sweden	Katar	Israel		Belarus
		Nederlands	Saudi Arabia	Mongolia		Armenia
		Belgium	Turkey	Bolivia		Kyrgystan
		Ireland	Jordan			Georgia
		Spain	Cyprus			
		Portugal	Egypt			

NOTE 9 – OTHER INCOME

	2022	**2021**
	(in thousands of HRK)	
Gain on disposal of property, plant, equipment and intangibles	103,901	303
Grant income	9,412	8,781
Gain on disposal of assets held for sale	7,447	5,272
Reversal of impairment of other receivables	701	407
Gains from property investments	349	-
Gains on write-off right-of-use assets	238	64
Interest and foreign exchange differences on trade receivables and payables	-	14,701
Other income	6,052	5,455
	128,100	**34,983**

In 2022, the Group generated income from sale and disposal of tangible assets in the amount of HRK 103,901 thousand (2021: HRK 303 thousand), mostly refers to sales of property in Slovenia.

Grant income mainly refers to non-repayable state grants for the employment of disabled persons, non-repayable state grants for agriculture and research into innovative technologies.

NOTE 10 – OTHER EXPENSES

	2022	2021
	(in thousands of HRK)	
Impairment loss on property, plant, equipment and intangibles	7,449	8,440
Interest and foreign exchange differences on trade receivables and payables	6,750	-
Interest expense relating to trade payables and other	134	89
Investment expenditure - share adjustment	84	-
	14,417	**8,529**

NOTE 11 – EXPENSES BY NATURE

	2022	2021
	(in thousands of HRK)	
Raw materials supplies, energy and cost of goods sold including change in inventory	2,593,876	2,323,721
Staff costs (note 12)	1,123,782	1,082,505
Services (i)	245,942	227,727
Depreciation and amortisation (ii)	228,712	218,166
Advertising and promotion	190,926	195,192
Transport	151,748	114,374
Entertainment	27,126	23,578
Taxes and contributions independent of operating results	25,471	25,649
Rental expense	23,416	16,661
Cost of disposal of packaging, administrative fees, etc	13,806	11,703
Insurance premiums	13,045	12,927
Daily allownaces and other business travel expenses	11,276	8,973
Telecommunications	9,692	10,326
Impairment of trade receivables (note 25)	5,974	940
Litigation expenses	2,176	10,764
Other	2,480	9,468
Total cost of goods sold, selling and distribution costs, marketing costs and general and administrative costs	**4,669,448**	**4,292,674**

(i) Costs of services include audit fees. Fees for the audit of the Group's financial statements amounted to HRK 2,811 thousand (2021: HRK 3,064 thousand). Fees for the assurance engagements amounted to HRK 188 thousand (2021: HRK 206 thousand). During 2022, the Group did not receive any non-audit services from the auditor.

(ii) Depreciation and amortisation include HRK 1,816 thousand of government grants for co-financing of assets (2021: HRK 1,828 thousand).

The Group reports gross profit as revenue from the sale of products less operating expenses as shown in the specification above with the net effect of other income (note 9) and other expenses (note 10).

NOTE 11 – EXPENSES BY NATURE (CONTINUED)

The following tables present expenses by nature contained in cost of goods sold:

	2022	2021
	(in thousands of HRK)	
Raw material and supplies	1,877,034	1,648,898
Cost of goods sold	656,966	627,355
Staff costs	465,880	462,696
Depreciation and amortisation	128,300	124,459
Production services	78,571	58,409
Taxes and contributions independent of operating results	11,302	11,261
Other expenses (transport, rent, education, etc)	25,135	20,303
Cost of goods sold	**3,243,188**	**2,953,381**

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

Depreciation and amortisation allocated to each function is as follows:

	2022	2021
	(in thousands of HRK)	
Cost of goods sold	128,300	124,459
Selling, logistics and distribution costs	47,955	46,200
General and administrative expenses	40,438	36,230
Marketing expenses	12,019	11,277
	228,712	**218,166**

Staff costs allocated to each function is as follows:

	2022	2021
	(in thousands of HRK)	
Cost of goods sold	465,880	462,696
Selling, logistics and distribution costs	306,554	301,224
General and administrative expenses	241,399	211,397
Marketing expenses	109,949	107,188
	1,123,782	**1,082,505**

NOTE 12 – STAFF COSTS

	2022	2021
	(in thousands of HRK)	
Salaries	935,890	928,804
Transport	25,777	25,418
Share-based payment transactions (note 40)	9,888	9,512
Termination benefits	8,534	6,565
Other cost of employees	143,693	112,206
	1,123,782	**1,082,505**

As at 31 December 2022, the number of staff employed by the Group was 6,299 (2021: 6,557). The average number of employees of the Group during 2022 is 6,465 employees (2021: 6,663 employees). Of the total cost of share-based payments of HRK 9,888 thousand, the amount of HRK 7,353 thousand relates to stock options, while the amount of HRK 2,535 thousand relates to shares (2021: stock options HRK 9,512 thousand).
In 2022, termination and retirement benefits of HRK 8,534 thousand were paid to 165 employees (2021: termination and retirement benefits of HRK 6,565 thousand were paid to 114 employees).

Other employee costs relate mainly to cost of employees are Christmas, Easter and other non-taxable employee benefits in the amount of HRK 45,347 thousand (2021: HRK 27,245 thousand), holiday pay in the amount of HRK 22,223 thousand (2021: HRK 22,915 thousand). Other significant items within other cost of employees are meal expenses in the amount of HRK 24,424 thousand (2021: HRK 24,522 thousand).

NOTE 13 – FINANCE INCOME

	2022	2021
	(in thousands of HRK)	
Interest on term deposits	421	360
Other interests	308	252
Remeasurement of financial instruments at fair value through profit or loss	128	4
Dividend income	27	12
Net foreign exchange gains on borrowings	-	1,154
	884	**1,782**

NOTE 14 – FINANCE EXPENSES

	2022	2021
	(in thousands of HRK)	
Interest expense and similar charges	6,935	7,784
Net foreign exchange loss on borrowings	2,130	-
Unrealised losses per forward	-	17
	9,065	**7,801**

NOTE 15 – INCOME TAX

Income tax expense consists of:

	2022	2021
	(in thousands of HRK)	
Current income tax	71,635	51,256
Deferred tax (income)/expense	13,900	(9,798)
	85,535	**41,458**

Effective tax rate reconciliation

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

	2022	2021
	(in thousands of HRK)	
Profit before taxation	**462,884**	**359,280**
Income tax at 18%	83,319	64,670
Non-taxable income	(53)	(2)
Non-deductible expenses	5,022	7,070
Tax incentives (research and development, education and other)	(1,804)	(2,985)
Recognition of previously unrecognized temporary differences and tax losses as deferred tax assets	-	(24,433)
Temporary differences and tax losses not recognised as deferred tax assets	1,407	1,973
Utilisation of tax losses previously not recognised as deferred tax asset	-	(12)
Effect of different tax rates	(3,575)	(5,308)
Tax for the previous year	(81)	9
Tax paid abroad	1,300	476
Income tax	**85,535**	**41,458**
Effective tax rate	18%	12%

Investment tax credit

In March 2015, pursuant to the Investment Promotion and Development of Investment Climate Act, the subsidiary Belupo d.d. became eligible to receive incentive measures. The Ministry of Economy approved the tax incentive measures, as a subsidy for qualifying costs of new employment linked to the investment project and an incentive for capital expenditure related to the investment project, in the form of an investment tax credit in the amount of HRK 163,717 thousand for which the subsidiary will be able to reduce its future income tax liabilities and/or receive cash reimbursements as an incentive for employment related to the investment project.

The subsidiary has the right to use the investment tax credit in the next 10 years from the date of approval by the relevant authorities. The execution of the investment project is subject to supervision by the relevant institutions and the subsidiary is not permitted to reduce the number of new jobs (related to the terms of the incentive measures) in addition to other conditions, throughout the period of the incentive measures, but no less than 5 years. If the conditions of the tax incentive are not met, the subsidiary would have to retroactively pay income tax inclusive of any penalty interest.

Based on the assessment of the recoverability of the tax incentive made by the management of the subsidiary and the Group, in financial statements for 2015, the subsidiary and Group initially recognised the entire amount of approved tax incentives as a deferred tax asset and an income tax benefit. In future years, the deferred tax asset will be utilised in accordance with the utilization of the tax incentive, i.e. in accordance with and subject to the availability of tax obligations against which the credits can be offset and/or amounts of cash reimbursements the subsidiary receives as incentives for new employment as part of the investment project. In 2022, deferred tax asset of HRK 21,765 thousand was used from this basis.

NOTE 15 – INCOME TAX (CONTINUED)

Investment tax credit (continued)

On 10 November 2022, the Company Podravka d.d. applied for approval of the status of holder of incentive measures based on the Investment Promotion Act. The Act allows for tax incentives in the amount of 50% of the investment amount up to the amount of the investment in the equivalent value of EUR 50 million, and 25% of the incentive for the value of the investment that exceeds the equivalent value of EUR 50 million. Incentives are not approved for the part of the investment that potentially exceeds the equivalent value of EUR 100 million. The theoretical holder of incentive measures can achieve a maximum of HRK 37.5 million tax incentives that can be used for a maximum of 10 years.

In December 2022, the company started with the investment, and the application submitted is being supplemented. The company has not yet acquired the status of holder of incentive measures and therefore no potential future benefits have been recorded or deferred tax assets have been recognized at the reporting date.

Unused tax losses

In accordance with tax regulations, as at 31 December 2022 the Group has unused tax losses in the amount of HRK 92,617 thousand (2021: HRK 87,095 thousand) which consist of tax losses in Slovenia (in the amount of HRK 17,184 thousand), Tanzania (in the amount of HRK 23,000 thousand), Poland (in the amount of HRK 1,285 thousand), Germany (in the amount of HRK 7,899 thousand), Russia (in the amount of HRK 4,450 thousand), Bulgaria (in the amount of HRK 1,006 thousand) and Croatia (in the amount of HRK 37,793 thousand).

