

# **PODRAVKA GROUP ANNUAL REPORT FOR 2018**



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A multi-story building with a red overlay. The building has many windows and a sign on top that says "PODRAVKA". In the foreground, there is a construction site with a crane and a person walking. The image is partially obscured by a dark grey circle on the right side.

PODRAVKA

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

# 1 Introductory words of the President of the Management Board

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## DEAR STAKEHOLDERS OF THE PODRAVKA GROUP,

The year 2018 has been one of the most successful in the longstanding history of Podravka. We have obtained outstanding, best ever, business results due to our excellent performance in all business segments and the utmost efforts of our employees.

The year delivered more than HRK 4.2 billion of sales revenue, with a net profit of HRK 205.7 million in revenue growth, in both the segments of Food and Pharmaceuticals. We have also obtained significant steps forward in key export markets, giving us a lot of reasons to be satisfied and optimistic for the challenges ahead. All our achievements are the result of organic sales growth along with concurrent control of operating costs, additionally confirming the success of the Podravka Group business activity.

Amongst the most significant economic events in 2018 that have influenced the Podravka Group's business activity, I would like to point out the settlement agreement in Agrokor, where we have been participating actively within the Agrokor Suppliers Association. It was a great challenge to protect and preserve the rights and interests of suppliers, without jeopardizing the survival of Agrokor and Konzum, the biggest Croatian retail sales chain. Forming the Association has placed Podravka at the top of the most relevant companies in Croatia and absolutely confirms the strength, power and importance Podravka stands for in Croatian economy.

In 2018, Podravka achieved its planned business targets, including those related to the improvement of rights and material conditions of its employees, being the most valuable company resource. Thus in 2018, the lowest salaries in Podravka were increased by about HRK 1000, along with other measures enabling significant improvement of the material position of all Podravka Group employees.

Along with respecting the tradition woven into all the products of Podravka, some of which already enjoy a legendary status, Podravka is continuously active in advancing the existing and creating new Podravka, Belupo and Žito products, carefully following the latest food and pharmaceutical trends and fulfilling the needs of our customers.

The excellence of Podravka's brands and products is confirmed every day, but there is another aspect that distinguishes Podravka from its competition. That are partnerships

with famous people from various segments of Croatian society, like for instance a very successful relationship between Lino Lada Gold and Zlatko Dalić, coach of the Croatian national football team and world known athlete Sandra Perković and Vegeta Natur, in promoting values such as hard work, high-set goals, and aspirations towards excellence.

Besides its orientation towards achieving the best business results and creating top quality brands and products, Podravka is also committed to the community in which it operates and to caring for its employees as a highly responsible employer.

We promote applying standards of socially responsible business activities and the alignment of economy with the development goals of the community as well as preservation of the environment for future generations.

Our future focus will be on further organic growth and strengthening market positions in all export markets, through upgrading our brands and developing new products. Our greatest success is definitely the trust of our consumers in more than 60 countries all over the world and we shall be ready and eager to continue to meet their wishes and needs in all future business activities.

*President of the Management Board*

*Marin Pucar*

A handwritten signature in black ink, appearing to read 'Pucar', with a large, stylized initial 'P'.



# 2

## Podravka Group profile

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### COMPANY NAME AND HEADQUARTERS LOCATION

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Podravka Food Industry Inc., Koprivnica (“*Company*”) was established in Croatia. The Podravka Group consists of the parent company Podravka Inc. together with its subsidiaries. Company headquarters are located at Koprivnica, Croatia, Ante Starčevića 32.

During the year 2018, the Podravka Group was registered for conducting a total of 63 business activities (according to the extract from the Register of Companies of the Commercial Court of Varaždin) and on the 31 December 2018 had a total of 6,517 employees.

### ORGANIZATIONAL STRUCTURE

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

- FOOD AND
- PHARMACEUTICALS.

Business operations of the SBA Food can be followed through the activities of the business programmes related to certain product groups:

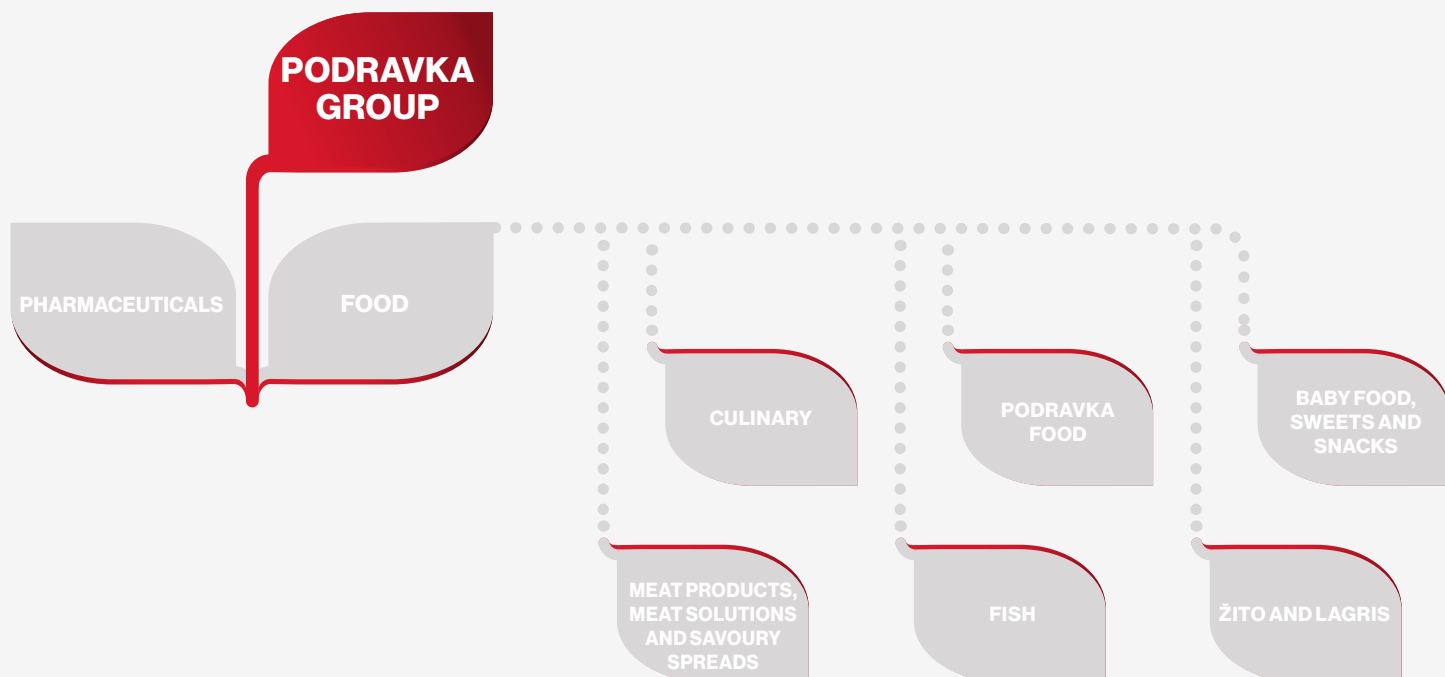
- SIX BUSINESS PROGRAMMES – Žito and Lagris, Culinary, Podravka food, Baby food, sweets and snacks, Meat products, meat solutions and savoury spreads and Fish.

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

- ADRIA REGION
- INTERNATIONAL MARKETS.

The Adria region consists of the Market of the Republic of Croatia and Southeast European Market. International markets include the Central European Market, the Western European Market and Overseas Countries, the Eastern European Market and the New Markets.

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



As support to the organization of the Group as a whole, an important part of the business organization are also **corporate functions**.

Each strategic business area is structured through sectors, departments and sections.

Corporate functions support the overall business operations and ensure the application of unique corporate standards at the Podravka Group level. Corporate functions are supported by a central organization.

Corporate functions are: **Human Resources and Law, Corporate and Information Security, Treasury, Corporate Accounting and Taxation, Controlling and Informatics.**

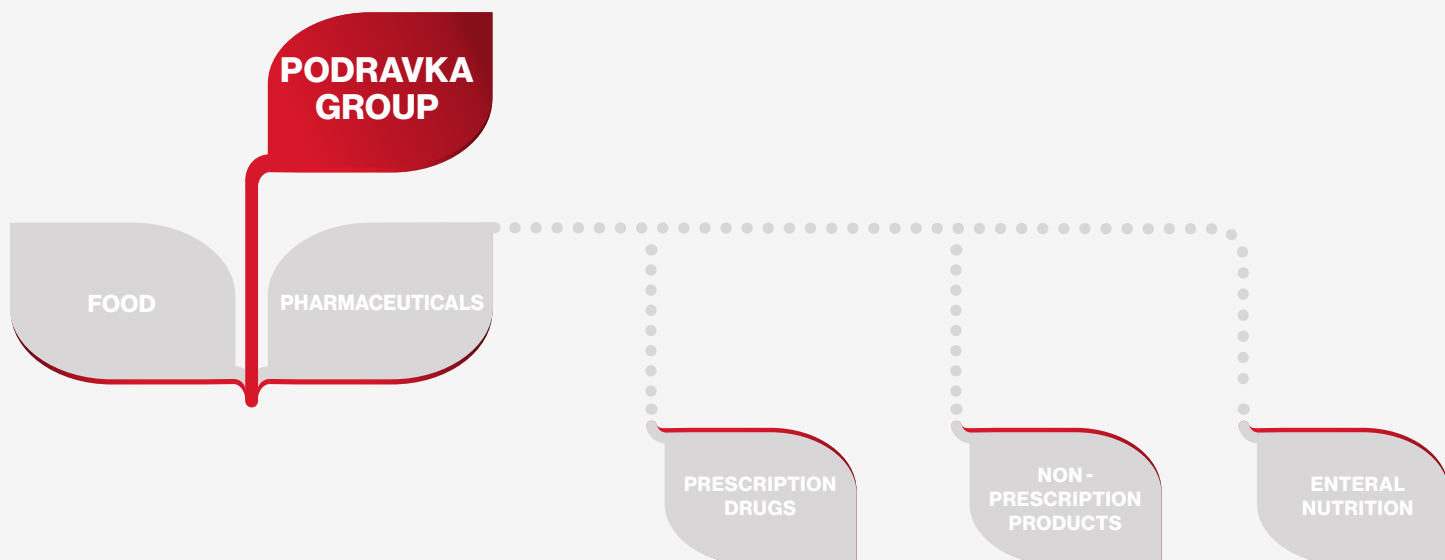
Corporate functions include **Corporate Marketing and Communications** and **Research and Development**, whose role is to apply corporate standards for marketing and development as well as to support marketing and development in business programmes.

The organizational structure of the Podravka Group also includes Internal Audit, which acts as an independent function.

Furthermore, the Group's business operations are supported by the following management functions: the **Management Board's Office, Global Business Development, Business Quality and Sustainable Development and Offices of the Vice Presidents.**

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

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



### Strategic Business Area Pharmaceuticals organized as the Belupo Group

Business operations of the Belupo Group are organized through the following organizational units:

- MARKET OF THE REPUBLIC OF CROATIA
- MARKETING,
- SALES,
- LOGISTICS,
- INTERNATIONAL MARKETS,
- BUSINESS DEVELOPMENT AND REGISTRATION,
- PRODUCTION,
- PURCHASING,
- RESEARCH AND DEVELOPMENT,
- QUALITY CONTROL.

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

**Management services** are: the Management Board's Office, Public Relations, Human Resources Development and the Strategic Project Team.

## PODRAVKA GROUP BRANDS AND PRODUCTS

Consumer trust is the underlying reason why Podravka has become **the number 1 food brand** not only in Croatia but also throughout the region and a recognizable brand on other foreign markets. The high quality of products is guaranteed by **excellent raw materials, modern technology processes and knowledge.**

Podravka's products are characterized by **quick and easy preparation** leaving at the same time enough space for culinary imagination. Respecting tradition and combining cutting-edge creative methods and technological achievements, **we set standards and create the latest trends.**





**VEGETA** is Podravka's most renowned brand and has been closely following every move made in our consumers' kitchens for the past 59 years giving them the freedom to prepare the most delicious dishes for themselves, their family and friends. The product range of the Vegeta brand has grown considerably and today Vegeta is a culinary brand, with its range of exclusive products of the highest quality, including universal seasoning, special condiments, ready-made mixes, soups, bouillon cubes and spices.

**PODRAVKA SOUPS** are favoured among consumers, easy to prepare, yet leave consumers just enough space for their own creativity. All those who love cream or clear soups have been able to find their favourite taste for the past 60 years.

Delicious and healthy **LINO BABY FOOD** provides all the ingredients necessary for child growth and development and is also a favourite treat. Along with baby food, Lino has a range of delicious cream spreads Lino Lada, the perfect treat for all generations.

**DOLCELA** offers a sweet touch of fantasy in each of its products. High quality desserts that are quick and easy to prepare, from simple little desserts to festive cakes, pastry and ready-made cakes. Cakes and desserts created to enjoy at any time.

**EVA** and **MIRNA** make the richest fish range of products prepared from the finest parts of fish. These products are rich in valuable proteins that contain essential amino acids and minerals.

A wide range of **FANT** seasoning mixes will enrich your culinary skills and significantly reduce time necessary for preparing a meal. Fant mixes are the perfect answer to the common question: "What to cook today?", enabling quick and easy preparation of even the most complex dishes.

**PODRAVKA TOMATO** can be found in every cuisine, especially in the Mediterranean, an indispensable ingredient that combines well with a whole range of culinary foods. Healthy and natural tomato products contribute to health, provide creativity in cooking dishes and enjoying the best fruits of modern cuisine.

For the past 70 years **PODRAVKA FRUIT** products have been prepared by processing high-quality fruits of controlled origin with no additional aroma, artificial colours and sweeteners. Podravka smooth plum jam is a recognizable and appreciated traditional Croatian product thanks to its high content of fruit and proudly carries the Croatian Chamber of Commerce label "Genuine Croatian Product".

**PODRAVKA VEGETABLES** perfectly preserve and enrich the original vegetable flavours throughout the year and bring them to the tables of our consumers. Sterilized and pickled, they can be used throughout the year with no significant changes to their nutritional value. Harvested at the best time and prepared without additives, Podravka vegetables are used for salads, side dishes, sauces, stews and sandwiches.

Perfect texture and proven flavour make **PODRAVKA CONDIMENTS** - chutney, mustard, ketchup and horseradish the ideal addition to the most varied meals. Podravka's delicious and aromatic condiments are an essential product in every kitchen and whether used with grilled meat, potatoes or pasta, practical and simple, they will enhance the taste of each and every dish.

**PODRAVKA TEAS** are produced from carefully selected raw materials, strong and recognizable herbal and fruity aromas. Podravka teas are the result of listening to the desires of true tea lovers which has continued for more than four decades. The wide product range is constantly expanding, enabling consumers to enjoy a wide selection of herbal, fruit and real teas. The filter bags are packed in an aroma sachet, a special foil that preserves the freshness and scent, so Podravka teas today have a recognizable taste and strong aroma.

**PODRAVKA MEAT PRODUCTS AND MEAT SOLUTIONS** with a wide range of traditional and modern flavours - patés, ready-made meals, meat sauces and luncheon meat - are a delicious meal in any occasion. They are enriched with a special mixture of spices that gives each product a distinctive and recognizable aroma and are the ideal solution for every occasion.

The **KVIKI** snack range contains snacks in salty and sweet varieties. The products are roasted to ensure the fullness of flavour and recognizable supreme quality, while carefully selected raw materials guarantee high quality of the finished products.

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

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

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

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

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

The world of **MAESTRO** spices is an aromatic oasis in which consumers can boldly seek and find flavours and aromas without which food preparation is unimaginable. Maestro offers spices, seasoning mixes, condiments and food preparation mixes to help ensure a harmony of flavours in every dish.

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

**BELUPO**, a pharmaceutical company within the Podravka Group, has three product groups in its production portfolio: **prescription drugs, non-prescription products and enteral nutrition**.

According to the anatomic-therapeutic-chemical (ATK) classification, Belupo's prescription drugs are divided into 12 groups: preparations acting on the alimentary tract and metabolism, preparations acting on blood and blood forming organs, preparations acting on the cardiovascular system, preparations for skin treatment, preparations acting on the genito-urinary system and sex hormones, preparations for treating systemic infections, preparations for treating malignant diseases and immunomodulating agents, preparations acting on the musculo-skeletal system, preparations acting on the nervous system, preparations for treating infections caused by parasites, preparations acting on the respiratory system and preparations for sensory organs.

Belupo's non-prescription products include herbal medicines (Silymarin, Hederan®), dietary supplements (Urosal®, Maxi Omega), cosmetics (Floceta®), non-prescription (OTC) medicines (Neofen®, Lupocet®, Herplex®, Aska pro®) and auxiliary substances. Belupo is one of the leading companies in Croatia for the sale of OTC drugs. Belupo Lupocet and Neofen take the first two places in the rankings of the ten most wanted non-prescription drugs.

Enteral nutrition, i.e. food for special medical purposes, encompasses two product groups: Nutrixa and Nutribel Complex.

## LOCATION OF BUSINESS ACTIVITIES

The Podravka Group is a multinational company that operates through subsidiaries and representative offices in **24 countries around the world on five continents** (Europe, North America, Asia, Africa and Australia). The Podravka Group conducts significant business activities in Croatia, Slovenia, Bosnia and Herzegovina, Russia and Poland.



## OWNERSHIP AND LEGAL FORM

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

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

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

The ownership structure of Podravka Inc. as of 31 December 2018 was the following:

SHAREHOLDER	NUMBER OF SHARES	SHARE IN SHARE CAPITAL
ADDIKO BANK D.D./ PBZ CO OMF - CATEGORY B (1/1) MANDATORY PENSION FUND	1,052,100	14.78 %
OTP BANKA D.D./ AZ OMF CATEGORY B (1/1) MANDATORY PENSION FUND	902,874	12.68 %
CERP (0/1) / HZMO (1/1) CROATIAN PENSION INSURANCE INSTITUTE	727,703	10.22 %
OTP BANKA D.D./ ERSTE PLAVI OMF CATEGORY B (1/1) MANDATORY PENSION FUND	674,669	9.48 %
ADDIKO BANK D.D./ RAIFFEISEN OMF CATEGORY B (1/1) MANDATORY PENSION FUND	625,298	8.78 %
HPB D.D./ KAPITALNI FOND D.D. (1/1)	406,842	5.71 %
CERP (0/1) / REPUBLIC OF CROATIA (1/1)	404,233	5.68 %
HPB D.D. (0/1) / REPUBLIC OF CROATIA (1/1)	167,281	2.35 %
PRIVREDNA BANKA ZAGREB D.D./ CLIENT SAFE CUSTODY ACCOUNT	105,441	1.48 %
TREASURY ACCOUNT	145,775	2.05 %
OTHER SHAREHOLDERS	1,907,787	26.79 %
<b>TOTAL:</b>	<b>7,120,003</b>	<b>100.00 %</b>

## MARKETS ON WHICH THE COMPANY OPERATES

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

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

- **Adria region** that includes Croatia and South Eastern Europe (Slovenia, Serbia, Macedonia, Montenegro, Kosovo, Albania, Greece) and
- **International markets** that include:
  - **Central Europe** that covers the countries of Poland, the Czech Republic, Slovakia, Hungary, Romania and Bulgaria
  - **Western Europe and Overseas Countries** that include the countries of Germany, Austria, Switzerland, France, Great Britain, Italy, the Benelux and other West European countries, Scandinavia, North America, Australia and New Zealand
  - **Eastern Europe** that includes Russia, Ukraine, Kazakhstan, the Baltics and other East European countries
  - **New markets** that include the countries of Africa (East Africa, West Africa, Central Africa), MENA countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE, Iraq, Iran, Levant countries and North Africa), and Asia (India, China and other Asian countries).

SBA Pharmaceuticals operates on the Croatian market and on foreign markets that are divided into:

- **Adria region** that includes the countries Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Slovenia, Kosovo and Albania
- **Eastern Europe** that includes the countries Russia, the Ukraine and Kazakhstan
- **Central Europe** that includes the countries Czech Republic, Slovakia and Poland
- **New markets** that include the countries Turkey, Iraq and Botswana
- **Belupo – outlicensing** (*registration and sales of products via partner*) that includes the countries Denmark and Germany.

## THE SUPPLY CHAIN

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### CHARACTERISTICS OF THE SUPPLY CHAIN

The Podravka Group's supply chain is based on two basic principles, **Supply Category Management** and **Supplier Relationship Management**.

The entire purchasing range of the Podravka Group is divided into procurement categories led by Supply Category Managers - they lead the Category strategy, negotiate, contract, execute roof contracts and monitor their realization, accordingly. For all procurement categories, tenders are prepared or a targeted approach, through market research and competition monitoring is applied, seeking offers from potential partners, depending on the type of goods, locally or around the world. According to the results obtained, the purchasing volume is divided according to selected suppliers. For this purpose, the *Ensolva* application is a very important platform for tenders and e-auctions as it allows better negotiation and more favourable prices of materials and services.

Supplier Relationship Management is of strategic importance to the Podravka Group, since the suppliers are segmented according to their strategic importance, i.e. added value to the company. **Creating partnerships with suppliers** is one of the main objectives of the supply chain. This ensures timely delivery of the product in agreed quality and quantity at

a competitive and sustainable price. **The same strict quality parameters and behaviours are required from all suppliers**, regardless of their geographic position, economic status or degree of partnership, **in line with Podravka's corporate strategy and business ethics**.

**Regular ISO supplier audits** that evaluate suppliers according to different criteria give the company the most complete picture of the suppliers. It is of utmost importance that the supplier has all the necessary certifications (IFS, BRC, GLOBALGAP, FSSC 22000, ISO 9001, ISO 14001, HACCP, OHSAS 18001, AOECs and others) and takes care of environmental protection and sustainable development.

For the development of new products, Podravka uses know how suppliers, related to innovation and / or optimization of materials that are the subject of procurement. Therefore, it is important for Podravka that the approved suppliers meet the prerequisites for quality, pricing and delivery deadlines, successfully realize their development potential and offer solutions in line with the latest achievements within their industry.



## TYPES OF SUPPLIERS INVOLVED

According to the type of supplier, Podravka Group cooperates with **direct manufacturers, primary producers, small crafts, family farms (OPGs), sub-contractors, distributors, wholesalers and large multinational companies.**

In 2018, turnover at Podravka Group level was generated with a total of 10,442 suppliers.

The Podravka Group generates turnover with suppliers from 70 countries around the world, of which the majority is realized on foreign markets. In the import structure, most of them are suppliers from the EU (4,470 suppliers), while the majority of non-EU countries trade with suppliers from the region (Bosnia and Herzegovina, Serbia, Macedonia, Montenegro), Switzerland and the Russian Federation.

Respecting high quality standards of incoming raw materials, the aspect of sufficient quantities and the required level of technical and technological capacity of packaging and raw material manufacturers, the company draws a significant share of turnover with local and primary manufacturers and thus contributes to the development and stability of local communities.



## IMPORTANT CHANGES IN THE COMPANY AND ITS CHAIN OF SUPPLIERS

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### CHANGES IN PLACE OF BUSINESS OR ACTIVITY

In 2018, Podravka's representative office in China (Croatia Podravka Inc. Beijing Representative Office) ceased operations (officially closed on 12 October 2018).

Based on the Decision of the General Assembly of PODRAVKA Inc. on the amendments to the Articles of Association of the Company dated 12 June 2018, the Company apart from the registered ones also carries out the following activities: Activities of verification of legal measuring instruments and/or preparation of legal measuring instruments for verification.

### CHANGES IN THE SUPPLY CHAIN

Given the large number of suppliers with whom the Podravka Group cooperates, changes in the supply chain occur almost daily. The trend of supplier consolidation is continuing in a way that big multinational companies buy less, which leads to changes on the market. During 2018, focus was placed on selecting local suppliers while no significant changes occurred in the structure of the supply chain and in the relationships with suppliers.

## PRECAUTIONARY APPROACH

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

- referring employees who work in special work conditions and, where appropriate, other employees, to **regular medical examinations** at occupational medicine surgeries
- developing new products that promote **better health and life quality**, viewed from the aspect of price, quality of ingredients and packaging
- developing **nutritionally balanced products** targeted at human health
- reformulating existing products, especially in reducing nutrients with negative impact on health (salt, sugar, fat, etc.)
- communicating the results of development and reformulation and **nutrition declaration easier for consumers to understand**
- providing information on a **proper and balanced diet** (internally to employees, externally to all age groups, social and educational structures of people).

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

- **utilization of processing by-products**
- investing in new, "*green*" food processing technologies (reducing emissions, waste, water consumption and effective consumption of resources)
- **increasing the capacities** of own technological resources by developing innovative products.

## EXTERNAL INITIATIVES

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The Podravka Group is committed to the following external initiatives:

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

Also, the Podravka Group supports the following voluntary external initiatives through its business activities:

- OECD corporate governance guidelines;
- The United Nations Global Compact, which represents the world's largest socially responsible business initiative;
- Food without GMOs Policy;
- Strategic Plan for the Reduction of Intake of Table Salt in the Republic of Croatia 2015 - 2019

# 3

## Corporate governance

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In compliance with the main purpose of the Podravka Group business relating to ensuring sustainable business growth and value growth for the shareholders, the Management Board and the Supervisory Board of Podravka Inc. in their work follow the principles of corporate governance.

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

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

Key principles of corporate governance that Podravka Inc. applies are as follows:

- BUSINESS TRANSPARENCY
- CLEAR PROCEDURES FOR THE WORK OF THE MANAGEMENT BOARD, THE SUPERVISORY BOARD AND ITS COMMITTEES AND THE GENERAL ASSEMBLY
- AVOIDING CONFLICT OF INTEREST
- EFFECTIVE INTERNAL CONTROL AND
- EFFECTIVE SYSTEM OF RESPONSIBILITY.

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

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

characteristics protected by applicable regulations. Podravka Inc. **promotes equality among all employees**, and provides the same opportunity for employment, education, promotion and rewarding for all its employees. In accordance with such policy, Podravka Inc. is a **signatory to the Charter of Diversity Croatia**.

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

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

## SYSTEM OF VALUES AND ETHICAL PRINCIPLES

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The Podravka Group operates in its corporate system of values **in accordance with the principles of modern corporate governance**, subject to the provisions of the Corporate Governance Code of the Croatian Financial Services Supervisory Agency (HANFA), the Zagreb Stock Exchange and the Zagreb Stock Exchange Rules.

Consequently, in terms of ethics and integrity, the Company has **adopted the basic ethical principles and guidelines of ethical conduct** of the Code of Ethics in Business - in the content and text that was established and adopted by the Assembly of the Croatian Chamber of Commerce (HGK). In accordance with the recommendation from the adopted Code of Ethics in Business of the Croatian Chamber of Commerce, the Company has also adopted its own Code of Ethics in Business of the Podravka Group on the grounds of which Podravka Inc. and all related companies in the country and abroad develop their own ethical principles - following the principles of modern corporate governance.

The Code of Ethics of the Podravka Group incorporates the Company's traditionally good business practice and promotes new standards in line with the best business practices - with the desire to maintain a high reputation in all areas of activity. The Code is based on the **principles of orderly and conscientious business behaviour and the corporate system of values** implemented by the Management Board, the management and all employees of the Podravka Group - with the **purpose of creating and maintaining a recognizable company identity in relation to competition, creating loyalty among consumers and trust among investors, business partners and the public in general**.

## BUSINESS PRINCIPLES OF THE PODRAVKA GROUP

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The basic business principles which Podravka Group in its business operations abides by are as follows: **legality and transparency of business, professionalism and objectivity in work, importance of public relations, importance of the relationship towards the environment and relationship with the social community, clearly described procedures for the work of the Supervisory Board, the Management Board and the General Assembly, avoiding conflicts of interest, effective internal control and system of responsibility.**

In relation to the environment, the Company especially takes care - both of its own sustainable development and that of the wider community - and **regularly invests in environmental protection.** Therefore, all employees are obliged to respect environmental standards and applicable regulations, properly and responsibly treat all types of waste and rationally use all raw materials.

Also, in terms of social relations, the Company has **traditionally grown balancing interests with the local community,** always respecting its interests and significantly supporting the development of numerous humanitarian organizations, sports clubs, scientific institutions and similar organizations. In addition, the company continuously participates and supports community projects aimed at **improving education, environment, health and social standards** in the environment in which it operates - with substantial incentives for both the Podravka Group and its employees to participate in all charitable organizations, sports clubs and similar organizations.

In relation to conflict of interest, all employees, and in particular managers, are expected to be **fully committed to the Podravka Group** and are not allowed to participate in any activity, in particular that of a commercial or financial nature, that may cause a conflict of the employee's personal interests with the company's interests, nor to engage in activities that compete with company business.

Also, **it is not acceptable to double the performance of duties within the Podravka Group** and it should be avoided that employees who are in managerial positions be members of the Supervisory Board of Podravka Inc. If there is a potential conflict of interest, the employee must immediately inform in writing his/her direct superior manager and/or the Management Board. Employees who, in addition to their job in the Podravka Group, perform duties in some other organizations, civic associations and similar institutions, may not take advantage of their position by extricating or demanding donations or sponsorships.

Every employee of the Podravka Group has the right to notify in writing the responsible director of the sector (authorized person) about possible or committed violations of the stated values - for which he or she cannot suffer any sanctions or discrimination in future work.

The procedure of reporting a violation is detailed in the provisions of the Podravka Group Code of Ethics and sanctions are foreseen by the authorized person for the offender for non-compliance or violation of the provisions of the Code.

## GENERAL ASSEMBLY

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

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

Shareholders, proxies and authorized persons of shareholders get the right to vote at the General Assembly meeting using voting ballots marked with the number of votes belonging to an individual General Assembly participant. All the materials related to the calling and holding the General Assembly meeting are available on the website of Podravka Inc. in the Investors / Corporate governance / General Assembly module.

## SUPERVISORY BOARD

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

Podravka Inc. Supervisory Board members in 2018:

1. DUBRAVKO ŠTIMAC – PRESIDENT
2. LUKA BURILOVIĆ – DEPUTY PRESIDENT
3. DAMIR GRBAVAC – MEMBER
4. PETAR VLAIĆ – MEMBER
5. IVANA MATOVINA – MEMBER
6. PETAR MILADIN – MEMBER
7. KSENIJA HORVAT – MEMBER (WORKERS' REPRESENTATIVE)
8. MARKO KOLAKOVIĆ – MEMBER UNTIL 7 SEPTEMBER 2018
9. DAJANA MILODANOVIĆ – MEMBER SINCE 8 SEPTEMBER 2018
10. SLAVKO TEŠIJA – MEMBER UNTIL 7 SEPTEMBER 2018
11. KRUNOSLAV VITELJ - MEMBER SINCE 8 SEPTEMBER 2018

The Supervisory Board of Podravka Inc. has established three committees: **the Audit Committee, the Remuneration Committee and the Corporate Governance Committee.**

The **AUDIT COMMITTEE** members in 2018 were:

1. IVANA MATOVINA – PRESIDENT OF THE COMMITTEE
2. DUBRAVKO ŠTIMAC – MEMBER
3. PETAR VLAIĆ – MEMBER
4. SLAVKO TEŠIJA – MEMBER UNTIL 7 SEPTEMBER 2018

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

The Audit Committee held eight sessions in 2018.

The **REMUNERATION COMMITTEE** members were:

1. LUKA BURILović – PRESIDENT OF THE COMMITTEE
2. PETAR MILADIN – MEMBER
3. DUBRAVKO ŠTIMAC – MEMBER

The Remuneration Committee is authorised to propose the policy of rewarding Management Board members, the fixed and variable parts of salaries, retirement plan and severance payments, to suggest objective criteria for performance assessment, which are necessary to calculate the variable parts of the remuneration which need to be in line with long-term interests of the shareholders and objectives of Podravka Inc. set by the Supervisory Board, to suggest remuneration for individual Management Board members compliant to the remuneration policy and estimation of individual Management Board member's activities, to suggest additional contents in contracts of Management Board members, to consult at least the Supervisory Board president and the Management Board president about their attitudes regarding remunerations to Management Board members, to monitor amounts and structure of remunerations to senior management and to provide general recommendations to the Management Board in this respect, to suggest a remuneration method and amount for Supervisory Board members.

The Remuneration Committee held one session in 2018.



The **CORPORATE GOVERNANCE COMMITTEE** was established on 30 June 2017 and consists of:

1. MARKO KOLAKOVIĆ – MEMBER OF THE COMMITTEE UNTIL 7 SEPTEMBER 2018
2. LUKA BURILOVIĆ – MEMBER
3. PETAR MILADIN – MEMBER
4. PETAR VLAIĆ – MEMBER.

The Corporate Governance Committee is authorised to improve corporate governance and transparency of Company operations, to propose, advise and supervise the implementation of the business strategy in line with the mission and vision of the Company, to propose and supervise the procedures for the management bodies of the Company and the prevention of conflict of interest, to provide guidelines to the Management Board, the Supervisory Board and committees and other bodies for responsible work and mutual reporting for the purpose of successful performance of tasks and authorities. It is also responsible to harmonise the rights and interests of shareholders, investors, stakeholders and other interested parties in the Company with the management and operations of the Company management and to propose guidelines for the development of the dividend policy.

The Corporate Governance Committee performed its role at workshops and sessions of the Supervisory Board and did not hold a separate session in 2018.

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

In 2018, members of the Supervisory Board of Podravka Inc. were paid HRK 1,412 thousand, and if the remunerations to members of the Supervisory Boards of Belupo Inc., Mirna Inc. and Žito Ltd. are added to this amount, Supervisory Board members at the Podravka Group level were paid HRK 1,929 thousand.

## **DUBRAVKO ŠTIMAC**

### President of the Supervisory Board

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Dubravko Štimac was appointed president of the Supervisory Board of Podravka Inc. in February 2012. At the beginning of the same year he held the position of the deputy president of the Supervisory Board of Podravka Inc., and he has been a member of the Supervisory Board of Podravka Inc. since 2006.

He is a member of the Remuneration Committee and Audit Committee of Podravka Inc.

He started his professional career as an independent sales clerk at Zagrebačka tvornica papira and continued it as an independent officer in foreign trade at PBZ Investholding d.o.o., where he also became the manager of the foreign trade sector. In early 2001, he becomes the project manager for the pension reform at Privredna banka Zagreb d.d., and since October 2001, the president of the Management Board of PBZ Croatia osiguranje d.d., company for the management of the mandatory pension fund.

He graduated in 1992 from the Faculty of Economy and Business of the University of Zagreb, where he also received his MA in Organization and Management two years later. He participated in the Securities Processing Training Program in New York, organized by the Bank of New York, and in the Fund Management programme at the City University Business School in London.

## **LUKA BURILOVIĆ**

Deputy president of the Supervisory Board

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Luka Burilović was appointed deputy president of the Supervisory Board of Podravka Inc. in February 2017.

He is the president of the Remuneration Committee of Podravka Inc.

He began his professional career as the owner of Agrotehna Lipovac and in 1996 he becomes the deputy municipal mayor of Nijemci. In April 2004 he becomes an assistant minister in the Ministry of Agriculture, Forestry and Water Management. In early 2006, he was appointed deputy president of the Management Board of Sladorana Inc., Županja, and at the beginning of 2008 the president of the Management Board of Sladorana Inc., Županja. In 2014, he becomes the president of the Croatian Chamber of Commerce.

He graduated in 2006 from the Faculty of Economy and Business in Banja Luka, and six years later he completed PhD studies in management at the Faculty of Economy and Business in Osijek. He has professional training as an advisor for small sized enterprises in the Ministry of Crafts, Small and Medium-sized Enterprises and in 2008 he obtained the certificate in Corporate management for members of supervisory and management boards at the Faculty of Economy and Business in Osijek.

## **KSENIJA HORVAT**

Member of the Supervisory Board

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Ksenija Horvat was appointed to the Supervisory Board by the Workers' Council of Podravka Inc. and she has been a member of the Supervisory Board of Podravka Inc. since 1 July 2015.

She began her professional career in the Company in 1984 as an administrator, and after successfully continuing her education while working, she took on commercial tasks in the Croatian market sector, where she works until today.

In 2001, serving as the representative of the largest union in Podravka Inc., PPDIV, she took on a full-time position in the union and has since been one of the leading union negotiators in improving the rights of Podravka employees through the Collective agreement of the Podravka Group. In 2002, she was first elected into the Podravka Workers' Council, and from 2013 to the present day, she has served as the Council's president.

She first served as the workers' representative in the Podravka Inc. Supervisory Board from 2004 to 2012, and in that period also served as the deputy president of the Supervisory Board, and interim president of the Supervisory Board in the 2009 - 2010 period.

## PETAR VLAIĆ

### Member of the Supervisory Board

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Petar Vlaić was appointed as a member to the Supervisory Board of Podravka Inc. in September 2010.

He is a member of the Audit Committee of Podravka Inc.

He started his professional career as a broker in Ilirika Inc., Slovenia and later he advanced to the position of a portfolio manager and trade manager. Upon his arrival to Zagreb he became the first fund manager in the Republic of Croatia in the first Croatian investment fund, Kaptol Proinvest. Later he worked as a trade manager in IB Austria Ltd. and later he transferred to the position of fund manager at the Central National Fund. In 2001 he became the Management Board president of Adriatic Invest Ltd. – company for managing the Blue Mandatory Pension Fund. In late 2003 Erste MPF and Helios MPF were merged with the Blue Fund and the fund changed its name to Erste Blue Mandatory Pension Fund. While working in the company for privatization investment fund management, he was also a member of supervisory boards of several Croatian companies.

He graduated from the Faculty of Electrical Engineering and Computer Science in Ljubljana. He also received CFA (Chartered Financial Analyst) title, through a programme organized by the American Institute of Chartered Financial Analysts (ICFA).

## PETAR MILADIN

### Member of the Supervisory Board

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Petar Miladin was appointed as a member to the Supervisory Board of Podravka Inc. in September 2010.

He is a member of the Remuneration Committee of Podravka Inc.

He was employed at the Faculty of Law in Zagreb in 1997 as a junior assistant at the Department for Commercial Law and Companies Law. In December 1999 he became a teaching assistant at the same department where he later worked as senior assistant. He worked as assistant professor since 2005, and since 2009 as associate professor. He has published more than twenty scientific papers in the area of commercial law, company law and banking law. Upon graduating he was employed as a trainee at the Municipal and Commercial Courts in Zagreb.

He graduated from the Faculty of Law in Zagreb and in 1999 he received his MA in Commercial and Company Law. He defended his PhD thesis *“Payment by Remittance”* in 2005 at the same faculty, receiving his PhD title in the scientific field of law.

## DAMIR GRBAVAC

Member of the Supervisory Board

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Damir Grbavac was appointed as a member to the Supervisory Board of Podravka Inc. in February 2017.

He began his professional career in 1978 in Đuro Đaković d.d., advancing from the position of a credit administrator to the deputy general manager of Holding. In 1997 he joined Raiffeisenbank Austria Inc. Zagreb as the director of the Investment banking Sector. In 1997 he becomes a member of the Management Board of Raiffeisen Investment d.o.o., and two years later the president of the Management board of Raiffeisen Vrijednosnice Ltd. In 2003 he becomes an advisor to the Management Board in Raiffeisenbank Austria Inc. Zagreb. Since 2004 he is the president of the Management Board of Raiffeisen company for management of mandatory and voluntary pension funds. Damir Grbavac is a member of the Supervisory Board of Hrvatski Telekom Inc. and president of the Supervisory Board of Quaestus Nekretnine joint stock company for real estate, in liquidation.

He graduated from the Faculty of Economy and Business of the University of Zagreb in 1978, and obtained his master's degree at the same Faculty in 1985.

He is a licensed manager of pension funds and pension insurance companies.

## IVANA MATOVINA

Member of the Supervisory Board

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Ivana Matovina was appointed as a member to the Supervisory Board of Podravka Inc. in June 2017.

She is the president of the Audit Committee of Podravka Inc.

She began her professional career in 1996 as the head of accounting and in 1997 she became a director of KPMG Croatia Ltd. Two years later she became a partner and director of Cinotti revizija Ltd./Cinotti savjetovanje Ltd. for audit, internal audit, accounting and business counselling and education services. Since 2011, she is the founder and director of Antares revizija Ltd./ Antares savjetovanje Ltd., for audit, internal audit, accounting and business counselling and education services. From 2009 to 2012 she was a member of the Management Council of the Croatian Audit Chamber and since 2012 a member of the Committee for financial reporting standards and a member of the HANFA Council.

