PODRAVKA GROUP ANNUAL REPORT FOR 2019

CONTENTS

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

1 Introductory words of the President of the Management Board

DEAR STAKEHOLDERS OF THE PODRAVKA GROUP, after 2018, the Podravka Group **continued with the trend of constant sales growth** in 2019. Therefore, we can proudly say that we have ended 2019 with HRK 4,409.4m of sales revenues, with significant contribution from both business segments, Food and Pharmaceuticals. At the same time, operating profit grew HRK 25.1m compared to 2018 and reached HRK 283.5m, while net profit grew HRK 15.9m and reached HRK 221.6m.

The grounds for strong and continuous growth are laid by **developing and upgrading key brands, encouraging innovations to the product range that follow the trends and needs of our consumers, careful planning and successful realization of sales and marketing activities in all markets, as well as implementing efficient cost management**. As one of the largest Croatian exporters, we are especially pleased to be able to say that this year we achieved growth in key export markets and further **strengthened our leading position** in the Adria region. We strive in a fiercely competitive environment for continuous improvement of business and development of the product range, as well as maintaining our position as the leader in selected categories, respecting at the same time the diversity of each individual market.

The key to the success of the Podravka Group are its employees who, through their hard and diligent work, contribute to achieving top results. Accordingly, during 2019, the Podravka Group **significantly improved the material rights of its employees** and, in addition to the payment of a one-off for successful business results, additional incentive measures were implemented such as increased base salary and fixed supplement, savings in the 3rd pension pillar, jubilee awards and Easter bonus.

Through systematic improvement of our business and product quality, we are also **focused on creating greater value for our stakeholders.** Thus, in 2019, the Podravka share price increased by HRK 109 compared to the end of the previous year, which represents an increase of 29,1 percent, while the domestic stock indices, Crobex and Crobex10, individually increased 15,4 percent and 18,0 percent, respectively.

When talking about Podravka Group brands, we continuously **invest in the development and innovation** of Podravka, Belupo and Žito products, adapting them to the nutritional trends and needs of our consumers. Product excellence is confirmed every day through the trust and rewards received from both consumers and the profession. Thus, the treasury of the Podravka Group's awards for product quality in 2019 is richer for 11 more *Superior Taste Awards*, the world’s most acclaimed award in the food segment.

Alongside our commitment to deliver business growth and successful results, we do not forget our role of a socially responsible company. With the **aim of improving the quality of life of our community and the environment** in which we operate, we have been investing in science and education, sustainable development, culture, arts, sports, and promoting corporate social responsibility. Also, as the leading Croatian food company and an important factor in Croatian economy, we provide solutions and measures that can **contribute to economic growth and development, employment and better standard for all Croatian citizens**.

Investment is a prerequisite for economic growth and, accordingly, the Podravka Group plans to **increase its investment pool** in order to remain competitive in a demanding and competitive market and successfully meet the expectations of its customers in more than 60 countries worldwide.

President of the Board

Marin Pucar

2 Podravka Group profile

NAME AND HEADQUATER LOCATION OF THE PODRAVKA GROUP

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

ORGANIZATIONAL STRUCTURE

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

- Food and
- Pharmaceuticals.

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

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

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

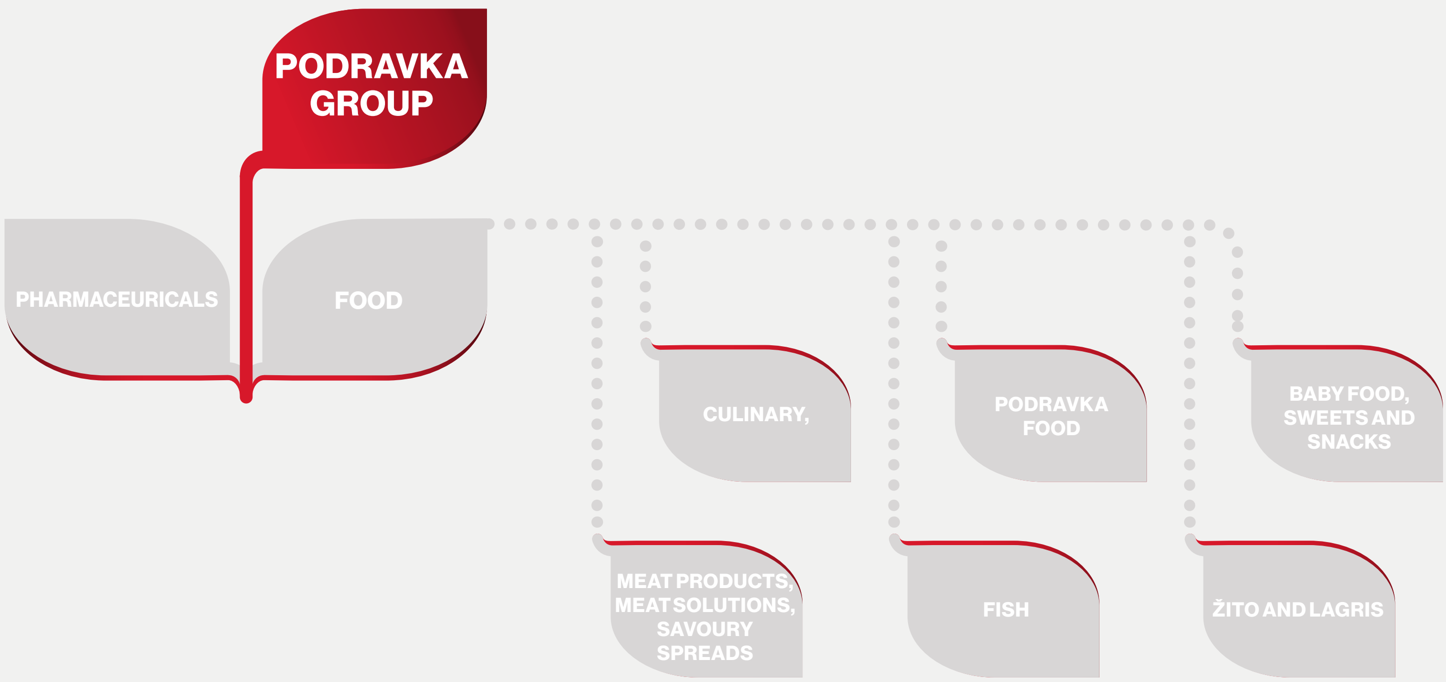
- Adria region
- International markets.