Unused tax losses carried forward were recognized as deferred tax assets in the amount of HRK 3,625 thousand. In the financial statements, the Group did not recognize deferred tax assets for the remaining tax losses since it is not probable that the tax losses will be utilized by the companies they relate to. Unused tax losses (gross) at the reporting date were as follows:

	2022	**2021**
	(in thousands of HRK)	
Tax losses expiring at 31 December 2022	-	4,251
Tax losses expiring at 31 December 2023	1,285	1,189
Tax losses expiring at 31 December 2024	4,381	4,903
Tax losses expiring at 31 December 2025	8,417	8,418
Tax losses expiring at 31 December 2026	13,907	20,200
Tax losses expiring at 31 December 2027	11,088	-
Tax losses with no expiration date	53,539	48,134
	92,617	**87,095**

NOTE 15 – INCOME TAX (CONTINUED)

Deferred tax assets

Deferred tax assets arise from the following:

2022	Opening balance	Recognised in profit or loss	Recognised directly in equity	Foreign exchange differences	Closing balance
	(in thousands of HRK)				
Basis:					
Intangible assets	3,882	(9)	-	-	3,873
Property, plant and equipment	7,052	(65)	-	-	6,987
Financial assets	50,663	1,177	-	-	51,840
Provisions	21,427	(1,627)	(667)	(3)	19,130
Share-based payments	2,739	690	(982)	-	2,447
Inventories	12,801	2,709	-	-	15,510
Investment tax credit	45,327	(21,765)	-	-	23,562
Unutilised tax losses carried forward	5,258	(1,535)	-	(98)	3,625
Receivables	952	(125)	-	-	827
Deferred tax assets	**150,101**	**(20,550)**	**(1,649)**	**(101)**	**127,801**

The most significant effect on the increase in deferred tax assets in 2022 relates to temporary differences arisen on the impairment of inventories, and the most significant decrease is the result of utilisation of tax benefits for investment.

2021	Opening balance	Recognised in profit or loss	Recognised directly in equity	Foreign exchange differences	Closing balance
	(in thousands of HRK)				
Basis:					
Intangible assets	3,873	9	-	-	3,882
Property, plant and equipment	7,111	(60)	-	1	7,052
Financial assets	25,014	25,649	-	-	50,663
Provisions	16,102	5,118	177	30	21,427
Share-based payments	2,135	861	(257)	-	2,739
Inventories	12,939	(138)	-	-	12,801
Investment tax credit	70,294	(24,967)	-	-	45,327
Unutilised tax losses carried forward	2,891	2,321	-	46	5,258
Receivables	1,052	(100)	-	-	952
Deferred tax assets	**141,411**	**8,693**	**(80)**	**77**	**150,101**

NOTE 15 – INCOME TAX (CONTINUED)

Deferred tax liability

Deferred tax liabilities arise from the following:

2022	**Opening balance**	**Recognised in profit or loss**	**Foreign exchange differences**	**Closing balance**
		(in thousands of HRK)		
Basis:				
Intangible assets	(10,173)	647	(22)	(9,548)
Property, plant and equipment	(27,811)	6,003	(36)	(21,844)
	(37,984)	**6,650**	**(58)**	**(31,392)**

The most significant effect on the movement of deferred tax liability in the amount of HRK 6,003 thousand was from the sale of property in Slovenia.

2021	**Opening balance**	**Recognised in profit or loss**	**Foreign exchange differences**	**Closing balance**
		(in thousands of HRK)		
Basis:				
Intangible assets	(11,335)	1,172	(10)	(10,173)
Property, plant and equipment	(27,699)	(67)	(45)	(27,811)
	(39,034)	**1,105**	**(55)**	**(37,984)**

NOTE 16 – EARNINGS/ (LOSS) PER SHARE

Basic earnings per share

Basic earnings per share are determined by dividing the Group's net earnings or losses with the weighted average number of ordinary shares in issue during the year, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares.

Diluted earnings per share

Diluted earnings per share were calculated as the basic earnings per share, including the impact of the number of share options granted to employees, of which 49,172 were not exercised (2021: 116,800 options). The price of all unexercised share options is lower than the share market price as at 31 December 2022. The value of diluted earnings per share is the lower of the basic earnings per share obtained and the diluted earnings per share obtained.

Basic and diluted weighted average number of shares is as follows:

	2022	2021
Ordinary shares as at 1 January	7,120,003	7,120,003
Effect of treasury shares	(93,478)	(105,916)
Weighted average number of shares at 31 December (basic)	**7,026,525**	**7,014,087**
Effect of share based payments	49,172	116,800
Weighted average number of shares at 31 December (diluted)	**7,075,697**	**7,130,887**

Basic and diluted earnings per share for the Group as a whole was as follows:

	2022	2021
Basic earnings per share		
Profit for the year attributable to the owners of parent company (in thousands of HRK)	369,631	309,221
Basic earnings per share (in HRK)	**52.6**	**44.1**
Diluted earnings per share		
Profit for the year attributable to the owners of parent company (in thousands of HRK)	369,631	309,221
Diluted earnings per share (in HRK)	**52.2**	**43.4**

NOTE 17 – GOODWILL

(in thousands of HRK)	2022	2021
Cost		
At 1 January	67,304	67,304
At 31 December	**67,304**	**67,304**
Accumulated impairment losses		
At 1 January	39,201	40,485
Effect of foreign exchange differences	(1,103)	(1,284)
At 31 December	**38,098**	**39,201**
Carrying amount at 31 December	**29,206**	**28,103**

During 2022 and 2021 there was no impairment of goodwill. A more detailed description of the approach and methods used in impairment testing is provided in note 6(v).

NOTE 18 – INTANGIBLE ASSETS

(in thousands of HRK)	**Software and licences**	**Rights, registration files, know how**	**Brands**	**Intangible assets in progress**	**Total**
Cost					
At 1 January 2021	277,407	254,867	202,582	44,540	779,396
Effect of foreign exchange differences	(4)	(50)	329	(5)	270
Additions	387	-	-	26,052	26,439
Transfers	23,960	5,894	-	(29,854)	-
Disposals and write-off's	(147)	(1,782)	-	(51)	(1,980)
Transfer to tangible assets	-	-	-	917	917
Impairment of assets	-	(5,961)	(71)	(336)	(6,368)
At 31 December 2021	**301,603**	**252,968**	**202,840**	**41,263**	**798,674**
Accumulated amortisation and impairments					
At 1 January 2021	(238,257)	(181,175)	(106,809)	-	(526,241)
Effect of foreign exchange differences	(49)	25	(503)	-	(527)
Disposals and write-off's	143	1,713	-	-	1,856
Amortisation	(15,745)	(7,476)	-	-	(23,221)
Impairment of assets	-	(706)	(600)	-	(1,306)
At 31 December 2021	**(253,908)**	**(187,619)**	**(107,912)**	**-**	**(549,439)**
Carrying amount as at 31 December 2021	**47,695**	**65,349**	**94,928**	**41,263**	**249,235**
Cost					
At 1 January 2022	301,603	252,968	202,840	41,263	798,674
Effect of foreign exchange differences	(23)	32	496	4	509
Additions	64	-	-	25,878	25,942
Transfers	23,876	15,634	-	(39,510)	-
Disposals and write-off's	(1,635)	(5,208)	-	(141)	(6,984)
Transfer to tangible fixed assets	(181)	146	-	2,934	2,899
Impairment of assets	-	-	(1,183)	(3,780)	(4,963)
At 31 December 2022	**323,704**	**263,572**	**202,153**	**26,648**	**816,077**
Accumulated amortisation and impairments					
At 1 January 2022	(253,908)	(187,619)	(107,912)	-	(549,439)
Effect of foreign exchange differences	(15)	(22)	(421)	-	(458)
Disposals and write-off's	1,635	5,208	-	-	6,843
Amortisation	(21,017)	(7,899)	-	-	(28,916)
Transfer from intangible assets	181	(146)	-	-	35
Impairment of assets	-	(1,521)	(905)	-	(2,426)
At 31 December 2022	**(273,124)**	**(191,999)**	**(109,238)**	**-**	**(574,361)**
Carrying amount as at 31 December 2022	**50,580**	**71,573**	**92,915**	**26,648**	**241,716**

Of the total amount of accumulated amortisation and impairment losses, HRK 35,613 thousand relates to accumulated impairment losses (2021: HRK 28,224 thousand).

The total intangible assets with indefinite useful lives as at 31 December 2022 amount to HRK 164,488 thousand and relate to brands and other rights.

During 2022, the Group recognised brand impairment costs in the amount of HRK 2,088 thousand (2021: HRK 671 thousand). Also, during 2022, the Group recognised impairment of rights in the amount of HRK 4,375 thousand (2021: HRK 7,003 thousand). In 2022, the Group recognised impairment of intangible assets in progress in the amount of HRK 926 thousand.

Intangible assets under construction relate to capitalised development expenses and purchased registration files for which health regulatory approval has not yet been received.

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Equipment	Assets under construction	Total
Cost				
At 1 January 2021	2,911,493	2,541,466	94,888	5,547,847
Effect of foreign exchange differences	(1,898)	(151)	812	(1,237)
Additions	338	1,321	142,833	144,492
Transfers	20,748	117,253	(138,001)	-
Disposals and write-off's	(517)	(48,588)	(126)	(49,231)
Transfer to intangible assets (i)	-	-	(917)	(917)
Transfer to assets held for sale (ii)	-	-	(843)	(843)
At 31 December 2021	**2,930,164**	**2,611,301**	**98,646**	**5,640,111**
Accumulated depreciation and impairments				
At 1 January 2021	(1,733,878)	(1,591,365)	(327)	(3,325,570)
Effect of foreign exchange differences	1,389	(307)	-	1,082
Disposals and write-off's	241	47,696	-	47,937
Depreciation charge for the year	(54,888)	(101,453)	-	(156,341)
Impairment of non-current assets	(766)	-	-	(766)
At 31 December 2021	**(1,787,902)**	**(1,645,429)**	**(327)**	**(3,433,658)**
Carrying amount as at 31 December 2021	**1,142,262**	**965,872**	**98,319**	**2,206,453**
Cost				
At 1 January 2022	2,930,164	2,611,301	98,646	5,640,111
Effect of foreign exchange differences	1,968	2,238	(224)	3,982
Additions	1,080	1,477	368,478	371,035
Purchase of used assets	-	49	-	49
Transfers	151,771	158,201	(309,972)	-
Disposals and write-off's	(130,294)	(76,135)	-	(206,429)
Transfer to intangible assets (i)	-	35	(2,934)	(2,899)
Transfer to assets held for sale (ii)	(52,843)	(24,867)	(157)	(77,867)
Transfer to investment property (iii)	-	-	(116)	(116)
Impairment of assets	-	-	(59)	(59)
At 31 December 2022	**2,901,846**	**2,672,299**	**153,662**	**5,727,807**
Accumulated depreciation and impairments				
At 1 January 2022	(1,787,902)	(1,645,429)	(327)	(3,433,658)
Effect of foreign exchange differences	(850)	(708)	-	(1,558)
Disposals and write-off's	5,598	74,135	-	79,733
Purchase of used assets	-	(49)	-	(49)
Depreciation charge for the year	(56,156)	(103,974)	-	(160,130)
Transfer to intangible assets (i)	-	(35)	-	(35)
Transfer to assets held for sale (ii)	36,206	17,997	-	54,203
At 31 December 2022	**(1,803,104)**	**(1,658,063)**	**(327)**	**(3,461,494)**
Carrying amount as at 31 December 2022	**1,098,742**	**1,014,236**	**153,335**	**2,266,313**

(i) During 2022, the Group transferred property, plant and equipment to intangible assets in the net amount of HRK 2,934 thousand (2021: HRK 917 thousand).
(ii) During 2022, the Group transferred property, plant and equipment to assets held for sale in the amount of HRK 23,664 thousand (2021: HRK 843 thousand).
(iii) During 2022, the Group transferred property, plant and equipment to investment property in the amount of HRK 116 thousand.