She graduated in 1996 from the Faculty of Economy and Business in Zagreb in accounting and finance.

In 2000 she becomes a Chartered accountant of Great Britain and two years later she obtains the title of Croatian certified auditor.

## KRUNOSLAV VITELJ

Member of the Supervisory Board

Krunoslav Vitelj was appointed as a member of the Supervisory Board of Podravka Inc. in June 2018, to a term of office commencing on 8 September 2018.

He began his professional career in 1977 in Podravka, where he worked in a number of positions until 1991, including Transport Director. In 1991, he became the Head of Fire Protection of the Koprivnica Municipal Assembly, and in 1993, he took on the post of Head of the Civil Protection Unit, Fire Protection and Inspection at the Police Directorate of Koprivnica-Križevci County, Ministry of the Interior. He returned to Podravka in 1995 as Advisor to the CEO for personnel and legal matters, and in 1996 became the Director of the Koprivnica County Chamber of Commerce, where he remains to this day.

He graduated from the University of Zagreb, Faculty of Economics and Business in 1993 and received his Master's degree from the same faculty in 1995.

In 2008, he earned the qualifications for Corporate Management for members of supervisory and management boards from the University of Zagreb, Faculty of Economics and Business.

## DAJANA MILODANOVIĆ

Member of the Supervisory Board

Dajana Milodanović was appointed as a member of the Supervisory Board of Podravka Inc. in June 2018, to a term of office commencing on 8 September 2018.

She began her professional career at the Banka Kovanica Inc., Varaždin in 2004 in the position of Head of the Office for Bjelovar, Virovitica and Koprivnica. In 2011, she took up the post of Head of the Koprivnica Branch, Varaždin Regional Centre at Hrvatska Poštanska Banka Inc., Zagreb). She continued her career in this bank and since 2015 has worked in the Households Sector, first in the Directorate for Sales Management as a Senior specialist for sales and sales supervision, and then in the Directorate for Business Development as a Senior specialist for education and enhancing sales, where she still works today.

Dajana Milodanović is a member of the City Council of the Town of Đurđevac, the County Assembly of Koprivnica-Križevci County, and the Executive Council of the PORA Development Agency for Podravina and Prigorje for promoting and implementing development activities in Koprivnica-Križevci County. She also serves as the Chairperson of the Executive Council of the Maslačak Preschool in Đurđevac and Chairperson of the Supervisory Board of the municipal services company Komunalne usluge Đurđevac Ltd.

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

## MARKO KOLAKOVIĆ

Member of the Supervisory Board

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Marko Kolaković performed the duties of member to the Supervisory Board of Podravka Inc. until 7 September 2018.

He began his professional career in 1995 as a trainee in Sloboda Ltd. Samobor and Ledo Ltd., and in 1996 he becomes a research and teaching assistant at the Faculty of Law in Zagreb. In 2001 he becomes assistant professor at the Faculty of Economy and Business of the University of Zagreb where he works as a full-time professor. He was advisor to the mayor of the City of Samobor for strategic planning and city development.

He graduated in 1994 from the Faculty of Economy and Business of the University of Zagreb.

Four years later he obtained his master's degree and in 2001 PhD from the Faculty of Economy and Business of the University of Zagreb.

## SLAVKO TEŠIJA

Member of the Supervisory Board

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Slavko Tešija performed the duties of member to the Supervisory Board of Podravka Inc. until 7 September 2018 and was a member of the Audit Committee of Podravka Inc.

He began his professional career in 1981 in Privredna banka Inc. Zagreb.

In 1983 he joined the Croatian National Bank as an inspector in the department for foreign currency operations and monetary inspection, and in 1994 he becomes the director of the department. In 1995 he moved to the Government of the Republic of Croatia as the Director of the Agency for Bank Resolution. In 1996 he returned to the Croatian National Bank where he works until present, first as the director of the department for foreign currency operations and monetary inspection, 2 years later as the director of the department for international banking, and in 2014 he becomes the main advisor in the department for service support.

He obtained his master's degree at the Faculty of Economy and Business of the University of Zagreb. He also holds the certificate of Permanent court expert for finance, banking, foreign currency operations and foreign trade with the Commercial Court in Zagreb.

## MANAGEMENT BOARD

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Pursuant to the provisions of the Articles of Association of Podravka Inc., the Management Board consists of three to six members appointed by the Supervisory Board. The Management Board is appointed for the period as determined by the Supervisory Board (not longer than five years) and they can be reappointed. If the president or members of the Management Board are appointed during the term of the existing Management Board, their term lasts until the expiry of the term of the Management Board as a whole. The beginning of the term is as of the date the Management Board members are appointed if not otherwise stipulated in the Supervisory Board's decision.

The members of the Management Board manage the Company's business affairs, and the way the Board operates and the division of tasks among the members of the Management Board are regulated by the Rules of Procedure of the Management Board.

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

Management Board members in 2018:

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

Compensation to an individual Podravka Inc. Management Board member has been determined by the management contract concluded with the Company and approved by the Supervisory Board on behalf of the Company. Gross salaries and compensation paid in 2018 to Management Board members of Podravka Inc. amounted to HRK 4,763 thousand and if remunerations for Management Board members of Belupo Inc. and Žito Ltd. are added to this amount, Management Board members at the Podravka Group level were paid a total of HRK 9,419 thousand.

Remunerations for membership in Supervisory Boards of Podravka Group companies were not approved nor paid to the members of the Podravka Inc. Management Board.

During 2018, the Company's stock options in the amount of 44,500 were granted to the members of the Management Board of Podravka Inc.





## MARIN PUCAR

President of the Management Board

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

He began his professional career in Gavrilović Ltd. food industry from where in 2001 he moved to Danica Ltd. – meat industry of Podravka Inc. where in 2002 he becomes the director of sales, marketing and development. In 2003 he was appointed executive director for the Croatian market in Podravka Inc. He was a member of the Management Board of Podravka Inc. from 2008 to 2012, after which he joined Zvečevo Inc. as a member of the Management Board. He was the president of the Management Board of Zvečevo Inc. from 2014 to August 2016.

He graduated from the Faculty of Economy and Business in Zagreb and completed PhD studies Theory and politics of marketing at the same Faculty. Currently he is finalising his PhD in management with the thesis “*Management strategy through brand expansion in the Croatian food industry*”. From 2008 to 2012 he was a member of the Supervisory Board of Danica Ltd. and Belupo Inc. In 2012 he became a member of the Management Committee of the Croatian Chamber of Economy, and since 2016 he has been the vice president of this Committee.

In 2018, he was awarded Businessman of the Year according to the choice of the readers of Večernji list and Poslovni dnevnik.



## **LJILJANA ŠAPINA**

Member of the Management Board

**LJILJANA ŠAPINA WAS APPOINTED AS A MEMBER TO THE MANAGEMENT BOARD OF PODRAVKA INC. IN FEBRUARY 2017.**

She has been employed in Podravka Inc. since 1984. She gained work experience on various manager and director positions within the company in Accounting and Finance, Retail, Gastro sales, Frozen programme, Joint market tasks and Exports preparation. Since 2012 she worked as a director in the Import-export logistics, and in 2015 she was appointed to the position of the Head of the Import-Export Logistics Department.

She graduated foreign trade at the Faculty of Economy and Business in Zagreb, and in 2012 she obtained a master's degree at the same Faculty.



## **DAVOR DOKO**

Member of the Management Board

**DAVOR DOKO WAS APPOINTED AS A MEMBER TO THE MANAGEMENT BOARD OF PODRAVKA INC. IN MAY 2017.**

He began his professional career in 2000 in the Assets Management department of Zagrebačka banka Inc., as a portfolio manager assistant, where he participated in the establishment of the company for management of investment funds in Zagrebačka banka Inc. He joined the team of Allianz ZB Ltd. mandatory pension fund in 2002, as a portfolio manager for management of stock share of the portfolio. As a procurator and main portfolio manager in Allianz ZB Ltd. mandatory pension fund among other tasks he actively participates in the portfolio management and investment process management. Since 2006 he is a member of the Management Board of Allianz ZB Ltd., company for management of mandatory pension fund, in charge of investments. During his term, he invested in many companies from the pharmaceutical and food sectors and develops good business relationships with all major business banks in the Republic of Croatia and international financial institutions. In AZ voluntary pension funds as the person responsible for investments, he participates and manages all parts of the investment process.

He graduated from the Faculty of Economy and Business of the University of Zagreb. During his career he attended many training and educational courses and participated in conferences related to investments and the capital market.



## **MARKO ĐEREK**

Member of the Management Board

**MARKO ĐEREK WAS APPOINTED AS A MEMBER TO THE MANAGEMENT BOARD OF PODRAVKA INC. IN JULY 2017.**

He began his professional career in 1995 as a researcher in Pliva Research Institute where he worked until 2003. From 1997 to 2002 he was a member of the initial project team for the functional design of the new Research Institute building in Zagreb. In 2003 he becomes the head of the Research team in Pliva. Since 2004 he is the leader of development projects in Pliva Research institute, and in 2006 he moved to the Global operations in Pliva to the position of the corporate products director. In 2007 he becomes the director of support to markets in Pliva.

In 2009, he joined the Croatian Post as the executive director for trading. In 2011 he joined GlaxoSmithKline as the manager of business development for South-Eastern Europe. In 2013 he takes on the function of the director of sales and hospital operations for South-Eastern Europe in Pliva/TEVA where he worked until 2017.

He graduated in 1995 from the Faculty of Chemical Engineering and Technology of the University of Zagreb. In 2004, he obtained the master's degree in natural sciences, chemistry, at the Faculty of Chemical Engineering and Technology of the University of Zagreb. He completed Master of Business Administration (MBA), Erasmus- Rotterdam School of Management in Rotterdam.

During his career he attended training in many management and science programs and the Acceleration Pool training program in Pliva.



## **HRVOJE KOLARIĆ**

Member of the Management Board

**HRVOJE KOLARIĆ WAS APPOINTED AS A MEMBER TO THE MANAGEMENT BOARD OF PODRAVKA INC. IN DECEMBER 2012.**

In his career, among many positions held, we should mention: the director of Pharmaceuticals and Business Development at Bristol-Myers Squibb, the director of Pharmaceuticals of PharmaSwiss and company director of PharmaSwiss Ltd., Croatia. He also managed business processes related to cooperation with Belupo in the production of the cardiological line of Pravachol. In his early career he also managed the pharmaceuticals department of the Bristol-Myers Squibb representative office for Croatia and Bosnia and Herzegovina, and subsequently the allergology and respiratory line of products of the Schering-Plough representative office in Croatia. In 2005, he was appointed as Management Board member in Belupo, in charge of marketing, sales and international markets, and has been reappointed in 2010. Two years later, he was appointed president of the Management Board of Belupo.

He graduated from the Faculty of Pharmaceutical and Biochemical Sciences of the University of Zagreb in 1998. He actively participated in numerous education courses to acquire sales and negotiation skills, training for the first management tier, sales efficiency, financial matters etc. In addition to the acquired title of Master of Pharmacy, he also holds the Master of Business Administration degree, President module, IEDC Bled.

# 4

## Podravka Group expected development

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During its rich history, Podravka has **conquered the world** with its products. Today, it is the only Croatian multinational food company with offices in 24 countries in the world, and its products are **present in over 60 countries on almost all continents**.

During **70 years of operations**, solid business foundations have been made, respecting the tradition and its values, as well as the work and labour of generations of employees. Today we invest in new knowledge and by following technologies and trends we **proudly build our future**.

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



## ACHIEVING GROWTH

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

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

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

In the markets of the Adria region, the Podravka Group aims to be the **leading manufacturer of branded products**, and in Central and Eastern Europe it aims to **achieve additional growth and strengthen market positions**. In Western Europe and Overseas Countries the aim is to expand the presence, come closer to domestic consumers and focus on portfolio development.

## GENERAL STRATEGIC GOALS

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To **satisfy the interests of owners and stakeholders** through growth, business development and internal efficiency. To be the **leading food company** on defined strategic markets and a recognizable supplier of pharmaceutical products in the region. To provide **new and innovative culinary solutions** for consumers and by implementing nutritive strategy, launch top-quality products with added value. To **keep pace with or be ahead of the average** of industries in which Podravka operates on key markets regarding the levels of cost and production efficiency. To **reduce costs** of procurement, sales and distribution, general and administrative costs and thus enable higher investments in marketing, research and product development, and to **improve cash flow**, necessary for optimum operations, by better financial management. **To be the leader** or strong second place competitor in defined business units on strategic markets and to strengthen the existing international markets. **To contribute to the development of Croatian economy** and to be the consolidator of the food industry in the region.



## KEY FACTORS OF SUCCESS

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### 1. COMPANY STRENGTHS AND VALUES

#### EMPLOYEES

The key of Podravka's success are professional, creative and ambitious employees, willing to contribute to the company's well-being and to invest additional efforts and time in achieving above-average results. .

#### QUALITY

Every product carrying the name of Podravka, Belupo and Žito is a result of long tradition, *know-how* and care for consumers' health and well-being.

#### LONG-ESTABLISHED TRADITION

Over 70 years, together with customers, we have built a tradition that nourishes Croatian quality, the strength of domestic products and pride of domestic values.

#### SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

Compliant to principles of sustainability and responsible business, Podravka tries to use fewer resources and to produce less waste. We are therefore, devoted to listening to the needs of consumers, employees and local communities, dedicated work on the development and quality of products and constant care for health and the environment.

#### PODRAVKA BRANDS AND CONSUMER TRUST

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

#### WIDE DISTRIBUTION NETWORK

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

#### PARTNER RELATIONS

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

## 2. PROFITABLE GROWTH

### FOCUS ON KEY BRANDS

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

### BUSINESS INVESTMENTS

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

### STRATEGIC PARTNERSHIPS AND ACQUISITIONS

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

### STRENGTHENING THE EXISTING MARKET POSITIONS

The focus is on strengthening the existing markets where Podravka brands have been recognised and which have a developed selling and distribution network.

### INTERNATIONALIZATION

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

### SYNERGY OF THE FOOD SEGMENT AND THE PHARMACEUTICAL SEGMENT

To use the food and pharmaceuticals synergy potential, and develop new, innovative products through the Nutraceuticals programme.

## 3. OPERATING EFFICIENCY

### MORE EFFICIENT COST MANAGEMENT

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

### CONTINUOUS MONITORING OF THE PRODUCT RANGE PROFITABILITY

After abandoning low-profitability segments, Podravka focuses on profitability through the restructuring of certain areas and thus intends to release capital for investments in profitable categories.

### STRATEGY CASCADING – CLEAR GOALS AND RESPONSIBILITIES

Podravka gives importance to the strategy, goals and cascading to lower organizational units. This clearly defines individual responsibilities and obligations that need to be fulfilled, in order to realize the set goals.

### BUSINESS UNITS

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

### DEVELOPMENT OF INTERNAL COMPETENCIES

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

### GENERATING THE BASE FOR PROFITABLE GROWTH

By using all available resources, we will actively work on increasing efficiency of the whole Group, strengthen internal resources and capabilities and we will focus our investments on strategic brands in key markets.

## RISK FACTORS

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

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

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

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

Podravka Group activities in the area of risk management are focused on developing the project of Enterprise Risk Management, ERM. The project refers to the process of integrated analyses and reports on key risks that the company is exposed to, identifying potential events which can have negative effects on the Company's business results and managing identified risks. Within the project, key risks are divided into three basic groups: **strategic, financial and operating risks**. The Treasury department of Podravka Inc. is in charge of the management and supervision of the ERM project, and it is performed in cooperation with other organizational units and related companies of the Podravka Group. All the risks can be additionally divided into insurable and non-insurable. Insurable risks are managed by the Insurance division within the Treasury department, and together with uninsurable risks they undergo the analysis and reporting process within the ERM project. During 2018, the Podravka Group finished extending the scope of the ERM project for Podravka Inc., including in it all the business units of Podravka Inc. for which identification and analysis of risk were conducted, for the purpose of building a more efficient risk culture, implying that every business activity holder involved in the project also takes on the role of a "risk manager". In the following periods, the ERM project will include other members of the Podravka Group.

In addition to being a tool for improving business processes, the purpose of the ERM project is to limit the Company's potential losses, improve stakeholder management through efficient communication about the risks with employees and other stakeholders, within and outside the Company, to increase the Company's financial safety and integrate risk reports and analyses into the decision-making process, with the aim of matching return rates with assumed risks arising from operating activities, thus creating additional value for the Company and the Group.

## BRANDS MANAGEMENT

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Business conditions on the markets in which the Podravka Group operates are challenging due to international and local competition, but also due to reduced purchasing power in the domestic and some other markets. In the situation when consumer demand grows slowly and is very price-sensitive, the success of companies that are focused on recognizable brand products largely depends on their ability to be innovative and price-competitive at the same time.

Also, consumer habits, tastes and preferences are constantly changing, so the Podravka Group is constantly facing the need to timely identify and anticipate them in order to adapt its products and brands to these changes. The result is the **constant creation and development of innovative solutions** of the Podravka Group in line with expectations of its customers, since it is one of the most important factors in achieving sales forecasts, and overall business results.

Through the continuous innovation so far, within the existing product range and by launching new categories, the Podravka Group confirms it is the food industry trendsetter in Croatia and the region.

## BUSINESS SEGMENT MANAGEMENT

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As a company that sees the achievement of its goals through both organic and inorganic business growth, an optimal selection of the strategic segments of product categories, markets and sales channels has a significant impact on the opportunities for that growth. For that reason, the Podravka Group **pays great attention to evaluation and decision-making regarding strategic investments and considering the opportunities that can potentially contribute to realising added value for investors.** In addition, special attention is paid to monitoring and analysing the segments and markets that are estimated not to have long-term potentials for realizing the desired business results.

Through acquisition activities, expansion of operations onto new markets and the development of new products the Podravka Group additionally internationalises its operations and diversifies its product portfolio. This significantly **reduces any risk of dependence on a particular product, market or business partner.**

## CLIENT RELATIONS MANAGEMENT

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The Podravka Group is aware of the extreme **importance of developing and maintaining relationships with its clients** in order to ensure the desired position of its products at points of sale.

With its marketing strategies, activity plans at points of sale and those oriented to strengthening the recognizability of brands, the Podravka Group affects the intensity of product demand and thereby also negotiation positions when defining the terms and conditions with clients.

In addition, the Podravka Group makes efforts to ensure, **through harmonization and optimization** of the existing pricing policies and price levels on the existing markets, preconditions for further successful long-term growth. The profit margins are thereby protected, and **the risk of not achieving the planned sales is reduced.**

### MANAGING MANAGEMENT AND EMPLOYEE RISKS

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Recognizing and valuing **knowledge, innovation and performance**, promoting **individuality** as well as **teamwork**, with **dynamic, creative and successful employees is the foundation of our success**.

Different employee programmes have created added value to the Company and a higher level of culture clearly visible in the behaviour of our employees at all occasions.

The Company offers additional opportunities for those who are determined and eager to develop their professional skills. Personal development planning is recognized and supported by individuals who have achieved significant results in their work so far, and whose potential suggests further opportunities for career advancement and development.

Management and employee risks, monitored by the Human Resources and Law department, are included in 2017 in the analysis and reporting process within the ERM project.

The **quality and safety of Podravka Group's products** are priceless for preserving the reputation of its brands, as well as the Company in general. High quality of its products is guaranteed by **high-quality raw materials, modern technological processes and knowledge** applied in their production. The Podravka Group takes special care of the health and nutritional needs of its consumers, and convenience in the consumption and safety of its products. Therefore, special attention is paid to defining and implementing activities that are based on the assessment of critical areas in the chain of supply and production in order to protect the products from contamination and counterfeiting.

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

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

### FINANCIAL RISKS

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An integral part of the overall ERM project is the Escalation procedure for managing financial risks. This procedure is applied when it is assessed that due to extraordinary circumstances an immediate decision on some business activities has to be made in a manner that differs from the Podravka Group's prescribed procedures, which may jeopardise the profitability or cause a significant loss of the Company's financial assets.

Financial risks include **market risk** (including currency risk, interest rate risk and price risk), **credit risk** and **liquidity risk**.

The exposure to currency, interest rate and credit risks arises within the usual course of business operations. Managing these risks is performed by the Treasury sector and finance departments of individual companies, together with active management of excess liquidity investment and active management of financial assets and liabilities.

## CURRENCY RISK

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The Podravka Group conducts certain transactions in foreign currencies and is therefore, exposed to the risk of fluctuations in exchange rates. The most significant exposure to changes in exchange rates of the Croatian kuna during 2018 was in relation to EUR, USD, BAM, HUF and RUB.

Currency risks arise not only from operations of related parties in foreign markets, but also from the procurement of raw food materials in the international market, which is largely performed in EUR and USD. Likewise, a significant portion of Podravka Group's borrowings is denominated in EUR. During 2018, the exchange rate of the Croatian kuna against EUR remained stable, but at lower average levels than the year before, as a consequence of appreciation pressures on the Croatian kuna due to favourable economic trends.

During 2018, the Podravka Group **performed the balance sheet currency structure analysis and continued to apply the model of managing transaction currency risk** called "*Layer hedging*". This model is applied to the following currencies: USD, AUD, CAD, RUB, CZK, HUF and PLN. The integral parts of the model include the identification of risk sources and exposure measurement (using the Monte Carlo method of Value at Risk simulation), process of contracting derivative financial instruments for hedging purposes and the control and reporting system. Additionally, within the model, **exposure limit parameters were set** which are triggers for contracting the

prescribed hedge levels. Using the Bloomberg terminal, **macroeconomic projections are regularly monitored** and derivative financial instruments for currency risk management are contracted. Also, the Podravka Group endeavours to maximise the possibilities of "*natural hedging*" in order to achieve that the inflows from related parties, whenever possible, are forwarded to Podravka Inc. in the domestic currency of the country where the related company operates. This way the currency risk is largely transferred from related parties to Podravka Inc. that adjusts these cash inflows with outflows, thus **reducing the overall exposure to currency risk**, and also creating the opportunity to contract derivative financial instruments for the remaining amount of net cash flow at central level.

During 2018, Podravka Inc. concluded fx forward contracts for managing exchange rate risks for USD, AUD, CAD, RUB, HUF and PLN. For exposure to changes in exchange rates of the Croatian kuna against EUR, no derivative financial instruments for hedging purposes were contracted, due to limited exchange rate volatility and the exchange rate regime implemented by the Croatian National Bank, yet only for achieving short-term positive currency effects. Belupo Inc., a company within the Podravka Group, earns a significant portion of income on the Russian market and is thus exposed to changes of the RUB exchange rate. With the purpose of active monitoring and minimizing the currency risk, in 2018 fx forward contracts were contracted as available hedging instruments and the prices denominated in RUB were adjusted.

## INTEREST RATE RISK

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The Podravka Group manages cash flow interest rate risk in a way to have contracted interest rate swaps, replacing the liabilities at variable interest rates by fixed interest rates. Changes and projections of interest rates are continuously monitored. The Podravka Group contracted fixed interest rates for a part of its debts. Taking this into account and the fact that the key interest rates are currently at low levels, the Podravka Group **is not significantly exposed to any interest rate risk**.



## PRICE RISK

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The Podravka Group's business success depends on the sources of adequate raw materials, as well as their market prices, the efficiency of the production process and the distribution of products to the customers.

The cost of raw materials could have a significant role in the cost of finished products that the Podravka Group manufactures and is, therefore, subject to fluctuations of prices on the market of agricultural and food raw materials, the impact of which cannot always be compensated through the sales price for the buyer.

Protective customs and trade mechanisms in the EU that protect EU manufacturers represent a risk in terms of increased customs duties for certain raw materials from third countries. Unavailability of goods in the market due to adverse weather conditions (droughts, floods, etc.), political and social unrest in some countries or speculation with key agri-food products lead to changes in the functioning of the supply and demand of certain agri-food products and represent a risk with an increased effect on Podravka Group's operations.

Also, there is a consolidating trend in the sector of primary production of raw materials at European and global levels, which could lead to higher procurement prices in the future.

In order to reduce these impacts, the Podravka Group's Purchasing department **manages the strategic procurement categories and key suppliers** in a way that it develops partnership relations with the existing and new suppliers. Also, enlarging procurement volumes, fully applying Commodity Risk Management, implementing e-tenders and e-auctions and using new import regimes are some of the activities the Podravka Group uses to reduce procurement costs, in conditions of extreme price volatility of particular strategic raw materials.

## CREDIT RISK AND RISK OF DEBT COLLECTION

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

The Podravka Group **enters into business 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 unfulfillment of contractual liabilities. The Podravka Group's exposure based on receivables and the credit ratings of its counterparties is continuously monitored.

In continuance to the extraordinary administration over companies in the Agrokor Group headquartered in Croatia, Podravka continues its business cooperation with companies of the Agrokor Group, by controlling its overall exposure.

The Company accepts new and continues cooperation with existing customers with payment delays subject to meeting

the Company's credit rating parameters. Receivables are analysed on a weekly basis and necessary measures are taken with respect to their collection.

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

Depending on the needs and collection of receivables on individual markets during 2018, the Podravka Group contracted insurance of receivables for a selected group of markets. (The Company secured receivables on the markets of the Republic of Croatia, Turkey, Qatar, Cyprus, Zambia, the United Arab Emirates, Saudi Arabia, Oman, Bahrain, Kuwait, Egypt, Japan and Kenya).

During 2018, the Podravka Group did not have any significant damage claims related to the insurance of debt collection.

## LIQUIDITY RISK

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The Podravka Group manages liquidity risk by setting an appropriate liquidity risk management framework for the **management of the Group's short, medium and long-term funding and liquidity requirements** and by maintaining adequate reserves and credit lines.

Additional efforts in the cash flow planning at the level of all related companies made in earlier periods resulted in **optimization of liquidity across the entire Podravka Group in 2018**.

This results from continuous monitoring of planned and realized cash flows and observing the maturity of receivables and liabilities that the Podravka Group has towards its customers, suppliers, banks and other financial institutions. In addition, the Podravka Group continuously monitors and analyses cash flows with the aim of optimizing liquidity management to ensure a sufficient level of cash flow for business purposes. In this way, cash flow planning follows the guidelines of the Podravka Group regarding **regular settlement of contractual obligations** and the harmonization of all other contractual relationships.

# NON-FINANCIAL REPORT

# 1 Research and Development

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## “GO WEST” PROJECT

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Well aware of the changes of nutrition habits, but also the orientation towards export markets of East Europe, the USA and Australia, have encouraged the Company to initiate the “Go West” strategic project (2017). The Research and Development sector has been assigned **the role of creative and project leader**, with Global Business Development, IT, Markets and Business Units also included.

After market researches and visits to the targeted markets (2017), in the period of three months in 2018 **eight innovative concepts** (platforms for new products development) were proposed and **over 40 new products developed** (products with extensions) to the level of calculation of cost of sold goods that can be produced using the Company’s existing technologies. As a special and separate project, a radically new product in cooperation with

the famous European *chef* was developed. All the developed products are connected with the *Superfood* eating trends, the convenient “to-go” eating while walking, Croatian tradition, but also oriental tastes, individual creativity and *sustainable product development*.

Simultaneously with the innovative products development, **the technological mapping of Podravka was implemented**, an innovative project conceived as a tool contributing to faster product development, costs optimization, transparency, process integration and especially, to improve the investment planning process. The project was designed, managed and implemented by Podravka’s internal resources.

## SUSTAINABLE PRODUCT DEVELOPMENT

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Due to the estimate that within the whole chain (production, distribution, consumption), about one third of food is thrown away on the annual level<sup>1</sup> (value of about €143 billion), the new policies of circular economy stimulate companies to direct their strategies towards sustainable product development. Consequently, this initiated research projects in cooperation with the Faculty of Food Technology, University of J. J. Strossmayer Osijek (2017) in the field of using side products during the processing of fruit and vegetables in Podravka. In 2018, the project results revealed the **possibility of producing commercially acceptable products and/or ingredients of high nutritive value**, while the processing technologies need to be considered more precisely in the context of finding optimal solution for commercialization, therefore, the projects shall be continued in 2019.

1 Source: FAO (Food and Agriculture Organization of the United Nations)

## SALT REDUCTION

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During 2018, the research-development project of testing the acceptability of Podravka's **innovative salt with 35 percent less sodium as a complete substitute for kitchen salt in dairy products** in cooperation with the Faculty of Food Technology from Osijek was completed. The results on a major sample of consumers showed sensor acceptability of the new dairy products containing Podravka salt, thus offering the option of declaring "25% less salt" on products. This project concluded the cycle of planned activities of using Podravka's innovative salt in a wide range of products (2016-2018), and the total results showed that Podravka's patent is an acceptable alternative for the industry and consumers in reducing the intake of salt in everyday life.

## NUTRITIVE STRATEGY (2014 - 2020) - CONTINUED

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Activities related to the development of new products according to the nutritive profile in compliance with the scopes of the Company's nutritive strategy regarding the **reduction of salt, sugar and fat and/or "clean label" tactics and the enrichment with healthy positive ingredients** (probiotics, proteins, fibres etc.) continued.

## PROCESS INNOVATION

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In the fourth year of implementing the SAP Recipe Development Module (RDM) for the purpose of providing product specification documents, integration into other processes (for example quality control, document issuing) and creating preconditions for remote sales, the **input of raw material specifications and a major part of packaging material and finished products from Podravka's product range was completed** and targets for 2019-2020, when the project is expected to be finished, were set.

## A YEAR OF SCIENTIFIC AND PROFESSIONAL PUBLICATIONS

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Along with the research efforts, the year of 2018 shall be remembered by an impressive number of oral and written communications at scientific and professional conferences both in Croatia and abroad. A special award was given for the **best oral presentation** under the title "Salt reduction: Translation of consumer expectations into wishful taste product attribute" at the 4<sup>th</sup> International Conference on Food and Agricultural Engineering in Lisbon, Portugal.

## COOPERATION WITH THE LOCAL COMMUNITY

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In 2018, the Koprivnica –Križevci County and nutrition experts from Podravka's Research and Development started a joint project under the title "A clever meal for clever children" with the aim **to develop a nutrition system and organize the work of school canteens in primary schools** (18) founded by the Koprivnica – Križevci County.

## PARTICIPATION IN CREATING THE LEGISLATIVE FRAMEWORK OF THE REPUBLIC OF CROATIA, STUDY PROGRAMMES, EU PROJECTS

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Although the participation of employees from our Research and Development department in creating the legislative framework of the Republic of Croatia is not anything new, in 2018, **even six employees were chosen to participate** in the work of the *Codex Alimentarius*<sup>2</sup> Commission at the Ministry of Agriculture over the next period.

Podravka has acquired its representative in the Scientific Council for Technological Development at the Croatian Academy of Science and Art, as well as in the *Thematic Innovation Council for Food and Bio – Economy*. These Thematic Innovation Councils have been established for the purpose of building the innovation system of the Republic of Croatia, creating and proposing the strategies for research, development and innovations and proposing projects and policies within the defined area,

according to the Croatian Smart Specialization Strategy for the period 2016 - 2020.

Research and development experts have been chosen to take part in designing new studies at university level, participating also as outsourced lecturers and taking part in some European scientific projects (*COST Action POSITIVE*), thus continuing the longstanding fruitful cooperation with the academic community.

For many years Podravka's Research and Development has been a lecturing basis for the Faculty of Food Technology and Biotechnology of the Zagreb University, the Faculty of Food Technology of the Osijek University and the Secondary School in Koprivnica. The activities are oriented towards practical professional training, student visits to Podravka's plants, visits of lecturers and mutual cooperation in professional and scientific work and lecturing.

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2 Wikipedia: Codex Alimentarius (lat. "Book on Food" is a summary of internationally recognized standards, procedure rules, guidelines and other recommendations regarding food, food production and processing and food safety for use. It has been accepted in Croatia by the Government of the Republic of Croatia.





## BELUPO

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The activities of Belupo's Research and Development sector in 2018 were oriented towards the **development of new drugs, transmission of production technologies from partners into Belupo's production plants and improvement of products from the existing portfolio**, according to the standards of the pharmaceutical industry. Amongst the development projects, it is important to point out the development of new dermatological drugs and drugs for treating nervous, cardiovascular and digestion systems.

Through technological and analytical support during 2018, the Belupo Research and Development sector was intensively included into activities dealing with the transmission of technologies into the newly constructed extension of production plants, thus contributing to the advancement of technological processes and full use of production capacities.

Special contribution in the Lean Six Sigma Transformation Project (chosen Belupo transformation method due to new regulatory requirements in production; *Lean* is **tending to reduce and remove everything creating no value**, while *Six Sigma*, based on data, is trying **to reduce variations within the process**), has been achieved using the methodology in some parts of the sector with the intention to continue to develop and implement new processes into other parts of the sector in 2019.

Through the wide spectrum of its activities, the Research and Development sector participates in numerous processes and quality systems of Belupo.

In 2018, the cooperation with the scientific association of the Institute of Ruđer Bošković and the Faculty of Natural Sciences and Mathematics was intensified.

During 2018 among the products developed by Research and Development, the following were launched to the market; Agnis 50 mg tablets from the antidiabetic group, Zacet 75 mg/650 mg analgesic tablets and Belobaza plus in the cosmetics category.



## ŽITO

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In July 2018, the Ministry of the Republic of Slovenia for Education, Science and Sport confirmed a 3-year AB Free Research Project – Extraction of Antibiotics from the Food Chain. Žito was included into the consortium consisting of six partners. This project belongs to the priority area of smart specialization Sustainable Food – area of Raw material and

sustainable use of resources. These researches deal with replacement of synthetic antibiotics with natural antimicrobe substances in animal nutrition. The results of this research project will **contribute to the improvement of safety and the quality of products**.



# 2 Certification of the Podravka Group management system

## PODRAVKA

During 2018, audits by authorised certification authorities were performed on the quality assurance and food safety management systems, compliant to several international standards.

Audits performed refer to the entire Podravka Group in the Republic of Croatia, except for Belupo.

All Podravka's organizational units and processes participating in the safe food production chain – "from the field to the table", were included in the audit: **Procurement** → **Logistics** → **Quality Control** → **Development** → **Marketing** → **Production** → **Maintenance** → **Human Resources** → **Sales** → **and others**.

Audits confirmed compliance with the following international standards:

NO.	STANDARD	LOCATIONS	AUTHORITY
1	<b>ISO 9001:2015</b>	1. Podravka Inc. (all locations in Croatia)	<b>Certification Authority SGS</b>
2	<b>HACCP</b> According to Codex Alimentarius	1. Podravka Inc. (all locations in Croatia)	<b>Certification Authority SGS</b>
3	<b>IFS Food, Version 6</b> International Featured Standards - Food	1. Podravka Inc. headquarters, Koprivnica Soups & Vegeta Factory, Koprivnica Baby Food & Cream Spreads Factory, Koprivnica Danica Factory, Koprivnica Fruit Factory, Koprivnica Meat Solution Factory, Koprivnica 2. Kalnik Factory, Varaždin 3. Mirna Inc., Poreč 4. Vegetable Factory, Umag 5. Podravka Lagris, the Czech Republic*	<b>Certification Authority SGS</b>       <b>*for Podravka Lagris Certification Authority TÜV SÜD</b>

4	<b>BRC, Issue 6</b> (British Retail Consortium) Global Standard for Food Safety	1. Podravka Inc. headquarters, Koprivnica Soups & Vegeta Factory, Koprivnica Baby Food & Cream Spreads Factory, Koprivnica	<b>Certification Authority SGS</b>
5	<b>HALAL</b>	1. Danica Factory, Koprivnica* 2. Soups & Vegeta Factory, Koprivnica* 3. Baby Food & Cream Spreads Factory, Koprivnica* 4. Kalnik Factory, Varaždin 5. Fruit Factory, Koprivnica 6. Snacks Factory, Koprivnica* 7. Podravska klet - restaurant, Koprivnica	<b>Halal Quality Certification Centre</b>  <b>*Emirates Authority For Standardization &amp; Metrology</b>
6	<b>KOSHER</b>	1. Kalnik Factory, Varaždin 2. Soups & Vegeta Factory, Koprivnica 3. Fruit Factory, Koprivnica 4. Snacks Factory, Koprivnica 5. Mill, Koprivnica	<b>Rabin Kotel Da-Don</b>
7	<b>BIO</b>	1. Podravka Inc., Koprivnica › Ecological tea › Ecological grits › Ecological rice › Ecological puree › Ecological cereal › Ecological seeds › Ecological tomato products	<b>Austria Bio Garantie</b>

Compared to the previous years, the following changes occurred in 2018:

- ✓ Recertification of Mirna Inc. and the Umag Vegetable Factory according to the latest version of IFS Food, Version 6.1
- ✓ Recertification of Podravka Inc. (all locations) according to the latest version of ISO 9001: 2015
- ✓ BIO product certification - expansion of the product range

## BELUPO

In the year 2018, Belupo was not awarded any new certificates.

## ŽITO

In 2018, the Žito Group had renewed the following certifications in the areas of **quality, food safety, ecological products and other certifications** that meet specific customer requirements.

NO.	STANDARD	LOCATIONS	AUTHORITY
1	ISO 9001:2015	Žito Group with Šumi Candies Ltd. Krško & sales segment of Podravka Ltd. Ljubljana	SIQ_ Slovene Institute for Quality Ljubljana
2	IFS Food ver.6.1	<ol style="list-style-type: none"> <li>1. Žito PC Žito Šmartinska Ljubljana</li> <li>2. Žito PC Gorenjka</li> <li>3. Žito PC Bread &amp; Rolls</li> <li>4. Žito PC Bakery Vrhnika</li> <li>5. Žito PC Dolenjska Bakeries</li> <li>6. Žito PC Gradišče - tea + new expansion to mill products</li> <li>7. Šumi Candies Ltd. Krško</li> <li>8. Žito Bakery Vič</li> <li>9. Žito Bakery Trbovlje</li> </ol>	QA –Quality Austria
3	BIO certificate Žito	Žito Ltd. 106 products, i.e. processes including Žito Retail Ltd.	Institut kon-cert, Maribor
4	BIO certificate Podravka Ltd. Ljubljana	Sales of Bio products	Institut kon-cert, Maribor
5	RSPO Suply Chain cer. System - (palm oil)	<ol style="list-style-type: none"> <li>1. ŠUMI Candies Ltd., Krško</li> <li>2. Žito Ltd. - location Šmartinska Frozen food and Toast program</li> <li>3. Žito Ltd. Conditory products PC Gorenjska</li> </ol>	BV – Bureau Veritas Ltd. Slovenia, Ljubljana
6	HALAL	ŠUMI Candies Ltd. Krško	Mešihat Islamske zajednice u R. Sloveniji
7	HALAL	ŠUMI Candies Ltd. Krško	Institut Mannheim, Njemačka
8	UTZ	ŠUMI Candies Ltd. Krško	
9	Kosher	Žito Ltd. - Šmartinska Ljubljana Toast programme	K MESHULASH / TRIANGEL K INC. NY, USA
10	Vegan	<ol style="list-style-type: none"> <li>1. Šumi Ltd. fruit jelly - 2 products;</li> <li>2. Žito Ltd. Frozen Food programme 6 products, Toast programme 5 products</li> </ol>	European Vegetarian Label (institute Padma)

# 3 New products

## CULINARY BUSINESS UNIT



The Vegeta brand from the Culinary Business Unit is successfully adapting to the habits and needs of its consumers, which in 2018 resulted in the introduction of **new Vegeta Natur products** with an improved recipe. Vegeta Natur products are made from well known, natural ingredients **according to mother nature's recipe**.

The wide assortment of Vegeta Natur products offers **universal seasonings, a range of special condiments and bouillon cubes**, which all share common values such as transparency and well-known ingredients. Along with the process of reformulation, all Vegeta Natur products have undergone a redesign process and are now placed on shelves in a new, modern design that clearly communicates all the functional benefits of the product.

In line with the **naturalness trend, innovation and modernization** were also made in the Fant seasoning mix segment in the Adria region. Fant now offers products with no flavour enhancers, in a modern range of products refreshed with **Fant chicken with mushrooms in cream sauce** and **Fant cheese sauce** that are visually tailored to appeal to younger consumers. At the same time, the most famous, traditional range has also been redesigned and refreshed, thus enabling easier detection at points of sales.