The Adria region consists of the 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**.

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

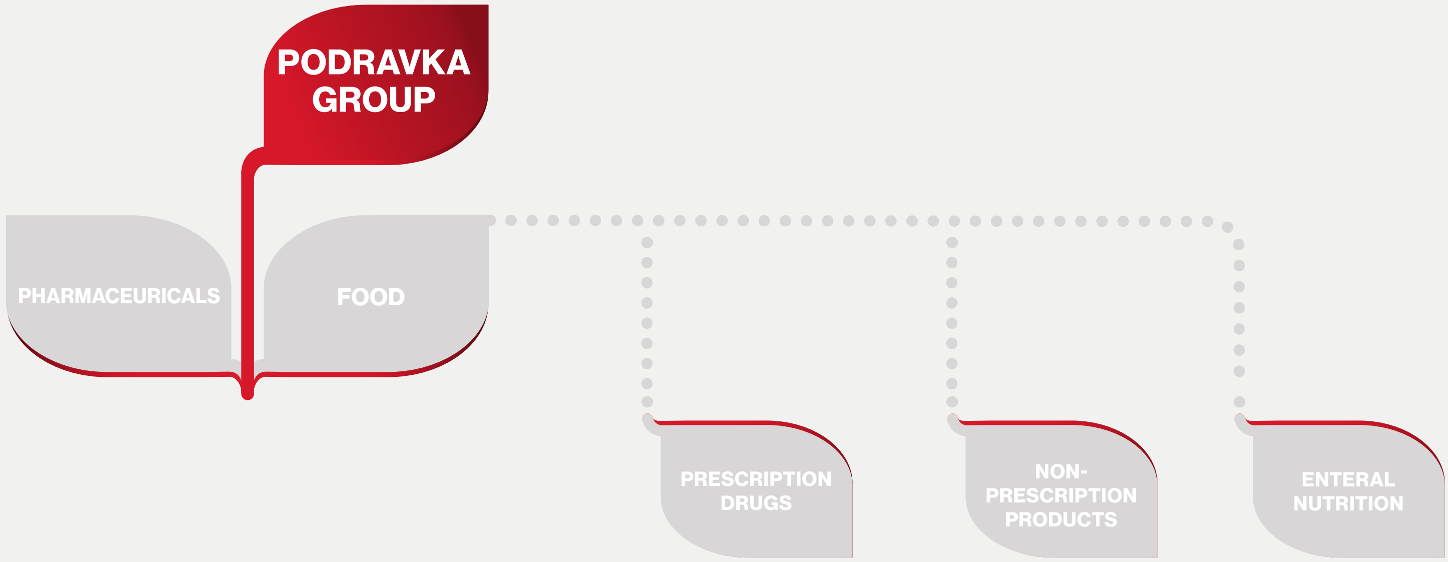


Corporate functions include **Corporate Marketing and Communications** and **Research and Development**, whose role is to apply corporate standards for marketing and development as well as to support marketing and development in business units.

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

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

Business Quality and Sustainable Development 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.



The Strategic Business Area Pharmaceuticals is 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 and
- Quality Control.

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

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

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

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

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

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

The **LINO WORLD** reveals a rich, diverse and miraculous world of flavours, delicious and healthy products carefully prepared for happy and healthy growth! Through a wide range of Baby Foods, it provides all the ingredients necessary for a child's growth and development, while Čokolino is at the same time the favourite cereal for all generations. Here are the new perfectly balanced Lino Nutri balance cereals - a rich meal ready in no time! Popular Lino cereal for children provides a unique crispy experience and comes in a variety of interesting shapes and flavours.

LINO LADA cream spreads are characterized by excellent quality, the largest selection of flavours and different packages. Today, Lino Lada can be found in five different flavours and ten different packagings. The recently launched Lino Lada Gold and new communication with Zlatko Dalić have led Lino Lada to a leading position in the Croatian market in 2019 and significantly strengthened its position in the markets of the Adria region.

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.

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.

EVA and **MIRELA** make a rich assortment of fish products, prepared from the finest fish, led by the Queen of the Adriatic, the Adriatic sardine. The products are rich in very valuable nutrients, prepared in a completely natural way, making them an ideal part of a modern balanced diet.