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets under construction mainly relate to investments in modernisation of production capacities and extension of the product range.

During 2022, the Group had no investments related to interest expense capitalisation in property and equipment.

Mortgaged assets

Buildings, land and equipment of the Group with a net carrying amount of HRK 331,225 thousand (2021: HRK 327,985 thousand) are pledged as collateral against the Group's borrowings.

NOTE 20 – LEASES

Movements in right-of-use assets:

(in thousands of HRK)	**Land**	**Buildings**	**Total land and buildings**	**Equipment**	**Total**
Cost					
As at 1 January 2021	11,943	64,269	**76,212**	85,521	**161,733**
Exchange rate effect	-	(30)	**(30)**	(101)	**(131)**
Increase/(Decrease)	(317)	7,951	**7,634**	29,461	**37,095**
Disposals and write-off's	(20)	(5,901)	**(5,921)**	(16,973)	**(22,894)**
Balance at 31 December 2021	**11,606**	**66,289**	**77,895**	**97,908**	**175,803**
Accumulated depreciation					
As at 1 January 2021	591	26,231	**26,822**	34,593	**61,415**
Exchange rate effect	1	(123)	**(122)**	(56)	**(178)**
Depreciation charge for the year	273	14,861	**15,134**	23,587	**38,721**
Disposals and write-off's	(19)	(2,990)	**(3,009)**	(14,380)	**(17,389)**
Balance at 31 December 2021	**846**	**37,979**	**38,825**	**43,744**	**82,569**
As at 31 December 2021	**10,760**	**28,310**	**39,070**	**54,164**	**93,234**
Cost					
As at 1 January 2022	11,606	66,289	**77,895**	97,908	**175,803**
Exchange rate effect	-	458	**458**	(8)	**450**
Increase	-	18,529	**18,529**	11,811	**30,340**
Disposals and write-off's	-	(6,998)	**(6,998)**	(10,772)	**(17,770)**
Balance at 31 December 2022	**11,606**	**78,278**	**89,884**	**98,939**	**188,823**
Accumulated depreciation					
As at 1 January 2022	846	37,979	**38,825**	43,744	**82,569**
Exchange rate effect	-	263	**263**	11	**274**
Decrease	-	(91)	**(91)**	(3,953)	**(4,044)**
Depreciation charge for the year	275	16,455	**16,730**	23,052	**39,782**
Disposals and write-off's	-	(5,059)	**(5,059)**	(8,634)	**(13,693)**
Balance at 31 December 2022	**1,121**	**49,547**	**50,668**	**54,220**	**104,888**
As at 31 December 2022	**10,485**	**28,731**	**39,216**	**44,719**	**83,935**

NOTE 20 – LEASES (CONTINUED)

Movements in lease liabilities for right-of-use assets:

	2022	2021
	(in thousands of HRK)	
As at 1 January	95,172	101,964
Interest expense	2,200	2,537
Increase of lease liabilities during the year (net)	37,805	31,590
Lease liabilities payments	(41,457)	(41,374)
Exchange rate difference	476	455
As at 31 December	**94,196**	**95,172**
Current portion of long term liability for right-of-use assets	47,083	32,403
Long term liability for right-of-use assets	47,113	62,769

Amounts recognised in the statement of comprehensive income:

	2022	2021
	(in thousands of HRK)	
Depreciation expense of right-of-use assets	39,782	38,721
Expenses related to short-term leases and leases of low-value asstes etc.	30,285	25,119
Interest expense	2,200	2,537
Total amount recognised in the statement of comprehensive income	**72,267**	**66,377**

NOTE 21 – INVESTMENT PROPERTY

(in thousands of HRK)	***Total***
Cost	
As at 1 January 2021	148,399
Exchange rate effect	17
Balance at 31 December 2021	**148,416**
Accumulated depreciation	
As at 1 January 2021	(31,313)
Exchange rate effect	14
Depreciation charge for the year	(1,711)
Balance at 31 December 2021	**(33,010)**
Net book value at 31 December 2021	**115,406**
Cost	
As at 1 January 2022	148,416
Exchange rate effect	24
Transfer from property, plant and equipment	116
Disposals and write-off's	(10,959)
Balance at 31 December 2022	**137,597**
Accumulated depreciation	
As at 1 January 2022	(33,010)
Exchange rate effect	(13)
Disposals and write-off's	2,727
Depreciation charge for the year	(1,700)
Balance at 31 December 2022	**(31,996)**
Net book value at 31 December 2022	**105,601**

During 2022, the Group did reclassify portion of property, plant and equipment to investment property in the amount of HRK 116 thousand (2021: 0 thousand).

Operating expenses for investment property amount to HRK 2,073 thousand (2021: HRK 1,863 thousand), while rental income from the property amounts to HRK 2,523 thousand (2021: HRK 2,904 thousand).

NOTE 22 – SUBSIDIARIES

Group consists of the Company and the following subsidiaries in which the Company has an ownership and control:

Name of subsidiary	Country	2022	2021	Principal activity
Belupo d.d., Koprivnica	Croatia	100.00%	100.00%	Production and distribution of pharmaceuticals
Belupo dooel, Skopje*	North Macedonia	100.00%	100.00%	Sale and distribution of pharmaceuticals
Belupo s.r.o. Bratislava*	Slovakia	100.00%	100.00%	Sale and distribution of pharmaceuticals
Belupo d.o.o. Ljubljana*	Slovenia	100.00%	100.00%	Sale and distribution of pharmaceuticals
Ljekarne Deltis Pharm, Koprivnica*	Croatia	100.00%	100.00%	Sale and distribution of pharmaceuticals
Farmavita d.o.o. Sarajevo, Vogošća*	Bosnia and Herzegovina	65.00%	65.00%	Sale and distribution of pharmaceuticals
Mirna d.d., Rovinj	Croatia	100.00%	99.44%	Fish processing and production
Podravka-Lagris a.s., Dolni Lhota u Luhačovic	Czech Rep.	100.00%	100.00%	Rice production and sale
Podravka-Polska Sp.z o.o., Warszawa	Poland	100.00%	100.00%	Seasonings sale and distribution
Podravka-International Kft, Budapest	Hungary	100.00%	100.00%	Sale and distribution of food and beverages
Podravka d.o.o., Belgrade	Serbia	100.00%	100.00%	Sale and distribution of food and beverages
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100.00%	100.00%	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen**	Slovakia	100.00%	100.00%	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100.00%	100.00%	Sale and distribution of food and beverages
Podravka-International Pty Ltd, Silverwater	Australia	100.00%	100.00%	Sale and distribution of food and beverages
Podravka EOOD, Sofia *****	Bulgaria	100.00%	100.00%	Sale and distribution of food and beverages
Podravka-International s.r.l., Bucharest	Romania	100.00%	100.00%	Sale and distribution of food and beverages
Podravka DOOEL, Petrovec	North Macedonia	100.00%	100.00%	Sale and distribution of food and beverages
Podravka d.o.o., Sarajevo	Bosnia and Herzegovina	100.00%	100.00%	Sale and distribution of food and beverages
Podravka USA Inc., New York	USA	100.00%	100.00%	Sale and distribution of food and beverages
Podravka d.o.o., Moskva	Russia	100.00%	100.00%	Sale and distribution of food and beverages
Foodpro Limited, Dar es Salaam***	Tanzania	100.00%	100.00%	Production and distribution of food
Podravka Gulf Fze, Jebel Ali, Dubai	UAE	100.00%	100.00%	Sale and distribution
Žito d.o.o., Ljubljana	Slovenia	100.00%	100.00%	Production and distribution of food
Intes Storitve d.o.o., Maribor****	Slovenia	100.00%	100.00%	Production and distribution of food
Šumi bonboni d.o.o., Ljubljana****	Slovenia	100.00%	100.00%	Production and distribution of food
Žito maloprodaja d.o.o., Ljubljana****	Slovenia	100.00%	100.00%	Sale of food and beverages
Podravka d.o.o., Ljubljana****	Slovenia	100.00%	100.00%	Sale and distribution of food and beverages

* The Group holds these ownership interests indirectly through its subsidiary Belupo d.d.

** 25% of ownership interest is held indirectly through the subsidiary Podravka-Lagris a.s., Dolni Lhota u Luhačovic

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

**** The Group holds these ownership interests indirectly through its subsidiary Žito d.o.o.

NOTE 23 – NON-CURRENT FINANCIAL ASSETS

	2022	2021
	(in thousands of HRK)	
Financial instruments	54,133	54,133
Impairment of financial instruments	(17,736)	(17,736)
Equity instruments	5,333	5,388
Other receivables and deposits	1,429	1,420
Loans receivable	-	4
	43,159	**43,209**

Equity instruments mainly relate to investments in unquoted equity instruments.

NOTE 24 – INVENTORIES

	2022	2021
	(in thousands of HRK)	
Raw materials and supplies	595,420	348,265
Finished goods	483,525	412,142
Merchandise	131,826	139,194
Work in progress	47,960	34,109
	1,258,731	**933,710**

In 2022, the Group recognised impairment loss with respect to inventories in the amount of HRK 8,831 thousand (2021: HRK 1,404 thousand of impairment loss). The movement in inventory impairment provision is included in the statement of comprehensive income in line item ‘Cost of goods sold’.

NOTE 25 – TRADE AND OTHER RECEIVABLES

	2022	2021
	(in thousands of HRK)	
Current receivables		
Trade receivables	1,005,440	1,147,341
Impairment of receivables for expected credit losses	(784)	(290)
Impairment of receivables	(180,432)	(178,435)
Net trade receivables	**824,224**	**968,616**
Prepaid expenses	21,356	18,355
Net VAT receivable	18,795	10,973
Advances to suppliers	5,891	5,751
Receivables from employees	1,577	1,526
Loans given	8	7
Other receivables	17,496	20,858
	889,347	**1,026,086**

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

	2022	2021
	(in thousands of HRK)	
At 1 January	178,725	190,566
Increase	6,648	3,554
Amounts collected	(674)	(2,612)
Written off as uncollectable	(3,483)	(12,783)
At 31 December	**181,216**	**178,725**

Impairment losses on trade receivables and subsequent collections are included in 'Selling and distribution expenses'.