Innovations also occurred in the assortment of soups, bouillon cubes and semi-prepared meals. The assortment of Podravka soups is complemented by **new, grain-rich soups** which contain a variety of vegetables and cereal grains with no added flavour enhancers. The assortment consists of three products: **Rich soup with mushrooms and buckwheat, Rich barley and vegetable soup, and Rich soup with 5 cereal grains.** Their launch results from the monitoring of the consumers' highest expectations regarding product quality and the “experience” they convey when consuming.



Since 2018, Podravka has embarked to conquer Australian consumers with **premium liquid stock**. Liquid stock is the most significant segment of food condiments on the advanced Australian market. Using the name of **Vegeta Superior**, the premium quality of this product line is additionally highlighted.

In the pursuit of a modern lifestyle and listening to the needs of our consumers, in 2018, the Talianetta product range was expanded in the Adria region with new rice-based products: **Rice with tomato and mozzarella, Rice with chicken and curcuma and Rice with mushrooms.** Along with the launch of this new category, Talianetta also embraced a new packaging design in order to emphasize its shelf position and reach new consumers.







The Lino World launched a new product, **Lino Lada Gold** in the category of cream spreads. Its richness of hazelnuts, creamy taste and texture, golden name and design conquered the market of cream spreads and immediately upon launching Lino Lada Gold **won the title of Product of the Year and Superior Taste Award**, winning a maximum number of three stars.

A large packaging of Lino Lada duo of 1 kg was also launched with four different messages that enables Lino Lada's passionate consumers to get just the right portion with their favourite message by buying just one packaging.

With these innovations as well as a series of promotional activities, Lino Lada has **taken the lead in the cream spread market** of Croatia.

**Čokolino Baby** - a new milky cereal puree in the assortment of Lino dehydrated baby food for six months of age was launched for our youngest consumers. Čokolino Baby has **no added sugar, is prepared with water, contains even five types of cereal:** wheat, oats, corn, rice and buckwheat and cocoa instead of chocolate.



Dolcela entered a new category of ready-made desserts with **Dolcela's cakes and Dolcela's cake2go biscuit rolls**, which currently show a great tendency of growth. In the category of cake mixes, **four new blends with ancient cereals** were launched, which are unique because they give consumers the ability to sweeten their cake according to their taste, and they also **contain whole grain oats and spelt flour, quinoa and chia seeds.**



The Kviki product range returned to its red design and launched new products. Kviki entered a new subcategory of extrudate snacks with three salty flavoured products: **Kviki salty stix**, **Kviki ketchup stix** and **Kviki cheese balls** and five sweet flavoured products: **Kviki choco #LOLs** in chocolate, coconut, raspberry, strawberry and orange flavour. All together and focused on the standard range resulted in a **significant revenue increase** over the previous year and a market share increase of over 5 percent.

## PODRAVKA FOOD BUSINESS UNIT



For the categories within the Podravka Food Business Unit, 2018 is characterized by a **large innovation cycle**, primarily in **fruit spreads** and in the assortment of so-called “**food for winter**”. Podravka's chutney, horse-radish, ketchup, pickled and canned vegetables have undergone a slight redesign and **refreshed its visual expression** to enhance visibility at points of sales and ease navigation within the range.

Podravka jams obtained a new visual identity and extra jams added completely new flavours tailored to consumer expectations.



In the tomato category, a new product segment was launched focusing on the Polish market - **dried tomatoes**, which expanded to the Adria region at the end of the year. Also, within particular assortment lines, **new taste extensions** such as tomato sauce *Napoletana* have been added.





## FISH BUSINESS UNIT



The Fish Business Unit started a new innovation cycle in 2018, aimed at winning new consumer segments through unique marketing concepts and different ways of consuming canned fish. This innovation cycle is led by new **Eva tuna salads**, a product developed for those consumers who are looking for a **fast, but healthy and very nutritious and rich meal**. Six new tuna salads are enriched with new combinations of ingredients and tastes like red quinoa, wild rice and couscous, but what makes them an ideal meal is their **practical packing** in bowls, so they are ready to consume right away.

Five new **Delicates Adriatic sardines** prepared in extra virgin olive oil in **combination with tasty and intriguing ingredients** such as mint, chilli, black olives and dried tomatoes have come out of the production facilities in Rovinj.



Proof that “*fish goes with everything*” is the **new tuna and chutney pâté**. A combination of the south and east has resulted in a perfect flavour that offers consumers a whole new gastronomic experience. For those consumers who are faithful to renowned products, **new sardine pâtés**, rich in omega 3 fatty acids, calcium and vitamin D have been developed.

## MEAT PRODUCTS, MEAT SOLUTIONS AND SAVOURY SPREADS BUSINESS UNIT



In the Business Unit Meat Products, Solutions and Savoury Spreads, **the focus has been on the sausage range** that underwent great innovation in product and packaging development. The whole cycle has been rounded off by an attractive new design. The aim of the innovation was to increase profitability and stabilize the range of products.

Podravka's Tea sausage is **the best-selling sausage in the Croatian market** and has been innovated through additional tastes - **classic, chilli and delicates**. The new Tea chilli contains carefully selected spices that perfectly mingle with famous chilli peppers, while Tea delicates contains a high 43% of beef.

In the subcategory of cooking and baking sausages, along with the **Kranjska classic**, a spicy variant of **Kranjska sausage with cayenne pepper** was prepared. Given that in the subcategory of sausages for cooking the economy segment is expanding, **Pikant and Vikend sausages** have been launched.



The offer of semi-durable products expanded with two new products, **Ham in wrapping piquant and "Šunkarica"**. Ham in wrapping piquant contains the finest meat and sharp, paprika spices, while "Šunkarica" is a combination of pork and beef meat.

All sausage products **contain no gluten, lactose or artificial colouring**, making them the ideal choice for those who follow a balanced and healthy diet.



A limited series of **jubilee promotional packages** of Beef goulash and Classic chicken pâté was produced to celebrate the **60th anniversary** of the presence of these Podravka icons in the market.



The category of canned ready-made meals launched a new product line for the market of Australia under the brand Vegeta that by taste, composition and consistency are tailored to satisfy the local consumer. The benchmark for product development were the existing products in the market as well as the inputs of domestic consumers who participated in the development part. **Four ready-made meat meals** (beef, pork, chicken) with vegetable supplements were launched. The products are ready for consumption, prior to short heating. In the segment of cold ready-made meals, work on expanding the offer of main course dishes and salads for the HORECA segment continued in 2018.



### AGNIS 50 MG TABLETS

A new drug in Belupo's oral antidiabetic palette whose active substance is vildagliptin.

Agnis is **used to treat patients with type 2 diabetes**. It is used when diabetes cannot be controlled only by diet and exercise. It also helps control blood sugar levels.

### AMORA 2.5 MG/5 MG; 5 MG/5 MG; 5 MG/10 MG; 10 MG/5 MG; 10 MG/10 MG SOLID CAPSULES

AMORA is a combined drug **for treating hypertension**, containing two active substances: ramipril and amlodipine.

AMORA is used for treating hypertension (high blood pressure) in patients who have maintained blood pressure control by applying individual active substances in doses that correspond to the same doses in a combination but in separate medications.



### GLIKA 60 MG CUSTOMIZED RELEASE TABLETS

GLIKA is a drug that **lowers blood sugar levels** and is intended for the treatment of adult noninsulin-dependent diabetes mellitus (type 2), in which the disease or normal blood sugar levels cannot be regulated solely by diet, exercise or weight loss.



### PREGABALIN BELUPO 75 MG SOLID CAPSULES

PREGABALIN Belupo 75 mg solid capsules are an additional dose to the Belupo PREGABALIN antiepileptic drug already present in 150 mg and 300 mg doses. Pregabalin Belupo belongs to a group of drugs **used to treat epilepsy, neuropathic pain and generalized anxiety disorder (GAD)** in adults.



### MIDZA 50 MG; 100 MG; 150 MG; 200 MG FILM-COATED TABLETS

MIDZA is a new antiepileptic in Belupo's antiepileptic palette. MIDZA contains the active substance lacosamide. It belongs to a group of drugs **used in the treatment of epilepsy** (to reduce the number of seizures).



### RAZAGILIN BELUPO 1 MG TABLETS

Razagilin Belupo is **used to treat Parkinson's disease**. Razagilin Belupo helps increase and maintain dopamine levels in the brain.



### NUTRIBEL COMPLEX

New flavours of Belupo's products in the group called Food for special medical purposes, in addition to the present chocolate flavour are: cappuccino and orange-biscuit. NUTRIBEL COMPLEX is a **preparation for dietetic nutrition of oncological patients** in an individual 200 ml package.



## SLOVAKIA

There are **four new products** released on the Slovak market: drugs **Spirabel** (desloratadine) 2.5 mg and 5 mg orodispersible tablets and 150 mg oral solution and **Midza** (Lactosamide) 50 mg, 100 mg, 150 mg and 200 mg film-coated tablets, a non-prescription drug **Belopera** (Loperamide) 2 mg and **Belokrem**, a cosmetic product with zinc.

**Spirabel** orodispersible tablets and oral solution **help control allergic reactions** and its symptoms, alleviate the symptoms of allergic rhinitis and skin changes caused by allergies. This drug does not induce drowsiness.

**Belopera** capsules help **relieve diarrhoea** by slowing down excessive bowel activity.



## THE CZECH REPUBLIC

On the Czech market, **four new products were released: Isotretinoin Belupo 10 mg and 20 mg capsules, Midza (Lacosamide) 50 mg, 100 mg, 150 mg and 200 mg film tablets, and Baza light and Baza plus creams.**

**Isotretinoin** Belupo 10 mg and 20 mg are used for the **treatment of severe acne** that are resistant to other forms of appropriate standard methods of treatment with the help of systemic antibacterial drugs and local therapy.

**Midza** (Lacosamide) belongs to a group of drugs **used to treat epilepsy** (to reduce the number of seizures).

**Baza light cream** is intended for the **regeneration of sensitive and irritated skin**, especially if the skin was subject to various procedures that damage its natural lipid barrier.



## SLOVENIA

Three new products of **Alopurinol** 200 mg tablets, **Tadalafil** Belupo 20 mg film tablets and **Pregabalin** Belupo 75 mg, 150 mg and 300 mg solid capsules were released in the market of Slovenia in 2018.

**Alopurinol** Belupo 200 mg tablets are **used for the treatment of gout** and the prevention of other conditions followed by increased uric acid formation such as kidney stones and other renal function disorders.

**Tadalafil** 20 mg film-coated tablets are intended for the **treatment of erectile dysfunction**.

**Pregabalin** Belupo 75, mg, 150 mg and 300 mg are indicated for the **treatment of peripheral and central neuropathic pain** in adults, for the treatment of generalized anxiety disorder (GAD) in adults and as adjunctive therapy in adults with partial epileptic seizures with or without secondary generalization.

## BOSNIA AND HERZEGOVINA

In the market of Bosnia & Herzegovina products from the **enteral nutrition category Nutrix**, herbal and medicine from own development **Silymarin Forte** film tablets were released in the first half of the year and prescription drugs **Gabina** (pregabalin) cps, 56 x 75 mg, 56 x 150 mg, 56 x 300 mg and Agnis (vildagliptin) tbl, 30 x 50 mg and 60 x 50 mg at the end of the year.

The herbal medicine **Silymarin Forte** is **used to relieve hepatic dysfunction**.

**Agnis** is indicated for the **treatment of type 2 diabetes mellitus** in adults as monotherapy in patients whose disease cannot be controlled by diet and exercise only.



## SERBIA AND MONTENEGRO

**Alopurinol** Belupo 200 mg tablets is the only new product to be introduced to the Serbian market, while two new drugs **Citram** and **Nibel** were placed in the market of Montenegro.

**Citrate** is **used to treat depression and anxiety disorder**.

**Nibel** is **used to treat high blood pressure** (hypertension), prevents increased heart rate, controls the strength to pump blood and spreads blood vessels, which also contributes to lowering the blood pressure.

## MACEDONIA

In the market of Macedonia during the year 2018 a total of **3 new products were launched: Sona gel and Belobaza light and Belobaza plus** creams. **Sona gel** is used for the **treatment of mild to moderately acute facial, chest or back acne and pimples**.



## THE RUSSIAN FEDERATION

Russia's market introduced a new product, **Belobaza zinc cream** applied for the **regeneration and purity of gentle and irritated skin** and is effective for alleviating itching.

## KAZAKHSTAN

The market of Kazakhstan has released **four new drugs** during 2018: **Blogir-3** (desloratadine) orodispersible tablets and oral solution, **Monler** (montelukast) tablets, **Vivaira** (sildenafil) chewable tablets and **Neofen** 60 mg suppositories.

**Blogir-3** is an **anti-allergic drug** that does not induce drowsiness and helps control allergic reactions and its symptoms.

**Monler** is used to **treat asthma**, also helps with asthma control and facilitates seasonal allergy symptoms.

**Vivaira** chewing tablets are used to **treat erectile dysfunction**.

**Neofen** 60 mg suppositories for children from 3 months to 2 years are intended for **lowering elevated body temperature**, including the one accompanying colds and flu, as well as vaccine reactions and alleviating mild to moderate pain such as teething pain and earache.

## REGISTRATION SOLUTIONS

In 2018, Belupo registered a **total of 75 drugs** (both prescription and non-prescription) and **10 products in the category of dietary supplements, cosmetic products, medical products and food for special medical needs in 14 markets** (Croatia, the Czech Republic, Slovakia, Poland, Slovenia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Kosovo, Albania, Russia, Kazakhstan and the Netherlands). Most of them are registered in the group of drugs with effect on the central nervous system (37 drugs), drugs with effect on the digestive system (16), drugs with cardiovascular system effects (10), the musculoskeletal system (6), respiratory system (4) and 2 dermatics. Out of these, 19 drugs were registered in the Croatian market, of which 15 were prescription drugs and 4 non-prescription drugs. Most prescription drugs belong to the group of drugs with cardiovascular system effects (7), nervous system (7, and digestive system (5). Of the drugs registered in 2018, Midza 50 mg, 100 mg, 150 mg and 200 mg film-coated tablets (lakosamide) were released in the Croatian market.

Products in the category of dietary supplements, cosmetic products, medical products and food for special medical needs were approved in 8 markets (Croatia, Slovenia, Czech Republic, Slovakia, Bosnia and Herzegovina, Serbia, Macedonia and Russia). In the Croatian market in 2018, Belodex foam was approved in the category of cosmetic products.



### BUCKWHEAT RUSKS

The rusks category has expanded with a new product, Buckwheat rusks, made following global nutrition guidelines, as it **contains no palm oil and is a natural source of dietary fibre**. The product is suitable for vegans and vegetarians, as verified by vegan certification.

### NEW TEAS FROM THE MOUNTAIN PEAKS

We have expanded the category of teas under the 1001 Cvet brand with **new herbal teas called Teas from the mountain peaks**. Each of these teas contains herbs that are typical of the area after which they are called: “**Šmarnogorski**” is tea with a perfect herbal blend with distinctive linden and elder; rosemary, heather and anise are captured in the whirlwind of “**Nanoški**” tea; and hemp, anise and thyme are beautifully rounded within the taste of “**Pohorski**” tea.



### FROZEN FOOD

Žito’s category of frozen food has expanded to novelties that are in line with dietary trends. New innovative products are **Spelt dumplings and Spelt rolls**, made using traditional recipes and well-known flavours. Instead of wheat flour, **100% spelt** (flour and grits) are used and a **reduced percentage of sugar and salt**, compared to the current products within the range.

## CHOCOLATES AND BISCUIT

The Gorenjka biscuit category has expanded with a new product, **Gorenjka chocolate orange mini roll**, which is made according to the latest trends in fast snacks. Fine biscuit is filled with orange and chocolate cream and sprinkled with arancini. This new product contains 5 tasty mini rolls individually wrapped in a 155 g packaging.



The **GORENJKA CHOCOLATE CATEGORY** has expanded with new products in the dark chocolate segment. The first product contains a high content of cocoa (85%) and is a real treat for true chocolate lovers. The other product contains a combination of tropical coconut, the finest dark chocolate with 75% cocoa and an outstanding addition of collagen. In December, an exclusive New Year edition of chocolates and Gorenjka sponge cakes were placed on point of sales shelves.

## MINIS ŠUMI CANDIES

The Šumi category of candies has expanded in the caramel segment with new MINIS products. The main feature of this candy is its new mini-shape in modern flavours: **Sour and Tropic with 8% of fruit juice** and no artificial colours and aromas. The candies are packed in a 90 g bags. These small sweet fruit bites are especially suitable for children aged 4 to 10 years.



# 4

## Relationship with employees

### MATERIAL STATUS OF PODRAVKA GROUP EMPLOYEES IMPROVED SUBSTANTIALLY

After four-month negotiations within the Podravka Group between negotiation teams of the employer and trade unions, **some measures have been agreed in order to additionally improve the material status and rights of the Podravka Group employees.** Consequently, employees with the lowest salaries received an increase of about HRK 1000 in net amount, the lowest coefficient being thus increased from the current 1.20 to 1.67. The agreed measures also include the following: an increase of the fixed supplement for employees from the previous HRK 400 to HRK 470 and a local transport supplement in the net amount of HRK 170 per month. Also, the employer will pay a savings of HRK 1000 into the 3rd pension pillar for each employee every year, proportionate to the number of months in which the employee was employed. Furthermore, the amount of the jubilee award has been increased, and also financial assistance in the case of death of an immediate family member, from net HRK 2500 to 3000. A 50% increase in the one-off bonus to the salary for Easter, from net HRK 400 to 600, was also agreed.

### 110 EMPLOYEES HIRED FULL-TIME

Podravka would not be such a successful company if it were not aware of the fact that **satisfied employees are the key to success** in achieving excellent operating results and producing outstanding products. For that reason, Podravka actively manages its highest potential, and they are its employees. Today the safety of having full-time employment has multiple positive effects on employees' engagement at the workplace and also on their personal time. Therefore, a resolution has been passed on hiring 110 young employees as full-time. The majority of new contracts was signed with employees in the Production department, but also in other parts of the Company, such as Logistics, Sales, Business programmes and Corporate functions.

### PODRAVKA EMPLOYEES RECEIVED AN ADDITIONAL AMOUNT OF HRK 3000 WITH THEIR SALARY IN DECEMBER

The employees of the Podravka Group companies in Croatia **received a Christmas bonus in the net amount of HRK 1500 and an additional annual bonus in the same amount for successful business results in 2018.** Therefore, employees received HRK 2000 in money in December with the salary for November, while the remaining HRK 1000 as an in-kind gift.



TRADITIONALLY, PODRAVKA ORGANIZES THE REUNION AND GATHERING FOR MORE THAN 3000 FORMER EMPLOYEES AND PENSIONERS

In 2018, the Podravka Group also organized the annual reunion of its retired employees and employees with jubilee long-service. For this traditional reunion, held in front of the Soups and Vegeta Factory in Koprivnica, all the 3391 retired employees were invited, together with 250 of employees with 30, 35 and 40 years of service within the Podravka Group. Well aware of the great importance of employees in company success, **Podravka is one of rare companies in Croatia still organizing such reunions and gatherings of former and jubilee employees.**



PODRAVKA RECEIVED MORE THAN 300 APPLICATIONS FROM ALL OVER CROATIA FOR WORK AT MIRNA, ROVINJ.

After launching a public campaign in order to find necessary employees for work at the Mirna factory in Rovinj, in several days Podravka received more than 300 applications from interested persons from all over Croatia. This confirms that **people in Croatia are ready to accept a good employment opportunity even out of their place of living.** For the purpose of investing into the new line for processing and production of sardines, mackerels and tunas, in order to meet market requirements, **120 job positions on tuna and mackerel production lines were established.**

OVER 800 OF PODRAVKA EMPLOYEES ATTENDED CORPORATE GAMES

**Employees make the essence and identity of a company and good corporate culture is an essential part of its business success.** Podravka therefore, decided to reward its employees and with them to celebrate the outstanding business results achieved in the first quarter this year at educational - sports corporate games which were held from 17th to 20th May 2018 in Baško Polje. During three days of spending time together, with a rich musical programme, employees of the Podravka Group from Croatia, the entire Adria region, the Czech Republic, Slovakia, Poland and Hungary showed their skills in numerous sport events, while others displayed their talents in singing, dancing and acting.

With these corporate games Podravka **joined the best world examples of companies who investment into their employees and practices of advancing their satisfaction,** which provides multiple benefits reflected mostly in building a positive corporate image.

# 5

## Social responsibility

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Since its very beginnings, the Podravka Group has been **striving to contribute to the development of the general community** in its many activities and passionately investing in science and education, sustainable development, culture, art, sports thus **promoting corporate social responsibility. Guided by the Company's cultural values; creativity, trust, passion, innovation and excellence**, it proudly supports the projects that underline these true values.

**The foundation for the Company's success and development are responsible, creative and satisfied employees**, always ready to make their own contribution to the Company's well-being and devote more effort and time in achieving over-average results. The Podravka Group's approach to business and employees provides a dynamic working environment and the **opportunity for both professional and personal growth and development**. It actively supports and conducts informative and counselling programmes about preserving the health of its employees, members of their families and the local community in general. Apart from caring about its current employees, the Podravka Group gives recognition to its retired employees as well, who gather at the traditional annual meeting of pensioners and employees with jubilee long service.

**In more than 70 years of successful business, the Podravka Group has built a strong trust of its consumers**, above all with the outstanding quality of products and by following consumer trends and needs. Its core focus is the production of high quality, safe and health-friendly products based on good manufacturing practice and on the principles of quality management, food safety and environmental care.

During 2018, **the Podravka Group companies initiated and participated in numerous socially responsible and charity projects**. Podravka's Lino All-rounder has for 13 consecutive seasons encouraged sport, healthy lifestyle and fellowship among primary school children throughout Croatia. Podravka has also demonstrated its care for the youngest by supporting the children's race as part of the Poreč half-marathon.

Podravka is **particularly devoted to humanitarian activities** in which Podravka's Association of volunteers - PULS is a prominent leader that has initiated or partnered with many worthwhile causes. Podravka is also the proud partner of "*The Pride of Croatia*" manifestation, which primarily highlights ordinary people with big hearts and promotes true values. In its charity work, Podravka has been a long-term partner with the Croatian Red Cross and Caritas in providing day-to-day assistance to the needy in the community through various programmes and activities. Within its social responsibility programme, numerous social, cultural and sport events, such as the Memorial Handball Tournament "*Josip Bepo Samaržija*", the Renaissance Festival in Koprivnica, Autumn in Vinkovci, the Rijeka street race "*Homo si teć*" and many others have been generously supported.

In Slovenia, Žito became a partner of young Slovenian Alpine skiers, and has supported many sports, cultural, business and family events in Slovenia. Also, in December 2018 Žito donated one tonne and 45 kilograms of Šumi candies to support projects such as Ana's Star, Santa Claus for one day, Caritas, Red Cross, Slovenian Food Bank and Moste-Polje Youth Friends' Association.

Belupo as a part of the pharmaceutical industry that **advocates a better quality of life and health**, invests mostly into healthcare institutions and associations that help treat certain diseases. It also organizes public health campaigns each year to alert patients to the importance of preventive and timely treatment. Belupo supports projects that promote the values of sport and healthy life and contributes to the development of sports by co-operating with the football club, NK Slaven Belupo, and the handball club, RK Podravka Vegeta. In addition, it supports all cultural manifestations and events in Koprivnica **aimed at improving the quality of life and leisure time of citizens.**

In its future business, the Podravka Group **will continue to invest in relationships with its employees and strengthen consumer trust by recognizing their desires and needs as well as feeling the needs of the community in which it operates.**





# 6

## Activities in the field of environmental protection

**PODRAVKA** continuously develops and improves processes, products and services, aiming to reduce the negative impact on the environment. In 2018, improvements were achieved in the reduction of produced waste and an increased level of ecological awareness and responsibility of employees.

### WASTE MANAGEMENT

Waste management system advancements were continued, with **more efficient waste sorting by placing waste separating containers in offices, reduced squandering of materials and raw materials, rationalized use of consumables and education of employees, which resulted in reduced production of municipal waste** compared to the year 2017. In 2018, Podravka Inc. produced 23.26 tonnes of hazardous waste, 3,540.78 tonnes of non-hazardous waste of which 382.83 tonnes of municipal waste.

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

Data on the total quantities and types of waste and manner of disposal for all locations of Podravka Inc. are submitted to the Environmental Pollution Register (ROO) database maintained by the Croatian Agency for the Environment and Nature.

### AIR PROTECTION

Podravka Inc. **uses natural gas as the primary fuel in all technological processes**, and air emissions from stationary sources are regularly measured by certified intuitions in line with legal regulations. The emission border values are within the limits allowed, and the Annual Report on emissions is submitted to the Croatian Agency for the Environment and Nature.

Data on pollutants released into the air by type of fuel and discharge points for all locations of Podravka Inc. are submitted to the Environmental Pollution Register (ROO) database maintained by Croatian Agency for the Environment and Nature.

For the purposes of air protection against fluorinated greenhouse gases, service maintenance and permeability control of all cooling devices are regularly performed by certified maintenance services.

Podravka Inc. actively participates in activities arising from obligations defined by the EU Emissions Trading System (EU ETS) for the locations Ante Starčevića 32, Koprivnica and the Industrial zone Danica, Koprivnica that hold a valid licence for greenhouse gas emissions. Podravka's ETS team, consisting of certified and additionally certified representatives, contributes with its activities to timely meeting of legal obligations and submitting the emission units to the Union Registry.

## WASTE WATER MANAGEMENT

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

Data on the total quantities of waste water discharged and pollutant measuring results for all locations of Podravka Inc. are submitted to the Environmental Pollution Register (ROO) database maintained by the Croatian Agency for the Environment and Nature.

## COMPLIANCE WITH REGULATIONS

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

## INSPECTION CONTROLS

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

During the monitoring of legal regulations and continuous care of environmental protection, in 2018 no irregularities related to non-compliance with laws and regulations concerning environmental protection were recorded, and accordingly, no significant fines or penalties were imposed.

## NON-FINANCIAL REPORTING - PODRAVKA GROUP SUSTAINABLE DEVELOPMENT REPORT

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In 2018, the Podravka Group's Sustainable Development Report for 2017 was prepared and published in line with the requirements of the Global Reporting Initiative Standards (GRI option).

The Podravka Group's Sustainable Development Report for 2018 was published on Podravka's website

[\(http://www.podravka.hr/kompanija/odgovornost/odrzivi-razvoj/\)](http://www.podravka.hr/kompanija/odgovornost/odrzivi-razvoj/)

and is publicly accessible to all interested parties.

## BELUPO

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In 2018, the training of new employees continued regularly, and all work instructions describing procedures for the preparation of all types of waste for treatment were revised.

## WASTE MANAGEMENT

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

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

In 2018, 34 different types of waste were recorded at Belupo in the total amount of approximately 312 tonnes.

PROCESSING METHOD / PER TOTAL QUANTITY	RECYCLING	THERMAL PORCESSING	LANDFILL
Waste amount %	57,4	36,7	5.9

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By proper management, the majority of the waste became a secondary raw material, which corresponds with the aim of saving natural resources and reducing the amount of waste disposed at landfills. Technological waste is thermally processed.

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

## AIR EMISSIONS

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Belupo **pays great attention to air emissions** by tracking dust emissions and organic solvents emissions from technological drains, as well as emissions of NO<sub>2</sub>, CO, SO<sub>2</sub> and CO<sub>2</sub> from energy drains.

During 2018, emissions at technological and energy drains were measured. **Emission border values were within allowed limits**, as proven by records, and the measurement results were reported to the Croatian Agency for the Environment and Nature.

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

For the purposes of air protection against fluorinated greenhouse gases, **records are being updated on all cooling devices** where controlled or substituted substances that damage the ozone layer are used and authorized services provide maintenance and permeability control. During 2018, the regular control of the permeability of controlled substances from cooling devices was performed..

## WATER PROTECTION

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

Records are kept on all the means used for water disinfection. Maintenance and cleaning of the system for waste water drainage is regularly performed.

In the case of sudden pollution of the facilities and the internal drainage system, employees are obliged to act in line with the Operating plan of intervention measures for water protection, with which they are familiar and according to the plan, **they attempt to minimize the risks of water pollution**.

## RISK MONITORING

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With the aim of avoiding the possibility of an incident with hazardous substances, the Endangerment assessment and Operating plan for protection and rescue were prepared, detailing potential effects on tangible assets, possible danger for the employees and the environment as a result of using hazardous substances, thus **minimising the risk of any incident to the smallest possible level.**

Amounts of hazardous substances have been updated, compliant with the Regulation and reported to the Croatian Agency for the Environment and Nature and the National Protection and Rescue Directorate.

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

## ENVIRONMENT POLLUTION REGISTER

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Using the database - ROO of the Croatian Agency for the Environment and Nature, all the pollutions and emissions into the environment have been reported separately for all types of waste with the final method and location of treatment indicated, as well as the calculation of the amounts and locations of air and water emissions.

## CONTROL OVER COMPLIANCE WITH REGULATIONS ON ENVIRONMENTAL PROTECTION

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In 2018, the inspection of the Ministry of Environment and Nature Protection performed the control of the compliance with regulations on environmental protection. Belupo fully satisfies all the regulations on environmental protection and no rulings on non-compliance have been issued.

## ŽITO

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In 2018, Žito produced 2,408 tonnes of waste, of which 268 tonnes of municipal waste and only 9,8 tonnes of hazardous waste.

The education of all employees has **improved the habits of employees for waste separation** in all manufacturing facilities and offices.

**All legal obligations are regularly monitored and fulfilled.**

In 2018, an inspection of the environmental protection was carried out only at one production site.

The consumption of energy and water are regularly planned and monitored, and corrective measures are taken if necessary.

# 7 Significant promotional activities

## PODRAVKA PARTICIPATED AT THE BUSINESS FORUM KALININGRAD DISTRICT - CROATIA, THE PERSPECTIVES OF COOPERATION

As part of the initiative organized by the Croatian Chamber of Commerce "Sport connects business", the business forum Kaliningrad District - Croatia, the perspectives of cooperation was held in Kaliningrad, Russia and attended by representatives of Podravka. **For more than 50 years, Podravka has been successfully operating in the Russian Federation market** and positive business trends continue as a result of communication made during business meetings like this. The "Sport connects business" initiative is **aimed at improving economic relations and cooperation between Russia and Croatia** and consolidating business relations.

## CONFERENCE "TAX REFORM - FROM AN ECONOMIC PERSPECTIVE" HELD AT PODRAVKA

"Večernji list" and Podravka organized a conference "The Croatia we need - Tax reform - from an economic perspective" in Koprivnica, where representatives of national authorities, businessmen, economic and financial experts spoke about **tax reform measures and solutions that could contribute to economic growth and development, employment and improvement of the standard of Croatian citizens.**

Speaking about the synergies of the food industry and primary production, Marin Pucar, President of the Management Board, emphasized that Podravka had chosen to support export and in cooperation with the Ministry of Agriculture started projects related to **increasing the share of domestic raw material in its products** that are dominantly exported to foreign markets. He noted that the balance sheets of some raw materials show that Podravka cannot meet its needs on the domestic market and it is, therefore, necessary to nurture a cult of labour to encourage people to engage in agriculture and prosper in rural areas. He also concluded that economic growth needs investments and announced that Podravka will also increase its investment fund to modernize and be competitive on the foreign market.





## SANDRA PERKOVIĆ BECAME THE AMBASSADOR OF PODRAVKA VEGETA NATUR

Connecting Croatian companies and athletes is important for **strengthening the image of Croatian products in the world**. Therefore, the best Croatian sportswoman of all times, Sandra Perković, and Marin Pucar, President of the Management Board of Podravka, signed a cooperation agreement **naming Sandra Perković the ambassador of Podravka products under the brand Vegeta Natur**.

Throughout the years, Vegeta has upgraded to new categories including Vegeta Natur in line with trends in the culinary market. Vegeta Natur products are enhanced with **new recipes and a combination of carefully selected vegetables and spices** with the message "*Mother Nature's recipe*". Sea salt brings out the recognizable taste of quality and naturalness, turmeric the golden colour, and the specific aroma and scent of a home garden comes from lovage.



## ZLATKO DALIĆ BECAME THE BRAND AMBASSADOR OF PODRAVKA

Mr Marin Pucar, President of the Management Board of Podravka Inc. and the Croatian national football team's coach, Zlatko Dalić, signed a cooperation agreement, by which **Zlatko Dalić became the brand ambassador of Podravka**. This cooperation aims to stimulate **building awareness of the importance of maintaining true values and loyalty to Croatian products from a very early age**, as Podravka's range includes products for all age groups of consumers.

## VEGETA AT MICHAEL JORDAN'S NEW YORK RESTAURANT

Vegeta, the most famous Podravka brand, has **once again proved that it can be found in every corner of the world**, including New York, where the famous restaurant, owned by NBA legend Michael Jordan, "*The Michael Jordan's Steak House N.Y.C*" also uses Podravka's famous food seasoning. Vegeta spices up numerous dishes served at this prominent restaurant located at the Grand Central Terminal in the centre of Manhattan, daily visited by over 700,000 of New Yorkers and tourists.



## FINALS OF THE 12<sup>th</sup> LINO ALL-ROUNDER IN NEDELIŠĆE

In 2018, the educational sports project of Podravka and “Sportske novosti” continued with the aim of encouraging school sports, developing healthy habits and promoting cultural creativity. The 12th Lino All-rounder season **gathered 12,000 primary school students from 19 primary schools from all Croatian counties**. The top 24 competed in the finals held in Nedelišće, where along with the best athletes the best student writers were also awarded, all supported by famous athletes: Branko Ivanković, Tom Alen Tomić, Josip Šutalo, Roko Baturina, Snježana Petika, Korina Karlovčan, Kristina Tomić and Deni Andru Razić.

## NEW PRODUCTION LINE FOR TOMATO PROCESSING

At the 21<sup>st</sup> Tomato Day celebrations held at the Tomato Processing Factory in Umag, Podravka introduced the new Tetra Pak A3 Flex production line worth more than HRK 7 million which, thanks to modern technology, **enables faster tomato processing and higher processing capacity, improves production planning and contributes to safety and savings in energy costs**.



## SIXTY YEARS OF UNFORGETTABLE FLAVOURS

Podravka's products - Chicken and Beef soup, Beef goulash and Chicken pâté, launched in far 1958, have retained their stable recipe, but also a recognizable design with symbols of a rooster and a cow. During 2018, **Podravka's legends celebrated their 60th anniversary** in co-operation with the famous fashion couple, ELFS, who made three new designs with Podravka's recognizable and long-lasting symbols.

## VEGETA NATUR & MAMMA MIA: HERE WE GO AGAIN! ON TOUR OF THE ADRIA REGION

As part of the closing ceremony of the Pula Film Festival, the ceremonial premiere of the film Mamma Mia: Here We Go Again! took place and was among many spectators and distinguished guests attended by the director Ol Parker, actors Jeremy Irvine, Hugh Skinner, Josh Dylan, and producer Judy Craymer. Vegeta Natur was the leading partner of the film tour in the Adria region.

HALF A MILLION FACEBOOK FANS OF COOLINARIKA HAVE CONFIRMED THAT THE LARGEST CULINARY SOCIAL NETWORK IN THE REGION IS REALLY COOL.

Podravka's Facebook page, Coolinarika, has exceeded the magical number of 500,000 fans, further confirming its popularity and recognizability both in Croatia and the entire region. According to Socialbakers, Coolinarika's Facebook page is convincingly the largest Croatian Facebook page in the segment of food and with this new achievement has become the third brand on Facebook in Croatia.



## PODRAVKA'S COOLINARIKA WEBSITE CELEBRATED 15 YEARS OF SHARING CULINARY PASSION

The favourite destination for admirers of fine food and good company is the largest culinary online community in the region, whose popularity continues to strengthen and grow. Launched in November 2003, Coolinarika started as the first Croatian culinary magazine type web site, later to become the largest regional culinary site on food and cooking topics. Today, it has 123 million visits per year by 25 million users. Over 183,000 recipes can be found on Coolinarika's site, viewed 310 million times over a year.

**123 mil**  
visits per year

**25 mil**  
users

**183 000**  
recipes

viewed  
**310 mil**  
times over a year

### THE KEY ROLE OF GREEN BELTS (OPERATIVE PROJECT MANAGERS) IN THE TRANSFORMATION OF BELUPO

During 2018, Belupo conducted the transformation of its business processes. A new organizational scheme was established in order to facilitate the implementation of the Lean Six Sigma transformation programme (transformation of Belupo's work organization due to new regulatory requirements in production). After selecting the Transformation Steering Committee, the leader of the transformation processes, priorities for the first transformation projects were set and a group of ten Belupo experts carefully selected to guide these projects in co-operation with other participants. In the LSS Transformation programme they are called Green Belts and have passed the certification for the GB - operative project manager. **The transformation of business processes is carried out in this manner, placing the emphasis on simpler and faster business processes and recognizing value for the end user of external and internal processes as the top priority.**

By expanding its production capacity, Belupo entered into a demanding period involving work on a number of activities necessary to start production and new regulatory requirements emerged additionally - serialization in the Croatian market, aggregation in the Russian market and new price formation procedures. **In order to accelerate, simplify and become more efficient**, in 2017, the Management Board of Belupo decided to connect certain Belupo sectors through mutual cooperation. For this purpose, the *Lean Six Sigma method* was selected. *Lean* seeks to **reduce and eliminate everything thing that does not generate any value**, and *Six Sigma* based on accurate data **tries to reduce variations within the process**. Together they pave the way from solving problems to **more efficient business**. Not only do they provide a one-time improvement yet incorporate new value into the system: constant improvement.

This transformation started in 2017 and continued accordingly in 2018. The Steering Committee allocated projects to Green Belts who are in charge of their implementation. In addition, an internal competition among Belupo employees was held in February, whereby the best slogan for the LSS Transformation programme of Belupo was chosen, - **Be lean, be more efficient!**





## THE DEFINE PHASE OF THE TRANSFORMATION PROCESS OF BELUPO BEGAN

After selecting the Lean Six Sigma transformation, the DMAIC methodology (*define, measure, analyse, improve, control*) was selected as a **guide through project transformation**. According to the DMAIC methodology, the problem and the needs of the client are first defined, then the data is collected, the measurements made, followed by their analysis, and then, according to the results of the analysis, possibilities for improvement and implementation are sought. Finally, we have implementation followed by mandatory financial analysis.

In March, the *Define* phase of the Project implementation process started, and a standard template of the Project charter was created with descriptions of the business situation, problem, goals and the expected benefits of each project.

## IN THE TRANSFORMATION OF BELUPO, ALL 10 PROJECTS HAVE COMPLETED THE MEASURE PHASE AND PROCEEDED TO THE ANALYSE PHASE

Hardworking members of the Transformation Team completed another phase of the DMAIC cycle for the projects they were assigned to. In mid-September, project managers presented the results of the *Measure* phase for 10 projects to Belupo's Transformation Steering Committee.

## THE 12<sup>th</sup> HEALTH MEASURING EVENT HELD IN KOPRIVNICA

With the assistance of health professionals, on 21 April, Belupo provided health measuring activities for its faithful citizens of Koprivnica and the Koprivnica-Križevci County at the main square in Koprivnica. Under the slogan "*More than Health*", Belupo has once again demonstrated that regardless of its excellent business results, **it does not forget the local community**.

## BELUPO AND THE RUĐER BOŠKOVIĆ INSTITUTE SIGNED A COOPERATION AGREEMENT

David Matthew Smith, the director of the Ruđer Bošković Institute, and Hrvoje Kolarić, the President of the Management Board of Belupo signed the Agreement on Scientific and Professional Cooperation in Koprivnica on 20 April. It is a document that implies **cooperation in food, nutrition, health, innovative processing technologies, quality control, packaging of drugs and food and environmental protection**.



## BELUPO DANICAS' STEPS TO STARDOM

In mid-May, Belupo marked the anniversary of its new factory, an investment worth HRK 535 million, a convenient time to **celebrate the visions, persistence and faith of Belupo employees** who live their work even outside usual working hours.