PODRAVKA TOMATO is an indispensable ingredient in every, especially Mediterranean, cuisine and is a perfect companion to a whole range of other ingredients. Healthy and natural tomato products contribute to health, enable creativity in preparing meals and enjoying the best fruits of modern cuisine.

PODRAVKA FRUITS products have for the past 70 years been prepared by processing top quality fruits of controlled origin, with no additional flavours, artificial colours and sweeteners. Podravka Plum jam is a recognizable and respected traditional Croatian product thanks to its high content of fruit that proudly holds the label “Genuine Croatian Product” granted by the Croatian Chamber of Commerce.

PODRAVKA VEGETABLES perfectly preserve and refine the original flavours of vegetables throughout the year and bring them to our consumers' tables. Sterilized and pickled so they can be used all year round, without any significant changes in their nutritional value. Harvested at the most convenient time and prepared without additives, Podravka vegetables are used for salads, side dishes, sauces, stews and sandwiches.

Perfect texture and proven taste make **PODRAVKA CONDIMENTS** - chutney, mustard, ketchup and horseradish, the ideal complement to a wide variety of dishes. Podravka's delicious and aromatic condiments are an indispensable product in every kitchen, whether used with grilled meats, potatoes or pasta, practical and simple, ready to enhance the taste of every meal.

PODRAVKA MEAT PRODUCTS AND READY-MADE MEALS in a wide range of traditional and modern tastes - pâtés, ready-made meals, meat sauces, sliced cold meat, frozen products and sausages - are a delicious and nutritionally high-value meal at any time. The high proportion of meat makes these products a valuable source of protein, and high-quality raw materials and selected spice blends provide each product with a distinctive aroma and taste. Knowledge, experience, dedication and passion woven into the creation of our products are a guarantee of quality, and simple and quick preparation makes them the ideal solution for every occasion.

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.

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

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

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

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

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

BELUPO, Belupo, a pharmaceutical company within the Podravka Group, has three product groups in its product portfolio: **prescription drugs, non-prescription or OTC (over the counter) products and enteral nutrition.**

Prescription drugs account for the largest share. In that category, Belupo was also the market leader in Croatia according to sold units, with 16.5 million of boxes sold in 2019.

Putting this figure in the context of the estimated population of the Republic of Croatia, according to the latest published data of the CBS for 2018 amounting to 4,087,843, the data shows that on average, every citizen of the Republic of Croatia received a prescription for four boxes of Belupo drugs throughout the year.

If only the adult population over the age of 20 is observed, with the estimated number of 3,288,637 according to the same source, the figure is five boxes per year per capita. Next, if the OTC and enteral nutrition segment is added, then the figure rises to over 20,270,000 boxes, or six drugs per capita. Therefore, it is right to say that Belupo, as a company, is a true guardian of the health of Croatian citizens and a reliable partner of the Croatian healthcare system.

In the prescription drug segment, Belupo's drugs belong to the 11th group of Anatomic Therapeutic Classification of Drugs (ATK) and enteral nutrition belongs to the 12th group. Here it is important to emphasize that Belupo is the only domestic pharmaceutical company to appear in this segment as a manufacturer. Expanding every year with new products and flavours, this segment is becoming more and more important in the treatment of patients suffering from malnutrition.

Although, when it comes to drugs, the quality is *"conditio sine qua non"*, some of Belupo's brands are so recognizable that they have become almost synonyms for therapies of certain conditions and illnesses. These are: Normabel, Iruzid, Irumed, Beloderm, Belosalic, Fursemid, Silapen, Ninur. Even the newer ones, such as Azolar, Rosix, Agnis and others, have successfully found their place in the demanding pharmaceutical market.

Belupo's non-prescription brands, Lupocet and Neofen, have for years been alternating in leading positions in this segment. The same happened in 2019, with Lupocet taking first place and Neofen third place. These are value positions on the Croatian market. The wide range of products within these two top OTC brands, with different dosages, forms, clear marketing and sales strategy, has certainly contributed to such an impressive result. Aska PRO and Sylimarin also achieved remarkable results and at the end of the year Belodina A was granted the right to use the Croatian quality label, which once again proved that Belupo's products meet the highest quality standards.

LOCATION OF BUSINESS ACTIVITIES

The Podravka Group is a multinational company **operating through related companies and representative offices in 23 countries on five continents** (Europe, North America, Asia, Africa and Australia).

PODRAVKA AND ŽITO

The operations of the Podravka Group are conducted in **two industrial sectors or two strategic business areas (SBAs)**: Food and Pharmaceuticals.

SBA Food operates in domestic and international markets, which are divided into:

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

BELUPO

SBA Pharmaceuticals operates in the Croatian market and in foreign markets that are divided as follows:

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

OWNERSHIP AND LEGAL FORM

Podravka Inc. is a joint stock company that was registered as such in 1993, resulting from the transformation 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, the shares of Podravka Inc. were listed and traded on the Leading Market of the Zagreb Stock Exchange.