Ageing analysis of trade receivables which have not been impaired:

	2022	2021
	(in thousands of HRK)	
Non due	692,124	806,095
0-90 days	108,315	146,634
91-180 days	13,849	12,195
181-360 days	9,936	3,692
	824,224	**968,616**

Major customers

Trade receivables from major customers owned or controlled by the same third party from regular business as at 31 December 2022 amount to HRK 117,542 thousand (2021: HRK 145,310 thousand).

NOTE 26 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022	2021
	(in thousands of HRK)	
Forward contracts	91	-
	91	**-**

In 2022, the Group used forward contracts with commercial banks with the primary intention of managing the fluctuation of the exchange rates of foreign currencies. As at 31 December 2022, the forward contracts had a fair value of HRK 91 thousand (2021: forward contracts did not have a positive fair value).

The nominal value of forward exchange contracts at 31 December 2022 in the sold currency translated at the CNB exchange rate amounted to HRK 1,589 thousand with maturities between 20 January 2023 and 20 March 2023 (2021: HRK 2,738 thousand with maturities between 20 January 2022 and 21 March 2022).

Gains and losses recognized as changes in the market value of the currency forward contracts are recorded in the statement of comprehensive income within ‘financial income/financial expenses, net’.

Fair value measurement

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

NOTE 27 – DEBT INSTRUMENTS AT AMORTIZED COST

	2022	2021
	(in thousands of HRK)	
Government treasury bills	299,621	-
	299,621	**-**

The Group has a short-term investment in zero coupon treasury bills issued by the Federal Republic of Germany with maturity in 2023. They are held until maturity with the purpose of realizing the nominal amount.

NOTE 28 – CASH AND CASH EQUIVALENTS

	2022	2021
	(in thousands of HRK)	
Cash with banks	157,363	32,951
Short-term deposits	7,460	-
Cash in hand	280	355
	165,103	**33,306**

Cash in banks refers to transaction accounts at commercial banks bearing an average interest rate ranging from 0.00% to 3.5%. Deposits refer to foreign currency funds placed with a commercial bank for a period of one month.

The Group has certain transactions in foreign currencies and cash on bank accounts mainly in EUR (HRK 80,748 thousand), BAM (HRK 15,060 thousand), PLN (HRK 14,717 thousand), HRK (HRK 14,042 thousand), RUB (HRK 8,341 thousand) and HUF (HRK 5,839 thousand) while in other currencies it holds HRK 26,356 thousand.

NOTE 29 – NON-CURRENT ASSETS HELD FOR SALE

	2022	2021
	(in thousands of HRK)	
Land and buildings	22,433	20,741
Equipment	9,994	2,942
	32,427	**23,683**

In 2022, the Group sold a portion of non-current assets held for sale with the carrying value of HRK 15,010 thousand and realised gain on sale in the amount of HRK 7,447 thousand. In addition the Group transferred property, plant and equipment to assets held for sale in the amount of HRK 23,664 thousand.
Of the total amount of land and buildings held for sale, HRK 19,189 thousand relates to land and buildings on the market of Slovenia, HRK 1,324 thousand to land and buildings in Tanzania, HRK 1,075 thousand to land and buildings in Croatia, and HRK 845 thousand to land and buildings on the market of Bosnia and Herzegovina.

Fair value measurement

Land and property held for sale in the amount of HRK 32,427 thousand are measured at fair value less costs of sell due to the fact that this value is lower than the net carrying value prior to classification as held for sale. The Group has made an estimation of fair value on classification date and regularly checks if estimation needs to be revised.

Fair value measurement according to inputs used in evaluation is classified as level 3 (see note 7). The following table summarizes the valuation methods and techniques as well as significant inputs used in measuring the fair value at the classification date:

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

Equipment held for sale

The amount of HRK 3,144 thousand as at 31 December 2022 relates to equipment in the production plant in Tanzania (2021: HRK 2,942 thousand), and equipment on the market of Slovenia in the amount of HRK 6,850 thousand (2021: HRK 0 thousand).

NOTE 30– SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pcs)	*(in thousands of HRK)*			
At 1 January 2021	6,992,087	1,566,401	187,215	(47,568)	1,706,048
Exercise of options (i)	22,000	-	(1,986)	8,181	6,195
Fair value of share based payments (i)	-	-	6,260	-	6,260
At 31 December 2021	**7,014,087**	**1,566,401**	**191,489**	**(39,387)**	**1,718,503**
At 1 January 2022	7,014,087	1,566,401	191,489	(39,387)	1,718,503
Purchase of treasury shares (i)	(44,290)	-	-	(26,691)	(26,691)
Exercise of options (i)	56,728	-	(14,672)	23,631	8,959
Fair value of share based payments (i)	-	-	9,888	-	9,888
At 31 December 2022	**7,026,525**	**1,566,401**	**186,705**	**(42,447)**	**1,710,659**

As at 31 December 2022, the Company’s share capital amounted to HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 93,478 relates to treasury shares (2021: HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 105,916 relates to treasury shares). Nominal value of one share amounts to HRK 220.00. All issued shares are fully paid in.

(i) Share based payments

During 2022 the Company purchased 44,290 treasury shares, while in 2021 the Company did not purchase any treasury shares.

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

	2022		**2021**	
Structure of ownership	**Number of shares**	**% of ownership**	**Number of shares**	**% of ownership**
PBZ CO OMF - Category B	1,097,644	15.42	1,097,644	15.42
AZ OMF category B	932,563	13.10	917,563	12.89
CERP - Croatian Pension Insurance Institute	727,703	10.22	727,703	10.22
Erste Plavi OMF category B	638,248	8.96	638,248	8.96
Raiffeisen OMF category B	625,298	8.78	625,298	8.78
CERP - Republic of Croatia	452,792	6.36	452,792	6.36
Kapitalni fond d.d.	406,842	5.71	406,842	5.71
MESNA INDUSTRIJA BRAĆA PIVAC D.O.O.	234,697	3.30	226,578	3.18
HPB - Republic of Croatia	167,281	2.35	167,281	2.35
Treasury account	93,478	1.31	105,916	1.49
Other shareholders	1,743,457	24.49	1,754,138	24.64
Total	**7,120,003**	**100.00**	**7,120,003**	**100.00**

NOTE 31 – RESERVES

(in thousands of HRK)	**Reserves for treasury shares**	**Legal reserves**	**Reserves for reinvested profit**	**Statutory reserves**	**Other reserves**	**Total**
At 1 January 2021	147,604	76,596	189,738	67,551	469,685	951,174
Allocation of profits	-	9,712	-	2,621	127,215	139,548
Foreign exchange rate differences	-	-	-	-	502	502
The effect of acquiring additional minority interest	-	-	-	-	33	33
Actuarial losses (net of tax)	-	-	-	-	(969)	(969)
At 31 December 2021	**147,604**	**86,308**	**189,738**	**70,172**	**596,466**	**1,090,288**
At 1 January 2022	147,604	86,308	189,738	70,172	596,466	1,090,288
Allocation of profits (i)	-	12,255	-	4,339	117,695	134,289
Foreign exchange rate differences	-	-	-	-	4,306	4,306
The effect of acquiring additional minority interest	-	-	-	-	(69)	(69)
Actuarial profit (net of tax)	-	-	-	-	6,069	6,069
At 31 December 2022	**147,604**	**98,563**	**189,738**	**74,511**	**724,467**	**1,234,883**

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

(i) Allocation of profits

In 2022, the General Assembly reached a decision to allocate the Company's profit from 2021 in the amount of HRK 245,104 thousand as follows: the amount of HRK 12,255 thousand to legal reserves, the amount of HRK 116,424 thousand to other reserves, the amount of HRK 91,030 thousand for the declared dividend (HRK 13.00 per share), while the remainder of HRK 25,200 thousand is retained in unallocated profit.

In addition, in 2022, in accordance with the decisions of its General Assembly, the company Belupo d.d. allocated the Company's profit from 2021 as follows: the amount of HRK 4,339 thousand to statutory reserves, the amount of HRK 1,271 to other reserves and HRK 81,173 thousand to retained earnings.

NOTE 32 – RETAINED EARNINGS

Movement in retained earnings is presented as follows:

	2022	2021
	(in thousands of HRK)	
At 1 January	**822,186**	**714,828**
- profit for the year	369,631	309,221
- exercise of options	(264)	812
- dividend declared	(91,030)	(63,127)
- transfer to legal and other reserves	(134,289)	(139,548)
At 31 December	**966,234**	**822,186**

At 4 April 2022, the General Assembly reached a decision on dividend distribution in amount of HRK 91,030 thousand, HRK 13.00 per share (2021: HRK 63,127 thousand, HRK 9.00 per share).

NOTE 33 – NON-CONTROLLING INTERESTS

Podravka Group has non-controlling interests arising from acquisitions of 65% of ownership interest in subsidiary Farmavita d.o.o. Sarajevo. In 2022, the Company completed the process of transferring the shares of the minority shareholders of Mirna d.d. after which the main shareholder Podravka d.d. holds all the shares of Mirna d.d. which represents 100% of the company's share capital.

Summary financial information for the company Farmavita d.o.o., Sarajevo as at 31 December 2022 (excluding consolidation eliminations) are as follows:

	2022	2021
(in thousands of HRK)		
Statement of financial position		
Non-current assets	72,269	74,995
Current assets	170,571	148,118
Current liabilities	(55,290)	(51,125)
Non-current liabilities	(1,923)	(9,995)
Net assets	**185,627**	**161,993**
Statement of comprehensive income for the period		
Sales revenue	270,539	254,598
(Loss)/Profit after tax	23,253	25,934
Other comprehensive income	134	(138)
Total comprehensive income for the period	**23,387**	**25,796**
Statement of cash flows		
Net increase in cash and cash equivalents	**2,441**	**(7,693)**

NOTE 33 – NON-CONTROLLING INTERESTS (CONTINUED)

The movement in non-controlling interest was as follows:

	2022	2021
	(in thousands of HRK)	
Balance at 1 January	63,289	54,932
Effect of acquiring non-controlling interests	(135)	(107)
Foreign exchange differences	133	(137)
Share in current year profit	7,718	8,601
Balance at 31 December	**71,005**	**63,289**
Relating to:		
Mirna d.d.	***-***	***183***
Farmavita d.o.o.	***71,005***	***63,106***

NOTE 34 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022	2021
	(in thousands of HRK)	
Forwards	-	35
	-	**35**

As at 31 December 2022, there were no financial liabilities at the fair value of currency forward contracts (2021: liabilities amount to HRK 35 thousand).