Belupo Danicas' is the name of those who have won the Danica Prize, **a reward for desirable behaviour at the workplace, an inspiration to others, creators of creative solutions that daily build better relationships and contribute to a positive working atmosphere.** The award was received by the top ten employees, according to the opinion of fellow employees through the *"I know people"* competition.

## PODRAVKA AND BELUPO ORGANIZED AN ANNUAL MEETING OF JUBILEES AND RETIRED EMPLOYEES

At the beginning of October, the Podravka Group organized an **annual meeting of its pensioners and employees with 30, 35 and 40 years of service.** Belupo held a traditional meeting with the President of the Management Board, Hrvoje Kolarić, and after that, the employees of Belupo joined Podravka employees for a celebrative gathering held in front of the Soups and Vegeta Factory in Koprivnica.



## 25<sup>th</sup> JUBILEE DAYS OF BELUPO

**The jubilee 25th Days of Belupo**, under the umbrella name *"Belupo - more than health"*, were held from 11 - 13 October at Hotel Olympia, Vodice, and once again gathered together Belupo's most trusted business partners, friends and associates. **The participants discussed a number of current issues and the challenges facing both pharmacists and the pharmaceutical industry** - the strategic branch of Croatian economy.

## THE FOURTH BUSINESS CONFERENCE IN LOVRAN BROUGHT TOGETHER BELUPO EMPLOYEES FROM 17 MARKETS

From May 20 to 23, the fourth business conference held in Lovran, gathered about fifty participants from all Belupo markets - Croatia, Slovenia, Poland, the Czech Republic, Slovakia, Bosnia and Herzegovina, Serbia, Macedonia, Russia, the Ukraine and Kazakhstan. Almost three days of gathering, working and socializing have shown that **true leaders of the 21st century are the ones who know how to manage a team of associates, who are led by inspiration and a passion for success.**

# 70<sup>let</sup> ŽITO

## 70 YEARS OF ŽITO

In 2018, the 70<sup>th</sup> anniversary of Žito was marked. The highlight of the jubilee celebration was the central event at Pogačarjeva square in the centre of Ljubljana: Jubilee Bread Fest. **The capital city was wrapped in the aroma of excellent breads**, and visitors could enjoy the taste of many of Žito's most recognizable breads.

## 1001 TASTE OF TEA WITH YOUNG TALENTS OF ALPINE SKIING

The 1001 CVET teas **became a partner of the programme for young Slovenian Alpine skiers**. In fulfilling its liabilities of social responsibility and sustainable development, the 1001 CVET tea brand **supports young talents and enables them to achieve their goals** both at trainings and competitions. Under the slogan “*Z okusi narave do okusa zmage*” and with the assistance of consumers raised donations from sold tea boxes to support prospective young skiers.

## A YEAR FULL OF DOMESTIC AND INTERNATIONAL AWARDS

Many Žito products were in 2018 once again recognized as the best by both Slovenian and international reviewers. The International Taste & Quality Institute (iTQi), which evaluates the quality and taste of products, **awarded the Superior Taste Award to six Žito products**. The Company also **received the flattering title of the most innovative food product for toast with hemp and 34 awards** for the evaluation of bread, bakery and fine bakery pastries, pasta, biscuits and desserts, traditionally held under the auspices of the Bakery Section at the Agricultural and Food Companies Chamber at the Slovene Chamber of Commerce. 1001 CVET again won the Trusted brand award for the ninth year in a row.

## A TONNE OF ŠUMI CANDIES FOR CHILDREN RAISED IN A FOOTBALL ACTION

The football action “*Eden zate, eden zame*” organized by Šumi candies spread festive New Year humanitarian and solidarity spirits among the youngest in shopping centres throughout Slovenia. The collected one tonne and 45 kilogrammes of Šumi candies was **donated to selected charitable organizations and projects** that take care of children in need in Slovenia. Sweet donations were given by representatives of the organization of Anine zvezdice, Božička za en den, Caritas, Red Cross, Slovene Food Bank and the Association Friends of Youth Ljubljana Moste-Polje.

# 8

## Digital Innovation

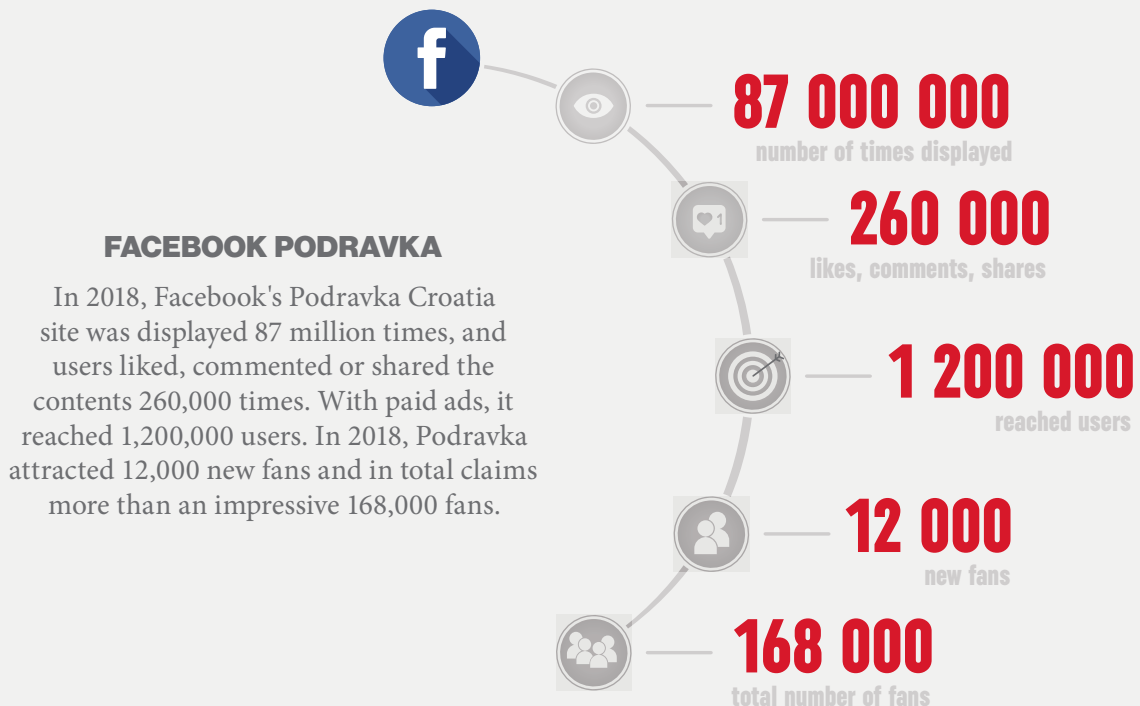
In today's communication the biggest expansion is recorded by the one happening online. Changes in this field are ongoing, so **the focus of digital innovations in 2018 was the technological upgrading and optimization of Podravka's existing online platforms as well as redefining the standards of online communication.**

A great deal of attention was given to the continuation of the project **Podravka.io**. This project represents the modernization of Podravka's digital ecosystem from the aspect of its technological sustainability for the next 7 to 10 years, providing Podravka with greater technological agility and flexibility.

The development of new web pages and mobile applications will be enabled in line with the expansion of a large number of different devices (desktop, mobile, IoT ...), because this project bears in mind the diversity of user experience that each device brings.

With the aim of attracting the younger target audience, **new social network channels were opened** - Podravka Hrvatska, Podravka Češka and Dolcela Hrvatska on Instagram and Dolcela Hrvatska on Facebook.

The existing social networking platforms **record continuous metric growth.**







## FACEBOOK LINO

Lino exceeded the set KPIs on its Facebook profiles in 2018, so the most important FB Lino profile metric, the *engagement rate*, averaged 4.65%. In 2018, the FB Lino Baby profile reached 431,654 people and achieved an average *engagement rate* of 4.91%.



**4,65%**

Lino - engagement rate



**4,91%**

Lino Baby - engagement rate



## FACEBOOK KVIKI

Facebook Kviki collected more than 12,000 new followers in a year, with an *engagement rate* of 5.82% (95% above the set target), with an average paid reach of 89,010 (37% above the target).



**5,82%**  
engagement rate



**89 010**  
average paid reach



**12 000**  
new followers

## INSTAGRAM KVIKI

On average, Instagram Kviki has 1,700 interactions (88% above the set target), and the average annual reach is 116,857 (80% above the set target).

**116 857**  
average annual reach



**1 700**  
interactions





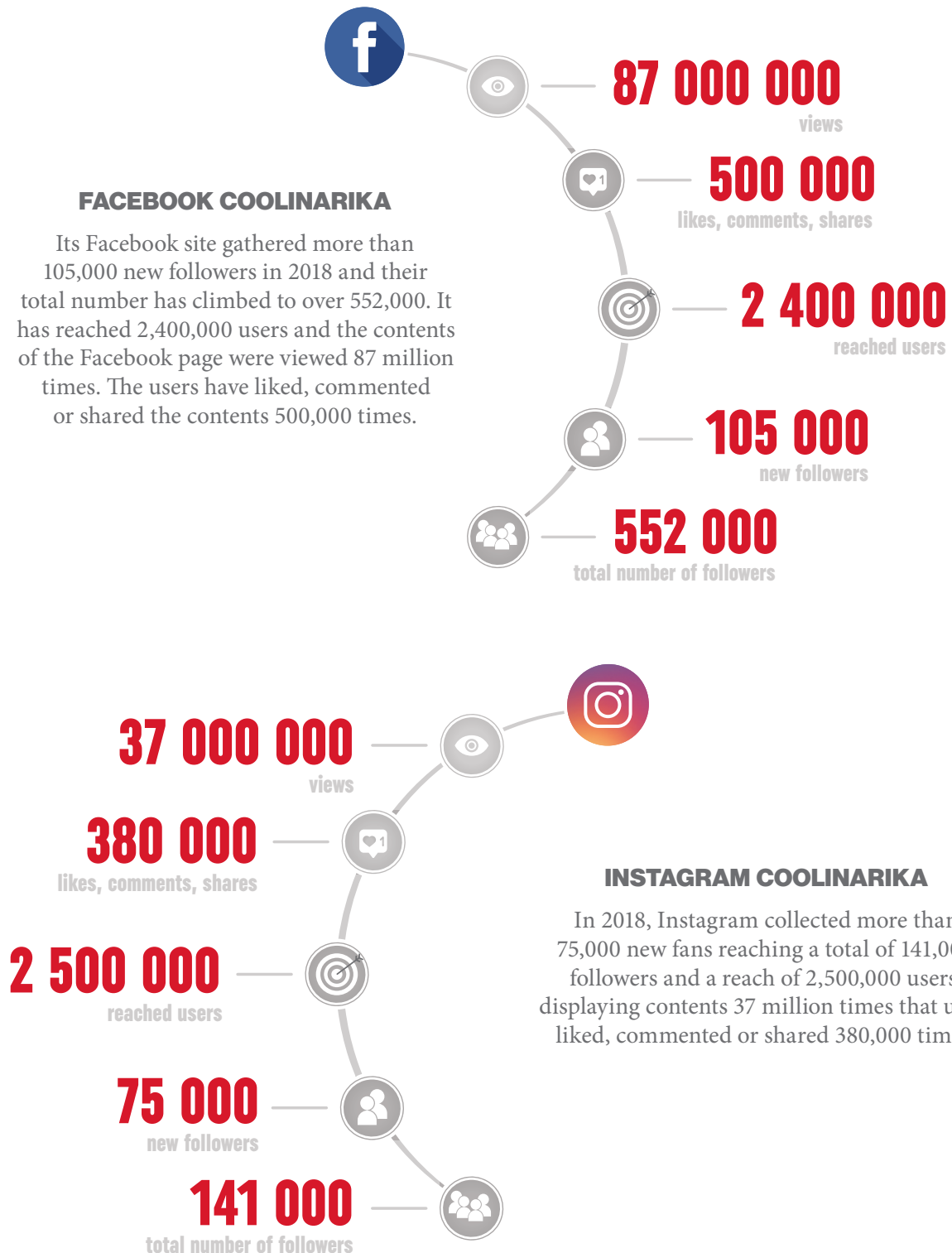
This year, Podravka **intensified cooperation with influencers and bloggers** to promote the majority of its brands by recognizing their potential and importance on social networking channels. Lino started a very successful cooperation with YouTube stars, while Kviki entered the *gaming* territory by taking part at the Infogamer Fair with the great Fortnite arena.

The Vegeta brand expanded with a new range of Vegeta Maestro monospices and Vegeta Natur, which was accompanied by the **launch of their web platform [www.prstohvat-inspiracije.hr](http://www.prstohvat-inspiracije.hr) and [www.vegeta-natur.hr](http://www.vegeta-natur.hr)**. Podravka Tea sausage revealed its most hidden secrets in the “Tea Kitchenette” on the new platform [www.cajna.hr](http://www.cajna.hr). The Podravka catering website and the redesigned website of Lagris - Czech Republic were also launched.

In order to facilitate the understanding of social networks and their importance to the Company, the educational material **Social Media Playbook** was developed, **addressing in a very exact way each individual social network platform, explaining the rules of corporate communication, the benefits they provide and the goals for which they can be used.**

## COOLINARIKA

In 2018, Coolinarika marked its 15 years of existence during which it “touched” the plates, customs, habits, but above all - the hearts of millions of people. **It recorded 123 million visits made by 25 million users**, and on its site one can choose just the right recipe from an impressive offer of more than 183,000 recipes. Over the past year, its contents were viewed 310 million times. It has more than 185,500 active registered users as well as over 1,396 million photos. The site is **one of the most visited websites in Croatia** (8th place) according to Gemius Audience.





Coolinarika's video recipes in 2018 were viewed over 8 million times on Facebook, Instagram, YouTube and Coolinarika websites.

Coolinarika is one of the most powerful, not just web sites, but also social networks in the region. Socialbakers website statistics show that Coolinarika is **the largest Croatian Facebook page in the food segment and the third strongest brand on Facebook Croatia**. At least every third user of Facebook and Instagram in the region follows Coolinarika's contents on social networks.

All these impressive figures give even more incentive for **further sharing of culinary secrets with equal enthusiasm and bringing pleasure to people around the world**.

#### GDPR (GENERAL DATA PROTECTION REGULATION)

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All Podravka's websites have in compliance with the European Data Protection Regulation, which obliges all EU members to a completely new level of personal data protection for each individual, implemented all the guidelines that apply to the aforementioned Regulation, to which all business entities that have access to personal information on individuals are bound.

# 9

## Awards and recognitions

### THE GREATEST NUMBER OF PODRAVKA PRODUCTS SO FAR AWARDED WITH THE HIGHEST SUPERIOR TASTE AWARDS

At the international quality assessment, Podravka was **awarded with 19 Superior Taste Awards**, the most distinguished reward in the food segment in the world. This year's success excelled last year's 18 awards and again **confirmed the excellence of taste** in the categories in which they were competing. Apart from that, as many as **7 Podravka products received maximum grade, 3 STA stars**, which is the highest number since Podravka has been applying to this international quality assessment.

Podravka Lemon and lime tea and Podravka Urosal Uvin tea along with the 3 STA stars, also won crystal awards which are awarded to products that have in the past 3 years in a row been awarded with the highest STA reward. Vegeta Maestro smoked paprika, Podravka cream of broccoli and cauliflower, Lino Lada Gold, Žito – century bread with spelt and chia seeds and Žito Buckwheat with walnuts won 3 STA stars.

Apart from that, the Superior Taste Award was this year received by Vegeta Natur, Eva fillets in olive oil, Mirela sardines in vegetable oil, Salut, Žito bread with walnuts, Eva sardines in vegetable oil, Podravka Alpine soup, Dolcela brownies, Corned beef, 1001 CVET hot ginger tea, 1001 CVET bio tea for babies and 1001 CVET mountain herb tea.

Superior Taste Awards are being awarded to those products which successfully pass blind tests conducted by the jury composed of top world chefs and sommeliers, where among others, particular attention is given to the **evaluation of taste, aroma, texture and product appearance**.



## RECOGNITION FOR PODRAVKA FROM THE BELGRADE STOCK EXCHANGE FOR RELATIONS WITH INVESTORS

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At the International Conference of the Belgrade Stock Exchange held in Belgrade, Podravka was awarded the Plaque for **long term outstanding performance in investor relations**, following the criteria of openness towards the investment public.

The Belgrade Exchange Stock Conference was attended by the representatives of the 15 biggest shareholding companies, whose shares are traded not only at the Belgrade Stock Exchange but also at those in Ljubljana, Zagreb, Skopje and Sofia.

In the past years, Podravka has been a regular participant at the Investors Conference of the Belgrade Stock Exchange, being an excellent platform for contacts with the international community of investors and for the improvement and promotion of cooperation with companies within the region.

## PODRAVKA WAS AWARDED REGIONAL BUSINESS PARTNER FOR 2018

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Podravka, as leader of South-East Europe in the food processing industry, **received the award for the best company in Croatia** “Regional Business Partner 2018.”

The annual Business Partner Award was established 24 years ago, in order to draw public attention and to promote companies and institutions with **high professional standards and targets, firm ethic norms and that achieve good business results.**

The Business Partner Award is confirmation of business success and a recognizable regional symbol of awarded companies. Assessment is based on 10 criteria evaluated by business partners, consumers and clients, as well as on the results of independent market researches.

## MR. MARIN PUCAR WAS PROCLAIMED BUSINESSMAN OF THE YEAR

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Marin Pucar, President of the Management Board of Podravka was **proclaimed Businessman of the Year according to the choice of the readers of Večernji list (Evening News) and Poslovni dnevnik (Business Daily News)**. This very prestigious award is the crown of Podravka's extremely successful business year, confirming its top quality in all segments of business activities.

Since February 2017, when Mr. Pucar took over the leadership of Podravka, **the Company has been registering only positive trends at all levels of business activities.** Along with his head position at Podravka, in the past period Mr. Marin Pucar has had another very important role as the leader of the Association of Agrokor's Suppliers. Successful managing and leading of this extremely complex process has resulted in the stabilization of Agrokor's business activities and a significant part of the Croatian economy as well as maintaining the stability of Agrokor's suppliers.





## PODRAVKA WAS RECOGNIZED AGAIN AS LEADER IN THE FOOD PROCESSING INDUSTRY

As the leading Croatian digital female brand, miss7 has initiated the first comprehensive research on women of the millennial generation, in order to get the answer who is in fact the millennial woman. Based on the performed research conducted by an independent agency Ipsos Adria, the Millennial Brand Awards powered by miss7 were given. A total of 12 brands, chosen by lady readers as the most popular during a huge research on the Croatian millennial woman, were awarded.

**In the category of the most popular food brand the award went to Podravka.** This award is recognition to Podravka for **keeping pace with the latest trends as the leader in the food processing industry, not just with elder generations, but with the new ones as well.**

## LINO LADA GOLD AND ČOKOLINO BABY RECEIVED AWARDS FROM THE LIFESTYLE PORTAL ŽENA.HR

For the seventh time in a row the Lifestyle portal žena.hr has organized the Product of the Year contest according to the votes of both female and male readers. New and redesigned products divided into 28 categories competed for these prestigious awards.

**Lino Lada Gold won the award in the category of Sweets and snacks, while in the category of Baby food, the highest number of votes went to Čokolino baby.**

## MARKETING DIRECTOR FOR THE MARKET OF BOSNIA AND HERZEGOVINA WON THE TITLE OF MARKETING SUPERSTAR

As part of the Sarajevo Marketing Summit, and according to the opinion of the marketing public, the Marketing Superstar awards were presented. **Mrs. Mila Zovko, Podravka's Marketing director for the market of Bosnia and Herzegovina was proclaimed Marketing Superstar**, a flattering title awarded to the best in the field of marketing.

## CROPAK AWARD FOR DOLCELA CAKE2GO

The CROPAK awards have been presented for the past 15 years in a row. Among the nominated products, according to the expert judging panel, Podravka **received the CROPAK award for the packaging of Dolcela Cake2Go series** of products in the category of the Croatian product/series packaging.

The CROPAK competition is organized with the aim **to promote and highlight the advantages and benefits of packaging** as an important tool helping to protect, promote and identify a product, and at the same time motivating the packaging manufacturer and user to expand technical, technological and quality boundaries in packaging design as an inseparable part of the product.



## PODRAVKA RECEIVED RECOGNITION FOR EXTRAORDINARY ACHIEVEMENTS FROM THE KOPRIVNICA – KRIŽEVCI COUNTY

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Podravka has received another valid recognition for extraordinary achievements given by the Koprivnica – Križevci County. At the formal session of the County Assembly on the occasion of the Day of the County, being also the 25th anniversary of the County, Mr. Marin Pucar, the President of the Management Board received the award **confirming the importance of Podravka but also the recognition of its efforts invested in creating a positive image not only for itself, but also for the whole area Podravka comes from.**

**This recognition substantiates Podravka's importance for the Koprivnica – Križevci County in the past year and strengthens motivation for further efforts contributing to enhance company standards and consequently to those of the County.**

### THE RESTAURANT “PODRAVSKA KLET” HAS AGAIN BEEN LISTED AMONG 100 LEADING CROATIAN RESTAURANTS

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Based on research on the opinion of restaurant guests and owners in more than 1500 restaurants in Croatia, the restaurant “Podravska klet” **once again won the trust of both consumers and catering professionals, finding its place on the list of 100 leading restaurants in Croatia.**

The project “100 leading Croatian restaurants - Restaurant Croatica” has been active for 23 years and the process of selecting the best is carried out in three steps. The first part through the Gastronom site, where restaurant guests vote. In the second part managers and owners of restaurants vote for five restaurants which should be among 100 leading restaurants in their opinion. At the end, the final and decisive word and decision is given by the Project’s Board of Honour according to the criteria set in the conditions for recommendation in the Guidebook of 100 leading restaurants, valid for the whole year.



### MR. JURICA ŠTIMAC WAS PROCLAIMED THE BEST CONTROLLER IN 2018

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**The Deputy director of Podravka Controlling was proclaimed the Best Controller in 2018.** The award was given for the **implementation of changes in reporting** by introducing the Dashboard system based on Microsoft Power BI technology. The annual award “*NAJBOLJI KONTROLER – THE BEST CONTROLLER*” is one of the initiatives of the Controlling academy “*Poslovna učinkovitost*” wishing to recognize and highlight the best examples of business excellence in controlling.

This is a precious recognition, for Jurica, for Podravka and the entire Controlling sector, **setting new trends in professional development.**

### JUBILEE MEDAL TO PODRAVKA FOR GREAT AND UNSELFISH CONTRIBUTION

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The Croatian Red Cross Organization celebrated its 140th anniversary with a big humanitarian concert and as part of the 140th birthday celebrations handed over 159 jubilee plaques and 1593 letters of gratitude to those who have been supporting for years the humanitarian work of the Croatian Red Cross Organization. The jubilee Red Cross plaque was also presented to Podravka for its **extraordinary contribution and unselfish help and assistance in implementing the principles of the Croatian Red Cross.**

**LIDER INVEST 2018 – BELUPO  
WAS AWARDED FOR THE BEST  
PRODUCTION INVESTMENT IN  
THE REPUBLIC OF CROATIA.**

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On 24 October, Belupo was awarded for the biggest production investment in the Republic of Croatia in 2017. The award was presented to Mr. Hrvoje Kolarić by the delegate of the Prime Minister of the Republic of Croatia and state secretary in the Ministry of Economy, Entrepreneurship and Crafts, Mrs. Nataša Mikluš Žigman.

**BELUPO AWARDED CREDIT RATING  
A+ DIGITAL EXCELLENCE  
CERTIFICATE**

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CompanyWallbusiness Ltd., has awarded Belupo the Credit Rating A+ Digital Excellence Certificate for 2017, **placing Belupo into the group of companies with the best credit ratings in Croatia.** Thanks to all its employees, Belupo once again demonstrated its excellence and reliability in all aspects of its business thus fulfilling all the criteria for 2017 and being listed at the very top of credit rating excellence. Our company **has been listed as one of the best companies** on the CompanyWall Business portal.

**BELUPO RECEIVED THE GOLDEN  
KEY AWARD AS THE BEST EXPORTER  
TO THE RUSSIAN FEDERATION**

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On 15 June, the association of Croatian Exporters within the 13<sup>th</sup> Convention of Croatian Exporters held under the title of “Export as the generator of growth and development in the Republic of Croatia”, Belupo Inc. was awarded the “Golden Key” for **the best exporter to the Russian Federation in 2017.**



## POSITIVE FINDINGS OF THE PIC INSPECTION (PHARMACEUTICAL INSPECTION CONVENTION)

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A positive opinion of the inspection has **confirmed the correct investment strategy into modern plants and equipment and the education of employees**, as a precondition for further progress of Belupo's business activities. A special positive opinion was given for the high professional expertise and competence of the staff and open approach towards the inspection. The final opinion confirms the harmonization of Belupo's processes with the current requirements of the Good Manufacturing Practice of the EU. The positive findings and opinion of the inspection enables Belupo to have further approach to the markets of the EU countries and to others accepting the certificate of PIC/S country member.

## GMP (GOOD MANUFACTURING PRACTICE) STANDARDS

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For many years Belupo has been applying **modern, prescribed, tested and confirmed methods of quality insurance** from the entry of raw materials, through product development, production and storage of finished products up to the monitoring of finished product quality on the market during the validity period. This comprises up-to-date lines and plants, reliable, high quality and qualified equipment, educated staff, production process validation, analytical methods and cleaning of equipment, control of all input materials, process control, finished product control, document supervision, application of deviations settlement system and change management system. Decisions on products quality and application of various elements of quality system are based on risk analyses, with the primary task being assurance that the patient receives safe and efficient medicine

## BELUPO IS IN THE TOP TEN MAJOR EMPLOYERS

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Belupo cultivates a tradition of participating in the research of employee attitudes whose ultimate goal is **to increase the efficiency, productivity, growth and success of the company**. The first such research was conducted in 2002, and since 2007 they regularly participate in the Research of Best Employers under the guidance of the company MojPosao. Belupo has engaged in such research convinced that as a company they have the potential to be among the best employers. Based on the opinion of employees, **Belupo is among the top ten employers in Croatia**. The best results were achieved in 2010, when they took third place in the category of big employers.



## HEMP TOAST – THE MOST INNOVATIVE FOOD

Žito' s hemp toast in the group of preliminary packed bakery products was attributed with the title of **the most innovative food** awarded by the Slovenian Institute of Nutrition.

## A YEAR FULL OF DOMESTIC AND INTERNATIONAL AWARDS

In 2018, Žito products were **recognized as the best by the Slovene and international juries**. The International Taste & Quality Institute (iTQi) that values the quality and taste of products presented Superior Taste Awards to six Žito products. The Žito company received also the award for the most innovative food for Hemp toast, and 34 awards during the ranking of bread, bakery and fine bakery rolls, pasta, cookies and sweets, traditionally held under the competence and organization of the Bakery section at the Chamber of Agricultural and Food Processing Companies within the Slovenian Chamber of Commerce and 1001 CVET teas were awarded as Trusted brand for the ninth year in a row.



## 34 GOLDEN AWARDS TO ŽITO PRODUCTS

At the 18<sup>th</sup> national expert assessment of bread, bakery and fine bakery rolls, pasta, cookies and sweets, **Žito was awarded with the maximum of even 34 golden recognitions for the confirmed excellent quality of products**. Bread assessment is held traditionally under the competence of the Bakery Section at the Chamber of Agricultural and Food Processing Companies in the Slovenian Chamber of Commerce.



# FINANCIAL STATEMENT



# 1 Business results

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## MANAGEMENT'S OVERVIEW OF BUSINESS RESULTS IN 2018

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The end of each business year is a moment to look back and review what had been done, to analyse the results and see what the year will be remembered for. Year 2018 in Croatia will certainly be remembered as one of the most successful sports years, and in the Podravka Group as **the year when one of the best business results were recorded** in the seventy years of the company's history. This is a result of a clearly defined business strategy that can be summarised in three points:

1. FOCUS ON OUR TRADITIONAL MARKETS WHERE WE ARE ALREADY A RENOWNED MANUFACTURER,
2. INVESTMENT IN FURTHER DEVELOPMENT OF OWN BRANDS AND PRODUCT INNOVATION, AND
3. EFFECTIVE COST MANAGEMENT.

During 2018, we directed the main selling activities to regional markets where we recognise further opportunities for organic growth, but also to those international markets where we have been present for decades and where our products have gained the consumer trust. Also, as a primarily branded food manufacturer, we increased investments in the development of our brands through innovation and effective marketing activities. All this resulted in an **organic growth of own brands** revenues of HRK 124.5 million, or 3.4%, where the most significant growth came from our traditional markets.

A significant increase in investments in the development of own brands was enabled by a more efficient cost management. The efforts of the company's procurement department, in addition to favourable movements in prices of some raw materials, led to significant savings in raw material costs, while redefining the business model in some international markets at the end of 2017 resulted in material savings in operating expenses. Also, in 2018 we continued to refinance borrowings at more favourable terms, which resulted in savings on interest expense and lowering the average weighted interest rate to 1.7%. At the end of 2017, the approach to planning and approving capital expenditure was redefined, which is one of the most significant cash expenditures for the company. In 2018, this resulted in controlled cash expenditures, but even more important, in the changed structure of the investments where now there is a much larger portion of investments that result in higher revenues and/or lower expenses.

When we summarise everything, the reported business results in 2018 are largely a consequence of the stable and sustainable business model that arises from the clearly defined

business strategy. In all this, we have not forgotten our social responsibility towards the community and especially towards our employees. The significant amounts of termination benefits paid in the previous years are now directed to increasing the material rights of the existing employees, which encourages their loyalty to the company, while for 41 seriously ill employees on long-term sick leave, the company paid stimulation termination benefits in the amount of HRK 5.6 million..

## PRESENTATION OF NORMALIZED BUSINESS RESULTS

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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. For the purpose of providing as realistic image of the core business development as possible, the Podravka Group describes movements of the normalised result with analysis of the normalised result presented at the end of the section.

In the middle of 2017, the new Belupo pharmaceuticals factory was completed, the biggest greenfield investment in the company's history, while the production permit, after meeting all the regulatory requirements, was obtained at the end of 2017. This was followed in 2018 by the process of technology transfer from the old factory to the new one. Due to the time frame of obtaining all regulatory permits and the technology transfer process, a portion of newly arisen fixed expenses is not covered by the sale of products from the new factory nor it is absorbed in the cost of inventories of finished products, but is included in the expense for the period, so in 2017 the normalisation of results also included these costs. For 2018, management decided that normalisation will not include these unabsorbed costs, however, for the purpose of enabling a comparable analysis, the text presents what the result would have been had these costs been included in normalisation in 2018. These unabsorbed costs in 2018 amount to HRK 20.3 million (of which HRK 10.9 million relates to depreciation), while in 2017 they amounted to HRK 25.4 million (of which HRK 7.4 million relates to depreciation). It is expected that unabsorbed expenses in 2019 will be at the levels normal for pharmaceutical production, so the results presented will not be corrected for them in the future.

*Other notes*

*Decimal differences are possible due to rounding.*

## SALES REVENUES BY SEGMENT IN 2018.

SALES REVENUES BY SEGMENT				
(in HRK millions)	2018	2017	Δ	%
<b>Food</b>	<b>3,335.3</b>	<b>3,243.7</b>	<b>91.6</b>	<b>2.8%</b>
Own brands	3,093.2	2,987.0	106.2	3.6%
Other sales	242.1	256.7	(14.7)	(5.7%)
<b>Pharmaceuticals</b>	<b>896.9</b>	<b>867.5</b>	<b>29.4</b>	<b>3.4%</b>
Own brands	747.1	728.9	18.2	2.5%
Other sales	149.8	138.6	11.2	8.0%
<b>Podravka Group</b>	<b>4,232.1</b>	<b>4,111.2</b>	<b>121.0</b>	<b>2.9%</b>
Own brands	3,840.3	3,715.8	124.5	3.4%
Other sales	391.8	395.3	(3.5)	(0.9%)

Movements of revenues of the **Food segment** (2018 compared to 2017):

- **Own brands** recorded 3.6% higher sales, primarily due to the growth in sales of business units Žito and Lagris, Baby food, sweets and snacks and Culinary, as a result of increased selling and marketing activities, launching of new products and expanded distribution of certain categories,
- **Other sales** recorded 5.7% lower revenues, primarily as a result of lower sales of trade goods in the Croatian market,
- Consequently, the **Food segment** recorded 2.8% higher sales.

Movements of revenues of the **Pharmaceutical segment** (2018 compared to 2017):

- **Own brands** recorded a 2.5% sales growth, primarily due to the continued trend of the increased demand in the Russian market and the expanded distribution on the markets of the Central Europe region,
- **Other sales** revenues are 8.0% higher as a result of higher sales of trade goods in the Farmavita company, as a result of the strategic focus on the more profitable part of trade goods range,
- Consequently, the **Pharmaceuticals segment** recorded 3.4% higher sales.

Movements of the **Podravka Group** revenues (2018 compared to 2017):

- **Own brands** of the Podravka Group recorded a 3.4% sales growth,
- The revenues from **other sales** are 0.9% lower than in the comparative period,
- Consequently, the **Podravka Group** recorded 2.9% higher sales.

## SALES REVENUES BY BUSINESS UNIT AND CATEGORY IN 2018

SALES REVENUES BY BUSINESS UNIT AND CATEGORY				
(in HRK millions)	2018.	2017.	Δ	%
BU Culinary	894.0	880.4	13.6	1.5%
BU Baby food, sweets and snacks	411.3	378.3	32.9	8.7%
BU Podravka food	392.0	388.7	3.3	0.8%
BU Žito and Lagris	945.1	894.0	51.1	5.7%
BU Meat products	270.4	270.9	(0.5)	(0.2%)
BU Fish	180.5	174.6	5.8	3.3%
Prescription drugs	643.6	630.6	13.0	2.1%
Non-prescription programme	103.5	98.3	5.3	5.4%
Other sales	391.8	395.3	(3.5)	(0.9%)
<i>Other sales Food</i>	242.1	256.7	(14.7)	(5.7%)
<i>Other sales Pharmaceuticals</i>	149.8	138.6	11.2	8.0%
<b>Podravka Group</b>	<b>4,232.1</b>	<b>4,111.2</b>	<b>121.0</b>	<b>2.9%</b>

Movements of revenues by business unit and category (2018 compared to 2017):

- The **Culinary business unit** recorded 1.5% higher sales, primarily in the categories Soups and Bouillons, due to the optimum mix of selling and marketing activities resulting in sales growth in most regions,
- The **Baby food, sweets and snacks business unit** recorded 8.7% higher sales, primarily as a consequence of stronger marketing activities in categories Creamy spreads, Baby food and Snacks in the market of Croatia. In addition, the Creamy spreads category records a revenue growth as a result of well-received new and innovated products of the Lino Lada brand,
- The **Podravka Food business unit** recorded 0.8% higher sales mainly due to selling and marketing activities and expanded distribution of the range from the Condiments, Tomato and Flour categories. These managed to compensate for lower revenues of the Vegetables subcategory in the markets of Croatia and Russia,
- The **Žito and Lagris business unit** records 5.7% higher sales, mainly due to the continued growth in the Bakery and mill products category in the market of Slovenia and markets of Western Europe and the growth of the Core food category (primarily pasta and rice) in the markets of Central Europe. This growth in categories is a result of stronger selling activities and expanded distribution,
- The **Meat products, meat solutions and savoury spreads business unit** recorded mildly lower sales, primarily due to the change of distributor in the DACH region and different dynamics of selling and marketing activities in the market of Croatia,
- The **Fish business unit** recorded 3.3% higher sales primarily due to stronger selling and marketing activities in the Adria region markets,
- The **Prescription drugs category** recorded 2.1% higher sales, with the most significant growth in the markets of the Eastern Europe region due to the continued trend of higher demand, and in the markets of the Central Europe region as a result of the expanded distribution,
- The sales of the **Non-prescription programme category** are 5.4% higher, primarily as a result of the sales growth in the OTC drugs subcategory in the market of Bosnia and Herzegovina due to increased focus on the non-prescription programme, and in the market of Russia,
- The **Other sales category** recorded 0.9% lower sales, primarily as a result of the decrease in sales of trade goods in the Food segment on the Croatian market.

## SALES REVENUES BY REGION IN 2018

SALES REVENUES BY REGION				
(in HRK millions)	2018	2017	Δ	%
<b>Adria</b>	<b>2,960.3</b>	<b>2,888.7</b>	<b>71.5</b>	<b>2.5%</b>
Food	2,327.6	2,267.8	59.9	2.6%
Pharmaceuticals	632.6	621.0	11.7	1.9%
<b>WE and Overseas</b>	<b>436.4</b>	<b>423.0</b>	<b>13.4</b>	<b>3.2%</b>
Food	434.7	420.6	14.2	3.4%
Pharmaceuticals	1.7	2.4	(0.8)	(31.4%)
<b>Central Europe</b>	<b>512.5</b>	<b>482.3</b>	<b>30.2</b>	<b>6.3%</b>
Food	452.4	428.5	23.9	5.6%
Pharmaceuticals	60.1	53.8	6.3	11.7%
<b>Eastern Europe</b>	<b>292.4</b>	<b>286.9</b>	<b>5.6</b>	<b>1.9%</b>
Food	103.1	108.7	(5.6)	(5.1%)
Pharmaceuticals	189.3	178.2	11.1	6.2%
<b>New markets</b>	<b>30.6</b>	<b>30.3</b>	<b>0.3</b>	<b>0.9%</b>
Food	17.4	18.2	(0.8)	(4.4%)
Pharmaceuticals	13.2	12.1	1.1	9.0%
<b>Podravka Group</b>	<b>4,232.1</b>	<b>4,111.2</b>	<b>121.0</b>	<b>2.9%</b>



Movements of revenues by region (2018 compared to 2017):

- The **Adria region** recorded 2.5% higher sales. In the Food segment, all business units record sales growth, primarily as the result of selling and marketing activities, expanding the distribution and launching of new and innovated products, which leads to the stable organic revenue growth and increased profitability. Revenues of the Pharmaceuticals segment were 1.9% higher than in the comparative period, as a consequence of organic growth and increase in other sales related to the more profitable part of trade goods range,
- Revenues of the **Western Europe and Overseas region** grew by 3.2%. The revenue growth in the Food segment is the result of the continuous expansion of the product range and distribution of the Žito and Lagris business unit in the markets of Italy, Germany and Spain. This compensated for a mild decrease in the Pharmaceuticals segment revenues,
- The **Central Europe region** recorded 6.3% higher sales. The most significant impact on the Food segment came from the Culinary business unit due to stronger selling and marketing activities and from the Žito and Lagris business unit, among other as a result of the extended product range. The Pharmaceuticals segment recorded a 11.7% sales growth, primarily due to the increased demand and launching of new products in the markets of Poland, the Czech Republic and Slovakia,
- Revenues of the **Eastern Europe region** grew by 1.9%. In the Food segment, the decrease in revenues is largely a result of the unfavourable effect of foreign exchange differences, while in the Pharmaceuticals segment the increased demand for the Prescription drugs category annulled the unfavourable effect of foreign exchange differences and led to a 6.2% revenue growth,
- The **New markets region** recorded a 0.9% sales growth. The most significant impact on the decrease in the revenues of the Food segment came from lower sales of the Lagris company trade goods in the Asian market, which was compensated by the increase in sales of the Pharmaceuticals segment.