The ownership structure of Podravka Inc. as of 31.12.2019. 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)	1,070,901	15.04
OTP BANKA D.D./ AZ OMF KATEGORIJE B (1/1) 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	724,316	10.17
ADDIKO BANK D.D./ RAIFFEISEN OMF CATEGORY B (1/1) MANDATORY PENSION FUND	625,298	8.78
CERP (0/1) / REPUBLIC OF CROATIA (1/1)	415,564	5.84
HPB D.D./ KAPITALNI FOND D.D. (1/1) CAPITAL FUND)	406,842	5.71
HPB D.D. (0/1) / REPUBLIC OF CROATIA (1/1)	167,281	2.35
ZAGREBAČKA BANKA D.D./ AZ PROFIT OPEN VOLUNTARY PENSION FUND (1/1)	101,840	1.43
Treasury account	127,916	1.80
Other shareholders	1,849,468	25.98
TOTAL:	**7,120,003**	**100.00**

CHARACTERISTICS OF THE PODRAVKA GROUP SUPPLY CHAIN

The Podravka Group supply chain is organized on the principle of *Supply Category Management* and *Supplier Relationship Management.*

The Group's entire supply range is **segmented into procurement categories**, for which procurement strategies are targeted, as well as initiatives and tasks for their implementation. *Supply Category Managers lead* a category strategy, negotiate with suppliers, make umbrella contracts and monitor their implementation, accordingly.

Depending on the specific features of the purchasing categories, annual, semi-annual or monthly tenders are conducted and / or through market research and competition monitoring, tenders are sought from potential partners in the surrounding area or worldwide. At the same time, for the purpose of conducting negotiations as well as possible and achieving better and more transparent results, the Podravka Group **successfully uses advanced information technologies such as e-contracting platform, e-tenders and e-auction**s.

Supplier Relationship Management is of strategic importance to the Podravka Group. Segmentation and a differentiated approach to suppliers, given their contribution to creating added value for the company, **contributes significantly to business success.** Creating partnerships with key suppliers is one of the main goals of the supply chain because partnerships ensure security of supply, better utilization of resources and reduce business costs, which ultimately **leads to increased company competitiveness.**

The Podravka Group **continually implements and improves the quality management system** by directing activities along the entire supply chain, and therefore requires the same quality parameters from its suppliers, regardless of their economic status, geographical origin or degree of partnership. It is of utmost importance that suppliers have certificates to prove their consistency in food quality and food safety at all stages of the procurement, storage and production process (ISO 9001, HACCP, IFS, Halal, Kosher, AOECS, EKO, VEGEN and others).

The Podravka Group operates with direct manufacturers, primary producers, small crafts, family farms, veterans' associations, subcontractors, distributors, wholesalers and large multinational companies.

In 2019, the Podravka Group generated sales with a total of 10,378 suppliers from 68 countries worldwide.

In the structure of total supplier turnover, 47% are from Croatia, while suppliers from EU Member States (4,473 suppliers) cover 42%. The majority of turnover from NON EU countries mainly comes from countries in the region (Northern Macedonia, Serbia, Bosnia and Herzegovina) and from Switzerland and the Russian Federation.

The company realizes a considerable part of its trade with local and primary suppliers, thus **contributing to the development and stability of the local community**, at the same time respecting high quality standards of input raw materials, the aspect of sufficient quantities and the necessary level of technical and technological equipment of manufacturers of packaging and raw materials.

10,378
total number of suppliers

4,473
suppliers from EU

68
countries worldwide

47%
suppliers from Croatia

SIGNIFICANT CHANGES IN THE SUPPLY CHAIN OF PODRAVKA GROUP

Given the large number of suppliers with whom Podravka Group cooperates, changes in the supply chain occur almost on a daily basis, but there were **no significant changes in the structure of suppliers** and **in the management of supplier relations**. In line with Podravka's corporate strategy, during 2019, the **focus was placed on local suppliers** and suppliers with whom the c**ompany nurtures partnerships**, which in the situation of significant disruptions in the agri-food market **offers security of supplying the required quality and contracted quantities in a timely manner.**

PRECAUTIONARY APPROACH

PODRAVKA

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

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

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

- **utilization of process by-products;**
- investing in new, **"green" food processing technologies** (reducing harmful emissions, waste, water consumption and effective consumption of resources);
- **increasing the capacities of own technological resources** by developing innovative products;
- **continuous improvement of efficient waste management** by reducing waste materials and raw materials, rationalizing the use of consumables and educating employees.

ŽITO - GRANARY OF HEALTH

In 2019, considerable attention was devoted to **promoting healthy lifestyles and raising awareness of healthy eating** among employees. The project, called ***Granary of Health***, aims to raise employee awareness of healthy lifestyles in and out of the workplace, reduce stress and increase awareness of the importance of eating healthy, maintaining fitness and exercising. Žito's employees were encouraged to participate in sports events, such as the Koprivnica Marathon, Business Run Ljubljana and Ljubljana Marathon races, as well as at the Sports Games of the Union of Agriculture and Food Industry of Slovenia at Debeli Rtič. During the year, healthy snacks were provided for employees such as pears and plums. In autumn, an internal competition was held within the project with the aim to activate healthy ideas in the company. Over 70 proposals were received and the top three were awarded.

A total of **70 health ambassadors** were selected among employees and trained for their role in an educational workshop. This workshop took place in July, and then ambassadors in their organizational units began as active motivators promoting health, thus contributing to the successful implementation of the project among their colleagues.

These healthy activities are reported under a new heading *"Granary of Health"* in the Drobtinica informative leaflet.

BELUPO

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

- Prevention principle

  In order to avoid environmental risks or hazards, all previous environmental measures shall be applied in the planning or implementation of the intervention. Environmental interventions should always be planned and implemented in such a way as to minimize environmental pollution, while taking into account the rational use of natural resources and energy.