NOTE 35 – BORROWINGS

	2022	2021
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	28,009	129,631
Banks abroad	-	9,588
Finance lease	596	521
	28,605	**139,740**
Current borrowings		
Banks in Croatia	455,115	205,700
Banks abroad	54,874	52,886
Finance lease	382	298
	510,371	**258,884**
Total borrowings	**538,976**	**398,624**

Short-term borrowings from banks in Croatia mostly refer to revolving loans from commercial banks and, to a lesser extent, to the current maturity of long-term borrowings for the refinancing of Podravka d.d., Belupo d.d. and Žito d.o.o. concluded in 2021 and the long-term borrowing of Belupo d.d. for refinancing, concluded at the end of 2020.

According to the currently valid loan agreements and revolving facilities with banks, the Group is obliged to maintain the financial indicator of net debt coverage with EBITDA, which is calculated as the ratio of net financial debt to EBITDA on a consolidated basis.

Bank borrowings in the amount of HRK 68,777 thousand (2021: HRK 120,588 thousand) are secured by mortgages over the Group's land and buildings and movables with a net carrying value of HRK 331,225 thousand (note 19).

The lease liabilities of the Group are as follows:

	Minimum lease payments		**Finance cost**		**Present value**	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
	(in thousands of HRK)					
Up to 1 year	418	318	(36)	(20)	382	298
Between 1 and 5 years	628	532	(32)	(11)	596	521
Total	**1,046**	**850**	**(68)**	**(31)**	**978**	**819**

	2022	2021
Included in the consolidated financial statements within:		
Current borrowings	382	298
Non-current borrowings	596	521
	978	**819**

NOTE 35 – BORROWINGS (CONTINUED)

The maturity of non-current borrowings is as follows:

	2022	2021
	(in thousands of HRK)	
Between 1 and 2 years	28,255	99,451
Between 2 and 5 years	350	40,289
	28,605	**139,740**

Fixed and variable interest rates by major currencies are as follows:

	2022			2021		
	HRK	EUR	Other	HRK	EUR	Other
Non-current borrowings						
Banks in Croatia						
variable interest rate	0.64%	-	-	0.57%	-	-
fixed interest rate	0.59%	0.35%	-	0.70%	0.35%	-
Banks abroad						
variable interest rate	-	4.54%	-	-	3.00%	-
fixed interest rate	-	0.35%	5.00%	-	0.35%	5.00%
Financial leases						
variable interest rate	-	5.59%	-	-	4.80%	-
fixed interest rate	-	-	3.89%	-	-	3.89%
Current borrowings						
Banks						
variable interest rate	-	2.29%	7.63%	-	0.63%	4.48%
fixed interest rate	0.38%	0.28%	-	0.51%	-	-

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

	2022		2021	
	fixed	**variable**	**fixed**	**variable**
	(in thousands of HRK)			
Non-current borrowings	20,176	8,429	99,022	40,718
Current borrowings	444,374	65,997	202,509	56,375
	464,550	**74,426**	**301,531**	**97,093**

The average weighted cost of debt on the Group’s interest-bearing liabilities as at 31 December 2022 was 0.66% (31 December 2021: 0.93%).

NOTE 35 – BORROWINGS (CONTINUED)

The carrying amounts and fair values of the Group's long-term borrowings are as follows:

	Carrying value		Fair value	
	2022	**2021**	**2022**	**2021**
	(in thousands of HRK)			
Non-current borrowings				
Banks in Croatia	28,009	129,631	27,788	129,045
Banks abroad	-	9,588	-	9,582
Finance leases	596	521	602	534
	28,605	**139,740**	**28,390**	**139,161**

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

	2022	**2021**
	(in thousands of HRK)	
Croatian kuna	199,827	186,490
EUR	326,145	173,349
Other currencies	13,004	38,785
	538,976	**398,624**

The Group has the following undrawn bank borrowing facilities:

	2022	**2021**
	(in thousands of HRK)	
Available for withdrawal	218,334	420,785
From 1- 3 years	485,975	-
	704,309	**420,785**

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

NOTE 35 – BORROWINGS (CONTINUED)

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

(in thousands of HRK)	**Loans**	**Lease liabilities**	**Share capital**	**Other reserves**	**Retained earnings**	**Non-controlling interests**	**Total**
At 1 January 2022	398,624	95,172	1,718,503	1,090,288	822,186	63,289	4,188,062
Cash transactions:							
Loans received	674,035	-	-	-	-	-	674,035
Loans repayments	(535,911)	-	-	-	-	-	(535,911)
Repayment of lease liabilities	-	(41,112)		-	-	-	(41,112)
Sale of treasury shares	-	-	20,827	-	-	-	20,827
Additional acquisition of of treasury shares	-	-	(26.691)	-	-	-	(26.691)
Additional acquisition of non-controlling interest	-	-	-	(69)	-	(135)	(204)
Dividend paid	-	-	-	-	(91,071)	-	(91,071)
Total cash transactions	**138,124**	**(41,112)**	**(5,864)**	**(69)**	**(91,071)**	**(135)**	**(127)**
Non-cash transactions:							
Effect of change in exchange rates	1,783	708	-	4,306	-	133	6,930
Actuarial gains (net of deferred tax)	-	-	-	6,069	-	-	6,069
Transfer from retained earnings (note 31)	-	-	-	134,289	(134,289)	-	-
Other non-cash transactions	445	43,883	-	-	(264)	-	44,064
Gain from right-of-use assets write-off	-	(4,455)	-		-	-	(4,455)
Total other changes related to equity	-	-	(1,980)	-	369,672	7,718	375,410
At 31 December 2022	**538,976**	**94,196**	**1,710,659**	**1,234,883**	**966,234**	**71,005**	**4,615,953**

NOTE 36 – PROVISIONS

(in thousands of HRK)	**Jubilee awards**	**Unused holiday accruals**	**Retirement benefits**	**Termination benefits and bonuses**	**Legal cases**	**Total**
As at 31 December 2021						
Non-current	15,935	-	36,890	-	34,265	87,090
Current	2,157	16,434	-	23,629	1,381	43,601
At 1 January 2022	**18,092**	**16,434**	**36,890**	**23,629**	**35,646**	**130,691**
Increase of provisions	702	12,504	10,451	18,168	2,296	44,121
Utilised during the year	(2,775)	(11,045)	(4,124)	(19,779)	(1,251)	(38,974)
At 31 December 2022	**16,019**	**17,893**	**43,217**	**22,018**	**36,691**	**135,838**
Non-current	14,012	-	43,217	-	35,308	92,537
Current	2,007	17,893	-	22,018	1,383	43,301
	16,019	**17,893**	**43,217**	**22,018**	**36,691**	**135,838**

(i) Legal cases

Legal provisions relate to a number of legal proceedings initiated against the Group which stem from regular commercial activities and court cases including former employees. The expenses relating to the provisions are included in the consolidated statement of comprehensive income within Other income or Administrative expenses. Based on the expert opinion of legal counsels, the Group's Management believes that the outcome of these legal proceedings will not give rise to any significant losses beyond the amounts provided as at 31 December 2022.

(ii) Termination benefits and bonuses

As at 31 December 2022, the Group recognised HRK 21,846 thousand of provisions for bonuses to key management (2021: HRK 21,414 thousand) and HRK 172 thousand of provisions for short-term termination benefits relating to redundancy (2021: HRK 2,021 thousand).

(iii) Jubilee awards and regular retirement benefits

According to the Collective Labour Agreement signed by the Group companies, the Group has an obligation to pay jubilee awards, retirement and other benefits to its employees. No other post-retirement benefits are provided. The present values of these obligations, the related current service cost and past service cost were measured using the projected credit unit method. The management believes that the Croatian corporate bond market is a deep market.

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

	2022	**2021**
Discount rate	3,20% - 4,11%	0,40% - 3,00%
Fluctuation rate	4,50% - 12,70%	4,40% - 12,80%
Average working lives (in years)	21	22

NOTE 36 – PROVISIONS (CONTINUED)

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

	2022		2021	
(in thousands of HRK)	**Jubilee awards**	**Retirement benefits**	**Jubilee awards**	**Retirement benefits**
At 1 January	18,092	36,890	18,658	35,556
Past service cost	84	12,463	83	99
Current service cost	2,269	3,311	1,272	2,560
Interest expense	355	885	102	112
Actuarial (gains) / losses	(2,006)	(6,208)	935	1,243
Benefits paid	(2,775)	(4,124)	(2,958)	(2,680)
At 31 December	**16,019**	**43,217**	**18,092**	**36,890**

NOTE 37 – OTHER NON-CURRENT LIABILITIES

	2022	2021
	(in thousands of HRK)	
Deferred income on government incentives	18,334	18,445
Other non-current liabilities	2,757	-
	21,091	**18,445**

Deferred income on government grants relates to non-monetary government grant to subsidiary in Slovenia and it is based on the amount of contributions for the employment of disabled persons.

In accordance with the relevant regulations, the aforementioned contributions are not paid into the government budget and it can be used for the acquisition of qualifying non-current tangible assets during three years' period. The amount of unpaid contributions is then recognized as government grant and transferred to profit or loss on a systematic basis over the useful life of the related assets. If the grant is not used for the acquisition of non-current assets within the prescribed period, unpaid contributions become payable.

The amount of deferred income on government grants that is expected to be transferred to profit or loss in the period of up to one year on a basis of depreciation of qualifying assets, or the amount of unpaid contributions, which will not qualify as a government grant and will become payable within one year, is recognized as a current liability in trade and other payables.

NOTE 38 – TRADE AND OTHER PAYABLES

	2022	2021
	(in thousands of HRK)	
Trade payables	466,671	307,650
Other payables	248,939	223,666
	715,610	**531,316**

At 31 December 2022 and 2021, the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.

Other liabilities include the following:

	2022	2021
	(in thousands of HRK)	
Accrued expenses	109,846	91,420
Salaries and other benefits to employees	83,781	81,069
Deferred income	33,134	29,404
Taxes, contributions and value added tax	5,136	7,248
Dividends payable	3,554	2,930
Advances received	3,513	4,402
Packaging waste disposal fee payable	652	700
Accrued interest	275	543
Other payables	9,048	5,950
	248,939	**223,666**

NOTE 39 – RISK MANAGEMENT

Categories of financial instruments are as follows:

	2022	2021
	(in thousands of HRK)	
Financial assets at amortised cost		
Long-term loans (note 23)	-	4
Long-term deposits (note 23)	1.429	1.420
Short-term loans (note 25)	8	7
Trade receivables (note 25)	824.224	968.616
Government treasury bills (note 27)	299.621	-
Cash and cash equivalents (note 28)	165.103	33.306
	1.290.385	**1.003.353**
Financial assets through other comprehensive income		
Equity instruments	5.333	5.388
Financial assets at fair value through profit or loss		
Financial instruments	36.397	36.397
Forward contracts (note 26)	91	-
	36.488	**36.397**
Total financial assets	**1.332.206**	**1.045.138**
Financial liabilities at amortised cost		
Finance lease liabilities (note 35)	978	819
Borrowings (note 35)	537.998	397.805
Lease liabilities (note 20)	94.196	95.172
Trade and interest payables (note 38)	466.946	308.193
	1.100.118	**801.989**
Financial liabilities at fair value through profit or loss		
Forward contract (note 34)	-	35
	-	**35**
Total financial liabilities	**1.100.118**	**802.024**

Fair value of financial instruments

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

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

Financial instruments held to maturity in the normal course of operations are carried at the lower of cost and the net amount less the portion repaid. Fair value is determined as the amount at which a financial instrument can be exchanged between willing and knowledgeable parties in an arm's-length transaction, except in the event of forced sale or liquidation.
At the reporting date, the carrying amounts of cash and cash equivalents, short-term deposits and short-term borrowings approximate their market value due to the short-term nature of those assets and liabilities and due to the fact that a majority of these assets and liabilities are at variable interest rates approximating market interest rates.