## PROFITABILITY OF THE FOOD SEGMENT IN 2018

PROFITABILITY OF FOOD SEGMENT					NORMALIZED			
(in HRK millions)	2018	2017	Δ	%	2018.	2017.	Δ	%
Sales revenue	3,335.3	3,243.7	91.6	2.8%	3,335.3	3,243.7	91.6	2.8%
Gross profit	1,110.8	1,039.3	71.4	6.9%	1,112.3	1,057.9	54.4	5.1%
EBITDA*	322.9	243.3	79.7	32.7%	317.7	277.5	40.2	14.5%
EBIT	173.3	8.3	165.0	1,982.4%	180.7	134.4	46.3	34.5%
Net profit after MI	145.0	(29.6)	174.7	589.7%	150.0	83.0	67.0	80.7%
Gross margin	33.3%	32.0%		+126 BP	33.3%	32.6%		+74 BP
EBITDA margin	9.7%	7.5%		+218 BP	9.5%	8.6%		+97 BP
EBIT margin	5.2%	0.3%		+494 BP	5.4%	4.1%		+128 BP
Net margin after MI	4.3%	(0.9%)		+526 BP	4.5%	2.6%		+194 BP

\*EBITDA is calculated in a way that EBIT was increased by the depreciation and value adjustments

### Normalised profitability of the Food segment (2018 compared to 2017)

- The Food segment recorded 5.1% higher **gross profit** due to higher sales revenues and the positive impact of the sales structure itself,
- **Operating profit (EBIT)** on the normalised level is HRK 46.3 million higher, primarily as a result of the increase in sales of profitable categories, while an additional positive impact came from lower operating expenses. By redefining the MENA business model and terminating business activities in the market of Tanzania significant savings in operating expenses were made, while an additional positive impact, among other, came from lower share option expenses (HRK 1.1 million in 2018; HRK 12.5 million in 2017). On the other hand, the decrease in operating expenses enabled higher marketing investments in own brands,
- Under the impact of the previously mentioned factors, **net profit after minority interests** is HRK 67.0 million higher at the normalised level. An additional positive effect came from lower interest expense following the refinancing of borrowings under more favourable commercial terms and positive effects of foreign exchange differences on borrowings, compensating for higher tax expenses.

## PROFITABILITY OF THE PHARMACEUTICAL SEGMENT IN 2018

PROFITABILITY OF FOOD SEGMENT					NORMALIZED			
(in HRK millions)	2018	2017	Δ	%	2018	2017	Δ	%
Sales revenue	896.9	867.5	29.4	3.4%	896.9	867.5	29.4	3.4%
Gross profit	447.7	444.8	2.9	0.7%	452.2	470.1	(17.9)	(3.8%)
EBITDA*	140.8	130.8	10.0	7.6%	147.0	157.4	(10.4)	(6.6%)
EBIT	85.1	82.8	2.4	2.9%	91.3	116.7	(25.4)	(21.8%)
Net profit after MI	60.7	47.9	12.8	26.7%	66.3	82.6	(16.3)	(19.7%)
Gross margin	49.9%	51.3%		-136 BP	50.4%	54.2%		-378 BP
EBITDA margin	15.7%	15.1%		+62 BP	16.4%	18.1%		-176 BP
EBIT margin	9.5%	9.5%		-5 BP	10.2%	13.5%		-328 BP
Net margin after MI	6.8%	5.5%		+125 BP	7.4%	9.5%		-213 BP

\*EBITDA is calculated in a way that EBIT was increased by the depreciation and value adjustments.

Normalised profitability of the Pharmaceuticals segment (2018 compared to 2017):

- The Pharmaceuticals segment recorded 3.8% lower normalised **gross profit**, while the gross profit without unabsorbed costs of the new factory in both periods would grow by 0.5%,
- **Operating profit (EBIT)** is HRK 25.4 million lower on the normalised level, while without unabsorbed costs of the new factory in both periods it would be HRK 5.2 million lower. In addition to the effects above the EBIT level, the operating profit was, among other, additionally impacted by: i) foreign exchange differences on trade receivable and payables (HRK -12.9 million in 2018; HRK -7.3 million in 2017) and ii) recorded revenue from released provisions for trade receivables in 2017, which are significantly lower in 2018,
- Under the impact of the previously mentioned factors, **net profit after minority interests** is HRK 16.3 million lower on the normalised level, while without unabsorbed costs of the new factory in both periods it would be HRK 4.0 million higher. An additional positive effect came from lower interest expense following the refinancing of borrowings under more favourable commercial terms, positive effects of foreign exchange differences on borrowings and lower tax expenses.

## PROFITABILITY OF THE PODRAVKA GROUP IN 2018

PROFITABILITY OF THE PODRAVKA GROUP					NORMALIZED			
(in HRK millions)	2018	2017	Δ	%	2018	2017	Δ	%
Sales revenue	4,232.1	4,111.2	121.0	2.9%	4,232.1	4,111.2	121.0	2.9%
Gross profit	1,558.4	1,484.1	74.3	5.0%	1,564.5	1,528.1	36.5	2.4%
EBITDA*	463.7	374.1	89.7	24.0%	464.7	434.9	29.8	6.8%
EBIT	258.4	91.1	167.4	183.8%	272.0	251.1	20.9	8.3%
Net profit after MI	205.7	18.2	187.5	1,027.2%	216.3	165.6	50.7	30.6%
Gross margin	36.8%	36.1%		+72 BP	37.0%	37.2%		-20 BP
EBITDA margin	11.0%	9.1%		+186 BP	11.0%	10.6%		+40 BP
EBIT margin	6.1%	2.2%		+389 BP	6.4%	6.1%		+32 BP
Net margin after MI	4.9%	0.4%		+442 BP	5.1%	4.0%		+108 BP

\*EBITDA is calculated in a way that EBIT was increased by the depreciation and value adjustments.

Normalised profitability of the of the Podravka Group (2018 compared to 2017):

- The Podravka Group recorded 2.4% higher normalised **gross profit**, while the gross profit without unabsorbed costs of the new factory in both periods would grow by 3.7% due to higher sales revenues, but also due to the positive impact of the sales structure itself,
- **Operating profit (EBIT)** is HRK 20.9 million higher on the normalised level, while without unabsorbed costs of the new factory in both periods it would be HRK 41.2 million higher. This is primarily the result of the growth in sales of profitable categories, while an additional positive impact came from lower operating expenses. By redefining the MENA business model and terminating business activities in the market of Tanzania significant savings in operating expenses were made, while an additional positive impact, among other, came from lower share option expenses (HRK 2.1 million in 2018; HRK 12.8 million in 2017). On the other hand, the decrease in these operating expenses enabled higher marketing investments in own brands,
- **Net profit after minority interests** is HRK 50.7 million higher on the normalised level, while without unabsorbed costs of the new factory in both periods it would be HRK 71.0 million higher. An additional impact, in addition to the mentioned above, came from lower interest expense and foreign exchange gains on borrowings.

## PODRAVKA GROUP'S OPERATING EXPENSES STRUCTURE

PODRAVKA GROUP (in HRK millions)	REPORTED			NORMALIZED		
	2018	2017	Δ	2018	2017	Δ
Cost of goods sold	2,673.7	2,627.1	1.8%	2,667.6	2,583.1	3.3%
General and administrative expenses*	311.7	368.9	(15.5%)	306.1	322.9	(5.2%)
Selling and distribution costs	568.9	629.4	(9.6%)	575.4	581.9	(1.1%)
Marketing expenses	407.8	369.6	10.3%	407.8	369.6	10.3%
Other income (expenses), net*	11.6	25.1	(53.7%)	3.1	2.5	24.5%
<b>Total operating expenses</b>	<b>3,973.7</b>	<b>4,020.1</b>	<b>(1.2%)</b>	<b>3,960.1</b>	<b>3,860.0</b>	<b>2.6%</b>

\*General and administrative expenses include income and expenses related to certain reservations, which are in consolidated statement of comprehensive income distributed in other income/expenses. This difference raises from different treatment of aforementioned income and expenses between the company and auditors.

**Cost of goods sold** in the observed period is 1.8% higher compared to 2017, while at the normalised level and without unabsorbed costs of the new factory in both periods it would be 2.5% higher. This is a consequence of higher sales in both business segments and the sales structure itself.

In 2018, **general and administrative expenses** were 15.5% lower than in the comparative period, primarily as a result of lower costs of termination benefits. At the normalised level, general and administrative expenses are 5.2% lower due to, among other, termination of operations in the market of Tanzania at the end of 2017 and lower share option expenses (HRK 2.1 million in 2018; HRK 12.8 million in 2017).

In the observed period, **selling and distribution costs** are 9.6% lower compared to 2017 primarily due to significant impairment of receivables from the Agrokor companies that were charged in 2017. At the normalised level, selling and distribution costs are 1.1% lower due to, among other, changed business model in the MENA markets, terminated business activities in the market of Tanzania and lower amortisation. Lower amortisation costs are a result of HRK 3.3 million of distribution rights amortisation costs in 2017, that are not present in 2018.

In 2018, **marketing expenses** are 10.3% higher than in the comparative period, mainly as a result of stronger investments in further development of own brands.

**Other income and expenses** amounted to HRK -11.6 million, while in the comparative period they amounted to HRK -25.1 million. In 2018, this line item includes HRK 12.0 million of other income from the sale of a portion of non-operating assets of Mirna d.d and impairments presented in the "Overview of the Profit and Loss Statement normalization in 1-12 2018" section. This line item also includes foreign exchange differences from trade receivables and trade payables that amounted to HRK -19.5 million in 2018, while in the comparative period they amounted to HRK -12.5 million.

## KEY CHARACTERISTICS OF THE PODRAVKA GROUP'S FINANCIAL POSITION

Compared to 31 December 2017, **property, plant and equipment**<sup>3</sup> of the Podravka Group are HRK 72.5 million higher, primarily as a result of reclassification of land and buildings in Rijeka from assets held for sale to regular assets.

**Inventories** of the Podravka Group are HRK 42.4 million higher compared to 31 December 2017. The increase in inventories was impacted by the increase in inventories of raw materials as a result of business requirements and business decisions to increase inventories of certain raw materials, and the increase in inventories of finished products due to, among other, dynamics of withdrawing finished products by customers.

**Trade and other receivables** of the Podravka Group are HRK 8.7 million lower compared to 31 December 2017. The decrease in trade and other receivables is a result of, among other, better collection of receivables in the Pharmaceuticals segment.

**Cash and cash equivalents** of the Podravka Group at the end of the observed period are HRK 151.0 million lower compared to 31 December 2017, as explained in the "Key characteristics of cash flow of Podravka Group" section.

As at 31 December 2018, **long-term and short-term borrowings** of the Podravka Group are HRK 303.7 million lower than as at 31 December 2017, as the result of repayment of a portion of borrowings.

**Trade and other payables**<sup>4</sup> of the Podravka Group are HRK 49.5 million lower compared to 31 December 2017 as a consequence of working capital management, better collection of trade and other receivables and financial risks management.

DEBT INDICATORS	REPORTED			NORMALIZED		
	(in HRK millions)	2018.	2017.	Δ	2018.	2017.
Financial debt*	966.2	1,271.1	(304.9)	966.2	1,271.1	(304.9)
Net debt**	755.1	909.1	(154.0)	755.1	909.1	(154.0)
Interest expense	17.9	26.9	(8.9)	17.9	26.9	(8.9)
Net debt/ EBITDA	1.6	2.4	(0.8)	1.6	2.1	(0.5)
EBIT / interest expense	14.4	3.4	11.0	15.2	9.3	5.8
Equity and total asset ratio	62.9%	57.2%	+566 BP	62.9%	57.2%	+566 BP

\*Financial debt: Non-current and current borrowings + Financial liabilities at fair value through profit and loss,

\*\*Net debt: Financial debt – Cash and cash equivalents..

As at 31 December 2018, the total debt of the Podravka Group related to borrowings and other interest-bearing financial liabilities amounted to HRK 966.2 million, of which HRK 623.5 million relates to long-term borrowings, HRK 342.3 million to short-term borrowings, and

3 Property, plant and equipment + Investment property

4 Trade and other payables + Income tax payable + Provisions



HRK 0.4 million to swap and forward contract liabilities. The **average weighted cost of debt** on all the stated liabilities as at 31 December 2018 was 1.7%. The decrease in net debt as at 31 December 2018 compared to 31 December 2017 is primarily the result of the repayment of a portion of borrowings. The increase in normalised EBITDA coupled with the decrease in net debt led to a lower net debt to normalised EBITDA ratio. The increase in normalised EBIT coupled with lower interest expense impacted the increase in the interest coverage ratio.

## KEY CHARACTERISTICS OF CASH FLOW OF PODRAVKA GROUP

(in HRK millions)	2018	2017	Δ
Net cash flow from operating activities	316.9	473.4	(156.5)
Net cash flow from investing activities	(126.1)	(190.5)	64.4
Net cash flow from financing activities	(341.9)	(258.5)	(83.4)
<b>Net increase / (decrease) of cash and cash equivalents</b>	<b>(151.0)</b>	<b>24.5</b>	<b>(175.4)</b>

In 2018, **net cash flow from operating activities** is HRK 156.5 million lower than in the comparative period, primarily as a result of different dynamics of movements in working capital.

**Net cash flow from investing activities** in the period under consideration amounted to negative HRK 126.1 million. This is primarily the result of capital expenditure amounting to HRK 166.1 million, which was partly neutralised by the sale of a portion of non-operating assets of Mirna d.d. The most significant **capital expenditure** in 2018 was related to:

- Modernisation of equipment in the Kalnik factory, investment in the ajvar line, sterilised vegetables and steam boiler room, which improves the production efficiency and business profitability,
- Development of fish business in Mirna d.d. which increases capacities and competitiveness of the production range,
- New line for pastry packaging in the Kotel factory, ensuring the production continuity and creating preconditions for the product range extension of salty, long-life pastry and biscuits packaging,
- Production line for strained tomato in the Vegetables factory Umag, increasing the production capacity, ensuring production continuity and safety and enabling the product range extension,
- Modernisation of the rice packaging line in the Lagris factory, enabling the production continuity, and
- Modernisation of agricultural production (irrigation system, agricultural machinery).

In 2018, **net cash flow from financing activities** amounted to negative HRK 341.9 million, primarily as a result of repaid borrowings in the amount of HRK 410.1 million, which is in line with the Group's focus on reducing debt.

OVERVIEW OF THE PROFIT AND LOSS STATEMENT NORMALIZATION  
IN 1-12 2018

REPORTED AND NORMALIZED PROFITABILITY	2018			2017		
	Group	Food	Pharma	Group	Food	Pharma
(in HRK millions)						
<b>Reported gross profit</b>	<b>1,558.4</b>	<b>1,110.8</b>	<b>447.7</b>	<b>1,484.1</b>	<b>1,039.3</b>	<b>444.8</b>
+ new Belupo factory expenses + depreciation	-	-	-	25.4	-	25.4
+ impairment of inventories	6.1	1.6	4.5	16.0	16.0	-
+ depreciation included in COGS	-	-	-	2.6	2.6	-
<b>Normalized gross profit</b>	<b>1,564.5</b>	<b>1,112.3</b>	<b>452.2</b>	<b>1,528.1</b>	<b>1,057.9</b>	<b>470.1</b>
<b>Reported EBITDA</b>	<b>463.7</b>	<b>322.9</b>	<b>140.8</b>	<b>374.1</b>	<b>243.3</b>	<b>130.8</b>
+ new Belupo factory expenses - depreciation	-	-	-	18.0	-	18.0
+ impairment of inventories	6.1	1.6	4.5	-	-	-
+ severance payments	5.6	4.7	0.9	39.9	31.3	8.6
+ sale of Mirna d.d. non-operational assets	(12.0)	(12.0)	-	-	-	-
+ expense related to China closing	-	-	-	1.3	1.3	-
+ initial impact of IFRS 9	1.4	0.6	0.8	-	-	-
+ other one-off items	-	-	-	1.6	1.6	-
<b>Normalised EBITDA</b>	<b>464.7</b>	<b>317.7</b>	<b>147.0</b>	<b>434.9</b>	<b>277.5</b>	<b>157.4</b>

REPORTED AND NORMALIZED PROFITABILITY	2018			2017		
	Group	Food	Pharma	Group	Food	Pharma
(in HRK millions)						
<b>Reported EBIT</b>	<b>258.4</b>	<b>173.3</b>	<b>85.1</b>	<b>91.1</b>	<b>8.3</b>	<b>82.8</b>
+ new Belupo factory expenses + depreciation	-	-	-	25.4	-	25.4
+ impairment of inventories	6.1	1.6	4.5	16.0	16.0	-
+ severance payments <sup>5</sup>	5.6	4.7	0.9	39.9	31.3	8.6
+ sale of Mirna d.d. non-operational assets	(12.0)	(12.0)	-	-	-	-
+ expense related to China closing	-	-	-	1.3	1.3	-
+ value adjustments related to Agrokor	(7.9)	(7.9)	-	44.1	44.1	-
+ other impairments	11.1	11.1	-	28.9	28.9	-
+ depreciation	9.4	9.4	-	2.9	2.9	-
+ initial impact of IFRS 9	1.4	0.6	0.8	-	-	-
+ other one-off items	-	-	-	1.6	1.6	-
<b>Normalized EBIT</b>	<b>272.0</b>	<b>180.7</b>	<b>91.3</b>	<b>251.1</b>	<b>134.4</b>	<b>116.7</b>
<b>Reported net profit after MI</b>	<b>205.7</b>	<b>145.0</b>	<b>60.7</b>	<b>18.2</b>	<b>(29.6)</b>	<b>47.9</b>
+ normalization above EBIT level	13.6	7.4	6.2	160.0	126.1	34.0
+ ESOP programme expenses	2.1	1.6	0.4	3.8	3.1	0.7
+ estimated impact on taxes	(5.1)	(4.1)	(1.0)	(16.5)	(16.5)	-
<b>Normalised net profit after MI</b>	<b>216.3</b>	<b>150.0</b>	<b>66.3</b>	<b>165.6</b>	<b>83.0</b>	<b>82.6</b>

5 In 2018, the total cost of termination benefits is HRK 8.8 million, but for normalization purposes, only the amount related to termination benefits for seriously ill employees on long-term sick leave was taken into account.

# 2

## Code of corporate governance Annual questionnaire

MAIN COMPANY INFORMATION:	Podravka Inc., Ante Starčevića 32, Koprivnica, PIN: 18928523252
CONTACT PERSON AND CONTACT PHONE:	Branka Perković, +38548651441
DATE OF QUESTIONNAIRE COMPLETE:	11.01.2019

*All the questions contained in this questionnaire relate to the period of one business year to which the annual financial statements also relate.*

*If a question in the questionnaire asks for an explanation, it is necessary to explain the answer provided.*

*All the answers in the questionnaire will be measured in percentages, as explained at the beginning of each chapter.*

### COMPANY HARMONIZATION WITH THE PRINCIPLES OF CORPORATE GOVERNANCE CODE

*Answers to this questionnaire chapter will be valued with a max. 20% of the whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code*

Question No.	Questions	Answer YES/NO	Explanation
1	Has the company accepted implementation of the code of corporate governance of the Zagreb Stock Exchange?	YES	
2	Does the company have its own code of corporate governance?	YES	
3	Have any principles of the code of corporate governance been adopted as part of the company's internal policies?	YES	
4	Does the company disclose harmonization with the principles of corporate governance in its annual financial statements?	YES	

## SHAREHOLDERS AND GENERAL MEETING

Answers to this questionnaire chapter will be valued with max. 30% of whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code

Question No.	Questions	Answer YES/NO	Explanation
5	Is the company in a cross-shareholding relationship with another company or other companies? (If so, explain)	NO	
6	Does each share of the company have one voting right? (If not, explain)	YES	
7	Are there cases of different treatment of any shareholders?? (If so, explain)	NO	
8	Has the procedure for issuing power of attorney for voting at the general assembly been fully simplified and free of any strict formal requirements? (If not, explain)	YES	
9	Has the company ensured that the shareholders of the company who, for whatever reason, are not able to vote at the assembly in person, have proxies who are obliged to vote in accordance with instructions received from the shareholders, with no extra costs for those shareholders? (If not, explain)	NO	Shareholders, who are not able to vote at the assembly in person, by themselves, acting at their own discretion, determine proxies who are obliged to vote in accordance with instructions received from the shareholders.
10	Did the management or Management Board of the company, when convening the assembly, set the date for defining the status in the register of shares, which will be relevant for exercising voting rights at the general assembly of the company, by setting that date prior to the day of holding the assembly and not earlier than 6 days prior to the day of holding the assembly? (If not, explain)	YES	
11	Were the agenda of the assembly, as well as all relevant data and documentation with explanations relating to the agenda, announced on the website of the company and put at the disposal of shareholders on the company's premises as of the date of the first publication of the agenda? (If not, explain)	YES	
12	Does the decision on dividend payment or advance dividend payment include information on the date when shareholders acquire the right to dividend payment, and information on the date or period during which the dividend will be paid? (If not, explain)	YES	
13	Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the date of decision making? (If not, explain)	NO	According to article 223 of the Company Law dividend payment claim will be due not later than 60 days from the date of decision making.
14	Were any shareholders favoured while receiving their dividends or advance dividends? (If so, explain)	NO	
15	Are the shareholders allowed to participate and to vote at the general assembly of the company using modern communication technology? (If not, explain)	NO	There are no preconditions for such participation of shareholders at the General Assembly.

16	Have the conditions been defined for participating at the general assembly by voting through proxy voting (irrespective of whether this is permitted pursuant to the law and articles of association), such as registration for participation in advance, certification of powers of attorney etc.? (If so, explain)	YES	Registration of participants in advance as a condition of participating at the General Assembly is stipulated due to a large number of small shareholders, with the intention of maintaining order and regularity of the session being held.
17	Did the management of the company publish the decisions of the general assembly of the company?	YES	
18	Did the management of the company publish the data on legal actions, if any, challenging those decisions? (If not, explain)	NO	There were no such legal actions.

## MANAGEMENT AND SUPERVISORY BOARD

Please provide the names of Management Board members and their functions	Marin Pucar (president of the Management Board), Ljiljana Šapina (member of the Management Board), Davor Doko (member of the Management Board), Marko Đerek (member of the Management Board) and Hrvoje Kolaric (member of the Management Board).
Please provide the names of Supervisory Board and their functions	Dubravko Štimac (president of the Supervisory Board), Luka Burilović (deputy president of the Supervisory Board), Damir Grbavac (member of the Supervisory Board), Ksenija Horvat (member of the Supervisory Board), Ivana Matovina (member of the Supervisory Board), Petar Miladin (member of the Supervisory Board), Marko Kolaković (member of the Supervisory Board until 07,9,2018), Dajana Milodanović (member of the Supervisory Board from 08,9,2018), Slavko Tešija (member of the Supervisory Board until 07,9,2018), Krunoslav Vitelj (member of the Supervisory Board from 08,9,2018) and Petar Vlaić (member of the Supervisory Board).

*Answers to this questionnaire chapter will be valued with a max. 20% of the whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code*

Question No.	Questions	Answer YES/NO	Explanation
19	Did the Supervisory or Management Board adopt a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board members, regularly and in a timely manner? (If not, explain)	YES	
20	Did the Supervisory or Management Board pass its internal code of conduct?	YES	
21	Does the company have any independent members on its Supervisory or Management Board? (if not, please explain)	YES	
22	Is there a long-term succession plan in the company? (If not, explain)	YES	
23	Is the remuneration received by the members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company's business performance? (If not, explain)	NO	The remuneration is fixed and in no part does it depend on efficiency of Company's business.
24	Is the remuneration to the members of the Supervisory or Management Board determined by a decision of the general assembly or in the articles of association of the company? (If not, explain)	YES	



25	Have detailed records on all remunerations and other earnings of each member of the management or each executive director received from the company or from other persons related to the company, including the structure of such remuneration, been made public (in annual financial statements)? (If not, explain)	NO	The Supervisory Board members are entitled to a fixed monthly remuneration as stated in the General Assembly Resolution on remunerations for the Supervisory Board members of Podravka Inc. Remunerations and other incomes given by the Company for the Management Board and Supervisory Board members are published in the Company's Annual Report for 2018.
26	Have detailed records on all remunerations and other earnings of each member of the Supervisory or Management Board received from the company or from other persons related to the company, including the structure of such remuneration, been made public (in annual financial statements)? (If not, explain)	NO	There were no such remunerations and other earnings.
27	Does every member of the Supervisory or Management Board inform the company of each change relating to their acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the company's shares promptly and no later than three business days, after such a change occurs? (If not, explain)	YES	
28	Were all transactions involving members of the Supervisory or Management Board or persons related to them and the company and persons related to it clearly presented in reports of the company? (If not, explain)	NO	There were no such transactions.
29	Are there any contracts or agreements between members of the Supervisory or Management Board and the company?	NO	
30	Did they obtain prior approval of the Supervisory or Management Board? (If not, explain)	NO	There is no such contract or agreement.
31	Are important elements of all such contracts or agreements included in the annual report? (If not, explain)	NO	There is no such contract or agreement.
32	Did the Supervisory or Management Board establish the appointment committee?	NO	Entire Supervisory Board has performed the function of the appointment committee.
33	Did the Supervisory or Management Board establish the remuneration committee?	YES	
34	Did the Supervisory or Management Board establish the audit committee?	YES	
35	Was the majority of the audit committee members selected from the group of independent members of the Supervisory Board? (If not, explain)	YES	
36	Did the committee monitor the integrity of the financial information of the company, especially the correctness and consistency of the accounting methods used by the company and the group it belongs to, including the criteria for the consolidation of financial reports of the companies belonging to the group? (If not, explain)	YES	
37	Did the audit committee assess the quality of the internal control and risk management system, with the aim of adequately identifying and publishing the main risks the company is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (If not, explain)	YES	

38	Has the audit committee been working on ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (If not, explain)	YES	
39	If there is no internal audit system in the company, did the audit committee consider the need to establish it? (If not, explain)	NO	Internal audit function exists.
40	Did the audit committee monitor the independence and impartiality of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company is paying for services provided by external auditors? (If not, explain)	YES	
41	Did the committee monitor nature and quantity of services other than audit, received by the company from the audit company or from persons related to it? (If not, explain)	YES	
42	Did the audit committee prepare rules defining which services may not be provided to the company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (If not, explain)	YES	
43	Did the audit committee analyse the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (If not, explain)	YES	
44	Was the documentation relevant for the work of the Supervisory Board submitted to all members on time? (If not, explain)	YES	
45	Do Supervisory Board or Management Board meeting minutes contain all adopted decisions, accompanied by data on voting results? (If not, explain)	YES	
46	Has the Supervisory or Management Board evaluated their work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?	NO	
47	Are detailed data on all earnings and remunerations received by each member of the management or each executive director from the company published in the annual report of the company? (If not, explain)	NO	There is no obligation of submitting requested information.
48	Are all forms of remuneration to the members of the management, Management Board and Supervisory Board, including options and other benefits of the management, made public, broken down by items and persons, in the annual report of the company? (If not, explain)	NO	There is no obligation of submitting requested information. Remunerations and other incomes given by the Company for the Management Board and Supervisory Board members are published in the Company's Annual Report for 2018.
49	Are all transactions involving members of the management or executive directors, and persons related to them, and the company and persons related to it, clearly presented in reports of the company? (If not, explain)	NO	There were no such transactions.

50	Does the report to be submitted by the Supervisory or Management Board to the general assembly include, apart from minimum information defined by law, the evaluation of total business performance of the company, of activities of the management of the company, and a special comment on its cooperation with the management? (If not, explain)	YES	
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### AUDIT AND MECHANISMS OF INTERNAL AUDIT

Answers to this questionnaire chapter will be valued with a max. 10% of the whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code

Question No.	Questions	Answer YES/NO	Explanation
51	Does the company have an external auditor?	YES	
52	Is the external auditor of the company related with the company in terms of ownership or interests?	NO	
53	Is the external auditor of the company providing to the company, him/herself or through related persons, other services?	YES	The external auditor is providing services related to study on transferred prices for some subsidiaries of the Group.
54	Has the company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (If not, explain)	NO	There is no obligation of submitting requested information.
55	Does the company have internal auditors?	YES	
56	Does the company have an internal audit system in place? (If not, explain)	YES	

### TRANSPARENCY AND THE PUBLIC OF ORGANIZATION OF BUSINESS

Answers to this questionnaire chapter will be valued with a max. 20% of the whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code

Question No.	Questions	Answer YES/NO	Explanation
57	Are the semi-annual, annual and quarterly reports available to the shareholders?	YES	
58	Did the company prepare the calendar of important events?	YES	
59	Did the company establish mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it?	YES	
60	Did the company establish mechanisms to ensure supervision of the flow of inside information and possible abuse thereof?	YES	
61	Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the company or outside, shortcomings in the application of rules or ethical norms within the company? (if yes, explain)	NO	
62	Did the management of the company hold meetings with interested investors, in the last year?	YES	
63	Do all the members of the management, Management Board and Supervisory Board agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely truthful?	YES	

# 3 Company securities

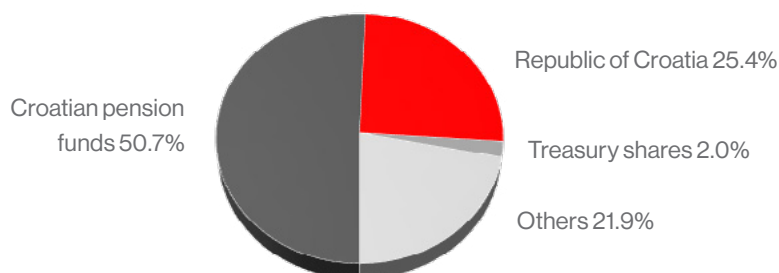
## LIST OF MAJOR SHAREHOLDERS AS AT 31 DECEMBER 2018

No.	Shareholder	Number of shares	% of ownership
1	REPUBLIC OF CROATIA	1,808,390	25.4%
2	PBZ CROATIA OSIGURANJE MANDATORY PENSION FUND, CATEGORY B	1,052,100	14.8%
3	AZ MANDATORY PENSION FUND, CATEGORY B	902,874	12.7%
4	ERSTE PLAVI MANDATORY PENSION FUND, CATEGORY B	674,669	9.5%
5	RAIFFEISEN MANDATORY PENSION FUND, CATEGORY B	625,298	8.8%
6	PODRAVKA INC. - TREASURY ACCOUNT	145,775	2.0%
	OTHER SHAREHOLDERS	1,910,897	26.8%
<b>Total</b>		<b>7,120,003</b>	<b>100.0%</b>

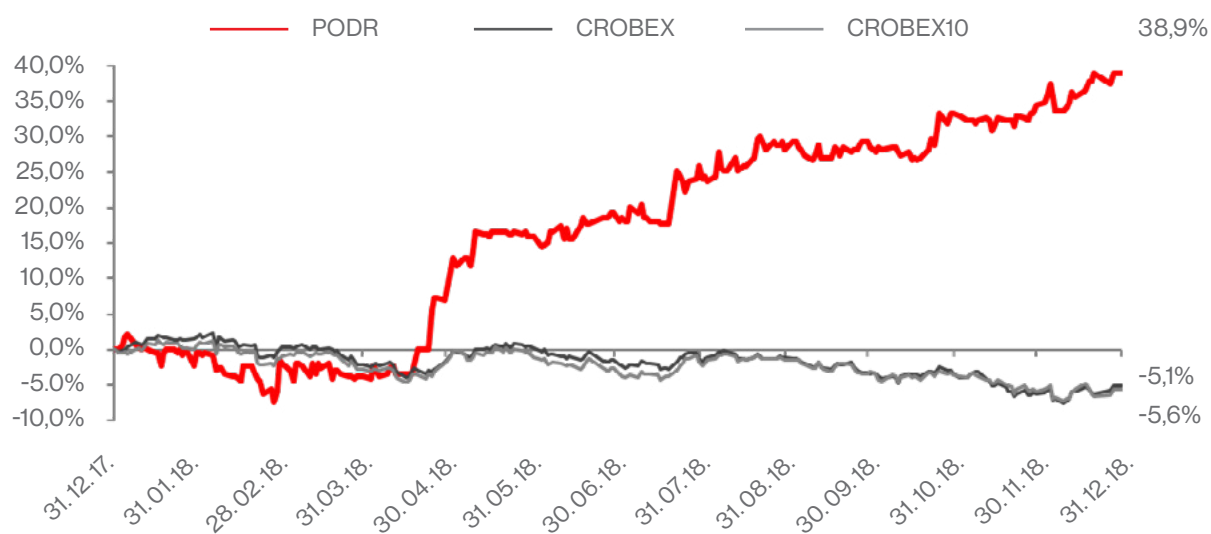
Podravka Inc. has a stable ownership structure where the most significant share is held by domestic pension funds and the Republic of Croatia. As at 31 December 2018, domestic pension funds (mandatory and voluntary) hold a total of 50.7% shares, the Republic of Croatia holds 25.4% shares and Podravka Inc. has 2.0% of treasury shares. As at 31 December 2018, Supervisory Board members owned 19 shares of Podravka Inc., while Management Board members owned 970 shares of Podravka Inc.

Podravka Inc.'s shares have been listed on the Prime Market of the Zagreb Stock Exchange since 27 December 2018, under the PODR ticker symbol, while in the period from 7 December 1998 to 26 December 2018 they were listed on the Official Market of the Zagreb Stock Exchange.

### OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2018



## SHARE PRICE MOVEMENT IN 1-12 2018



(closing price in HRK; closing points)	31 December 2017	31 December 2018	%
PODR	270.0	375.0	38.9%
CROBEX	1,842.9	1,748.8	(5.1%)
CROBEX10	1,076.9	1,017.1	(5.6%)

In 2018., the price Podravka's share grew by 38.9%, while domestic stock indices Crobex and Crobex10 dropped by 5.1% and 5.6%, respectively.

## PERFORMANCE IN THE CROATIAN CAPITAL MARKET IN 1-12 2018

(in HRK; in units) <sup>6</sup>	2017	2018	%
Weighted average daily price	352.2	316.5	(10.1%)
Average daily number of transactions	16	12	(26.0%)
Average daily volume	1,128	1,450	28.5%
Average daily turnover	397,344.8	458,850.9	15.5%

In 2018, the average weighted daily price of the Podravka's share was 10.1% lower than in the comparative period. At the same time, the average daily number of transactions decreased, while the average daily volume and daily turnover increased.

(in HRK millions; last price and earnings per share in HRK)*	2017	2018	%
Last price	270.0	375.0	38.9%
Weighted average number of shares	6,952,372	6,964,479	0.2%
Market capitalization	1,877.1	2,611.7	39.1%
EV <sup>7</sup>	2,822.9	3,409.1	20.8%
Normalized earnings per share	23.8	31.1	30.4%
EV / sales revenue	0.7	0.8	17.3%
EV / normalized EBITDA	6.5	7.3	13.0%
EV / normalized EBIT	11.2	12.5	11.5%
Last price / normalized earnings per share ratio (P / E)	11.3	12.1	6.5%

*\*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.*

6 Average daily price calculated as the weighted average of average daily prices in the period, where the weight is daily volume. Other indicators calculated as the average of average daily transactions/volume/turnover.

7 Enterprise value: market Capitalization + net debt + minority interests.



**CONSOLIDATED  
FINANCIAL  
STATEMENTS FOR  
THE YEAR 2018**

## 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.

The consolidated financial statements were authorised by the Management Board on 29 April 2019 for issue to the Supervisory Board and are signed below to signify this:

**Marin Pucar**  
*President of the Management Board*

**Hrvoje Kolarić**  
*Member of the Management Board*

**Marko Đerek**  
*Member of the Management Board*

Podravka d.d.

Ante Starčevića 32  
48 000 Koprivnica  
Republic of Croatia

**Davor Doko**  
*Member of the Management Board*

**Ljiljana Šapina**  
*Member of the Management Board*



Koprivnica, 29 April 2019



## **Independent Auditors' 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 referred to as "the Group"), which comprise the consolidated statement of financial position of the Group as at 31 December 2018, and its consolidated statements of comprehensive income, cash flows and changes in equity of the Group for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 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 ("EU IFRS").

#### ***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



# Independent Auditors' report to the shareholders of Podravka d.d. (continued)

## Report on the Audit of the Consolidated Financial Statements (continued)

### Key Audit Matters

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

#### **CUSTOMER REBATES**

Revenue for the year ended 31 December 2018 amounts to HRK 4,232,149 thousand (2017: HRK 4,111,170 thousand), presented net of customer rebates which include volume discounts and other costs agreed in contracts with customers. Accrued rebates are included within accrued expenses in other liabilities.

Refer to note 3.4 and note 8.

Key audit matter	How our audit addressed the matter
<p>Revenue is measured taking account of discounts, incentives and rebates earned by customers.</p> <p>Reported revenue for the year ended 31 December 2018 is net of these discounts, incentives and rebates the effects of which are significant on the statement of comprehensive income for the reporting period.</p> <p>The Group needs to consider whether it receives a distinct good or service in return for payments to customers. If so, then it is required to recognize such payments as expenses when the good or service is consumed. If not, they are recognized as a reduction of revenue. The above adds to the complexity of judgments required from management in establishing an appropriate accounting for said payments.</p> <p>In addition, although the measurement period for discounts, incentives and rebates generally coincides with the reporting date, not all accruals for discounts, incentives and rebates are confirmed by customers at the reporting date and the Group is therefore required to estimate the amount of discounts, incentives and rebates to be recognized.</p> <p>Due to the variety of contractual terms across the Group's markets, it is required to monitor a large number of individual customer arrangements in order to estimate the amounts of accruals for discounts, incentives and rebates at the reporting date. This is considered complex and includes risk of incorrect inclusion or non-inclusion of discounts, incentives and rebates in the current period and year-end accruals, or incorrect calculation of these amounts recorded as at the reporting date.</p> <p>As a result of the above, this area required our increased attention, and as such was considered by us to be a key audit matter.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"><li>• evaluating and testing of controls over the process of estimating and accounting for discounts, incentives and rebates;</li><li>• considering whether the payments to customers represent expenditure for distinct goods or services or sales incentives. This included, among other things:<ul style="list-style-type: none"><li>○ inquiries of management and key sales personnel to gain an understanding of the key typical contract terms agreed with customers and the different types of payments defined therein;</li><li>○ assessing, on a sample of contracts, the substance and nature of payments to customers focusing on:<ul style="list-style-type: none"><li>- whether the payments are agreed in exchange for distinct goods or services;</li><li>- whether the fair value of goods or services can be reliably measured;</li><li>- how the value of the payments correlates to the fair value of goods or services received;</li></ul></li></ul></li><li>• for a sample of receivables, obtaining customer confirmations of amounts outstanding as at the reporting date, and challenging any significant differences between confirmations received and the Group's records by inspecting the underlying documentation such as contracts with customers and invoices;</li><li>• evaluating completeness and existence of discounts, rebates and incentives by analysing the historical accuracy of management estimates in this area based on the comparison, on an aggregate basis, of the accrued amounts of discounts, rebates and incentives as of the end of the previous reporting period with subsequent settlements in the current year;</li><li>• on a sample of key customers, inspecting respective contractual terms and independently recalculating the amounts of discounts, incentives and rebates due by reference to those terms, and also considering post year-end credit notes and payments;</li><li>• obtaining a sample of outgoing invoices to compare the existence and accuracy of total net amount on the invoice (including on-invoice rebates) with goods delivery notes and general ledger entries;</li><li>• evaluating the overall reasonableness of customer rebates based on our knowledge and understanding of the business and industry in which the Group operates.</li></ul>



## Independent Auditors' report to the shareholders of Podravka d.d. (continued)

### Report on the Audit of the Consolidated Financial Statements (continued)

#### Key Audit Matters (continued)

#### IMPAIRMENT OF BRANDS AND GOODWILL

As at 31 December 2018, intangible assets of the Group included brands with indefinite useful lives stated at HRK 95,135 thousand (2017: HRK 99,033 thousand). Goodwill as at 31 December 2018 amounted to HRK 26,782 thousand (2017: HRK 27,402 thousand). During 2018, the Group did not recognize any impairment losses with respect to goodwill or brands (2017: impairment loss of HRK 18,331 thousand with respect to brands).

Refer to note 6 (v), note 10, note 17 and note 18.