- Precautionary principle

  All employees are required to take precautionary measures to prevent negative environmental impacts.

- Principle of preserving the value of natural resources, biodiversity and landscapes

  Natural resources are endeavoured to be maintained at a level that is not harmful to humans, flora and fauna. Any intervention that has a damaging effect on biodiversity should be avoided and the natural genetic harmony and harmony of natural communities, living organisms and non-living substances should be preserved.

- Principle of substitution and / or compensation

  An intervention that could adversely affect the environment is sought to be replaced by an operation that poses a substantially lower risk or danger, even if the cost of such an intervention is greater than the value to be protected.

- Principle of elimination and remediation of environmental damage at source

  In the event that environmental damage occurred as a result of performing Belupo's activities, the company is obliged to eliminate or remediate the environmental damage at its source.

- Holistic approach principle

  The adoption of plans and programs for environmental protection and obtaining approvals for permits and other environmental measures requires the cooperation of the company with the competent authorities.

- Polluter pays principle

  The polluter bears the costs of environmental pollution

- Principle of access to information and public participation

  Citizens have the right to be informed on any environmental pollution and the measures taken in a timely manner.

- Incentive principle

  Belupo encourages operations and activities related to environmental protection that prevent or reduce environmental pollution.

PODRAVKA INC. is committed to the following external initiatives

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

PODRAVKA INC. Podravka Inc. is also supports the following voluntary external initiatives::

- Organisation for Economic Cooperation and Development (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

ŽITO LTD. is committed to the following external initiatives:

- Responsibilities of the Slovenian Bakery Sector for a 20% reduction in bread salt by the end of 2022 and for increasing the content of whole ingredients in products.

BELUPO LTD. is committed to the following external initiatives:

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

3 Corporate governance

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

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

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

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

- business transparency
- clear procedures for the work of the Management Board, the Supervisory Board and its committees and the General Assembly
- avoiding conflict of interest
- efficient internal control and
- efficient system of responsibility.

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

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

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

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

GENERAL ASSEMBLY

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

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

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

Investors / Corporate governance / General Assembly module.

SUPERVISORY BOARD

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

Podravka Inc. Supervisory Board members in 2019 were as follows:

1. Dubravko Štimac - president until 30 June 2019
2. Želimir Vukina – president since 1 July 2019
3. Luka Burilović – deputy president since 10 September 2018
4. Damir Grbavac – member until 18 June 2019
5. Petar Vlaić – member until 30 June 2019
6. Marina Dabić – - member since 1 July 2019
7. Tomislav Kitonić – member since 1 July 2019
8. Ivana Matovina – member since 30 June 2017
9. Petar Miladin – – member since 8 September 2018
10. Ksenija Horvat – member (workers' representative) since 1 July 2015
11. Dajana Milodanović – member since 8 September 2018
12. Krunoslav Vitelj – member since 8 September 2018.

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

THE AUDIT COMMITTEE MEMBERS in 2019 were as follows:

1. Ivana Matovina – president of the Committee since 5 September 2016
2. Dubravko Štimac – member until 30 June 2019
3. Petar Vlaić - member until 30 June 2019
4. Želimir Vukina - member since 1 July 2019
5. Tomislav Kitonić – member since 1 July 2019.

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

The Audit Committee held seven sessions in 2019.

THE REMUNERATION COMMITTEE MEMBERS are as follows:

1. Luka Burilović - president of the Committee since 10 September 2018
2. Petar Miladin – member since 10 September 2018
3. Dubravko Štimac – member until 30 June 2019
4. Želimir Vukina – member until 23 July 2019
5. Krunoslav Vitelj – member since 23 July until 10 December 2019.

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

The Remuneration Committee held two sessions in 2019.

THE CORPORATE GOVERNANCE COMMITTEE was established on 30 June 2017 and consists of the following members:

1. Luka Burilović – member since 30 June 2017
2. Petar Miladin – member since 30 June 2017
3. Petar Vlaić – member until 30 June 2019.

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. The Committee also proposes 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 any separate session in 2019.

THE NOMINATION COMMITTEE was established on 10 December 2019. in the following composition:

1. Želimir Vukina – president of the Committee since 10 December 2019
2. Luka Burilović – member since 10 December 2019
3. Krunoslav Vitelj – member since 10 December 2019.

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

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

In 2019, members of the Supervisory Board of Podravka Inc. were paid HRK 1,720 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 2.225 thousand.

ŽELIMIR VUKINA

Supervisory Board president

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

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

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

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

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

LUKA BURILOVIĆ

Supervisory Board deputy president

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

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

He began his professional career in 1990, as the owner of the company Agrotehna Lipovac. In 1996, he became the Deputy Head of the municipality of Nijemci.

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

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

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

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

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

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

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

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

KSENIJA HORVAT

Supervisory Board member

Ksenija Horvat was appointed a member of the Supervisory Board of Podravka Inc. in July 2019 by the company's Workers' Council.

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

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

PETAR MILADIN

Supervisory Board member

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

Member of the Remuneration Committee of Podravka Inc.

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

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

IVANA MATOVINA

Supervisory Board member

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

President of the Audit Committee of Podravka Inc.