Financial assets arising from currency forward contracts are measured at fair value as explained in note 26.

NOTE 39 – RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

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

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

Risk factors

In its operations, the company is exposed to risks typical for economic entities operating on the domestic and foreign markets, especially those from the food and pharmaceutical industries. The emergence of risk is influenced by various internal and external factors, therefore the Group uses various resources from individual areas of expertise, with which it tries to reduce exposure to external risk factors. The impact of internal risks is tried to be reduced through regular business policies, decisions and procedures.

As part of continuous risk management, at the end of 2022 the Group adopted the Podravka Group Risk Management Policy, the purpose of which is to determine the framework of action with the aim of effective protection against financial risks and the analysis and reporting of key risks through the Enterprise Risk Management (ERM).

Enterprise Risk Management refers to the process of integrated analysis and reporting of key risks to which the company is exposed, identification of potential events that may negatively affect the company's results, and management of identified risks.

Financial risks

In its operations, the Podravka Group is exposed to financial risks, especially the credit risk, and liquidity risk. The Podravka Group actively manages the credit risks and liquidity risk through adopted policies and set guidelines for the implementation of activities and processes related to financial risk management.

Capital risk management

The gearing ratio at the reporting date was as follows:

	2022	**2021**
	(in thousands of HRK)	
Debt (non-current and current borrowings including forwards)	538,976	398,659
Cash and cash equivalents	(165,103)	(33,306)
Net debt	373,873	365,353
Equity	3,982,781	3,694,266
Net debt to equity ratio	9%	10%

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

NOTE 39 – RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

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 Podravka Group. Thus, Podravka d.d. adopted "Policy of customer credit risk management and collection of receivables in the Podravka Group" 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 Podravka Group enters into business only with counterparties with good credit ratings, securing, when needed, receivables for the purpose of decreasing the risk of financial loss as a consequence of default. The Podravka Group's exposure based on receivables, and the credit ratings of its counterparties are continuously monitored.

The Group's exposure to major customers

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

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

Risk mitigation instruments are defined based on the financial performance ratios for individual customers, using internet services where the required information is available (financial statements, credit ratings). The company's exposure and credit rating are continuously monitored through credit limits set by the company and insurer, which are continuously controlled and adjusted if appropriate in accordance with the needs and situation on the market.

During 2022, the Podravka Group did not have significant damage claims related to the insurance of receivable collection.

Liquidity risk management

The Podravka Group manages liquidity risk by maintaining optimum amounts of cash on accounts, in addition to adequate sources of financing from credit lines available, for the purpose of the efficient management of short- and long-term funding and liquidity requirements.

The process of continuous monitoring of cash flows at the Podravka Group level, matching the maturity profiles of trade receivables and payables to customers and suppliers, banks and other financial institutions, enables timely ensuring optimum liquidity level required for Podravka Group's operating purposes.

Planning cash flows is performed at the level of each company in the Podravka Group, where the companies follow the guidelines set by Podravka Treasury, aimed at settling all liabilities and adjusting other contractual relationships.

NOTE 39 – RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Liquidity risk analysis

Tables below show contracted maturity of financial liabilities and financial assets of the Podravka Group stated in the consolidated statement of financial position at the end of each reporting period.

The tables have been drawn up based on the undiscounted cash flows based on contracted terms at reporting date and include cash flows from both interest and principal.

The liquidity risk analysis below shows no potential deficit of short-term liquidity for the Group.

as at 31 December 2022	**Net book value**	**Contracted cashflow**	**Up to one year**	**1 - 5 years**	**over 5 years**
			(in thousands of HRK)		
Non-interest bearing liabilities:					
Trade and interest payables	**466.946**	466.946	466.409	537	-
	466.946	466.946	466.409	537	-
Interest bearing liabilities					
Finance lease liabilities	**978**	1.065	435	630	-
Borrowings	**537.998**	538.798	510.666	28.132	-
Lease liabilities	**94.196**	101.290	47.892	37.241	16.157
	633.172	641.153	558.993	66.003	16.157
	1.100.118	1.108.099	1.025.402	66.540	16.157
Non-interest bearing assets:					
Trade receivables	**824.224**	824.224	822.455	1.769	-
Financial instruments	**41.730**	41.730	-	41.730	-
Forward contracts	**91**	91	91	-	-
Cash and cash equivalents	**165.103**	165.103	165.103	-	-
	1.031.148	1.031.148	987.649	43.499	-
Interest bearing assets:					
Long-term loans	**8**	8	8	-	-
Long-term deposits	**1.429**	1.429	967	462	-
Debit instruments at amortized cost	**299.621**	303.558	303.558	-	-
	301.058	304.995	304.533	462	-
	1.332.206	1.336.143	1.292.182	43.961	-
Net liquidity position	**232.088**	**228.044**	**266.780**	**(22.579)**	**(16.157)**

NOTE 39 – RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Liquidity risk management (continued)

Liquidity risk analysis (continued)

as at 31 December 2021	**Net book value**	**Contracted cashflow**	**Up to one year**	**1 - 5 years**	**over 5 years**
			(in thousands of HRK)		
Non-interest bearing liabilities:					
Forward contracts	**35**	35	35	-	-
Trade and interest payables	**308,193**	308,193	307,553	640	-
	308,228	308,228	307,588	640	-
Interest bearing liabilities					
Finance lease liabilities	**819**	877	327	550	-
Borrowings	**397,805**	399,960	246,487	153,473	-
Lease liabilities	**95,172**	106,882	35,466	54,540	16,876
	493,796	507,719	282,280	208,563	16,876
	802,024	815,947	589,868	209,203	16,876
Non-interest bearing assets:					
Trade receivables	**968,616**	968,616	967,486	1,130	-
Financial instruments	**41,785**	41,785	-	41,785	-
Cash and cash equivalents	**33,306**	33,306	33,306	-	-
	1,043,707	1,043,707	1,000,792	42,915	-
Interest bearing assets:					
Long-term loans	**11**	11	7	4	-
Long-term deposits	**1,420**	1,424	928	496	-
	1,431	1,435	935	500	-
	1,045,138	1,045,142	1,001,727	43,415	-
Net liquidity position	**243,114**	**229,195**	**411,859**	**(165,788)**	**(16,876)**

NOTE 39 – RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Market risks

(i) Interest rate risk management

The majority of the Podravka Group's debt has been contracted at a fixed interest rate and is therefore not significantly exposed to the risk of changes in interest rates. A smaller part of bank borrowings is contracted with a variable interest rate, which exposes the Podravka Group to interest rate risk, but this risk refers to a limited and small part of the borrowings portfolio.

Exposure to changes in interest rates on borrowings and loans in accordance with the agreed dates of changes in interest rates is as follows:

(in thousands of HRK)	**2022**	**2021**
EURIBOR based bank loans	17,500	3,643
EURIBOR based finance lease	760	561
TZMF bill of exchange based loans*	28,009	60,013
PRIBOR based bank loans**	10,356	32,875
€STR based bank loans***	17,799	-
SOFR based bank loans****	2	-
	74,426	**97,092**

** Treasury bills of the Ministry of Finance*
*** Prague Interbank Offer Rate*
****Euro short-term rate*
*****Secured Overnight Financing Rate*

Interest rate sensitivity analysis

The sensitivity analysis below is determined based on the exposure to changes in contractual interest rates at the reporting date. For floating rate liabilities, the analysis is prepared by calculating the effect of a reasonably possible increase in interest rates on floating rate debt on the expected contractual cash flows of such debt compared to those calculated using the interest rates applicable at the current reporting period end date.

The estimated effect of an increase in interest rates of 50 basis points on the Podravka Group's result before tax for the reporting periods is as follows:

as at 31 December 2022	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years
	(in thousands of HRK)			
At current interest rates	76,219	67,755	8,238	226
At current interest rates + 0.50%	76,561	68,075	8,260	226
Effect of increase of interest rate by 0.50%	**(342)**	**(320)**	**(22)**	**-**

as at 31 December 2021	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years
	(in thousands of HRK)			
At current interest rates	99,172	58,207	20,787	20,178
At current interest rates + 0.50%	99,803	58,636	20,939	20,228
Effect of increase of interest rate by 0.50%	**(631)**	**(429)**	**(152)**	**(50)**

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

NOTE 39 – RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Market risks (continued)

(ii) Price risk

The success of business of Podravka Group is dependent on adequate sources of raw materials, as well as their prices on the market, the efficiency of the production process and distribution of products to its customers.

The cost of raw materials can play a significant role in the cost of finished products the Podravka Group produces, therefore, it is subject to fluctuations of market prices of agricultural, food and pharmaceutical raw materials, whose impact cannot always be mitigated through the sale price for the buyer.
Protective customs and trade mechanisms in the EU protecting EU producers represent a risk in terms of increased customs duties (antidumping) for certain raw materials from third countries.
Also, frequent disruptions on the global market caused by environmental and geopolitical factors and a consolidation in the sector of primary production of raw materials, as well as global disruptions in the supply chain caused by the COVID-19 pandemic, energy crisis and the current war in Ukraine, have higher purchase prices as a consequence.

Risks of raw material procurement and product delivery

The Podravka Group realises the procurement on the domestic and foreign markets, while the majority of turnover with foreign suppliers relates to suppliers from EU member states.

Among procurement function risks, the risk of availability of goods on market is one of the most significant, due to its possible impact on the Podravka Group's operations.