Key audit matter	How our audit addressed the matter
<p>As required by relevant financial reporting standards, intangibles with indefinite useful life are tested by the Group at least annually for potential impairment, irrespective of any related impairment indicators, as an integral part of the related cash generating units (CGU).</p> <p>Any such impairment would be recognised in the amount by which the carrying amount of the asset exceeds its recoverable amount. Due to the lack of an active market for such assets and absence of relevant comparable transactions, the recoverable amounts of brands and goodwill are generally measured by using an appropriate valuation technique, such as present value techniques based on future cash flows discounted using an appropriate discount rate.</p> <p>For brands, the Group applies the relief from royalty technique which is based on the future cash flows arising from assumed royalty payments while the recoverable amount of goodwill is measured based on estimated future cash flows of the underlying CGUs.</p> <p>These valuation techniques require a significant degree of judgement by management, including, but not limited to; the identification of underlying CGUs; the reasonableness of assumptions with respect to revenue and cash flow forecasts of the underlying CGUs; and the determination of the appropriate discount rate, growth rate and royalty rate.</p> <p>As a result of the above, this area required our increased attention, and as such was considered by us to be a key audit matter.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"><li>• evaluating the appropriateness of allocation of brands and goodwill to underlying cash-generating units;</li><li>• assessing the appropriateness of valuation methods applied by the Group for impairment testing in terms of their compliance with the relevant accounting standards;</li><li>• assessing competence, capabilities and objectivity of internal and external appraisers engaged by the Group;</li><li>• assisted by our own valuation specialists, challenging the key assumptions used by the Group in its impairment testing, which specifically involved:<ul style="list-style-type: none"><li>- evaluating the historical accuracy of management budgeting by comparing historical revenue and cash flow projections with actual outcomes;</li><li>- testing the integrity of the impairment tests, including mathematical accuracy, and evaluating the key assumptions applied (such as discount rates, growth rates and royalty rates) for reasonableness compared to both externally derived data and historical financial performance;</li><li>- sensitivity analysis of the impairment test results to changes in key assumptions;</li></ul></li><li>• evaluating the adequacy and completeness of disclosures in the financial statements with respect to impairment testing.</li></ul>



## **Independent Auditors' report to the shareholders of Podravka d.d. (continued)**

### **Report on the Audit of the Consolidated Financial Statements (continued)**

#### ***Other Information***

Management is responsible for the other information. The other information comprises the Management Report and Corporate Governance Statement included in the Annual Report of the Group, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act;
- the specific information in the Corporate Governance Statement required by Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant sections of the Corporate Governance Statement") has been prepared in accordance with the requirements of Article 22 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report and the relevant sections of the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report and the relevant sections of the Corporate Governance Statement have been prepared, in all material respects, in accordance with the requirements of Articles 21, 22 and 24 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

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

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

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

In preparing the financial statements, management is responsible for assessing the 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.

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





## **Independent Auditors' report to the shareholders of Podravka d.d. (continued)**

### **Report on the Audit of the Consolidated Financial Statements (continued)**

#### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- 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 controls.
- 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.



## **Independent Auditors' report to the shareholders of Podravka d.d. (continued)**

### **Report on Other Legal and Regulatory Requirements**

We were appointed by those charged with governance on 12 June 2018 to audit the consolidated financial statements of Podravka d.d. and its subsidiaries for the year ended 31 December 2018. Our total uninterrupted period of engagement is 7 years, covering the periods ending 31 December 2012 to 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 29 April 2019;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

  
**KPMG Croatia d.o.o. za reviziju**  
Croatian Certified Auditors  
Eurotower, 17th floor  
Ivana Lučića 2a  
10000 Zagreb  
Croatia

**29 April 2019**

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

<i>(in thousands of HRK)</i>	<i>Note</i>	<b>2018</b>	<b>2017</b>
Revenues	8	4,232,149	4,111,170
Cost of goods sold	11	(2,673,716)	(2,627,059)
<b>Gross profit</b>		<b>1,558,433</b>	<b>1,484,111</b>
Other income	9	40,397	10,678
General and administrative expenses	11	(317,300)	(365,995)
Selling and distribution costs	11	(568,884)	(629,393)
Marketing expenses	11	(407,778)	(369,638)
Other expenses	10	(46,425)	(38,683)
<b>Operating profit</b>		<b>258,443</b>	<b>91,080</b>
Financial income	13	13,130	5,091
Financial expenses	14	(21,070)	(45,275)
<b>Net finance costs</b>		<b>(7,940)</b>	<b>(40,184)</b>
<b>Profit before tax</b>		<b>250,503</b>	<b>50,896</b>
Income tax	15	(38,924)	(27,065)
<b>Profit for the year</b>		<b>211,579</b>	<b>23,831</b>
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss account</b>			
Actuarial gain/(loss) net of deferred tax		937	(999)
<b>Items that can be subsequently reclassified to profit and loss account</b>			
Exchange differences on translation of foreign operations		(14,548)	4,152
<b>Total comprehensive income</b>		<b>197,968</b>	<b>26,984</b>
<b>Profit attributable to:</b>			
Equity holders of the parent		205,711	18,250
Non-controlling interests		5,868	5,581
<b>Total comprehensive income attributable to:</b>			
Equity holders of the parent		192,270	21,833
Non-controlling interests		5,698	5,151
<b>Earnings per share (in HRK):</b>			
- Basic	16	29.54	2.63
- Diluted	16	29.45	2.63

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**AS AT 31 DECEMBER 2018**

<i>(in thousands of HRK)</i>	<i>Note</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	17	26,782	27,402
Intangible assets	18	236,176	240,235
Property, plant and equipment	19	2,256,318	2,317,992
Investment property	20	134,187	-
Non-current financial assets	22	6,366	9,746
Deferred tax assets	15	152,079	170,386
<b>Total non-current assets</b>		<b>2,811,908</b>	<b>2,765,761</b>
<b>Current assets</b>			
Inventories	23	848,230	805,805
Trade and other receivables	24	938,766	947,493
Financial assets at fair value through profit and loss	25	296	511
Income tax receivable		5,834	1,569
Cash and cash equivalents	26	211,106	362,082
Non-current assets held for sale	27	29,921	178,161
<b>Total current assets</b>		<b>2,034,153</b>	<b>2,295,621</b>
<b>Total assets</b>		<b>4,846,061</b>	<b>5,061,382</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	28	1,691,884	1,689,947
Reserves	29	796,850	766,862
Retained earnings	30	516,603	403,303
<b>Attributable to equity holders of the parent</b>		<b>3,005,337</b>	<b>2,860,112</b>
Non-controlling interests	31	42,369	36,671
<b>Total shareholders' equity</b>		<b>3,047,706</b>	<b>2,896,783</b>
<b>Non-current liabilities</b>			
Borrowings	33	623,454	915,210
Provisions	34	70,611	74,122
Other non-current liabilities	35	20,703	22,465
Deferred tax liability	15	40,213	46,692
<b>Total non-current liabilities</b>		<b>754,981</b>	<b>1,058,489</b>
<b>Current liabilities</b>			
Trade and other payables	36	658,861	719,791
Income tax payable		15,914	5,433
Financial liabilities at fair value through profit and loss	32	415	1,631
Borrowings	33	342,332	354,304
Provisions	34	25,852	24,951
<b>Total current liabilities</b>		<b>1,043,374</b>	<b>1,106,110</b>
<b>Total liabilities</b>		<b>1,798,355</b>	<b>2,164,599</b>
<b>Total equity and liabilities</b>		<b>4,846,061</b>	<b>5,061,382</b>

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 2018

(in HRK thousands)

	Share capital	Reserve for treasury shares	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Retained earnings	Total	Non-controlling interests	Total
<b>As at 1 January 2017</b>	<b>1,681,261</b>	<b>147,604</b>	<b>41,937</b>	<b>189,738</b>	<b>55,555</b>	<b>177,809</b>	<b>583,272</b>	<b>2,877,176</b>	<b>49,218</b>	<b>2,926,394</b>
<i>Comprehensive income</i>										
Profit for the year	-	-	-	-	-	-	18,250	18,250	5,581	23,831
Foreign exchange differences	-	-	-	-	-	3,755	-	3,755	(430)	3,325
Profit or loss from reevaluation of financial assets available for sale	-	-	-	-	-	827	-	827	-	827
Actuarial losses (net of deferred tax)	-	-	-	-	-	(999)	-	(999)	-	(999)
Other comprehensive income	-	-	-	-	-	<b>3,583</b>	-	<b>3,583</b>	<b>(430)</b>	<b>3,153</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,583</b>	<b>18,250</b>	<b>21,833</b>	<b>5,151</b>	<b>26,984</b>
<i>Transactions with owners recognised directly in equity</i>										
Dividend payment to minority shareholder	-	-	-	-	-	-	-	-	(15,776)	(15,776)
Allocation from retained earnings	-	-	8,966	-	3,015	137,596	(149,577)	-	-	-
Exercise of options	(3,269)	-	-	-	-	-	-	(3,269)	-	(3,269)
Fair value of share-based payment transactions	11,955	-	-	-	-	-	-	11,955	-	11,955
Dividend paid	-	-	-	-	-	-	(48,642)	(48,642)	-	(48,642)
Additional acquisition of minority interests	-	-	-	-	-	1,059	-	1,059	(1,922)	(863)
<b>Total transactions with owners recognised directly in equity</b>	<b>8,686</b>	<b>-</b>	<b>8,966</b>	<b>-</b>	<b>3,015</b>	<b>138,655</b>	<b>(198,219)</b>	<b>(38,897)</b>	<b>(17,698)</b>	<b>(56,595)</b>
<b>As at 31 December 2017</b>	<b>1,689,947</b>	<b>147,604</b>	<b>50,903</b>	<b>189,738</b>	<b>58,570</b>	<b>320,047</b>	<b>403,303</b>	<b>2,860,112</b>	<b>36,671</b>	<b>2,896,783</b>
<i>Comprehensive income</i>										
Profit for the year	-	-	-	-	-	-	205,711	205,711	5,868	211,579
Foreign exchange differences	-	-	-	-	-	(14,378)	-	(14,378)	(170)	(14,548)
Actuarial gains (net of deferred tax)	-	-	-	-	-	937	-	937	-	937
Other comprehensive income	-	-	-	-	-	<b>(13,441)</b>	-	<b>(13,441)</b>	<b>(170)</b>	<b>(13,611)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(13,441)</b>	<b>205,711</b>	<b>192,270</b>	<b>5,698</b>	<b>197,968</b>
<i>Transactions with owners and transfers recognised directly in equity</i>										
Allocation from retained earnings (note 29)	-	-	7,542	-	3,220	32,947	(43,709)	-	-	-
Subsidiary liquidation (note 29)	-	-	-	-	-	(280)	-	(280)	-	(280)
Exercise of options	7,362	-	-	-	-	-	-	7,362	-	7,362
Fair value of share-based payment transactions (note 28)	(2,868)	-	-	-	-	-	-	(2,868)	-	(2,868)
Dividend paid	-	-	-	-	-	-	(48,702)	(48,702)	-	(48,702)
Purchase of treasury shares (note 28)	(2,557)	-	-	-	-	-	-	(2,557)	-	(2,557)
<b>Total transactions with owners recognised directly in equity</b>	<b>1,937</b>	<b>-</b>	<b>7,542</b>	<b>-</b>	<b>3,220</b>	<b>32,667</b>	<b>(92,411)</b>	<b>(47,045)</b>	<b>-</b>	<b>(47,045)</b>
<b>As at 31 December 2018</b>	<b>1,691,884</b>	<b>147,604</b>	<b>58,445</b>	<b>189,738</b>	<b>61,790</b>	<b>339,273</b>	<b>516,603</b>	<b>3,005,337</b>	<b>42,369</b>	<b>3,047,706</b>

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 2018**

<i>(in thousands of HRK)</i>	<i>Note</i>	<b>2018</b>	<b>2017</b>
<b>Profit for the year</b>		<b>211,579</b>	<b>23,831</b>
Income tax	15	38,924	27,065
Depreciation and amortization	11	192,671	194,046
Liquidation of subsidiary		(2,211)	-
Impairment loss on property, plant, equipment and intangibles	10	4,809	22,619
Impairment loss on assets held for sale	10	16,318	1,612
Impairment losses on investment	10	885	-
Reversal of impairment of non-current assets	10	-	(2,115)
Capital reserve ESOP	38	(4,961)	(2,750)
Remeasurement of financial assets and liabilities at FVTPL		(1,000)	(1,653)
Share-based payment transactions		7,725	19,305
Loss on disposal of property, plant, equipment and intangibles		3,254	1,223
Gain on disposal of assets held for sale		(11,805)	(23)
Gain per options contracts		(121)	-
Impairment losses on inventory and trade receivables		(3,431)	44,871
Increase/(decrease) in provisions		(2,610)	1,562
Interest income		(641)	(5,091)
Impairment of loans given		(750)	-
Interest expense		18,993	31,247
Effect of changes in foreign exchange rates		(16,773)	5,598
		<b>450,855</b>	<b>361,347</b>
<b>Changes in working capital:</b>			
Increase in inventories		(42,425)	(32,210)
Decrease in trade and other receivables		8,458	186,572
Decrease in trade and other payables		(59,261)	(2,353)
<b>Cash generated from operations</b>		<b>357,627</b>	<b>513,356</b>
Income taxes paid		(20,652)	(6,407)
Interest paid		(20,033)	(33,541)
<b>Net cash from operating activities</b>		<b>316,942</b>	<b>473,408</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangibles		(166,135)	(206,239)
Decrease of investment in subsidiary and non-related parties		200	-
Proceeds from equity securities		438	-
Sale of assets held for sale	27	37,262	595
Proceeds from sale of property, plant, equipment and intangibles		1,306	3,498
Proceeds from sale of shares		-	7,187
Loans given		(37)	(35)
Proceeds from loans given		130	97
Net cash from investments in money market funds		-	(672)
Proceeds from disposal of shares and other investments		121	-
Interest received		641	5,091
Dividends received		21	-
<b>Net cash from investing activities</b>		<b>(126,053)</b>	<b>(190,478)</b>
<b>Cash flows from financing activities</b>			
Dividend paid		(48,724)	(48,642)
Proceeds from issue of share capital		-	(863)
Purchase of treasury shares	28	(2,557)	-
Sale of treasury shares		2,092	6,945
Proceeds from borrowings		117,392	182,590
Repayment of borrowings		(410,068)	(398,489)
<b>Net cash from financing activities</b>		<b>(341,865)</b>	<b>(258,459)</b>
<b>Net (increase) / decrease of cash and cash equivalents</b>		<b>(150,976)</b>	<b>24,471</b>
Cash and cash equivalents at beginning of year		362,082	337,611
<b>Cash and cash equivalents at the end of year</b>	26	<b>211,106</b>	<b>362,082</b>

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 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 and non-alcoholic beverages as well as production and distribution of drugs, pharmaceutical products, cosmetics, auxiliary medical preparations and other chemicals. The Group consists of Podravka d.d. and its subsidiaries as stated in note 21.

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

The Company’s shares were listed on the official market of the Zagreb Stock Exchange until 27 December 2018, since when they have been listed on the Prime Market of the Zagreb Stock Exchange. The shareholder structure is shown in note 28.

##### Corporate governance and management

###### *General Assembly*

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

###### *Supervisory Board*

Supervisory Board members during 2018:

President	Dubravko Štimac
Deputy President	Luka Burilović
Member	Damir Grbavac
Member	Ksenija Horvat
Member	Marko Kolaković (until 7 September 2018)
Member	Ivana Matovina
Member	Petar Miladin
Member	Dajana Milodanović (from 8 September 2018)
Member	Slavko Tešija (until 7 September 2018)
Member	Krunoslav Vitelj (from 8 September 2018)
Member	Petar Vlaić

###### *Management Board during 2018*

President	Marin Pucar
Member	Davor Doko
Member	Marko Đerek
Member	Hrvoje Kolarić
Member	Ljiljana Šapina

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 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 unconsolidated 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.

These are the Group’s first financial statements which include the first adoption of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial instruments*. The changes in accounting policies are explained in note 5.

These financial statements were authorised for issue by the Management Board on 29 April 2019.

(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 2018. Control is achieved if the Company has the power to govern the financial and operating policies of an investee 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 in the case of bargain purchase, 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 to 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 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.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.4 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of products, goods and services in the ordinary course of the Group's activities. 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.

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

*(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 has delivered the products to the wholesaler, there is no continuing management involvement over the goods, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

Delivery does not occur until the products have been shipped to the specified location, the control has been transferred to the wholesaler and either of the following has occurred: the wholesaler has accepted the products in accordance with the contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied. The most common parities are the CIP, where the control is transferred to the customer at the moment the goods are delivered and the delivery note is confirmed upon the transfer of goods, and the EXW, where the Group makes goods available to the customer in their own premises or on other determined location, and the cost and risk are then transferred to the customer.

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.5 Leases**

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of fair value of the leased property and the present value of minimum lease payments. Each lease payment is allocated between the liability and finance costs so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the statement of comprehensive income over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases where the significant portion of risks and rewards of ownership are not obtained 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 transactions*

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognised as income in financial statements by a seller-lessee. Instead, it is deferred and amortised over the lease term.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 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.

All other borrowing costs are charged to profit or loss in the period in which they are incurred.

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

**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 consolidated financial statements in the period in which the dividends are approved by the General Assembly of the Company's shareholders.

**3.10 Segment reporting**

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 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.

###### (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 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 (note 3.15).

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**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. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is 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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 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.

###### *ii) Bills of exchange*

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

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

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

##### 3.18 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less. Bank overdrafts are included within current liabilities on the 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 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 government 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 an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). At each reporting date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income (profit or loss), with a corresponding adjustment to equity during the remaining vesting period.

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

**3.21 Provisions**

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

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

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.22 Financial instruments**

**A. Financial assets**

**Policy applicable from 1 January 2018**

**(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 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;
- FVOCI (fair value through other comprehensive income) – debt investment;
- FVOCI – equity investment;
- 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 investment 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 investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment 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)**

**Policy applicable from 1 January 2018 (continued)**

**(ii) Classification and subsequent measurement (continued)**

*Business model assessment*

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Trade receivables are held in the business model of holding for the purpose of collection.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

*Assessment whether contractual cash flows are solely payments of principal and interest*

For the purposes of this assessment, relevant for the purpose of classifying financial assets at amortised cost, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing the main criterion, i.e. whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

The structure of the Group's financial assets is simple and primarily relates to trade receivables without a significant financial component, loans given and short-term deposits in banks at fixed interest rates, while forward contracts are of insignificant amount. This significantly reduces the complexity of the assessment whether the financial assets meet the criterion of 'solely payments of principal and interest'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

**A Financial assets (continued)**

**Policy applicable from 1 January 2018 (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:

<b>Financial assets at FVTPL</b>	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
<b>Financial assets at amortised cost</b>	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.
<b>Debt investments at FVOCI</b>	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.
<b>Equity investments at FVOCI</b>	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 investment. 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 (e.g. recourse factoring of receivables).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.22 Financial instruments (continued)**

**A Financial assets (continued)**

**Policy applicable before 1 January 2018**

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- financial assets held to maturity;
- financial assets available for sale; and
- financial assets at FVTPL.

An overview of key provisions of the accounting policy used by the Group before 1 January 2018 for subsequent measurement of financial assets and recognition of gains and losses on each class of financial assets is provided in the table below:

<b>Financial assets at FVTPL</b>	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss
<b>Held-to-maturity financial assets</b>	Measured at amortised cost using the effective interest method.
<b>Loans and receivables</b>	Measured at amortised cost using the effective interest method.
<b>Available-for-sale financial assets</b>	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in OCI was reclassified to profit or loss.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.22 Financial instruments (continued)**

**B. Financial liabilities**

**(i) Recognition and initial measurement**

Debt securities are initially recognised when they are originated. All other financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

**(ii) Classification and subsequent measurement**

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

**(iii) Derecognition**

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

**C. Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**D. Derivative financial instruments**

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

The policy applied in the comparative information presented for 2017 is similar to the policy applied for 2018.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.22 Financial instruments (continued)**

**E. Impairment of non-derivative financial assets**

**Policy applicable from 1 January 2018**

*Recognition of impairment losses*

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments 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 a probability-weighted 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. The calculation of the historical rate is adjusted for extraordinary and specific circumstances, if required.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.22 Financial instruments (continued)**

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

**Policy applicable from 1 January 2018 (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.

**Policy applicable before 1 January 2018**

*Non-derivative financial assets*

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment. Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

E Impairment of non-derivative financial assets (continued)

Policy applicable before 1 January 2018 (continued)

An overview of key provisions of the policy that was applied before 1 January 2018 for the impairment of non-derivative financial assets is provided in the table below:

<b>Financial assets measured at amortised cost</b>	<p>The Group considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.</p> <p>In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.</p> <p>An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.</p>
<b>Available-for-sale financial assets</b>	<p>Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.</p>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2018 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. It is not expected that these standards will have a significant effect on the consolidated financial statements of the Group. Their overview is set out below:

##### **IFRS 16 Leases**

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of vehicles, property, equipment and agricultural land.

The Group estimated that by applying IFRS 16 Leases it will recognise new assets and liabilities under operating leases for vehicles, property, equipment and agricultural land in the amount between HRK 127 and 130 million. The estimated depreciation for 2019 amounts between HRK 35 and 37 million, and interest expense amounts to approximately HRK 3 million.

The estimate is based on discounted cash outflows using a discount rate of 2.66%.

#### NOTE 5 – IMPACT OF NEW ACCOUNTING POLICIES

The Group begins to apply IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* as of 1 January 2018. Several new standards are also applicable from 1 January 2018, but these standards did not have any significant impact on these Group's financial statements.

##### ***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue* and IAS 11 *Construction Contracts*. Under IFRS 15, revenue is recognised when a customer acquires control of products or services. Determining whether a transfer of control occurs at a certain point in time or over time (time period) requires judgment.

The Group has adopted IFRS 15 using the cumulative effect method, with the beginning of the application of the standard as at 1 January 2018. Accordingly, the information presented for 2017 has not been restated, i.e. it is presented as described previously, in accordance with IAS 18 and IFRS 8 and the related interpretations. Given the nature of the Group's business and the level of disclosure in the previous financial statements, management believes that upon the introduction of a new standard the accounting policy for revenue recognition has not changed significantly and no additional significant disclosures are necessary.

Regardless, the Group's estimates of the type of products and contracts did not affect the transitional statement of the Group's financial position as at 31 December 2018, nor the Statement of comprehensive income for the year then ended. There was no significant impact on the transitional Cash flow statement for the period ended 31 December 2018. The Group applied most of the requirements of the new standard in earlier periods, therefore the new IFRS 15 does not have a significant impact on the financial statements both in terms of amounts, and disclosures and applied accounting policies.

For additional information on the Group's accounting policies related to revenue recognition, see note 3.4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 5 – IMPACT OF NEW ACCOUNTING POLICIES (continued)

*IFRS 9 Financial instruments*

The Group applies IFRS 9 from 1 January 2018. IFRS 9 establishes requirements for the recognition and measurement of financial assets, financial liabilities and some contracts for the purchase or sale of non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a new approach to the classification of financial assets, which is based on the cash flow characteristic and the business model in which the asset is held. The rules of classification and measurement of financial assets will not change and will not affect the financial statements of the Group. IFRS 9 introduces a new model for impairment of financial assets based on estimated expected losses, requiring timely recognition of expected credit losses. The new standard requires the Company to recognise expected credit losses at initial recognition of financial assets and timely recognition of credit losses over the useful life.

IFRS 9 largely retains the existing requirements of IAS 39 for the classification and measurement of financial liabilities. However, former categories of IAS 39 for financial assets held to maturity, loans and receivables and available for sale have been eliminated.

IFRS 9 replaces the “incurred loss” model from IAS 39 with the “expected credit loss” model. A new impairment model applies to financial assets measured at amortised cost, debt securities valued at fair value through other comprehensive income, but not for investments in equity instruments. According to IFRS 9, credit losses are recognised earlier than in IAS 39.

For assets falling within the impairment allowance under IFRS 9, impairment losses are expected to be higher compared to IAS 39.

Additional information about how the Group measures impairment is described in notes 3.22.

The adoption of IFRS 9 did not significantly impact the Group’s accounting policies related to financial instruments.

The effect of adoption of IFRS 9 on the carrying amount of financial assets as at 1 January 2018 relates exclusively to new impairment requirements. The Group estimated that the impact was not significant and did not recognise the effect as at 1 January 2018, rather during 2018.

In line with the new standard, in 2018 the Group recognised the expected credit losses (expected uncollected trade receivables) in the amount of HRK 1,361 thousand.

The following table and accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories in accordance with IFRS 9 for each class of financial assets and financial liabilities of the Group as at 1 January 2018:

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
<i>in HRK thousand</i>				
<b>Financial assets</b>				
Loans given	Loans and receivables	Amortised cost	9,746	9,746
Trade and other receivables	Loans and receivables	Amortised cost	947,493	947,493
Income tax receivable	Loans and receivables	Amortised cost	1,569	1,569
Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	511	511
Cash and cash equivalents	Loans and receivables	Amortised cost	362,082	362,082
<b>Total financial assets</b>			<b>1,321,401</b>	<b>1,321,401</b>
<b>Financial liabilities</b>				
Loans and borrowings	Other financial liabilities	Other financial liabilities	1,269,514	1,269,514
Financial liabilities at fair value through profit and loss	Financial liabilities at fair value through profit and loss	Financial liabilities at fair value through profit and loss	1,631	1,631
Income tax payable	Other financial liabilities	Other financial liabilities	5,433	5,433
Trade and other payables	Other financial liabilities	Other financial liabilities	742,256	742,256
<b>Total financial liabilities</b>			<b>2,018,834</b>	<b>2,018,834</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements in conformity with 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 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 judgments 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). During 2016, the Group recognised deferred tax assets with respect to unused tax credits with certain terms for utilisation, as described in more detail in 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 34).

(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 the estimated related legal costs and 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 34).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### 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 (generally above 120 days) 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, etc.

##### (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 carrying amount at the reporting date as follows:

	<b>Goodwill</b>	<b>Brands</b>	<b>Rights</b>
<i>Operating segment</i>	<i>(in thousands of HRK)</i>		
Culinary	-	8,892	-
BP Baby food, sweets and snack	-	21,144	-
BP Podravka food	-	439	-
BP Žito and Lagris	26,782	45,860	-
BP Meat products, solutions and spreads	-	-	-
BP Fish	-	18,800	-
Pharmaceuticals	-	-	55,475
Other - unallocated	-	-	15,056
	<b>26,782</b>	<b>95,135</b>	<b>70,531</b>

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

##### *Goodwill*

Goodwill relates entirely to goodwill arising on acquisition of the subsidiary Podravka Lagris a.s. The Group annually performs an impairment test in order to assess whether the recoverable amount of goodwill indicates potential impairment of its carrying amount. The calculation of the recoverable amount of goodwill is based on five year plans for sales on the Czech market and business plans of the subsidiary developed by the Group bearing in mind its corporate selling and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories etc.) 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 2.5%. Cash flows created from such plans are discounted using the post-tax discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for goodwill as the weighted average cost of capital after tax for the Czech market and the food industry and amounts to 5.92%.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) *Impairment testing for goodwill, brands and rights (continued)*

##### *Goodwill (continued)*

As a result of the impairment testing of goodwill, the Group had no impairment losses relating to goodwill during 2018 and 2017. The sensitivity analysis of presumptions does not indicate the need for the impairment of goodwill in case of a reasonably possible (up to 500 basis points) decrease in the terminal growth rate (assuming an unchanged weighted average cost of capital). On the other hand, if the weighted average cost of capital increased by 238 basis points (assuming an unchanged terminal growth rate) an impairment loss would arise in the amount of HRK 549 thousand.

##### *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 etc.) 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 in and the food industry.

For the purpose of fair valuation of brands whose dominant market is the Adria region, as at 31 December 2018 the Group applied an income approach – the method of non-payment of royalties.

The basis of the method of non-payment of royalties is that the value of intangible assets equals the amount that the owner would pay for the licence over the assets if it had not been owned, i.e. the value equals post-tax discounted expenses saved if royalties, i.e. the compensation for the use of trademarks, are not paid.

When calculating the fair value of brands whose dominant market is the Adria region (a total of 5 brands), rates equal to the weighted average cost of capital after tax (WACC) per individual market and the food industry were used, ranging from 5.16% to 7.73%, while the applied terminal growth rate is 1%. With a possible reduction of the terminal growth rate by 100 basis point (with unchanged weighted average cost of capital rate), there is an indication of impairment of HRK 1,928 thousand for one of the brands. With a possible increase in the average weighted cost of capital by 100 basis points (with unchanged terminal growth rate) for one of the brands there would be an indication of impairment of HRK 2,590 thousand.

When calculating the fair value of brands whose dominant market is only the Slovenian market, the rate equal to the weighted average cost of capital after tax (WACC) for the Slovenian market and the food industry was used, of 5.09%, while the terminal growth rate applied ranged from 0% to 1%. Brands whose dominant market is only the Slovenian market are not sensitive to changes in key variables. Even with reasonably possible (up to 500 basis points) changes in the terminal growth rate (with unchanged weighted average cost of capital rate) and the average weighted cost of capital (with unchanged terminal growth rate), there is no indication of impairment.

During 2018, the Group had no impairment losses with respect to brands.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 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 36,025 thousand.

The recoverable value of cash-generating units is determined by calculations of value in use based on cash flow projections on the basis of financial plans approved by the Management Board, which cover a five-year period.

Key assumptions on which projections of future cash flows are based include an average revenue growth rate of 2% in the period from 2019 to 2023, savings and optimisation of spending, reducing central service costs and improving procurement terms with suppliers.

In cash flows after the five-year period, a terminal 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 8.64% after taxation (for assets that generate the majority of revenues on the Croatian market).

During 2018, the Group had no impairment losses with respect to pharmaceutical rights.

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

The Group annually performs impairment tests for property, plant and equipment in order to assess whether the recoverable amount indicates potential impairment of their carrying amount. All production facilities and property, plant and equipment which are held for sale or relate to discontinued operations are subject to impairment testing on an annual basis.

In 2018, for the purpose of impairment tests of property, plant and equipment and assets held for sale, the Group used independent valuers’ estimates, obtained by comparative and cost methods. During 2018, the Group recognised the impairment of equipment in the amount of HRK 4,809 thousand.

For production facilities i.e. factories, in 2018 the Group engaged an independent expert valuer who determined the market value of properties. In preparing the valuation study, comparative and cost methods were used. Taking into account the study’s results for the factory in Tanzania, in 2017 the Group recognised impairment loss for production capacities in the amount of HRK 3,961 thousand (note 19). In 2018, the Group additionally recognised the impairment of the factory in Tanzania in the amount of HRK 5,873 thousand (note 27). Also, in 2018 the Group recognised the impairment loss on assets held for sale in Croatia in the amount of HRK 1,195 thousand. The Group considers these impairment losses to be one-off.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)**

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

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 2017, the Group engaged an independent expert valuer for the estimation of recoverable amount, who used the comparative method in land valuation and the cost method in the business complex valuation. The study showed that the carrying amounts of assets held for sale are recoverable, except for assets held for sale in Slovenia, which were impaired by HRK 345 thousand.

During 2017, the Group engaged an independent expert valuer for the estimation of recoverable amount of equipment on the market of Middle East and North Africa, in relation to a change of the business model on this market. In 2017, the Group recognised impairment of equipment on this basis in the amount of HRK 1,268 thousand.

During 2017, the Group reclassified assets held for sale to regular tangible assets following the decision not to sell and use them for other purposes. All required adjustments to the carrying amount of the assets no longer classified as held for sale have been made. The Group recognised HRK 790 thousand of net expenses as the effect of the reclassification of these assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 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 22: Non-current financial assets
- note 25: Financial assets at fair value through profit or loss
- note 27: Non-current assets held for sale
- note 32: Financial liabilities at fair value through profit or loss
- note 38: Share-based payments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 8 – SALES REVENUE

Sales revenue

	2018	2017
	<i>(in thousands of HRK)</i>	
Revenue from sale of products and merchandise	4,202,361	4,085,966
Revenue from services	29,788	25,204
	<b>4,232,149</b>	<b>4,111,170</b>

For management purposes, the Group is organised in business units based on the similarity in the nature of individual product groups and has identified reportable segments in accordance with quantitative thresholds for segment reporting. The reportable segments of the Group are as follows:

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

The reportable segments are part of the internal financial reporting to the Management Board which was identified as the chief operating decision maker. The Management Board reviews the internal reports regularly and assesses the segment performance, and uses those reports in making operating decisions.

Segment revenues and results

Set out below is an analysis of the Group's revenue and results by its reportable segments, presented in accordance with IFRS 8 *Operating segments* and a reconciliation of segment profits to profit or loss before tax as presented in the consolidated statement of comprehensive income. The revenue presented below relates to third-party sales. Inter-segment revenues are eliminated on consolidation.

<i>(in thousands of HRK)</i>	Segment revenues		Segment profits	
	2018	2017	2018	2017
BP Culinary	893,966	880,403	221,962	211,129
BP Baby food, sweets and snack	411,256	378,329	57,804	38,924
BP Podravka food	391,989	388,723	(15,397)	(31,151)
BP Žito	945,090	893,968	5,319	(4,502)
<i>Žito and related companies</i>	785,560	736,943	14,227	19,078
<i>Other companies</i>	159,530	157,025	(8,908)	(23,580)
BP Meat products, solutions and spreads	270,433	270,911	(11,044)	(26,171)
BP Fish	180,456	174,624	(3,478)	(983)
Pharmaceutical	896,880	867,475	97,782	100,051
Other	242,079	256,737	(6,697)	(5,006)
	<b>4,232,149</b>	<b>4,111,170</b>	<b>346,251</b>	<b>282,291</b>
Finance income (note 13)			13,130	5,091
Other income (note 9)			40,397	10,678
Central administration costs			(81,780)	(163,206)
Other expenses (note 10)			(46,425)	(38,683)
Finance expenses (note 14)			(21,070)	(45,275)
<b>Profit before tax</b>			<b>250,503</b>	<b>50,896</b>

Total intangible and tangible assets of the Pharmaceuticals segment amount to HRK 910,440 thousand, while the total intangible and tangible assets of all other segments amount to HRK 1,582,054 thousand.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 8 – SALES REVENUE (CONTINUED)

##### Segment revenues and results (continued)

BP Culinary comprises the following product groups: seasonings, soups, ready-to-cook meals and bouillons, food mixes and monospices.

BP Baby food, sweets and snacks comprises the following product groups: Lino world, sweets, drinks and snacks.

BP Podravka Food comprises the following product groups: condiments, tomato, sauces, fruit, vegetables and Podravka flour.

BP Žito and Lagris comprises the following product groups: core food, bakery and mill products, tea, confectionery and cereals for adults.

BP Meat products, meat solutions and savoury spreads comprises the following product groups: canned meat, sausages, food solution and other meat.

BP Fish comprises fish products.

The Pharmaceutical segment comprises the following: ethical drugs (medically prescribed drugs), non-prescription program (drugs for which no medical prescription is required), nutraceuticals and trade goods and services. Pharmaceuticals segment is regulated by the Croatian Institute for Health Insurance, which provides drug prices with prescription and by the relevant regulatory authorities in connection with the registration of medicines in the Croatian market. Foreign markets in this segment have similar regulation characteristics.

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

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, other income, other expenses, finance expenses, and income tax expense.

#### Geographical information

The Group operates in five principal geographical areas by which it reports third-party sales:

<i>(in thousands of HRK)</i>	<b>2018</b>	<b>2017</b>
Region Adria	2.960.252	2.888.724
Region Western Europe and overseas countries	436.387	422.985
Region Central Europe	512.540	482.336
Region Eastern Europe	292.411	286.851
Region New markets	30.559	30.274
	<b>4.232.149</b>	<b>4.111.170</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 8 – SALES REVENUE (CONTINUED)

Information about major customers

Third-party sales in Croatia account for 32% (2017: 33%) of the total revenue from external customers, whereas the remaining 68% (2017: 67%) represent foreign sales. Top 20 customers participate in 33% (2017: 34%) of the external sales.

Sales to major customers owned or controlled by the same group represent approximately 11% of the Group's total revenue in 2018 (2017: approximately 10% of the total revenue). Below is a more detailed overview of countries by geographical area:

Region Adria	International markets					
	Western Europe and Overseas		Central Europe	Eastern Europe	New markets	
Southeast Europe	Western Europe	Overseas				
Slovenia	Germany	USA	Poland	Russian Federation	Irak	South Africa Republic
Bosnia and Herzegovina	Austria	Canada	Czech Republic	Ukraine	United Arab Emirates	Madagascar
Macedonia	Switzerland	Panama	Slovakia	Kazakhstan	Kuwait	Liberia
Serbia	France	Australia	Hungary	Estonia	Katar	Cameroon
Montenegro	Great Britain	New Zealand	Romania	Lithuania	Yemen	Ghana
Kosovo	Italy	Fiji	Bulgaria	Latvia	Oman	China
Albania	Denmark			Moldova	Saudi Arabia	India
Greece	Finland			Belarus	Turkey	Japan
Croatia	Sweden			Armenia	Jordan	Singapore
	Norway			Kyrgystan	Egypt	Taiwan
	Island				Libya	Israel
	Nederlands				Morocco	Mongolia
	Belgium				Uganda	Thailand
	Ireland				Kenya	Pakistan
	Spain				Zambia	Cyprus
	Portugal				Tanzania	
					Ethiopia	

NOTE 9 – OTHER INCOME

	2018	2017
	<i>(in thousands of HRK)</i>	
Grant income	9,890	9,128
Gain on disposal of assets held for sale (note 27)	11,805	23
Reversal of provisions	5,608	-
Other income	13,094	1,527
	<b>40,397</b>	<b>10,678</b>

Grant income mainly refers to non-repayable state grants in agriculture.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 10 – OTHER EXPENSES**

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Interest expense relating to trade payables and other	2,900	513
Impairment loss on intangible assets (note 18)	-	18,331
Impairment loss on assets held for sale (note 27)	16,318	1,612
Impairment loss on property, plant and equipment (note 19)	4,809	2,173
Loss on disposal of property, plant, equipment and intangibles	3,254	1,223
Interest and foreign exchange differences on trade receivables and payables	18,259	11,953
Net provisions	-	2,878
Value adjustment of investments in equity instruments	885	-
	<b>46,425</b>	<b>38,683</b>

**NOTE 11 – EXPENSES BY NATURE**

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Raw materials supplies, energy and cost of goods sold including change in inventory	2,073,623	2,061,946
Staff costs (note 12)	1,003,786	996,874
Advertising and promotion	227,002	194,169
Services (i)	225,011	219,033
Depreciation and amortisation (ii)	192,671	194,046
Transport	97,808	93,798
Rental expense	44,637	50,511
Impairment of trade receivables (note 24)	(3,428)	44,871
Entertainment	30,162	28,197
Daily allowances and other business travel expenses	21,133	21,022
Taxes and contributions independent of operating results	22,970	23,293
Telecommunications	10,853	11,672
Cost of disposal of packaging, administrative fees, etc	10,384	11,402
Bank charges	5,413	5,832
Other (iii)	5,653	35,419
<b>Total cost of goods sold, selling and distribution costs, marketing costs and general and administrative costs</b>	<b>3,967,678</b>	<b>3,992,085</b>

- (i) Costs of services include audit fees. Fees for the audit of the Group's financial statements amounted to HRK 2,412 thousand (2017: HRK 2,611 thousand). During 2018, the Group did not receive any non-audit services from the auditor (2017: HRK 193 thousand for transfer pricing study).
- (ii) Depreciation and amortisation include HRK 590 thousand of government grants for co-financing of assets (2017: HRK 413 thousand).
- (iii) "Other" mainly relates to insurance premiums of HRK 10,362 thousand (2017: HRK 11,238 thousand), and provisions for other future expenses of HRK 2,506 thousand (2017: HRK 8,799 thousand).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### NOTE 11 – EXPENSES BY NATURE (continued)

The following tables present expenses by nature contained in cost of goods sold:

	2018	2017
	<i>(in thousands of HRK)</i>	
Raw material and supplies	1,445,829	1,422,058
Cost of goods sold	559,031	601,691
Staff costs	432,272	399,267
Depreciation and amortisation	127,327	120,750
Production services	77,875	62,361
Taxes and contributions independent of operating results	8,115	7,358
Other expenses (transport, rent, education, etc)	23,267	13,574
<b>Cost of goods sold</b>	<b>2,673,716</b>	<b>2,627,059</b>

In 2017, the new pharmaceuticals factory of Belupo was completed, the largest greenfield investment in the company's history, and the production permit, after meeting all regulatory requirements, was obtained at the end of 2017. In 2018, the Group recognised the amount of HRK 20,245 thousand as part of cost of goods sold (2017: HRK 25,376 thousand), related to one-off production expenses for the purpose and prior to obtaining all relevant permits required for the beginning of the sale of products from the new factory.