She began her professional career in 1996 as an accounting manager and from 1997 to 2009 worked at KPMG Croatia Ltd. Subsequently, until 2011, she worked as a partner and director of Cinotti audit Ltd./Cinotti consulting Ltd., and in 2011 founded her own company Antares audit Ltd./ Antares consulting Ltd. engaged in audits, internal audits, accounting and business consulting and training. From 2009 to 2012, she was a member of the Governing Council of the Croatian Chamber of Auditors, from 2012 a member of the Financial Reporting Standards Board and a member of the HANFA Council. In 1996, she graduated from the Faculty of Economics and Business in Zagreb, majoring in Accounting and Finance. In 2000, she became a Chartered Certified Accountant of the United Kingdom and two years later acquired the title of Chartered Certified Auditor of Croatia.

KRUNOSLAV VITELJ

Supervisory Board member

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

Member of the Nomination Committee of Podravka Inc.

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

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

In 2008, he obtained corporate governance qualifications for members of supervisory and management boards at the Faculty of Economics and Business, University of Zagreb.

DAJANA MILODANOVIĆ

Supervisory Board member

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

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

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

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

TOMISLAV KITONIĆ

Supervisory Board member

Tomislav Kitonić was elected a member of the Supervisory Board of Podravka Inc. in June 2019.

Member of the Audit Committee of Podravka Inc.

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

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

He graduated from the Faculty of Economics and Business, University of Zagreb. He continued his professional development and education at the IEDC Business School in Bled, Slovenia, Management Centre Europe in Belgium, and obtained corporate governance qualifications for members of supervisory and management boards in Zagreb.

MARINA DABIĆ

Supervisory Board member

Marina Dabić was elected a member of the Supervisory Board of Podravka Inc. in June 2019.

She began her professional career in 1983 in the company Đuro Đaković, Marsonia Commerce, working first in the Import/ Export Division, and later becoming Director of Imports. From 1995 to 2007, she worked at the Faculty of Mechanical Engineering in Slavonski Brod, and in 2004 became the vice-dean for commercial cooperation. Since 2007, she has worked at the Faculty of Economics and Business, University of Zagreb, as a full professor in tenure, and an associate professor at the Nottingham Business School, Nottingham Trent University (Great Britain), lecturing in the courses of International Business, Open Innovations in Global Networks and International Entrepreneurship. She is the head of international accreditations at the Faculty of Economics and Business in Zagreb.

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

During 2006 and 2007, she was director for strategic development of the consortium of regional cooperation in science, medicine and technology (RECOOP HST Cedars - Sinai Medical Center) in Los Angeles, USA and schools of medicine in Central and Eastern Europe.

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

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

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

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

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

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

DUBRAVKO ŠTIMAC

Dubravko Štimac was a member of the Supervisory Board of Podravka Inc. until 30 June 2019 and member of both the Remuneration Committee and the 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 Ltd., 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 Inc., and since October 2001, the President of the Management Board of PBZ Croatia osiguranje Inc., a company for the management of the mandatory pension fund.

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

DAMIR GRBAVAC

Damir Grbavac was a member of the Supervisory Board of Podravka Inc. until 18 June 2019.

He began his professional career in 1978 in the Đuro Đaković Group advancing from the position of 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 Ltd., 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 Pension Funds. Damir Grbavac is a member of the Supervisory Board of Hrvatski Telekom Inc. and President of the Supervisory Board of Quaestus Nekretnine, a joint stock company for real estate, in liquidation.

He graduated from the Faculty of Economics 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.

PETAR VLAIĆ

Petar Vlaić was a member of the Supervisory Board of Podravka Inc. until 30 June 2019 and member of the Audit Committee of Podravka Inc.

He started his professional career as a broker at Ilirika and later he advanced to the position of 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 transferred to the position of fund manager at the Central National Fund. In 2001, he became the Management Board President of Adriatic Invest Ltd. – a 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 the CFA (Chartered Financial Analyst) title, through a programme organized by the American Institute of Chartered Financial Analysts (ICFA).

MANAGEMENT BOARD

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

The members of the Management Board manage the Company's business affairs, and the 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 2019:

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 a 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 11,165 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 17,254 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 2019, the Company’s stock options in the amount of 45,000 were granted to the members of the Management Board of Podravka Inc.

MARIN PUCAR

President of the Management Board

Marin Pucar was appointed president of the Management Board of Podravka Inc. in February 2017.

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

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

From 2008 till 2012, we was Supervisory Board member of Danica Ltd. and Belupo Inc. In 2012, he became Management Board member of the Croatian Chamber of Commerce, and its deputy president in 2016, the role he carries to this day.

In 2018, he was declared 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 member of the Management Board of Podravka Inc. in February 2017.

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

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

DAVOR DOKO

Member of the Management Board

Davor Doko was appointed member of the Management Board of Podravka Inc. in May 2017.

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

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

MARKO ĐEREK

Member of the Management Board

Marko Đerek was appointed member of the Management Board of Podravka Inc. in July 2017.

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

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

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

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

HRVOJE KOLARIĆ

Member of the Management Board

Hrvoje Kolarić was appointed member of the Management Board of Podravka Inc. in February 2017.

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

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

4 Podravka Group expected development

During its rich history, Podravka has **conquered the world with its products**. Today, it is the only Croatian multinational food company with offices in 23 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

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 Nutraceutics 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

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.

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.

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.

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.