Over the last years, this risk is more prominent due to more frequent adverse weather conditions caused by climate change on the global level (long droughts, floods, etc.). The consequence are lower yields of some agricultural plants often coupled with their lower quality, which leads to the deficit of these raw materials in the free market (fresh and dried vegetables), even for several consecutive seasons. More frequent livestock diseases (African swine fever) cause global disruptions on the meat market, while political or social unrest in certain countries, state interventions on market (hazelnut, cocoa) or speculation with key agricultural and food products (wheat, sugar) are a constant threat in the global business environment. The global pandemic of the COVID-19 virus has further increased the supply risk, which is primarily manifested in the availability of the necessary materials due to the functioning of the entire supply chain in difficult circumstances.

Disruptions in the market of pharmaceutical products, due to a significant increase in energy prices, disruptions in global supply chains, inflation and restrictions on the export of raw materials in certain countries due to priority supply of the domestic market (China), significantly contribute to the extension of delivery times and the increase in procurement costs.

Operating in such conditions, the procurement function of the Podravka Group minimizes these impacts through managing the strategic procurement categories and key suppliers, consolidation of purchasing volumes with the aim to strengthen market positions and ensure availability of raw materials for the production in required volumes, of satisfying quality and on time. The Podravka Group works intensively on approving alternative suppliers and introducing substitute raw materials, optimizing procurement processes and material specifications in order to reduce the risk of unavailability of materials and increase flexibility and competitiveness with the aim of mitigating and/or eliminating the negative effects of disruptions on the procurement market.

NOTE 39 – RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Market risks (continued)

(ii) (ii) Price risk (continued)

Risks of price fluctuations of basic raw materials

The market of agricultural and food products, as the most significant source of raw materials for the Group, is among the most sensitive markets of the modern world. Therefore, the volatility of prices of agricultural and food raw materials is a significant element in the Group's business environment, especially in conditions of prominent disruptions on the global and local markets. One of the reasons lies in the already mentioned risks of availability of goods due to environmental, geopolitical and social factors and speculations with key agricultural and food products, especially those in the wheat and sugar sectors. Exceptional price volatility is particularly relevant in the cereals (wheat) and commodity market segment (hazelnut, sugar, spices, cocoa, powdered milk, energy sources, etc.), which was significant during the last year on the one hand due to disruptions in the supply chain, and on the other, due to increased demand in the market of China.

Protective customs and trade mechanisms in the EU that, on one hand, protect EU producers, on the other hand pose a risk in terms of increased customs duties (antidumping) for certain raw materials from third countries.

In the part of pharmaceutical raw materials there has also been a rise in prices due to significant changes in the input raw material market. Due to the rise in ecological awareness and closure of factories in China that could not survive under the new conditions, there was a lack of primary raw materials which ultimately resulted in an increase in the prices of chemical syntheses.

The global pandemic of the COVID-19 virus has further increased on the one hand the supply risk, which is primarily manifested in the availability of the necessary materials due to the functioning of the entire supply chain in difficult circumstances, but also the risk of price changes.

To minimise these impacts, the Podravka Group's procurement function continuously monitors movements in prices and market trends, conducts joint tenders for certain strategic procurement categories, uses new procurement techniques (e-procurement, internet auctions) to increase the efficiency of the sourcing process and reduce the cost of procurement. Timely contracting, allocating a portion of risk to our suppliers, optimisation of material specifications and introduction of replacement raw materials, as well as active implementation of the Commodity Risk Management with strengthening of cost-driver analysis and technical analyses of all relevant inputs are only some of the measures taken by the Podravka Group for the purpose of best estimates of price movements and the minimisation of market price volatility risk.

NOTE 39 – RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Market risks (continued)

(iii) Currency risk

The carrying amounts of the Podravka Group's financial assets and financial liabilities denominated in foreign currencies at the reporting date are as follows.

	Liabilities		**Assets**	
	2022	**2021**	**2022**	**2021**
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	718,508	451,481	612,345	256,615
Poland (PLN)	31,520	27,610	62,251	39,466
Bosnia and Herzegovina (BAM)	30,035	35,833	164,766	144,961
Czech (CZK)	29,350	48,374	20,239	19,851
Russia (RUB)	14,118	12,230	14,366	155,150
Other currencies	40,658	26,897	135,007	109,546
	864,189	**602,425**	**1,008,974**	**725,589**

Foreign currency sensitivity analysis

The Podravka Group performs certain transactions in foreign currencies and is therefore exposed to risks of changes in exchange rates, with the highest exposure during 2022 to changes in the exchange rate of the Croatian kuna against EUR, PLN, BAM, CZK and RUB. Of the other currencies, the highest exposure occurred against RSD, USD, HUF and MKD, but these are not listed in the table as their individual exposure is less than the above stated.

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 Podravka Group has a part of borrowings denominated in EUR.

During 2022, the Podravka group continued to apply the model of managing transaction currency risk called Layer hedging. This model is applied to the group of currencies to which the Podravka Group is exposed. 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. By adopting the risk management policy, at the end of 2022 the Podravka Group model of currency risk hedge was improved with additional activities of monitoring of market trends, regularly performing analyses of all currencies in which there is an exposure and the possibility of contracting various financial instruments that aim to protect against currency risk. Also, inflows from related companies are directed towards Podravka d.d., wherever possible, in the domestic currency of the country in which the related company operates. This way, the currency risk is largely transferred from related parties to Podravka d.d. that actively manages these casg inflows and where possible adjusts these cash inflows with outflows (natural hedging), thus reducing the overall exposure to currency risk.

During 2022, Podravka d.d. concluded fx forward contracts for managing currency risk of the following foreign currencies: EUR, AUD, CAD and USD. Podravka International Kft., Budapest realizes part of its outflows in EUR due to the settlement of its obligations in the specified currency. During 2022, the company entered into FX Forward transactions for EUR HUF rate aimed at hedging the EUR exchange rate change.

NOTE 39 – RISK MANAGEMENT (CONTINUED)

Financial risks (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 Bloomberg exchange rate is used:

	31.12.2022	31.12.2021
EUR	7,5345	7,5172
PLN	1,6097	1,6356
BAM	3,8523	3,8435
CZK	0,3124	0,3011
RUB	0,0996	0,0886

The following table details the Podravka Group's sensitivity to a 10% increase and decrease in Croatian kuna against the relevant foreign currencies where the Podravka Group has significant exposure (EUR, PLN, BAM and CZK), while the sensitivity to RUB was calculated with a 30% change in exchange rate. With the transition of the Republic of Croatia to the euro as the local currency from January 1, 2023 the currency risk of that position was eliminated. 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		PLN exposure	
	2022	2021	2022	2021
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result +10%	-	(19,487)	3,073	1,186
Increase/(decrease) of net result -10%	-	19,487	(3,073)	(1,186)

	BAM exposure		CZK exposure	
	2022	2021	2022	2021
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result +10%	-	10,913	(911)	(2,852)
Increase/(decrease) of net result -10%	-	(10,913)	911	2,852

	RUB exposure	
	2022	2021
	(in thousands of HRK)	
Increase/(decrease) of net result +30%	74	42,876
Increase/(decrease) of net result -30%	(74)	(42,876)

NOTE 39 – RISK MANAGEMENT (CONTINUED)

Financial risks (continued)

Market risks (continued)

(iv) Sales function based risks

The Podravka Group generates 32% (2021: 32%) of its revenue on the Croatian market, whereas 68% (2021: 68%) of the sales are generated on international markets.

The Podravka Group determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

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

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

Business risks management

Industry risks

In the food industry, market trends as well as consumer habits change in a very short period of time. Due to this risk, the Podravka Group seeks to constantly improve the processes and meet market conditions. In the food and pharmaceutical industries, where the focus is on products and brands, the Group complies with legislative, health and manufacturing regulations. Clear legal regulation creates most of the production and sales processes within the Group and is subject to change, depending on the bodies adopting it. By implementing better internal processes, the Podravka Group seeks to eliminate the majority of potential threats.

At the time of the corona crisis, the food and pharmaceutical industries 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 but also in other processes proved to be of immense importance for the continuity of production and delivery of goods.

The impact of the corona crisis on China and India, the world's two largest exporters of pharmaceutical raw materials and products with the cheapest production, has disrupted supply chains for drugs and other medical equipment around the world due to limited production, distribution and trade, as well as short-term shortages of certain products. In addition to the difficult supply of raw materials and supplies, there are problems in the supply chain of equipment parts. The application of improved internal procurement processes of active and auxiliary substances for the production of drugs ensures the timeliness and availability of raw materials and supplies that are necessary for the production of drugs, in order to reduce the risk and maintain a sufficient supply of drugs for the domestic population.

NOTE 39 – RISK MANAGEMENT (CONTINUED)

Business risks management (continued)

Competition risk

The Group sells products both on the Croatian and international markets, and is exposed to numerous competitors in all product categories. Innovations, adjustments of the product price, quality and packaging are key changes that the Group is paying attention to in order to be different from competition.

In addition, the reputation of the brand, or the Podravka Group, is intangible value that differentiates it from the competition and creates the advantage. The fact that the Podravka Group is focused on securing the highest level of quality of its products contributes to the reputation that depends on many own products on the market on a daily basis.

Monitoring of consumer habits and preferences that are subject to constant changes, and adjustments to them, are one of a series of activities that the Podravka Group undertakes to maintain and increase the existing market positions and margins.

Risks of IT system disruptions

The Podravka Group intensely uses IT systems that enable it to efficiently manage the Group, communicate with customers and suppliers, and collect all the information that management can rely on in making decisions.

Given the high degree of automation of business processes through the use of IT systems, the Group takes the necessary measures to minimise IT system disruptions due to problems with IT equipment, the space in which it is located, viruses and unauthorised external breaches into the systems.

As each IT system disruption causes significant problems in operating systems and financial losses, the Group has implemented IT system recovery procedures through the construction of an auxiliary IT room that assumes the function of the main IT system room in case of a problem. In the normal operating mode, both IT system rooms work in the active-active mode.

The Group regularly implements proactive actions to improve the IT system security by applying the best recommended security practices.

The Group regularly implements automated PEN tests using a specialized software solution and performs remedy activities to minimize the risk of using the vulnerability of the system for spreading the malicious code and the risk of unauthorized external breaches into the IT systems.

Also, following the implementation of advance security monitoring systems, monitored on a daily basis, the risk of external breaches into the Podravka Group's IT systems is additionally reduced.

Podravka d.d. has implemented and certified the IT security management system based on the ISO 27001 standard in December 2020.

Human resource risk management

Business ethics and excellence, commitment to achieving goals and to work, extra effort and commitment, and daily commitment, growth and development are the basis of the Group's success and the characteristics of its employees.

Respect and trust, as well as teamwork based on dialogue and transparency in work, are encouraged and supported and form a solid foundation for continuous progress.
Through a series of proactive measures, the Podravka Group creates an environment where employees are engaged and loyal. The Podravka Group recognizes and rewards individuals who achieve excellent results, show exceptional effort and encourage innovation and efficiency.