Also, in 2018 the Group recognised as part of cost of goods sold HRK 1,555 thousand (2017: HRK 10,731 thousand) of impairment of inventories of frozen vegetables, and HRK 4,539 thousand of impairment of inventories of finished products and raw materials Valsartan and Vazelin. The Group considers these expenses to be one-off.

Depreciation and amortisation allocated to each function is as follows:

	2018	2017
	<i>(in thousands of HRK)</i>	
Cost of goods sold	127,327	120,750
Marketing expenses	6,345	6,405
Selling, logistics and distribution costs	22,536	34,133
General and administrative expenses	36,463	32,758
	<b>192,671</b>	<b>194,046</b>

Staff costs allocated to each function is as follows:

	2018	2017
	<i>(in thousands of HRK)</i>	
Cost of goods sold	432,272	399,267
Marketing expenses	103,880	102,281
Selling, logistics and distribution costs	280,037	267,543
General and administrative expenses	187,597	227,783
	<b>1,003,786</b>	<b>996,874</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### NOTE 12 – STAFF COSTS

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Salaries	938,991	906,762
Termination benefits	7,492	32,129
Transport	18,977	18,488
Share options (note 38)	2,093	12,791
Other cost of employees	36,233	26,704
	<b>1,003,786</b>	<b>996,874</b>

As at 31 December 2018, the number of staff employed by the Group was 6,517 (2017: 6,306).

In 2018, termination and retirement benefits of HRK 7,492 thousand were paid to 99 employees (2017: termination and retirement benefits of HRK 32,129 thousand were calculated and paid to 271 employees), of which HRK 5,562 thousand relates to one-off expense of termination benefits for severely ill employees, considered by the Group to be a one-off expense.

#### NOTE 13 – FINANCE INCOME

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Interest on term deposits	354	645
Other interests	287	2,120
Unrealised gains per interest rate swap contract	864	1,189
Net foreign exchange gains on borrowings	11,488	-
Remeasurement of financial instruments at fair value through profit or loss	137	1,137
	<b>13,130</b>	<b>5,091</b>

#### NOTE 14 – FINANCE EXPENSES

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Interest expense and similar charges	18,993	31,247
Net foreign exchange loss on borrowings	-	10,264
Capital reserve ESOP	2,077	3,764
	<b>21,070</b>	<b>45,275</b>

During 2018, reference interest rates remained at low levels, which, coupled with regular repayment of borrowings, resulted in decreased interest expense on borrowings.

Given the Group's exposure to interest rate risk arising from borrowings granted at variable interest rates, the Group actively hedges interest rate risk related to the syndicated loan through derivative financial instruments (interest rate swaps) - for details see note 32.

In 2018, the Group recognised within other finance costs the cost of allocated options in the employee stock ownership program in the amount of HRK 2,077 thousand (2017: HRK 3,764 thousand). The Group considers these costs of allocated options to be one-off.

During 2018, the Group had investments with interest expense amounting to HRK 403 thousand (2017: HRK 3,667 thousand) capitalised into buildings and equipment.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 15 – INCOME TAX**

Income tax expense consists of:

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Current income tax	27,158	15,658
Deferred tax expense	11,766	11,407
	<b>38,924</b>	<b>27,065</b>

*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:

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
<b>Profit before taxation</b>	<b>250,503</b>	<b>50,896</b>
Income tax at 18%	44,357	9,134
Non-taxable income	-	-
Non-deductible expenses	10,343	10,009
Tax incentives (research and development, education and other)	(209)	5,534
Temporary differences and tax losses not recognised as deferred tax assets	(9,117)	11,741
Utilisation of tax losses previously not recognised as deferred tax asset	(4,182)	-
Effect of different tax rates	(2,268)	(9,375)
Tax for the previous year	-	22
<b>Income tax</b>	<b>38,924</b>	<b>27,065</b>
Effective tax rate	16%	53%

*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 2018, deferred tax asset of HRK 14,926 thousand was used from this basis, i.e. a total of HRK 82,922 thousand of incentives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 15 – INCOME TAX (CONTINUED)

*Unused tax losses*

In accordance with tax regulations, as at 31 December 2017 the Group has unused tax losses in the amount of HRK 87,499 thousand (2017: HRK 126,442 thousand) which consist of tax losses in Slovenia (in the amount of HRK 9,922 thousand), Hungary (in the amount of HRK 1,412 thousand), Tanzania (in the amount of HRK 59,563 thousand), Kenya (in the amount of HRK 4,662 thousand) and Poland (in the amount of HRK 11,940 thousand).

Unused tax losses carried forward were recognized as deferred tax assets in the amount of HRK 4,043 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:

	2018	2017
	<i>(in thousands of HRK)</i>	
Tax losses expiring at 31 December 2018	-	381
Tax losses expiring at 31 December 2019	3,885	17,488
Tax losses expiring at 31 December 2020	2,636	6,004
Tax losses expiring at 31 December 2021	19,758	22,622
Tax losses expiring at 31 December 2022	38,991	46,443
Tax losses expiring at 31 December 2023	10,895	1,491
Tax losses expiring at 31 December 2025	1,412	-
Tax losses with no expiration date	9,922	32,013
	<b>87,499</b>	<b>126,442</b>

*Deferred tax assets*

Deferred tax assets arise from the following:

2018	Opening balance	Acquisitions	Recognised in profit or loss	Recognised directly in equity	Foreign exchange differences	Closing balance
	<i>(in thousands of HRK)</i>					
<b>Basis:</b>						
Intangible assets	17,414	-	(12,420)	-	-	4,994
Property, plant and equipment	2,100	-	2,691	-	-	4,791
Financial assets	6,066	-	6,118	-	-	12,184
Provisions	9,070	-	2,428	-	-	11,498
Share-based payments	2,919	-	(1,584)	-	-	1,335
Inventories	5,451	-	1,635	-	-	7,086
Investment tax credit	115,910	-	(14,926)	-	-	100,984
Unutilised tax losses carried forward	6,447	-	(2,404)	-	-	4,043
Other deferred tax assets	5,009	-	155	-	-	5,164
<b>Deferred tax assets</b>	<b>170,386</b>	<b>-</b>	<b>(18,307)</b>	<b>-</b>	<b>-</b>	<b>152,079</b>

2017	Opening balance	Acquisitions	Recognised in profit or loss	Recognised directly in equity	Foreign exchange differences	Closing balance
	<i>(in thousands of HRK)</i>					
<b>Basis:</b>						
Intangible assets	14,114	-	3,300	-	-	17,414
Property, plant and equipment	3,924	-	(1,740)	-	(84)	2,100
Financial assets	765	-	5,304	-	(3)	6,066
Provisions	8,059	-	952	64	(5)	9,070
Share-based payments	3,323	-	(404)	-	-	2,919
Inventories	8,080	-	(2,629)	-	-	5,451
Investment tax credit	133,906	-	(17,996)	-	-	115,910
Unutilised tax losses carried forward	7,232	-	(785)	-	-	6,447
Other deferred tax assets	6,366	-	(1,357)	-	-	5,009
<b>Deferred tax assets</b>	<b>185,769</b>	<b>-</b>	<b>(15,355)</b>	<b>64</b>	<b>(92)</b>	<b>170,386</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 15 – INCOME TAX (CONTINUED)

*Deferred tax assets (continued)*

In 2018, intra - group sale of intangible assets (Warzywko brand) resulted with the right to decrease the tax base that was increased in previous periods, resulting in a decrease in deferred tax asset by the amount of HRK 12,420 thousand. During 2018, deferred tax assets increased based on tangible assets in the amount of HRK 2,691 thousand, since the impairment of tangible assets is considered to be non - deduct cost for tax purposes, and on this basis, income tax was calculated and deferred tax assets increased.

Deferred tax assets also increased on the financial assets line item in the amount of HRK 6,118 thousand on the basis of impairment of financial assets, i.e. investments in subsidiaries.

Tax benefits were used in the amount of HRK 14,926 thousand, and on this basis deferred tax assets were also reduced.

*Deferred tax liability*

Deferred tax liabilities arise from the following:

2018	Opening balance	Recognised in profit or loss	Foreign exchange differences	Closing balance
	<i>(in thousands of HRK)</i>			
<b>Basis:</b>				
Intangible assets	(10,752)	1,547	(2)	(9,207)
Property, plant and equipment	(35,940)	4,939	(5)	(31,006)
	<b>(46,692)</b>	<b>6,486</b>	<b>(7)</b>	<b>(40,213)</b>
2017	Opening balance	Recognised in profit or loss	Foreign exchange differences	Closing balance
	<i>(in thousands of HRK)</i>			
<b>Basis:</b>				
Intangible assets	(12,879)	2,107	20	(10,752)
Property, plant and equipment	(37,885)	1,935	10	(35,940)
	<b>(50,764)</b>	<b>4,042</b>	<b>30</b>	<b>(46,692)</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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 173,744 were not exercised (2017: 130,051 options). The price of all unexercised share options is lower than the share market price as at 31 December 2018. 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:

	<b>2018</b>	<b>2017</b>
Ordinary shares as at 1 January	7,120,003	7,120,003
Effect of treasury shares	(155,524)	(167,631)
<b>Weighted average number of shares at 31 December (basic)</b>	<b>6,964,479</b>	<b>6,952,372</b>
Effect of share based payments	20,220	-
<b>Weighted average number of shares at 31 December (diluted)</b>	<b>6,984,699</b>	<b>6,952,372</b>

Basic and diluted earnings/(loss) per share for continued and discontinued operations and the Group as a whole was as follows:

	<b>2018</b>	<b>2017</b>
<b>Basic earnings per share</b>		
Profit for the year attributable to the owners of parent company (in thousands of HRK )	205,711	18,250
<b>Basic earnings per share (in HRK)</b>	<b>29.54</b>	<b>2.63</b>
<b>Diluted earnings per share</b>		
Profit for the year attributable to the owners of parent company (in thousands of HRK )	205,711	18,250
<b>Diluted earnings per share (in HRK)</b>	<b>29.45</b>	<b>2.63</b>

NOTE 17 - GOODWILL

(in thousands of HRK)

	<b>2018</b>	<b>2017</b>
<b>Cost</b>		
At 1 January	67,304	67,304
<b>At 31 December</b>	<b>67,304</b>	<b>67,304</b>
<b>Accumulated impairment losses</b>		
At 1 January	39,902	41,280
Effect of changes in the foreign exchange rates	620	(1,378)
<b>At 31 December</b>	<b>40,522</b>	<b>39,902</b>
<b>Carrying amount at 31 December</b>	<b>26,782</b>	<b>27,402</b>

During 2018 and 2017 there was no impairment of goodwill. A more detailed description of the approach and methods used in impairment testing is provided in note 6(v).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 18 – INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	Software and licences	Rights, registration files, know how	Brands	Intangible assets in progress	Total
<b>Cost</b>					
At 1 January 2017	221,052	244,796	202,915	24,301	693,064
Effect of foreign exchange differences	253	(86)	327	(4)	490
Additions	70	-	(7,336)	34,512	27,246
Transfers	14,680	4,210	7,297	(26,187)	-
Disposals and write-off's	(3,779)	(13,538)	-	(1,943)	(19,260)
Transfer from assets held for sale	410	-	-	-	410
<b>At 31 December 2017</b>	<b>232,686</b>	<b>235,382</b>	<b>203,203</b>	<b>30,679</b>	<b>701,950</b>
<b>Accum. amortisation and impairments</b>					
At 1 January 2017	(186,158)	(161,772)	(77,150)	-	(425,080)
Effect of foreign exchange differences	(257)	(4)	(539)	-	(800)
Disposals and write-off's	3,779	13,316	-	-	17,095
Charge for the year	(12,005)	(14,034)	(8,150)	-	(34,189)
Impairment	-	-	(18,331)	-	(18,331)
Transfer from assets held for sale	(410)	-	-	-	(410)
<b>At 31 December 2017</b>	<b>(195,051)</b>	<b>(162,494)</b>	<b>(104,170)</b>	<b>-</b>	<b>(461,715)</b>
<b>Carrying amount as at 31 Dec 2017</b>	<b>37,635</b>	<b>72,888</b>	<b>99,033</b>	<b>30,679</b>	<b>240,235</b>
<b>Cost</b>					
At 1 January 2018	232,686	235,382	203,203	30,679	701,950
Effect of foreign exchange differences	(495)	(232)	(836)	(17)	(1,580)
Additions	(296)	-	-	25,828	25,532
Transfers	21,008	6,430	-	(27,438)	-
Disposals and write-off's	(2,089)	(292)	-	(868)	(3,249)
<b>At 31 December 2018</b>	<b>250,814</b>	<b>241,288</b>	<b>202,367</b>	<b>28,184</b>	<b>722,653</b>
<b>Accum. amortisation and impairments</b>					
At 1 January 2018	(195,051)	(162,494)	(104,170)	-	(461,715)
Effect of foreign exchange differences	472	37	242	-	751
Disposals and write-off's	2,050	292	-	-	2,342
Charge for the year	(15,959)	(8,592)	(3,304)	-	(27,855)
<b>At 31 December 2018</b>	<b>(208,488)</b>	<b>(170,757)</b>	<b>(107,232)</b>	<b>-</b>	<b>(486,477)</b>
<b>Carrying amount as at 31 Dec 2018</b>	<b>42,326</b>	<b>70,531</b>	<b>95,135</b>	<b>28,184</b>	<b>236,176</b>

Of the total amount of accumulated amortisation and impairment losses HRK 103,942 thousand relates to accumulated impairment losses (2017: HRK 103,942 thousand).

The total intangible assets with indefinite useful lives as at 31 December 2018 amount to HRK 165,666 thousand and relate to brands and other rights.

Intangible assets under construction relate to capitalised development expenses and purchased registration files for which health regulatory approval has not yet been received.

In 2017 the Group recognised impairment of the Warzywko and Perfecta brands in the amount of HRK 17,893 thousand, and impairment of a project in the amount of HRK 438 thousand. The Group considers these costs to be one-off. A more detailed description of the approach and method used in impairment testing is provided in note 6(v). Impairment losses on intangible assets are included in "Other expenses" as presented in note 10.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of HRK)</i>	<b>Land and buildings</b>	<b>Equipment</b>	<b>Assets under construction</b>	<b>Total</b>
<b>Cost</b>				
At 1 January 2017	2,690,097	1,933,963	579,135	5,203,195
Effect of foreign exchange differences	(1,500)	(1,414)	(1,239)	(4,153)
Additions	133	866	178,550	179,549
Transfers	189,764	441,367	(631,131)	-
Disposals and write-offs	(1,555)	(51,247)	(876)	(53,678)
Transfer to assets held for sale (i)	-	(1,756)	(585)	(2,341)
Transfer from assets held for sale (i)	25,848	4,914	469	31,231
<b>At 31 December 2017</b>	<b>2,902,787</b>	<b>2,326,693</b>	<b>124,323</b>	<b>5,353,803</b>
<b>Accum. depreciation and impairments</b>				
At 1 January 2017	(1,524,134)	(1,374,619)	-	(2,898,753)
Effect of foreign exchange differences	(478)	(1,159)	-	(1,637)
Disposals and write-offs	461	50,639	-	51,100
Impairment of non-current assets	(3,961)	-	(327)	(4,288)
Transfer to assets held for sale (i)	-	272	-	272
Charge for the year	(59,232)	(101,038)	-	(160,270)
Transfer from assets held for sale (i)	(20,201)	(4,149)	-	(24,350)
Reversal of impairment	2,115	-	-	2,115
<b>At 31 December 2017</b>	<b>(1,605,430)</b>	<b>(1,430,054)</b>	<b>(327)</b>	<b>(3,035,811)</b>
<b>Carrying amount as at 31 Dec 2017</b>	<b>1,297,357</b>	<b>896,639</b>	<b>123,996</b>	<b>2,317,992</b>
<b>Cost</b>				
At 1 January 2018	2,902,787	2,326,693	124,323	5,353,803
Effect of foreign exchange differences	(5,911)	(3,326)	(151)	(9,388)
Additions	1,754	2,744	137,273	141,771
Transfers	22,982	135,335	(158,317)	-
Disposals and write-offs	(1,664)	(56,782)	-	(58,446)
Transfer to assets held for sale (i)	-	(9,599)	(12,486)	(22,085)
Transfer from assets held for sale (i)	-	1,337	-	1,337
Transfer to investment property	(13,316)	-	-	(13,316)
<b>At 31 December 2018</b>	<b>2,906,632</b>	<b>2,396,402</b>	<b>90,642</b>	<b>5,393,676</b>
<b>Accum. depreciation and impairments</b>				
At 1 January 2018	(1,605,430)	(1,430,054)	(327)	(3,035,811)
Effect of foreign exchange differences	150	880	-	1,030
Disposals and write-offs	1,632	53,156	-	54,788
Charge for the year	(51,863)	(112,953)	-	(164,816)
Transfer to assets held for sale (i)	4,205	2,290	-	6,495
Impairment of non-current assets	-	(4,809)	-	(4,809)
Transfer from assets held for sale (i)	-	(1,337)	-	(1,337)
Transfer to investment property	7102	0	0	7102
<b>At 31 December 2018</b>	<b>(1,644,204)</b>	<b>(1,492,827)</b>	<b>(327)</b>	<b>(3,137,358)</b>
<b>Carrying amount as at 31 Dec 2018</b>	<b>1,262,428</b>	<b>903,575</b>	<b>90,315</b>	<b>2,256,318</b>

During 2018, the Group recognised impairment of equipment in the amount of HRK 4,809 thousand. In 2017, the Group recognised impairment of property and plant in Tanzania in the amount of HRK 3,961 thousand and the impairment of equipment in Poland in the amount of HRK 327 thousand. The Group considers these costs to be one-off. During 2018, the Group reclassified property, plant and equipment to assets held for sale in the amount of HRK 15,590 thousand.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During 2018, the Group reclassified properties in Slovenia to investment property in the amount of HRK 6,214 thousand.

In 2017, the Group also wrote off the project documentation for the fish and tomato factory in the amount of HRK 827 thousand and returned a portion of assets held for sale to property, plant and equipment. By returning assets held for sale to property, plant and equipment, the Group recognised additional depreciation in the amount of HRK 2,905 thousand and recognised the reversal of impairment of property in the amount of HRK 2,115 thousand. The Group considers these expenses and income to be one-off and they are presented in note 10 *Other expenses*.

Assets under construction relate mainly to investments in modernisation of production capacities and product mix expansion.

During 2018, the Group had investments under which interest expense in the amount of HRK 403 thousand (2017: HRK 3,667 thousand) was capitalised in property and equipment using the estimated capitalisation rate of 1.62% (2017: 2.16%).

- (i) During 2018, the Group transferred property, plant and equipment with a carrying amount of HRK 15,590 thousand to assets held for sale (2017: HRK 4,812 thousand).

#### *Mortgaged assets*

The Group has a syndicated loan agreed with the EBRD and several business banks in the total amount of EUR 123 million. The properties of Podravka d.d., Belupo d.d. and Žito d.o.o. (users of the syndicated loan) in the carrying amount of HRK 926,288 thousand (2017: HRK 924,184 thousand) were pledged as a security instrument.

#### *Property which is subject to finance lease agreement*

Leased property, plant and equipment where the Group is the lessee under a finance lease comprises the following:

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Cost of capitalised finance leases	3,695	3,910
Accumulated depreciation	(912)	(862)
<b>Carrying amount</b>	<b>2,783</b>	<b>3,048</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**NOTE 20 – INVESTMENT PROPERTY**

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
<b>At 1 January</b>	-	-
Transfer from assets held for sale	121,866	-
Transfer from property, plant and equipment	12,321	-
<b>At 31 December</b>	<b>134,187</b>	-

In line with the management's decision, in 2018, land and buildings in Rijeka in the amount of HRK 121,866 thousand were reclassified to investment property. Prior to reclassification, the properties in Rijeka were impaired in the amount of HRK 9,416 thousand. According to the independent expert valuer's estimate, the fair value of property does not indicate the need for further impairment. Operating expenses amount to HRK 1,293 thousand, while rental income from a smaller part of the property amounts to HRK 1,668 thousand.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 21 – SUBSIDIARIES**

Group consists of the Company and the following subsidiaries in which the Company has an ownership interest above 50% and control:

Name of subsidiary	Country	2018	2017	Principal activity
Belupo d.d., Koprivnica	Croatia	100%	100%	Production and distribution of pharmaceuticals
Belupo doel, Skopje*	Macedonia	100%	100%	Sale and distribution of pharmaceuticals
Belupo s.r.o. Bratislava*	Slovakia	100%	100%	Sale and distribution of pharmaceuticals
Belupo Ljubljana*	Slovenia	100%	100%	Sale and distribution of pharmaceuticals
Ljekarne Deltis Pharm Koprivnica*	Croatia	100%	100%	Sale and distribution of pharmaceuticals
Farmavita d.o.o. Vogošća*	Bosnia and Herzegovina	65%	65%	Sale and distribution of pharmaceuticals
Mirna d.d. Rovinj	Croatia	90%	90%	Fish processing and production
Lagris a.s., Lhota u Luhačovic	Czech Rep.	100%	100%	Rice production and sale
Podravka-Polska Sp.z o.o., Warszawa	Poland	100%	100%	Seasonings production and sale
Podravka-International Kft, Budapest	Hungary	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Belgrade	Serbia	100%	100%	Sale and distribution of food and beverages
Podravka-Int. Deutschland –“Konar” GmbH	Germany	100%	100%	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen**	Slovakia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100%	100%	Sale and distribution of food and beverages
Podravka-International Pty Ltd, Sydney	Australia	100%	100%	Sale and distribution of food and beverages
Sana d.o.o., Hoče	Slovenia	0%	100%	Production of wafers
Podravka-International s.r.l., Bucharest	Romania	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Skopje	Macedonia	100%	100%	Sale and distribution of food and beverages
	Bosnia and Herzegovina			
Podravka d.o.o., Sarajevo	Herzegovina	100%	100%	Sale and distribution of food and beverages
Podravka-International Inc. Wilmington	USA	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Moskva	Rusia	100%	100%	Sale and distribution of food and beverages
Vegeta Podravka Limited, Dar es Salaam***	Tanzanija	85%	85%	Production and distribution of food
Vegeta Ltd.****	Kenija	80%	80%	Sale and distribution
Podravka Gulf Fze, Jebel Ali, Dubai	UAE	100%	100%	Sale and distribution
Žito d.d., Ljubljana	Slovenia	100%	100%	Production and distribution of food
Intes Storitve d.o.o., Maribor	Slovenia	100%	100%	Production and distribution of food
Šumi bonboni d.o.o., Ljubljana	Slovenia	100%	100%	Production and distribution of food
Žito maloprodaja d.o.o., Ljubljana	Slovenia	100%	100%	Sale of food and beverages
ZRIŽ g.i.z., Ljubljana	Slovenia	100%	100%	Services
LD Žito d.o.o. v likvidaciji, Zagreb	Croatia	100%	100%	Sale and distribution of food
Podravka d.o.o., Ljubljana	Slovenia	100%	100%	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 Lagris a.s., Lhota u Luhačovic

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

\*\*\*\*80% of ownership interest is held through the subsidiary Vegeta Podravka Limited, Dar es Salaam

In 2018, the Group eliminated business interests in subsidiary Sana d.o.o Hoče in bankruptcy, in line with the completion of the bankruptcy procedure as of 15 February 2018.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 22 – NON-CURRENT FINANCIAL ASSETS

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Loans receivable	8	2,126
Other receivables and deposits	1,678	2,886
Investments in other equity instruments	4,680	4,734
	<b>6,366</b>	<b>9,746</b>

Other receivables and deposits mainly relate to lease deposits.

Investments in other equity instruments mainly relate to investments in unlisted equity instruments.

#### NOTE 23 – INVENTORIES

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Raw materials and supplies	328,043	276,762
Work in progress	38,969	55,091
Finished goods	359,688	347,081
Merchandise	121,530	126,871
	<b>848,230</b>	<b>805,805</b>

In 2018, the Group recognised impairment loss with respect to inventories in the amount of HRK 18,194 thousand (2017: HRK 13,940 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'.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 24 – TRADE AND OTHER RECEIVABLES**

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
<b>Current receivables</b>		
Trade receivables	1,052,625	1,081,399
Receivables on discounted bills of exchange	57,722	60,840
Impairment of receivables for expected credit losses	(1,361)	-
Impairment of receivables	(229,418)	(240,999)
<b>Net trade receivables</b>	<b>879,568</b>	<b>901,240</b>
Bills of exchange received	-	210
Advances to suppliers	9,187	9,593
Loans given	7	601
Net VAT receivable	23,596	18,332
Prepaid expenses	18,817	10,452
Receivables from employees	1,256	1,287
Other receivables	6,335	5,778
	<b>938,766</b>	<b>947,493</b>

During 2018, the Group recognised the reversal of impairment of receivables in the amount of HRK 7,905 thousand since the customer had better results than estimated.

In 2017, the Group recognised impairment of trade receivables from customers owned or controlled by the same group in the amount of HRK 44,094 thousand and the Group considers these costs to be one-off.

During 2017, impairment of trade receivables in the amount of HRK 2,123 thousand and other current receivables in the amount of HRK 4,986 thousand in the company Vegeta Podravka Limited in Tanzania were recognised. The Group considers these costs to be one-off.

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

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
At 1 January	240,999	219,874
Net (decrease) / Increase	(1,033)	46,410
Amounts collected	(2,395)	(1,539)
Written off as uncollectable	(6,792)	(23,746)
<b>At 31 December</b>	<b>230,779</b>	<b>240,999</b>

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:

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Non due	705,601	691,418
0-90 days	154,059	163,038
91-180 days	15,428	18,344
181-360 days	4,480	28,440
	<b>879,568</b>	<b>901,240</b>

*Major customers*

Net trade receivables from major customers owned or controlled by the same group as at 31 December 2018 amount to HRK 140,585 thousand (2017: HRK 151,756 thousand).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### NOTE 25 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	<i>(in thousands of HRK)</i>	
Forward contracts	296	511
	<b>296</b>	<b>511</b>

During 2018, the Group used forward contracts entered into with commercial banks with the intention of managing the fluctuations of foreign currencies related to the purchase and sale of those currencies, and which had a positive fair value as at 31 December 2018 amounting to HRK 296 thousand.

The nominal value of currency forwards as at 31 December 2018 amounted to HRK 20,437 thousand with the contracts maturing in the period from 10 January 2019 to 12 June 2019 (2017: HRK 38,970 thousand, with the contracts maturing in the period from 11 January 2018 to 13 November 2018).

Gains and losses recognized as changes in the market value of the currency forward contracts are recorded in the statement of comprehensive income within 'finance income/costs, 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 26 – CASH AND CASH EQUIVALENTS

	2018	2017
	<i>(in thousands of HRK)</i>	
Cash with banks	193,927	343,559
Short-term deposits – up to 3 months	16,763	18,098
Cash in hand	416	425
	<b>211,106</b>	<b>362,082</b>

Cash with banks relates to transaction accounts at commercial banks that carry an average interest rate ranging from 0.01% to 1.07%.

Deposits relate to deposits at commercial banks with maturity up to three months that carry a variable interest rate up to 5.03%.

The Group has certain transactions in foreign currencies and cash on bank accounts mainly in EUR (HRK 96,842 thousand), HRK (HRK 54,526 thousand) and RUB (HRK 18,594 thousand), while in other currencies it holds HRK 41,144 thousand.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 27 – NON-CURRENT ASSETS HELD FOR SALE**

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Land and buildings	22,787	177,941
Equipment	7,134	220
	<b>29,921</b>	<b>178,161</b>

In 2018, the Group sold a portion of non-current assets held for sale with the carrying value of HRK 25,457 thousand and realised gain on sale in the amount of HRK 11,805 thousand.

Of the total amount of land and buildings held for sale, HRK 13,462 thousand relates to land and buildings in Poland, HRK 2,956 thousand to land and buildings in Tanzania, HRK 2,206 thousand to land and buildings in Croatia and HRK 4,163 thousand on the market of Slovenia.

In 2018, the Group recognised impairment of land and buildings held for sale in Rijeka in the amount of HRK 9,416 thousand (2017: HRK 0), impairment of a property in Koprivnica in the amount of HRK 1,195 thousand (2017: HRK 0) and made a reclassification to investment property in the amount of HRK 121,866 thousand.

In 2018, the Group reclassified land, buildings and equipment in Tanzania to assets held for sale in the amount of HRK 15,590 thousand and recognised impairment in the amount of HRK 5,873 thousand.

*Fair value measurement*

Land and property held for sale in the amount of HRK 29,921 thousand are measured at fair value less costs of sell due to the fact that this value is lower than the net carrying value prior to classification as held for sale. The Group has made an estimation of fair value on classification date and regularly checks if estimation needs to be revised. During 2018, land, buildings and equipment in Croatia and Tanzania were impaired.

Fair value measurement according to inputs used in evaluation is classified as level 3 (see note 7). The following table summarizes the valuation methods and techniques as well as significant inputs used in measuring the fair value at the classification date:

<b>Valuation methods and techniques</b>	<b>Significant unobservable inputs</b>
<i>Property</i>	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.
For buildings and land, cost and comparative methods are used.	
<i>Equipment</i>	
For equipment, the cost method is used.	

*Equipment held for sale*

During 2018, the Group partly sold equipment held for sale on the market of Dubai, and the carrying value of equipment amounts to HRK 0 (2017: HRK 220 thousand).

The amount of HRK 7,134 thousand as at 31 December 2018 relates to equipment in the production plant in Tanzania.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 28– SHARE CAPITAL**

	<b>Number of shares</b>	<b>Ordinary shares</b>	<b>Share premium</b>	<b>Treasury shares</b>	<b>Total</b>
	<i>(in pcs)</i>	<i>(in thousands of HRK)</i>			
At 1 January 2017	6,925,103	1,566,401	187,400	(72,540)	1,681,261
Excercise of options (i)	32,341	-	(15,306)	12,037	(3,269)
Fair value of share based payments (i)	-	-	11,955	-	11,955
<b>At 31 December 2017</b>	<b>6,957,444</b>	<b>1,566,401</b>	<b>184,049</b>	<b>(60,503)</b>	<b>1,689,947</b>
At 1 January 2018	6,957,444	1,566,401	184,049	(60,503)	1,689,947
Purchase of treasury shares (i)	(7,000)	-	-	(2,557)	(2,557)
Excercise of options (i)	23,784	-	(1,489)	8,851	7,362
Fair value of share based payments (i)	-	-	(2,868)	-	(2,868)
<b>At 31 December 2018</b>	<b>6,974,228</b>	<b>1,566,401</b>	<b>179,692</b>	<b>(54,209)</b>	<b>1,691,884</b>

As at 31 December 2018, the Company's share capital amounted to HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 145,775 relates to treasury shares (2017: HRK 1,566,401 thousand and 7,120,003 shares out of which 162,559 related to treasury shares). Nominal value of one share amounts to HRK 220.00. All issued shares are fully paid in.

*(i) Share based payments*

In 2018, the Company purchased 7,000 of its own shares, while in 2017 there were no purchases of treasury shares.

During 2017, the Company also issued additional options to employees under the stock option plan for employees, but also as part of the employee stock ownership program (ESOP program) in the context of the share capital increase. The share option plan for employees and the ESOP program are described in more detail in note 38 (ii) to the consolidated financial statements.

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

<b>Structure of ownership</b>	<b>2018</b>		<b>2017</b>	
	<b>Number of shares</b>	<b>% of ownership</b>	<b>Number of shares</b>	<b>% of ownership</b>
PBZ CO OMF - Category B	1,052,100	14.78	925,602	13.00
AZ OMF category B	902,874	12.68	902,874	12.68
CERP - Croatian Pension Insurance Institute	727,703	10.22	727,703	10.22
Erste Plavi OMF category B	674,669	9.48	665,166	9.34
Raiffeisen OMF category B	625,298	8.78	625,298	8.78
Kapitalni fond d.d.	406,842	5.71	406,842	5.71
CERP - Republic of Croatia	404,233	5.68	387,257	5.44
HPB - Republic of Croatia	167,281	2.35	286,588	4
PBZ D.D. - custody summary account	105,441	1.48	66,497	0.94
Treasury account	145,775	2.05	162,559	2.28
Other shareholders	1,907,787	26.79	1,963,617	27.58
<b>Ukupno</b>	<b>7,120,003</b>	<b>100.00</b>	<b>7,120,003</b>	<b>100.00</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 29 – RESERVES

<i>(in thousands of HRK)</i>	Reserves for treasury shares	Legal reserves	Reserves for reinvested profit	Statutory reserves	Other reserves	Total
At 1 January 2017	147,604	41,937	189,738	55,555	177,809	612,643
Allocation of profits (i)	-	8,966	-	3,015	137,596	149,577
Additional purchase of NCI	-	-	-	-	1,059	1,059
Foreign exchange rate differences	-	-	-	-	3,755	3,755
Fair value of financial assets available for sale	-	-	-	-	827	827
Actuarial losses (net of tax)	-	-	-	-	(999)	(999)
<b>At 31 December 2017</b>	<b>147,604</b>	<b>50,903</b>	<b>189,738</b>	<b>58,570</b>	<b>320,047</b>	<b>766,862</b>
At 1 January 2018	147,604	50,903	189,738	58,570	320,047	766,862
Allocation of profits (note 29)	-	7,542	-	3,220	32,947	43,709
Subsidiary liquidation	-	-	-	-	(280)	(280)
Foreign exchange rate differences	-	-	-	-	(14,378)	(14,378)
Actuarial losses (net of tax)	-	-	-	-	937	937
<b>At 31 December 2018</b>	<b>147,604</b>	<b>58,445</b>	<b>189,738</b>	<b>61,790</b>	<b>339,273</b>	<b>796,850</b>

The legal reserve is required under Croatian law according under which the Group is committed to build up legal reserves to a minimum of 5% of the profit for the year until the total reserve reaches 5% of the share capital. Both legal reserves and reserves for treasury shares, as well as reserves for reinvested profits, are non-distributable. Other reserves mainly relate to (non-distributable) reserves required by the Company's Articles of Association and foreign exchange translation reserves related to subsidiaries abroad.

(i) *Transfers within capital and reserves*

In 2018, the General Assembly reached a decision to allocate the Company's profit from 2017 in the amount of HRK 86,437 thousand as follows: the amount of HRK 4,322 thousand to legal reserves, the amount of HRK 32,276 thousand to other reserves, the amount of HRK 48,702 thousand for the declared dividend, while the remainder of HRK 1,139 thousand is retained in unallocated profit.

In addition, in 2018, in accordance with the decision of its General Assembly, the subsidiary Belupo d.d. allocated the Company's profit as follows: the amount of HRK 3,220 thousand to legal reserves, the amount of HRK 3,220 thousand to statutory reserves and HRK 671 thousand to other reserves, while the remaining portion of net profit in the amount of HRK 57,228 thousand was allocated to retained earnings.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 30 – RETAINED EARNINGS**

Movement in retained earnings and accumulated loss is presented as follows:

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
At 1 January	<b>403,303</b>	<b>583,272</b>
- transfer to legal and other reserves	(43,709)	(149,577)
- dividend paid	(48,702)	(48,642)
- profit for the year	205,711	18,250
<b>At 31 December</b>	<b>516,603</b>	<b>403,303</b>

**NOTE 31 – NON-CONTROLLING INTERESTS**

Podravka Group has non-controlling interests arising from acquisitions of 65% of ownership interest in subsidiary Farmavita d.o.o. Sarajevo and 90.41% in the subsidiary Mirna d.d. Summary financial information for the company Farmavita d.o.o., Sarajevo as at 31 December 2018 (excluding consolidation eliminations) and for the company Mirna d.d. are as follows:

<b>31 December 2018</b>	<b>Mirna d.d.</b>	<b>Farmavita</b>
<i>(in thousands of HRK)</i>		
<b>Non-controlling interest</b>	<b>9.59%</b>	<b>35.0%</b>
<b>Statement of financial position</b>		
Non-current assets	65,392	66,827
Current assets	40,884	113,943
Current liabilities	(130,384)	(41,181)
Non-current liabilities	(10,527)	(45,422)
<b>Net assets</b>	<b>(34,635)</b>	<b>94,167</b>
<b>Statement of comprehensive income for the period</b>		
Sales revenue	76,862	193,371
Profit after tax	25,466	18,052
Other comprehensive income	28	(343)
<b>Total comprehensive income for the period</b>	<b>25,494</b>	<b>17,709</b>
<b>Statement of cash flows</b>		
Net increase in cash and cash equivalents	(172)	(2,546)

The movement in non-controlling interest was as follows:

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Balance at 1 January	36,671	49,218
Dividend paid to minority shareholder	-	(15,776)
Effect of acquiring non-controlling interests	-	(1,922)
Foreign exchange differences	(170)	(430)
Share in current year profit	5,868	5,581
<b>Balance at 31 December</b>	<b>42,369</b>	<b>36,671</b>
Relating to:		
<i>Mirna d.d.</i>	<b>1,882</b>	<b>1,464</b>
<i>Farmavita d.o.o.</i>	<b>40,487</b>	<b>35,207</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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

	2018	2017
	<i>(in thousands of HRK)</i>	
Interest rate swap	390	1,254
Forwards	25	377
	<b>415</b>	<b>1,631</b>

	Nominal amount of loan under IRS '000 EUR	Loan liability under IRS '000 EUR	Fair value of IRS '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part of interest rate per IRS
<b>31.12.2018</b>							
SWAP 1 - EBRD	20,540	8,224	229	17.09.2014.	16.08.2019.	3M EURIBOR	0.40%
SWAP 2 - EBRD	20,540	8,224	161	06.02.2015.	16.08.2019.	3M EURIBOR	0.19%
	<b>41,080</b>	<b>16,448</b>	<b>390</b>				

	Nominal amount of loan under IRS '000 EUR	Loan liability under IRS '000 EUR	Fair value of IRS '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part of interest rate per IRS
<b>31.12.2017</b>							
SWAP 1 - EBRD	20,540	12,329	741	17.09.2014.	16.08.2019.	3M EURIBOR	0.40%
SWAP 2 - EBRD	20,540	12,329	513	06.02.2015.	16.08.2019.	3M EURIBOR	0.19%
	<b>41,080</b>	<b>24,658</b>	<b>1,254</b>				

The Group actively hedges against the risk of changes in interest rates on the syndicated loan and has entered into interest rate swap agreements.

Interest rate swaps 1 and 2 were entered into in 2014 and 2015 for the syndicated loan entered into by Podravka d.d. with the EBRD in 2014. This loan was refinanced prior to its maturity by a new syndicated loan with the EBRD and commercial banks with maturity on 16 August 2022, used in addition to Podravka d.d. by Belupo d.d. and Žito d.o.o., with a repayment plan adjusted to interest rate swaps that fixed interest rate expense for 27% of the total principal of the new syndicated loan to its maturity on 16 August 2019. As at 31 December 2018, the Group fixed interest rate expense for 27% of the principal of the syndicated loan with the EBRD concluded in 2014, as shown in the table above.

*Fair value measurement*

The fair value of interest rate swaps is based on projections of discontinued cash flows based on terms and maturities of underlying contracts and with market interest rate for a similar instrument at a measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate. According to inputs used, fair value measurement is classified as level 2 in the fair value hierarchy (see note 7).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 33 – LOANS AND BORROWINGS

	2018	2017
	<i>(in thousands of HRK)</i>	
<b>Non-current borrowings</b>		
Banks in Croatia	271,016	429,022
Banks abroad	351,824	485,327
Finance lease	614	861
	<b>623,454</b>	<b>915,210</b>
<b>Current borrowings</b>		
Banks in Croatia	176,081	179,704
Banks abroad	165,315	173,806
Finance lease	936	794
	<b>342,332</b>	<b>354,304</b>
<b>Total borrowings</b>	<b>965,786</b>	<b>1,269,514</b>

During 2017, the Group refinanced a portion of borrowings in the amount of HRK 227,500 thousand by long-term borrowings with more favourable interest rates. Through the refinancing process, the Group had HRK 227,500 thousand of non-cash transactions.

In 2016, Podravka d.d., Belupo d.d. and Žito d.o.o. agreed a syndicated loan with EBRD and business banks in the total amount of EUR123 million. For refinancing the existing borrowings, Podravka d.d., Belupo d.d. and Žito d.o.o. used a total of EUR 98,850 thousand. The maturity is on 16 August 2022.