WIDE DISTRIBUTION NETWORK

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

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.

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.

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.

2. PROFITABLE GROWTH

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.

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.

INTERNATIONALIZATION

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

BUSINESS INVESTMENTS

By increasing operating efficiency, additional capital is released, 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. .

SYNERGY OF THE FOOD SEGMENT AND THE PHARMACEUTICAL SEGMENT

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

STRATEGIC PARTNERSHIPS AND ACQUISITIONS

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

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.

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.

CONTINUOUS MONITORING OF THE PRODUCT RANGE PROFITABILITY

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

DEVELOPMENT OF INTERNAL COMPETENCIES A

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.

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.

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

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

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

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

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

Podravka Group activities in the area of risk management continued to focus on developing the *Enterprise Risk Management project*; ERM. This project refers to the process of integrated analyses and reports on key risks that the company is exposed to, identifying potential events which can have negative effects on the Company's business results and managing the identified risks. The project divides key risks 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 uninsurable. Insurable risks are managed by the Insurance division within the Treasury department, and together with uninsurable risks they undergo the analysis and reporting process within the ERM project. During 2019, the Podravka Group revised the input data within the scope of the ERM project for Podravka Inc., including in it all the business units of Podravka Inc. for which risk identification and analyses were conducted. The project aims at building a more efficient risk culture, implying that every business activity holder involved in the project also takes on the role of a "*risk manager*". In 2019, the ERM project included Žito Ltd. that is a member of the Podravka Group.

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

FINANCIAL RISKS

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 and which may jeopardise the profitability or cause a significant loss of the Company's financial assets.

Financial risks include market risk (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 within the Group, together with active management of excess liquidity investment and active management of financial assets and liabilities.

CURRENCY RISK

The Podravka Group conducts certain transactions in foreign currencies and is therefore, exposed to the risk of fluctuations in exchange rates. The most significant exposure to changes in exchange rates of the Croatian kuna during 2019 was in relation to EUR, USD, PLN, HUF and RUB.

Currency risks arise not only from operations of related companies in foreign markets, but also from the procurement of raw materials in the international market, which is largely performed in EUR and USD. Likewise, a significant portion of Podravka Group's borrowings is denominated in EUR. During 2019, 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 2019, the Podravka Group continued to apply the model of managing transaction currency risk called "Layer hedging". This model is applied to the following basket of currencies: USD, AUD, CAD, RUB, CZK, HUF and PLN. The integral parts of the model include the identification of risk sources and exposure measurement (using the Monte Carlo method of Value at Risk simulation), process of contracting derivative financial instruments for hedging purposes and the control and reporting system. Additionally, within the model, exposure limit parameters were set which are triggers for contracting the prescribed hedge levels. Using the Bloomberg terminal, macroeconomic projections are regularly monitored and derivative financial instruments for currency risk management are contracted. Also, the Podravka Group endeavours to maximise the possibilities of "natural hedging" in order to achieve that the inflows from related companies, whenever possible, are forwarded to Podravka Inc. in the domestic currency of the country where the related company operates. This way the currency risk is largely transferred from related companies to Podravka Inc. that adjusts these cash inflows with outflows, thus reducing the overall exposure to currency risk, and also creating the opportunity to contract derivative financial instruments for the remaining amount of net cash flow at central level.

During 2019, 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. 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 2019 fx forward contracts were contracted as available hedging instruments.

INTEREST RISK

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.**

CREDIT RISK AND RISK OF THE DEBT COLLECTION

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

The Podravka Group enters into business only with counterparties (customers and suppliers) with good credit ratings, securing, when needed, receivables for the purpose of reducing the risk of financial loss as a consequence of unfulfillment of contractual liabilities. 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 status of receivables on individual markets during 2019, the Podravka Group contracted insurance of receivables for a selected group of markets. (The Company secured receivables on the markets of the Republic of Croatia, Turkey, Qatar, Belarus, the United Arab Emirates, Saudi Arabia, Oman, Kuwait, Egypt, Japan and Kenya).

During 2019, the Podravka Group did not have any significant damage claims related to the insurance of debt collection.

LIQUIDITY RISK

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

Continuous cash flow management at Group level, through regular analyses and **observing the maturity of receivables and liabilities** that the Podravka Group has towards its customers, suppliers, banks and other financial institutions ensures a sufficient level of cash flow necessary for the Group's regular business operations.

Cash flow planning follows the guidelines of the Podravka Group regarding regular settlement of contractual obligations and the harmonization of all other contractual relationships.

Additional efforts in cash flow planning at the Group level made in earlier periods continued during 2019, and have resulted in the optimization of liquidity across the entire Podravka Group.

PRICE RISK

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 price fluctuations on the market, the impact of which cannot always be compensated through sales prices.

The agri-food market, as the most significant source of raw materials for the Podravka Group, is among the most sensitive markets in the modern world. For this reason, the volatility of agricultural commodity prices is a significant element in the Podravka Group's business environment, especially in the face of more pronounced disruptions in the world and local markets. The risk of unavailability of commodities on the market due to increasing adverse weather conditions caused by climate change (years of drought, floods, etc.) resulting in reduced yields, the occurrence of disease in livestock (African swine fever), and political or social unrest in some countries have a significant impact on the increase of input prices.