NOTE 39 – RISK MANAGEMENT (CONTINUED)

Business risks management (continued)

Human resource risk management (continued)

In 2022, the Group identified the main risks related to human capital:

- Timely recruitment and retention of skilled labour for the needs of Production
- Unfavourable age structure of employees and retirement in the coming years

During 2022, the implementation of the Human Resources Strategy continued, in which some of the main pillars are Workforce transformation and renewal, and Professional development and new career options. The Podravka Group addresses these risks and will focus on specific initiatives/activities aimed at minimizing the main risks:

1. Intensifying cooperation with educational institutions
2. Employer image management – better Employer Branding
3. Programs that encourage intergenerational and multicultural cooperation and understanding
4. Programs for trainees and new employees
5. Improvements in the promotion and reward system
6. Employment of young workers and supply of workforce from new pools
7. Increasing automation and digitization – in the Production domain

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

More details about initiatives and projects implemented by the Group can be found in the Relations with employees section.

Climate related risk

The Podravka Group operates through two main business segments, Food and Pharmaceuticals. These activities Company are not listed in the Delegated Regulation on the EU taxonomy of climate sustainable activities, which means that these activities that do not have a significant negative impact on the climate because large amounts of greenhouse gases are not emitted in the production process. Environmental protection is one of the priorities of the Podravka Group, and is carried out by applying the principle of sustainable development and cleaner production. All activities must be in accordance with the effective national legal provisions regarding the environmental protection, as well as the regulations of the countries in which the company operates. In case of non-existence of national regulations, international standards are applied. For many years, the Podravka Group has rationally used the best sources of energy and raw materials, carefully manages waste and continuously works on the prevention of negative environmental impact of production. Taking into account its main activities, the Podravka Group can make the greatest contribution to the global objectives of sustainable development through:

- investment in energy efficiency and renewable energy sources;
- reduction in the generation of waste in production and use of environmentally acceptable packaging;
- investment in agricultural production on the sustainability principle;
- development of products that contribute to the consumer health with their nutritional composition;
- contribution to the community and care for the employees of the company; and
- transparent corporate governance.

NOTE 39 – RISK MANAGEMENT (CONTINUED)

Business risks management (continued)

Climate related risk (continued)

CO_2 is emitted in the production process, while there are no emissions of other greenhouse gases. In the production process, the use of renewable energy sources is increasingly prevalent (wood chip boiler, photovoltaic power plant at the Kalnik factory in Varaždin, and the power plant on the roofs of the Danica industrial zone in Koprivnica), and through planned capital investments, the share of renewable energy sources at the Group level will further increase.

Through a strong investment cycle, investments were continued in increasing the energy efficiency of property and plant and, consequently, lower consumption of energy sources, which further reduces CO_2 emissions and thus the negative impact on the climate. CO_2 and very small amounts of CH_4 and N_2O are emitted through the logistics and distribution part of the business (vehicle fleet). Investments in the vehicle fleet and the procurement and use of new freight vehicles reduce CO_2 emissions and contribute to the environmental objective of preventing climate change.

NOTE 40 – SHARE-BASED PAYMENT TRANSACTIONS

Key management share options

Options for the purchase of Podravka d.d. shares were granted to key management of the Group. The exercise price of the granted option equals the weighted average share price of Podravka d.d. shares as per the Zagreb Stock Exchange in the year the option is granted. Options are acquired separately for each business year. Share purchase options may be exercised after the expiration of at least two and at most five years from the year to which the share purchase option applies. In case of termination of employment, the acquired options can be exercised within 3 years from the date of termination of employment.

The following share-based payment options were effective as at 31 December 2022:

Date of issue	Number of options	Vesting terms	Contracted vesting period
Options granted to key management of the Group			
As at 17 May 2017	4,668	Service during the contracted vesting period	06.01.2024
As at 31 July 2018	15,000	Service during the contracted vesting period	31.12.2023
As at 31 July 2018	6,668	Service during the contracted vesting period	06.01.2024
As at 10 December 2019	22,500	Service during the contracted vesting period	31.12.2024
As at 28 May 2019	2,500	Service during the contracted vesting period	31.12.2024
As at 10 December 2019	6,668	Service during the contracted vesting period	06.01.2024
As at 19 September 2020	2,000	Service during the contracted vesting period	31.12.2025
As at 29 September 2020	22,500	Service during the contracted vesting period	31.12.2025
As at 29 September 2020	6,668	Service during the contracted vesting period	06.01.2024
As at 2 December 2020	6,600	Service during the contracted vesting period	31.12.2025
As at 30 April 2021	32,500	Service during the contracted vesting period	31.12.2026
As at 10 December 2021	7,500	Service during the contracted vesting period	31.12.2026
As at 13 September 2021	5,000	Service during the contracted vesting period	31.12.2026
As at 13 September 2021	2,000	Service during the contracted vesting period	31.12.2026
Total share options	**142,772**		

NOTE 40 – SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Key management share options (continued)

Fair value measurement

The fair value of the employee share options is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the historical volatility of the share price, particularly over the historical period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). In accordance with the input variables used, the fair value estimate of the option is categorised in the fair value hierarchy as level 1. Service and non-market performance conditions are not taken into account in determining fair value.

Input variables for calculation of fair value:

Share option programme for key management	**2022**	**2021**
Fair value at grant date (weighted average)	136	126
Share price at grant date (weighted average)	491	457
Exercise price (weighted average)	440	417
Expected volatility (weighted average)	20%	21%
Expected life (weighted average in years)	2.5	2.7
Risk-free interest rate (based on government bonds)	3.16%	5.09%

Expense recognised in profit or loss	**2022**	**2021**
		(in thousands of HRK)
Equity-settled share-based payment transactions	7,353	6,260

The exercise price of share options for key management falls within the range HRK 317 to HRK 589.

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

	2022		**2021**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Outstanding at 1 January	252,500	417	231,500	410
Exercised	(105,728)	375	(26,000)	356
Expired	(4,000)	-	-	-
Granted	-	-	47,000	632
Outstanding at 31 December	**142,772**	**440**	**252,500**	**417**
Unused at 31 Dec	**49,172**	**401**	**116,800**	**333**

As at 31 December 2022, there are 142,772 of outstanding options (2021: 252,500 options). In 2022, 105,728 options were exercised (2021: 26,000 options), and 4,000 options expired.

The weighted average exercise price of outstanding options at the end of 2022 is HRK 440 (2021: HRK 417). The price of all unexercised share options is lower than the share market price as at 31 December 2022. The weighted average remaining validity of options is 2.5 years at year end (2021: 2.7 years).

NOTE 40 – SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Shares for the Company's management

At the level of the Company, there are long-term plans for the allocation of shares to the Company's key management for the period from 2022 to 2024.

The share allocation program applies to the Company's Management Board, and the right is acquired in the event that a member of the Management Board has the right to the payment of an annual bonus. The total number of shares to which a member of the Management Board is entitled for a particular business year is determined by multiplying a certain number of monthly salaries by the amount of monthly salary expressed in gross amount and subsequently divided by the share price of the Company, which is calculated as the average price realized on the Zagreb Stock Exchange during the six months preceding the date of the decision of the Supervisory Board.

The schedule of allocation of the total number of shares will be determined in such a way that 50% of the total number of shares for the year in question are allocated to the Member of the Management Board within 30 days of the decision of the Supervisory Board, while the right of the Member of the Management Board to allocate the remaining 50% of shares will depend on the fulfillment of long-term business plans and discretionary decisions of the Supervisory Board in 2025.

The following allocation of shares was effective as at 31 December 2022:

	2022	2021
Number of allocated shares	2,902	-

Fair value measurement

Variables in measuring the cost of share-based payment transactions are the gross salary, the number of gross salaries and the share price on the measurement date.

Recognized in profit or loss	**2022**	**2021**
	(in thousands of HRK)	
Equity-settled share-based payment transactions	2,535	-

NOTE 41 – RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are its related parties, are eliminated through consolidation and are not presented in this note.

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

	2022	2021
	(in thousands of HRK)	
Payments of members of the Management Board and directors		
Salaries, bonuses and other benefits paid	51,209	47,007
Share-based payments reimbursement	16,666	4,012
	67,875	**51,019**

Management of the Group which consists of the Management Board and directors has 72 persons (2021: 64 persons).

During 2022, options were exercised by the active members of the Management Board and directors in the amount of HRK 16,666 thousand (2021: HRK 4,012 thousand). For details see note 40.

During 2022, a total of HRK 2,978 thousand (2021: HRK 2,568 thousand) was paid at Group level as compensation to members of the Supervisory Board and the Audit Committee).

NOTE 42 – CONTINGENT LIABILITIES

	2022	2021
	(in thousands of HRK)	
Guarantees and warranties given	23,593	30,478
	23,593	**30,478**

Guarantees and warranties mainly relate to the potential liability of the Belupo Group on the basis of performance guarantees, potential liability of Podravka d.d. on the basis of customs guarantees and performance guarantees and the potential liability of the Žito Group on the basis of performance guarantees.

With respect to guarantees and warranties granted, contingent liabilities have not been recognised in the consolidated statement of financial position as at 31 December as the Management Board estimated that, as at 31 December 2022 and 2021, it is not probable that they will result in liabilities for the Group.

NOTE 43 – COMMITMENTS

In 2022, the purchase costs of tangible fixed assets contracted with suppliers amounted to HRK 269,042 thousand (2021: HRK 154,000 thousand), which are not yet realised or recognised in the consolidated statement of financial position.

The future payments under operating leases in 2022 relate to the usage of IT equipment, other operating leases and mobile devices, as follows:

	2022	2021
	(in thousands of HRK)	
Up to 1 year	10,689	11,306
From 1 to 5 years	9,689	14,773
	20,378	**26,079**

NOTE 44 – EVENTS AFTER THE REPORTING DATE

According to the Law on the introduction of the euro as the official currency in the Republic of Croatia from 1 January 2023, the Group made all the necessary adjustments to the information system and ensured compliance with the Law and further uninterrupted development of all business processes.

There were no other significant events after the balance sheet date that would require reconciliation or disclosure in the financial statements.

NOTE 45 – APPROVAL OF FINANCIAL STATEMENTS

The financial statements were adopted by the Management Board and approved for issue on 4 April 2023.
Signed on behalf of the Company on 4 April 2023:

Martina Dalić
President of the Management Board

Davor Doko
Member of the Management Board

Ljiljana Šapina
Member of the Management Board

Milan Tadić
Member of the Management Board

Ivan Ostojić
Member of the Management Board

PODRAVKA
PREHRAMBENA INDUSTRIJA d.d.
KOPRIVNICA 173

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

Creating
a delicious world.
*Always with
a heart.*

PODRAVKA