As part of the above mentioned syndicated loan, the Group is obligated to comply with the following debt covenants:

- a) Interest coverage ratio (ICR). The parameter is calculated as the ratio of consolidated EBITDA and consolidated interest expense for the year. At the reporting dates, the Group was in compliance with this covenant.
- b) Debt coverage ratio (DCR). The parameter is calculated as the ratio of consolidated net debt and consolidated EBITDA. At the reporting dates, the Group was in compliance with this covenant.
- c) Equity ratio (ER). The parameter is calculated as the ratio of consolidated equity and consolidated total assets. At the reporting dates, the Group was in compliance with this covenant.
- d) Cash flow cover ratio (CFC). The parameter is calculated as the ratio of consolidated cash flows and consolidated debt repayments. At the reporting dates, the Group was in compliance with this covenant.

In case of a breach of any of the covenants, corrective compliance is possible within a 30 day period and in case the breach of the covenants continues, a part of the loan or the entire loan can mature immediately on the bank's request.

Bank borrowings in the amount of HRK 706,099 thousand (2017: HRK 895,504 thousand) are secured by mortgages over the Group's land and buildings and movables with a net carrying value of HRK 926,288 thousand (note 19).

The finance lease liabilities of the Group are as follows:

	Minimum lease		Finance cost		Present value	
	2018	2017	2018	2017	2018	2017
	<i>(in thousands of HRK)</i>					
Up to 1 year	987	850	(51)	(56)	936	794
Between 1 and 5 years	629	880	(15)	(19)	614	861
<b>Total</b>	<b>1,616</b>	<b>1,730</b>	<b>(66)</b>	<b>(75)</b>	<b>1,550</b>	<b>1,655</b>

Included in the consolidated financial statements within:

Current borrowings	936	794
Non-current borrowings	614	861
	<b>1,550</b>	<b>1,655</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 33 – LOANS AND BORROWINGS (CONTINUED)**

The maturity of non-current borrowings (including the interest rate swap) is as follows:

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	226,730	285,946
Between 2 and 5 years	357,733	548,316
Over 5 years	39,381	82,202
	<b>623,844</b>	<b>916,464</b>

Fixed and variable interest rates by major currencies are as follows:

	<b>2018</b>			<b>2017</b>		
	HRK	EUR	Other	HRK	EUR	Other
<b>Non-current borrowings</b>						
<b>Banks in Croatia</b>						
variable interest rate	-	1.40%	-	-	-	-
fixed interest rate	1.57%	1.80%	-	2.24%	2.37%	-
<b>Banks abroad</b>						
variable interest rate	-	1.14%	-	-	1.24%	3.73%
fixed interest rate	-	-	5.14%	-	-	5.16%
<b>Finance leases</b>						
variable interest rate	-	6.09%	4.99%	-	6.07%	6.50%
fixed interest rate	-	-	5.74%	-	-	5.74%
<b>Current borrowings</b>						
<b>Banks</b>						
variable interest rate	0.54%	-	2.79%	0.65%	-	1.71%
fixed interest rate	1.50%	-	3.94%	1.92%	-	3.95%

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

	<b>2018</b>		<b>2017</b>	
	fixed	variable	fixed	variable
	<i>(in thousands of HRK)</i>			
Non-current borrowings	241,763	381,691	450,221	464,989
Current borrowings	135,732	206,600	179,634	174,670
	<b>377,495</b>	<b>588,291</b>	<b>629,855</b>	<b>639,659</b>

The average weighted cost of debt on the Group's interest-bearing liabilities as at 31 December 2018 was 1.62% (31 December 2017: 1.96%).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 33 – LOANS AND BORROWINGS (CONTINUED)**

The carrying amounts and fair values of the Group's long-term borrowings are as follows:

<i>(in thousands of HRK)</i>	<b>Carrying value 2018.</b>	<b>Fair value 2018.</b>
<b>Non-current borrowings</b>		
Banks in Croatia	271,016	272,616
Banks abroad	351,824	352,702
Finance leases	614	614
	<b>623,454</b>	<b>625,932</b>

The carrying amounts of the Group's borrowings (including the interest rate swap) are denominated in the following currencies:

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Croatian kuna	69,470	208,572
EUR	839,252	989,626
Other currencies	57,454	72,572
	<b>966,176</b>	<b>1,270,770</b>

Most of the borrowings are denominated in EUR and the impact of changes in the EUR exchange rates is deemed significant as a result.

The Group has the following undrawn borrowing facilities:

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Available for withdrawal	311,197	276,284
	<b>311,197</b>	<b>276,284</b>

These comprise unused short-term revolving facilities, guarantees and letters of credit which the Group has available with several commercial banks, bearing a variable interest rate.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 33 – LOANS AND BORROWINGS (CONTINUED)**

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

<i>(in thousands of HRK)</i>	<b>Loans</b>	<b>Finance leases</b>	<b>Share capital</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Non-controlling interests</b>	<b>Total</b>
At 1 January 2018	1,267,859	1,655	1,689,947	320,047	403,303	36,671	3,719,482
<i>Cash transactions:</i>							
Loans received	117,392	-	-	-	-	-	117,392
Loans repayments	(409,963)	-	-	-	-	-	(409,963)
Finance lease repayments	-	(105)	-	-	-	-	(105)
Sale of treasury shares	-	-	2,092	-	-	-	2,092
Additional acquisition of treasury shares	-	-	(2,557)	-	-	-	(2,557)
Dividend paid	-	-	-	-	(48,702)	-	(48,702)
Total cash transactions	<b>(292,571)</b>	<b>(105)</b>	<b>(465)</b>	-	<b>(48,702)</b>	-	<b>(341,843)</b>
<i>Non-cash transactions:</i>							
Effect of change in exchange rates	(13,951)	-	-	(14,378)	-	(170)	(28,499)
Actuarial gains (net of deferred tax)	-	-	-	937	-	-	937
Transfer from retained earnings (note 29)	-	-	-	32,947	-	-	32,947
Liquidation of subsidiary (note 29)	-	-	-	(280)	-	-	(280)
Other non-cash transactions	2,899	-	-	-	-	-	2,899
Total other changes related to equity	-	-	2,402	-	162,002	5,868	170,272
<b>At 31 December 2018</b>	<b>964,236</b>	<b>1,550</b>	<b>1,691,884</b>	<b>339,273</b>	<b>516,603</b>	<b>42,369</b>	<b>3,555,915</b>

Other non-cash transactions on borrowings mainly relate to settlement of trade payables by direct transfers of cash from a commercial bank to suppliers.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 34 – PROVISIONS

<i>(in thousands of HRK)</i>	Jubilee awards	Unused holiday accruals	Retirement benefits	Termination benefits and bonuses	Legal cases	Total
<b>As at 31 December 2017</b>						
Non-current	14,539	-	29,305	-	30,278	74,122
Current	1,727	15,036	-	7,370	818	24,951
<b>At 1 January 2018</b>	<b>16,266</b>	<b>15,036</b>	<b>29,305</b>	<b>7,370</b>	<b>31,096</b>	<b>99,073</b>
Increase of provisions	3,358	15,277	1,669	6,775	2,850	29,929
Utilised during the year	(2,425)	(13,311)	(1,127)	(7,788)	(7,888)	(32,539)
<b>At 31 December 2018</b>	<b>17,199</b>	<b>17,002</b>	<b>29,847</b>	<b>6,357</b>	<b>26,058</b>	<b>96,463</b>
Non-current	15,034	-	29,847	-	25,730	70,611
Current	2,165	17,002	-	6,357	328	25,852
	<b>17,199</b>	<b>17,002</b>	<b>29,847</b>	<b>6,357</b>	<b>26,058</b>	<b>96,463</b>

(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 2018.

(ii) *Termination benefits and bonuses*

As at 31 December 2018, the Group recognised HRK 6,357 thousand of provisions for bonuses to key management (2017: HRK 2,194 thousand).

(iii) *Jubilee awards and regular retirement benefits*

According to the Collective Labour Agreement signed by the Group companies, the Group has an obligation to pay jubilee awards, retirement and other benefits to its employees. No other post-retirement benefits are provided. The present values of these obligations, the related current service cost and past service cost were measured using the projected credit unit method.

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

	2018	2017
Discount rate	2,9% - 2,96%	2,0% - 5,4%
Fluctuation rate	4,87% - 10,00%	4,81% - 9,76%
Average expected remaining working lives (in years)	21	21

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

<i>(in thousands of HRK)</i>	2018		2017	
	Jubilee awards	Retirement benefits	Jubilee awards	Retirement benefits
At 1 January	16,266	29,305	16,306	27,491
Past service cost	2,180	31	-	-
Current service cost	1,025	2,108	1,352	2,219
Interest expense	351	399	237	323
Actuarial (gains) / losses	(198)	(869)	894	786
Benefits paid	(2,425)	(1,127)	(2,523)	(1,514)
<b>At 31 December</b>	<b>17,199</b>	<b>29,847</b>	<b>16,266</b>	<b>29,305</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 35 – OTHER LONG-TERM LIABILITIES**

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Deferred income on government incentives	19,322	20,862
Other long-term liabilities	1,381	1,603
	<b>20,703</b>	<b>22,465</b>

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 36 – TRADE AND OTHER PAYABLES**

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Trade payables	476,655	544,192
Other payables	182,206	175,599
	<b>658,861</b>	<b>719,791</b>

At 31 December 2018 and 31 December 2017, 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:

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Salaries and other benefits to employees	79,712	76,958
Accrued expenses	65,295	66,138
Deferred income	16,422	5,536
Taxes, contributions and other duties payable	6,043	9,866
Packaging waste disposal fee payable	671	592
Accrued interest	1,746	2,786
Advances received	2,941	2,171
Dividends payable	1,775	2,003
Other payables	7,601	9,549
	<b>182,206</b>	<b>175,599</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### NOTE 37 – RISK MANAGEMENT

Categories of financial instruments are as follows:

	2018	2017
	<i>(in thousands of HRK)</i>	
<b>Financial assets at amortised cost</b>		
Long-term loans (note 22)	8	2,941
Long-term deposits (note 22)	1,678	2,071
Short-term loans (note 24)	7	601
Trade receivables (including bills of exchange) (note 24)	879,568	901,450
Cash and cash equivalents (note 26)	211,106	362,082
	<b>1,092,367</b>	<b>1,269,145</b>
<b>Financial assets at fair value through profit or loss</b>		
Investments in equity instruments (note 22)	4,680	4,734
Forward contracts (note 25)	296	511
	<b>4,976</b>	<b>5,245</b>
<b>Total financial assets</b>	<b>1,097,343</b>	<b>1,274,390</b>
<b>Financial liabilities at amortised cost</b>		
Finance lease liabilities (note 33)	1,550	1,655
Borrowings (note 33)	964,236	1,267,859
Trade and interest payables (note 36)	478,401	546,978
	<b>1,444,187</b>	<b>1,816,492</b>
<b>Financial liabilities at fair value through profit or loss</b>		
Interest rate swap and forward contract (note 32)	415	1,631
	<b>415</b>	<b>1,631</b>
<b>Total financial liabilities</b>	<b>1,444,602</b>	<b>1,818,123</b>

#### 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.

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 short term 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 25. The fair value of long-term loans and deposits is approximated by its carrying amount as these assets generally carry a variable interest rate similar to market interest rates.

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 approximates their fair values as these liabilities bear variable interest rates or fixed interest rate approximating market interest rates.

Financial liabilities relating to the interest rate swaps are measured at fair value as explained in note 32.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### NOTE 37 – RISK MANAGEMENT (CONTINUED)

##### Financial risk management

An integral part of the overall Enterprise Risk Management (ERM) project is the reporting procedure for the purpose of managing financial risks. This procedure is applied when it is assessed that due to extraordinary circumstances an immediate decision on some business activities has to be made in a manner that differs from the Podravka Group's prescribed procedures, which may jeopardise the profitability or cause a significant loss of Company's cash (Escalation procedure for managing financial risks).

The Podravka Group continuously monitors and manages the capital structure and financial risks. Financial risks include credit risk, liquidity risk and market risks (interest rate risk, price risk and currency risk).

The exposure to currency, interest rate and credit risks arises in the normal course of operations. Managing these risks is performed by the Treasury sector and the finance departments of individual companies, together with active management of excess liquidity investment and active management of financial assets and liabilities.

##### Capital risk management

The treasury of the Group reviews the capital structure on a semi-annual basis. As part of this review, the treasury considers the cost of capital and the risks associated with each class of capital. The gearing ratio at the reporting date was as follows:

	2018	2017
	<i>(in thousands of HRK)</i>	
Debt (non-current and current borrowings including interest rate swap)	966,201	1,271,145
Cash and cash equivalents	(211,106)	(362,082)
Net debt	<u>755,095</u>	<u>909,063</u>
Equity	3,047,706	2,896,783
Net debt to equity ratio	25%	31%

Debt is defined as long- and short-term borrowings. Equity includes all capital and reserves of the Group. Besides monitoring the ratio of net debt to equity, the Company's treasury together with financial departments in subsidiaries, also monitors the ratio of operating profit before depreciation and amortization (EBITDA) and debt as part of its compliance with the terms of the syndicated loan agreement (see note 33). As at 31 December 2018, the Podravka Group was within the defined ratio.

The Podravka Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

##### Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a possible financial loss to the Podravka Group. The Company adopted an upgraded "Collection of due receivables process" applied in operations with customers and it takes security instruments, wherever possible, for the purpose of hedging possible financial risks and loss as a consequence of default. In addition, the Company secured receivables in the country and receivables in foreign markets (Turkey, Qatar, United Arab Emirates, Saudi Arabia, Oman, Bahrain, Kuwait and Egypt) in order to reduce the risk of possible non-collection.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 37 – RISK MANAGEMENT (CONTINUED)

##### Financial risk management (continued)

##### *Credit risk management (continued)*

The Group enters into business only with counterparties with good credit ratings, securing, when needed, receivables for the purpose of decreasing the risk of financial loss as a consequence of default. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

The Group accepts new customers and continues cooperation with existing customers with payment delays subject to meeting the company's credit risk parameters. Receivables are analysed on a weekly basis and necessary measures are taken with respect to their collection. Risk mitigation instruments are defined based on the financial performance ratios for individual customers, using an online service where the required information is available (financial statements, credit ratings etc.). 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.

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

Depending on the needs and the collection of receivables on individual markets, the Podravka Group during 2018 contracted the receivables collection insurance for a selected group of markets.

During 2018, the Podravka Group did not have significant damage claims related to the insurance of collection of receivables.

The Podravka Group has numerous customers of various retail activities and sizes. The most significant concentration of credit risk relates to retail chains.

The Podravka Group does not have a significant credit exposure that is not covered by security instruments, or not reflected in the estimates of indications of impairment as at 31 December 2018.

##### *The Group's exposure to major customers*

Following the progress of the extraordinary administration procedure over the Agrokor concern companies headquartered in Croatia, the Company continues its business cooperation with companies of the Agrokor concern, taking into account the control of its overall exposure.

In accordance with the Agrokor's creditors Settlement, the Company's management, on the basis of available relevant information on operations of Konzum d.d. for the period January-November 2018 that show better EBITDA profitability than expected, revised the recoverability estimate for the claimed receivables. Based on the revised estimate, during 2018 Podravka d.d. reversed a portion of recognised impairment of receivables from 2017 by the amount of HRK 7.9 million, i.e. the impairment of receivables was reduced from HRK 44.1 million to HRK 36.2 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 37 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

*Liquidity risk management*

The Podravka Group manages liquidity risk by setting an appropriate liquidity risk management framework for the management of the Group's short and long-term funding and liquidity requirements and by maintaining adequate reserves and credit lines available. Additional efforts made in planning cash flows at the level of all related companies in previous years, in 2018 resulted in optimisation of the Podravka Group's liquidity. This is a result of continuous monitoring of forecast and actual cash flows and matching the maturity profiles of receivables and payables of the Podravka Group to customers and suppliers, banks and other financial institutions. In addition, the Podravka Group continuously monitors and analyses cash flows with the aim of an optimum liquidity management in order to ensure sufficient level of cash funds for operating purposes. Planning cash flows in this way takes into account the Podravka Group's guidelines with respect to regular settlement of contracted liabilities and adjustment of all other relations defined by contracts.

*Liquidity risk analysis*

Tables below show contracted maturity of financial liabilities and financial assets of the Podravka Group stated in the consolidated statement of financial position at the end of each reporting period.

The tables have been drawn up based on the undiscounted cash flows based on contracted terms at reporting date and include cash flows from both interest and principal.

The liquidity risk analysis below shows no potential deficit of short-term liquidity for the Group.

<i>as at 31 December 2018</i>	Net book value	Contracted cashflow	Up to one year	1 - 5 years	over 5 years
			<i>(in thousands of HRK)</i>		
<i>Non-interest bearing liabilities:</i>					
Interest rate swap and forward contracts	415	415	415	-	-
Trade and interest payables	478,401	477,833	476,429	1,404	-
	<b>478,816</b>	<b>478,248</b>	<b>476,844</b>	<b>1,404</b>	<b>-</b>
<i>Interest bearing liabilities</i>					
Financial lease liabilities	1,550	1,611	908	703	-
Borrowings	964,236	997,893	354,301	603,712	39,880
	<b>965,786</b>	<b>999,504</b>	<b>355,209</b>	<b>604,415</b>	<b>39,880</b>
	<b>1,444,602</b>	<b>1,477,752</b>	<b>832,053</b>	<b>605,819</b>	<b>39,880</b>
<i>Non-interest bearing assets:</i>					
Trade receivables (including bills of exchange)	879,568	879,566	877,815	1,751	-
Forward contracts	296	296	296	-	-
Cash and cash equivalents	211,106	211,106	211,106	-	-
	<b>1,090,970</b>	<b>1,090,968</b>	<b>1,089,217</b>	<b>1,751</b>	<b>-</b>
<i>Interest bearing assets:</i>					
Long-term loans	8	365	-	365	-
Long-term deposits	1,678	537	219	318	-
Short-term loans	7	23	23	-	-
	<b>1,693</b>	<b>925</b>	<b>242</b>	<b>683</b>	<b>-</b>
	<b>1,092,663</b>	<b>1,091,893</b>	<b>1,089,459</b>	<b>2,434</b>	<b>-</b>
<b>Net liquidity position</b>	<b>(351,939)</b>	<b>(385,859)</b>	<b>257,406</b>	<b>(603,385)</b>	<b>(39,880)</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 37 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management (continued)

Liquidity risk analysis (continued)

<i>as at 31 December 2017</i>	Net book value	Contracted cashflow	Up to one year <i>(in thousands of HRK)</i>	1 - 5 years over 5 years	
<i>Non-interest bearing liabilities:</i>					
Interest rate swap and forward contracts	1,631	1,631	377	1,254	-
Trade and interest payables	546,978	547,012	544,739	2,273	-
	<b>548,609</b>	<b>548,643</b>	<b>545,116</b>	<b>3,527</b>	<b>-</b>
<i>Interest bearing liabilities</i>					
Financial lease liabilities	1,655	1,655	757	898	-
Borrowings	1,267,859	1,332,568	377,352	872,646	82,570
	<b>1,269,514</b>	<b>1,334,223</b>	<b>378,109</b>	<b>873,544</b>	<b>82,570</b>
	<b>1,818,123</b>	<b>1,882,866</b>	<b>923,225</b>	<b>877,071</b>	<b>82,570</b>
<i>Non-interest bearing assets:</i>					
Trade receivables (including bills of exchange)	901,450	901,450	900,080	1,370	-
Forward contracts	511	511	511	-	-
Cash and cash equivalents	362,082	362,082	362,082	-	-
	<b>1,264,043</b>	<b>1,264,043</b>	<b>1,262,673</b>	<b>1,370</b>	<b>-</b>
<i>Interest bearing assets:</i>					
Long-term loans	2,126	3,306	-	3,306	-
Long-term deposits	2,886	655	27	615	13
Short-term loans	601	617	617	-	-
	<b>5,613</b>	<b>4,578</b>	<b>644</b>	<b>3,921</b>	<b>13</b>
	<b>1,269,656</b>	<b>1,268,621</b>	<b>1,263,317</b>	<b>5,291</b>	<b>13</b>
<b>Net liquidity position</b>	<b>(548,467)</b>	<b>(614,245)</b>	<b>340,092</b>	<b>(871,780)</b>	<b>(82,557)</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 37 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks

(i) Interest rate risk management

The Podravka Group manages cash flow interest rate risk in a manner that it has contracted interest rate swaps that exchanged its variable interest rate liability with the fixed interest rate (note 32). Changes and projections of interest rates are monitored continuously. The Podravka Group contracted a part of its debt at a fixed interest rate. Taking into account the stated above and the fact that key interest rates are currently at low levels, the Podravka Group is not significantly exposed to interest rate risk. Exposure to changes in interest rates on borrowings and loans (including the part of loans covered with the interest rate swap agreement at the reporting date) in accordance with the agreed dates of changes in interest rates is as follows:

<i>(in thousands of HRK)</i>	<u>2018</u>	<u>2017</u>
EURIBOR based bank loans	536,112	590,082
EURIBOR based finance lease	1,483	1,542
TZMF bill of exchange based loans*	20,000	20,000
PRIBOR based bank loans**	30,691	28,037
LIBOR USD based bank loans***	5	-
	<u>588,291</u>	<u>639,661</u>

\*Treasury bills of the Ministry of Finance

\*\* Prague Interbank Offer Rate

\*\*\*Global-rates.com

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. A 50 basis point increase/decrease is used when reporting interest rate risk internally to key management personnel and represents the management's assessment of the reasonably possible change in interest rates. The calculation of the interest rate swap effects takes into account the fact that if the variable interest rate 3 M Euribor is negative (as is currently the case), based on the interest rate swap transaction with a positive fixed interest rate, the Podravka Group pays the difference between the fixed interest rate of the swap and the variable 3 M Euribor interest rate.

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

<i>as at 31 December 2018</i>	<b>Contractual cash flows</b>	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
	<i>(in thousands of HRK)</i>				
At current interest rates	601,002	213,369	156,341	231,292	-
At current interest rates + 50 basis points	605,750	215,559	157,868	232,323	-
<b>Effect of increase of interest rate by 50 bp</b>	<b>(4,748)</b>	<b>(2,190)</b>	<b>(1,527)</b>	<b>(1,031)</b>	<b>-</b>

<i>as at 31 December 2017</i>	<b>Contractual cash flows</b>	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
	<i>(in thousands of HRK)</i>				
At current interest rates	659,164	182,798	129,572	346,794	-
At current interest rates + 50 basis points	665,314	184,843	131,277	349,194	-
<b>Effect of increase of interest rate by 50 bp</b>	<b>(6,150)</b>	<b>(2,045)</b>	<b>(1,705)</b>	<b>(2,400)</b>	<b>-</b>

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



**NOTE 37 – RISK MANAGEMENT (CONTINUED)**

**Financial risk management (continued)**

*Market risks (continued)*

(ii) *Price risk*

The success of business of Podravka Group is dependent on adequate sources of raw materials, as well as their prices on the market, the efficiency of the production process and distribution of products to its customers.

The cost of raw materials can play a significant role in the cost of finished products the Podravka Group produces, therefore, it is subject to fluctuations of market prices of agricultural, food and pharmaceutical raw materials, whose impact cannot always be mitigated through the sale price for the buyer.

Protective customs and trade mechanisms in place in the EU, on the one hand serve to protect EU producers while on the other hand present a risk in terms of higher customs duties on purchases from outside the EU.

Also, on the European and global levels, there is a consolidation in the sector of primary production of raw materials and supplies, which may result in higher purchase prices in the future.

**Risks of raw material procurement and product delivery**

The Group realises most of the turnover with suppliers from EU member states.

With Croatia joining the EU, significant benefits have been achieved in terms of the easier access to EU markets and the elimination of customs barriers, which ultimately resulted in lower procurement prices of strategic raw materials and supplies.

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 Group's operations. Unavailability of goods in the market resulting from environmental factors (adverse weather conditions such as drought, floods, early frost), geopolitical and social factors (social unrest and wars in certain countries, state interventions on market) or speculation with key agricultural and food products (wheat and sugar) are a constant threat in the global business environment in the last years.

To minimize these impacts, the procurement function of the Podravka Group, through managing the strategic procurement categories and key suppliers, is aiming to develop partnerships with long-term suppliers, as well as relationships with new suppliers on target EU and third-country markets. One of the mechanisms used is the consolidation of purchasing volumes with the aim to strengthen market positions and ensure availability of raw materials for the production of satisfying quality. Also, by continuously monitoring new technological solutions and introducing replacement raw materials where possible, the Group actively works on the mitigation and/or elimination of the risk of procurement of raw materials and availability of products.

**Risks of price fluctuations of basic raw materials**

Fluctuation of prices of agricultural and food raw materials is a significant element in the Group's business environment. 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.

In the part of pharmaceutical raw materials over the last few years 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.

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. Exceptional price volatility is particularly relevant in the commodity market segment (hazelnut, sugar, spices, cocoa, powdered milk, etc.), to which the Group must react, as a rule before the event, to minimise the impact as much as possible.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### NOTE 37 – RISK MANAGEMENT (CONTINUED)

##### Financial risk management (continued)

##### *Market risks (continued)*

##### *(ii) Price risk (continued)*

For this purpose, the Group 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 the Group's 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 Group for the purpose of best estimates of price movements and the minimisation of market price volatility risk.

##### *(iii) Currency risk*

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

	<b>Liabilities 2018</b>	<b>2017</b>	<b>Assets 2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
European Union (EUR)	812,494	1,058,859	360,696	443,191
Bosnia and Herzegovina (BAM)	44,938	61,859	135,310	151,930
Poland (PLN)	24,914	23,090	52,781	66,545
Russia (RUB)	1,651	3,868	100,176	75,637
Czech (CZK)	45,782	41,360	21,347	19,615
Other currencies	30,302	27,133	126,719	134,078

##### *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 2018 to changes in the exchange rate of the Croatian kuna against EUR, BAM and RUB.

In addition, by defining the internal policy for hedging currency risk with the corresponding early warning indicators, and by implementing the project aimed at the centralisation of corporate risks management (Enterprise Risk Management), the Group decided to proactively manage key risks (including currency risk).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 37 – RISK MANAGEMENT (CONTINUED)

##### Financial risk management (continued)

##### *Market risks (continued)*

##### *(iii) Currency risk (continued)*

##### *Foreign currency sensitivity analysis (continued)*

Currency risks arise from operation of subsidiary companies in foreign markets and the purchase of food raw materials in the international market which is largely in Euro and US dollar. Similarly, the Podravka Group has a significant part of borrowings denominated in EUR.

During 2018, the Podravka Group performed the balance sheet currency structure analysis and continued to apply the model of managing transaction currency risk called “Layer hedging”. This model is applied to the following currencies: USD, AUD, CAD, RUB, CZK, HUF and PLN. The integral parts of the model include the identification of risk sources and exposure measurement (using Monte Carlo method of Value at Risk simulation), process of contracting derivative financial instruments for hedging purposes and the control and reporting system. Additionally, within the model exposure limit parameters were set which are triggers for contracting prescribed hedging levels. Using Bloomberg terminal, macroeconomic projections are regularly being monitored and derivative financial instruments for currency risk management are being contracted. Also, the Podravka Group endeavours to maximise the possibilities of “natural hedging” in order to achieve that the inflows from related parties, whenever possible, are forwarded to Podravka d.d. in the domicile currency of the country where the related company does business.

In addition, as part of the model, parameters of the exposure limit are set, which are triggers for contracting the prescribed hedging levels. This way, the currency risk is largely transferred from related parties to the Company that adjusts these cash inflows with outflows (natural hedging), thus reducing the overall exposure to currency risk, and also creating the opportunity to contract derivative financial instruments on the remaining amount of net cash flow at the central level.

During 2018, the Podravka Group concluded fx forward contracts for managing currency risk of the following foreign currencies: USD, AUD, CAD, RUB, HUF and PLN. For the exposure to changes in exchange rate of the Croatian kuna against the Euro, derivative financial instruments were contracted not for hedging purposes due to the limited volatility of the exchange rate and the exchange rate regime implemented by the Croatian National Bank, but for the purpose of short-term foreign currency gains.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 37 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(iii) Currency risk (continued)

Foreign currency sensitivity analysis (continued)

The currency risk analysis is based on the official exchange rates for the currencies analysed above as per the Croatian National Bank, which were as follows, except for the Russian ruble for which the ECB exchange rate is used:

	<u>31.12.2018</u>	<u>31.12.2017</u>
EUR	7.4176	7.5136
BAM	3.7925	3.8417
PLN	1.7259	1.8004
RUB	0.0933	0.1083
CZK	0.2876	0.2940

The following table details the Podravka Group's sensitivity to a 1% increase in Croatian kuna against the relevant foreign currencies where the Podravka Group has significant exposure (EUR, BAM, RUB, PLN and CZK). The sensitivity analysis includes only outstanding cash items in foreign currency and their translation at the end of the period based on the percentage change in currency exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit where Croatian kuna changes against the relevant currency for the percentage specified above. For an inversely proportional change of Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit.

	<u>EUR exposure</u> <u>2018</u>	<u>2017</u>	<u>CZK exposure</u> <u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Increase/(decrease) of net result	(4,518)	(6,157)	(244)	(217)
	<u>BAM exposure</u> <u>2018</u>	<u>2017</u>	<u>PLN exposure</u> <u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Increase/(decrease) of net result	904	901	279	435
	<u>RUB exposure</u> <u>2018</u>	<u>2017</u>		
	<i>(in thousands of HRK)</i>			
Increase/(decrease) of net result	985	718		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### NOTE 37 – RISK MANAGEMENT (CONTINUED)

##### Financial risk management (continued)

###### *Sales function based risks*

The Podravka Group generates 32% (2017: 33%) of its revenue on the Croatian market, whereas 68% (2017: 67%) 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 harmonization and optimization of existing pricing policies and price levels for existing markets in the EU/CEE to secure a basis for the continuing successful long-term growth and avoid decrease in profit margins.

##### Business risks management

###### Industry risks

In the food industry, market trends as well as consumer habits change in a very short period of time. Due to this risk, the Group seeks to constantly improve the processes and meet market conditions. In the food industry, where the focus is on products and brands, the Group complies with legislative, health and manufacturing regulations. Clear legal regulation creates most of the production and sales processes within the Group and is subject to change, depending on the bodies adopting it. One of the major risks associated with the food industry is consumer health. All production processes are subject to international standards. By implementing better internal processes, the Group seeks to eliminate the majority of potential threats.

###### Competition risk

The Group sells products both on the Croatian and international markets, and is exposed to numerous competitors in all product categories. Innovations, adjustments of the product price, quality and packaging are key changes that the Group is paying attention to in order to be different from competition.

In addition, the reputation of the brand, or the Group, is intangible value that differentiates it from the competition and creates the advantage. The fact that the Group is focused on securing the highest level of quality of its products contributes to the reputation that depends on many own products on the market on a daily basis.

Monitoring of consumer habits and preferences that are subject to constant changes, and adjustments to them, are one of a series of activities that the Group undertakes to maintain and increase the existing market positions and margins. An important element in the struggle with major international competitors is the difference between the financial resources needed for the overall promotion and sales of products, and it is often the key factor in reaching out to a new consumer.

**NOTE 37 – RISK MANAGEMENT (CONTINUED)**

**Business risks management (continued)**

**Risks of IT system disruptions**

The Group intensely uses IT systems that enable it to efficiently manage the Group, communicate with customers and suppliers, and collect all the information that management can rely on in making decisions.

Given the high degree of automation of business processes through the use of IT systems, the Group takes the necessary measures to minimise IT system disruptions due to problems with IT equipment, the space in which it is located, viruses and unauthorised external breaches into the systems.

As each IT system disruption causes significant problems in operating systems and financial losses, the Group has implemented IT system recovery procedures through the construction of an auxiliary IT room that assumes the function of the main IT system room in case of a problem. In the normal operating mode, both IT system rooms work in the active-active mode.

The Group regularly conducts internal and external penetration tests (conducted by external independent security experts) to minimise the risk of using system vulnerabilities for the spread of viruses and the risk of unwanted external breaches into the IT systems.

**Risks of dependency on management and key employees**

The Group strongly relies on its employees as one of the major competitive advantages. Employees are the highest value of the Group, i.e. their abilities and skills, used to achieve the Group's goals and create added value.

The labour market today is characterised by high mobility. Therefore, the Group endeavours to keep the existing staff at all levels because the loss of key employees and finding new ones on the labour market and their introduction into the business may have a significant impact on the Group's operations.

Continued improvement in business processes requires, among other things, changes in the qualification structure of employees, so the Group tries to reduce the risk of unfavourable qualification structure by professional training and education of employees, and quality redundancy programmes are used to impact the age structure of the Group.

The Group periodically evaluates management results, including an assessment of their management skills, to meet the assumptions for long-term achievement of its goals.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 38– SHARE-BASED PAYMENT TRANSACTIONS

(i) Employee share options

Options for the purchase of Podravka d.d. shares were granted to key management of the Group. The exercise price of the granted option equals the weighted average share price of Podravka d.d. shares as per the Zagreb Stock Exchange in the year the option is granted. The vesting period normally starts at the date of option contract signed. Options are acquired separately for each business year. All the terms and conditions apply, unless circumstances arise as provided in each of the contracts applicable to the periods that implies an early termination of a mandate, breach of contractual provisions, leaving the company, relocation within the company, etc., in which case such an option generally becomes exercisable within six months from the occurrence of any of the circumstances described above. The following share-based payment options were effective as at 31 December 2018:

Date of issue	Number of options	Vesting terms	Contracted vesting period
<i>Options granted to key management of the Group</i>			
As at 24 July 2015	6,938	Service during the contracted vesting period	31.12.2020.
As at 31 December 2015	18,651	Service during the contracted vesting period	22.02.2020.
As at 15 February 2016	7,146	Service during the contracted vesting period	31.12.2021.
As at 22 March 2016	5,359	Service during the contracted vesting period	30.04.2020.
As at 15 February 2016	17,150	Service during the contracted vesting period	22.02.2020.
As at 1 June 2016	2,000	Service during the contracted vesting period	22.02.2020.
As at 1 June 2016	4,000	Service during the contracted vesting period	31.12.2021.
As at 1 June 2016	2,500	Service during the contracted vesting period	30.05.2020.
As at 1 June 2016	2,000	Service during the contracted vesting period	28.08.2020.
As at 1 June 2016	2,000	Service during the contracted vesting period	06.08.2020.
As at 16 September 2016	4,000	Service during the contracted vesting period	31.12.2021.
As at 30 June 2017	5,000	Service during the contracted vesting period	31.12.2022.
As at 31 December 2017	4,000	Service during the contracted vesting period	31.12.2022.
As at 12 December 2017	8,000	Service during the contracted vesting period	31.12.2022.
As at 17 March 2017	2,000	Service during the contracted vesting period	31.12.2022.
As at 17 May 2017	17,000	Service during the contracted vesting period	31.12.2022.
As at 21 July 2017	5,000	Service during the contracted vesting period	31.12.2022.
As at 1 May 2018	2,000	Service during the contracted vesting period	31.12.2022.
As at 31 July 2018	42,500	Service during the contracted vesting period	31.12.2023.
As at 23 July 2018	7,500	Service during the contracted vesting period	31.12.2023.
As at 4 October 2018	9,000	Service during the contracted vesting period	31.12.2023.
<b>Total share options</b>	<b>173,744</b>		

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**NOTE 38 – SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)**

**(i) Employee share options (continued)**

*Fair value measurement*

The fair value of the employee share options is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the historical volatility of the share price, particularly over the historical period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). In accordance with the input variables used, the fair value estimate of the option is categorised in the fair value hierarchy as level 1. Service and non-market performance conditions are not taken into account in determining fair value.

Input variables for calculation of fair value:

<b>Share option programme for key management</b>	<b>2018</b>	<b>2017</b>
Fair value at grant date (weighted average)	92	80
Share price at grant date (weighted average)	341	326
Exercise price (weighted average)	328	334
Expected volatility (weighted average)	16%	17%
Expected life (weighted average in years)	3.3	3.5
Risk-free interest rate (based on government bonds)	4.88%	5.32%

<b>Expense recognised in profit or loss</b>	<b>2018</b>	<b>2017</b>
	<i>(in HRK thousands)</i>	
Equity-settled share-based payment transactions	2,093	12,791

The exercise price of stock options for key management is in the range HRK 300 to HRK 352.

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

	<b>2018</b>		<b>2017</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>
Outstanding at 1 January	130,051	334	166,053	305
Exercised	(7,000)	299	(74,702)	278
Expired	(10,307)	297	(2,300)	292
Granted	61,000	317	41,000	352
<b>Outstanding at 31 December</b>	<b>173,744</b>	<b>328</b>	<b>130,051</b>	<b>334</b>

As at 31 December 2018, there are 173,744 of outstanding options (2017: 130,051 options). In 2018, 7,000 options were exercised (2017: 74,702 options).

The weighted average exercise price of outstanding options at the end of 2018 is HRK 328. (2017: HRK 334). The price of all unexercised share options is lower than the share market price as at 31 December 2018. The weighted average remaining validity of options is 3.3 years at year end (2017: 3.5 years).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### NOTE 38 – SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

##### (ii) Program of organized employee shareholding

In accordance with the decision of the General Assembly dated 3 June 2015, the Group launched an Employee Stock Ownership Programme (ESOP) for the part of the Group which consists of Podravka d.d., Belupo d.d. and Deltis Pharm Pharmacies. ESOP includes giving rights to workers of the Company to the primary subscription and payment of shares in the share capital increase by public offering, conducted in June 2015. The program also includes a system of rewarding employees who have acquired shares in the first round of public offering in such a way that if a worker-shareholder retains all acquired shares for two years, he will receive one additional share for every ten acquired, and if shares are retained for three years, he will receive two additional shares for each ten acquired.

As at 31 December 2018, the number of shares within the ESOP is 0 (2017: 84,076 shares). During 2018, the qualifying employees were allocated shares, and therefore the capital reserve was reduced by HRK 4,961 thousand (2017: HRK 2,750 thousand). The fair value of the shares at the date of issue amounted to HRK 300 and exercise price of additional shares was also HRK 300. As at 31 December 2018, the Company had a capital reserve in the amount of HRK 0 (2017: HRK 4,961 thousand) based on ESOP.

In 2018, the one-off net ESOP cost amounted to HRK 2,077 thousand (2017: HRK 3,764 thousand).

#### NOTE 39 – 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.

##### *Transactions with key management and Supervisory Board members*

	2018	2017
	<i>(in thousands of HRK)</i>	
<b>Key management remuneration</b>		
Salaries, severance and bonus payments	50,777	52,156
Share-based payments (note 38 (i))	2,093	12,791
	<b>52,870</b>	<b>64,947</b>

Key management of the Group comprises the Management Board and executive directors and consisted of 65 persons (2017: 64 persons).

During 2018, a total of HRK 1,929 thousand (2017: HRK 1,863 thousand) was paid as compensation to members of the Supervisory Board at the Group level.

#### NOTE 40 – CONTINGENT LIABILITIES

	2018	2017
	<i>(in thousands of HRK)</i>	
Guarantees and warranties given	31,554	17,914
	<b>31,554</b>	<b>17,914</b>

Guarantees and warranties mainly relate to the potential liability of Podravka d.d. on the basis of customs guarantees and guarantees for transit procedures and contingencies on the basis of customs guarantees and payment guarantees to the Croatian Ministry of Economy, Entrepreneurship and Crafts of the Belupo Group, and contingencies on the basis of customs guarantees of the Žito Group and Podravka d.o.o. Beograd.

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 2018 and 2017, it is not probable that they will result in liabilities for the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**NOTE 41 – COMMITMENTS**

In 2018, the purchase costs of tangible fixed assets contracted with suppliers amounted to HRK 36,992 thousand (2017: HRK 53,336 thousand), which are not yet realised or recognised in the consolidated statement of financial position.

The future payments under operating leases for the usage of vehicles, forklift trucks and IT equipment are as follows:

	<b>2018</b>	<b>2017</b>
	<i>(in thousands of HRK)</i>	
Up to 1 year	28,887	22,337
From 1 to 5 years	35,571	35,777
	<b>64,458</b>	<b>58,114</b>