In order to mitigate these impacts, Podravka is working to **develop partnerships with long-standing suppliers and to develop relationships with new suppliers in the targeted EU and third-country markets.** Timely contracting, consolidation of supply volumes to strengthen market positions, inventory management of raw materials and finished products, equal risk distribution to suppliers, optimization of material specifications, introduction of replacement raw materials and active implementation of Commodity Risk Management are some of the activities that have been successfully implemented by the Podravka Group for the purpose of better price trends assessment and reducing the risk of price volatility in the market.

BRAND MANAGEMENT

Business conditions in most markets in which the Podravka Group operates are challenging due to local, regional and global competition, but also because of the risk of a drop in spending power, strengthening of customer power and new market and consumer trends that are emerging in the environment. In a situation where consumer demand, driven partly by retailers' strategies, grows slowly, is price sensitive, and at the same time demanding in terms of product functionalities, the success of recognizable brand-oriented companies is largely dependent on their ability to be innovative, differentiating and at the same time price relevant.

Consumers' habits, tastes and preferences are constantly changing, so the Podravka Group is continuously faced with the need to promptly identify and anticipate them in order to adapt its products and brands, accordingly. As a result, the Podravka Group is constantly designing and developing innovative solutions in line with the expectations of its customers and clients also, as it is one of the most important factors in the realization of sales plans and overall business results.

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

BUSINESS MANAGEMENT

As a company that sees the achievement of its goals through both organic and inorganic business growth, an optimal selection of the strategic segments of product categories, markets and sales channels has a significant impact on the opportunities for that growth. For that reason, the Podravka Group **pays great attention to 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

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

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

In addition, the Podravka Group makes efforts to ensure the best preconditions for further successful long-term growth through the harmonization and optimization of existing pricing policies and price levels in existing markets. **The erosion of profit margins, i.e. the risk of failure to achieve the planned sales, is thereby avoided.**

MANAGING MANAGEMENT AND EMPLOYEE RISKS

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

Different programmes tailored to the needs of employees and organizational units have created sound grounds for further successful operation and added value to the Company.

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

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

QUALITY ASSURANCE AND FOOD SAFETY MANAGEMENT SYSTEM

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.

NON-FINANCIAL REPORT

1 Research and Development

"GO WEST" PROJECT

This year, innovative product development activities continued, with a focus on vegan, clean label trends and functional mental health products. The vegan diet is based on cereals, legumes, fruits and vegetables. Vegans do not eat meat, fish, seafood, eggs, milk, dairy products, honey, or wear items of fur, wool, bone, skin, coral, pearls or any other material of animal origin. Many vegans also avoid animal-tested products. Veganism differs from vegetarianism in that it is entirely reduced to a plant-based diet, while vegetarians eat some animal products that do not result from the killing of animals, such as eggs, honey, milk, etc. Veganism is becoming a growing trend in the USA, Canada (No. 1 trend) and the UK, so the market size is estimated at $5 billion by 2020. About 40% of consumers are open to reducing meat consumption in the USA. During the year, **12 new vegan development prototypes were developed** for the Meat Products, Meat Solutions and Savoury Spreads Business Unit, **five culinary prototypes from clean label** umami ingredients for the Culinary Business Unit and a **functional beverage for mental health** sensory tested on consumers, for the Baby Food, Sweets and Snack Business Unit.

A cycle of workshops for manufacturers of technological equipment called *"Technology Innovations Day with Podravka"* was launched.

SUSTAINABLE PRODUCT DEVELOPMENT

Research projects (2017-2019) related to the by-products of fruit and vegetable processing at Podravka's factories have shown that some of this waste has nutritional value and could be isolated during the production process and used to develop innovative products and ingredients, which would **open a new revenue stream for the company**, and a technological redesign could provide an opportunity to **raise process efficiency**. The obtained results resulted in applying for resources from EU funds in 2020.

TEACHING BASE FOR STUDENTS

Podravka's Research and Development has been a long-standing teaching base for the Faculty of Food Technology and Biotechnology, University of Zagreb, Faculty of Food Technology, University of Osijek and the Secondary School in Koprivnica. Activities are focused on professional practice, visits of students to Podravka's plants, visits of teachers, mutual cooperation in professional or scientific work and teaching practice..

DIGITAL TECHNOLOGICAL MAP OF PODRAVKA PROJECT

In 2019, a two-year project of mapping the state of technological devices at Podravka's production sites in Croatia and the Czech Republic (2018-2019) was completed. The purpose of the project was to create a digital map (eBase state of technology) of food processing and packaging equipment, for transparency of long-term investment planning, monitoring of its effects and the development of new products. The aim of the project was to **create a digital archive of technology that would be a useful, innovative and functional tool for a specific circle of internal users**. The conceptual design and the archives methodology were developed by Research and Development, while the digital solution was made by Informatics (all departments within Podravka). In 2018, all technological capacities for the preparation, production and packaging of finished products at Podravka Inc. factories in the Republic of Croatia and the research and development semi-industrial laboratory were registered, and in 2019, the factory Lagris in the Czech Republic was processed.

The maintenance of the eBase is described in the Work Manual (which became part of Podravka's ISO documentation), and the design and methodology of the project are displayed in a separate brochure (Technology Status Database). This project has created a new *"know how"* of the company (increased intellectual property) and has been protected as a trade secret.

DIGITALIZATION OF LABORATORIES FOR SENSOR AND CULINARY TESTS

With the completion of the reconstruction of the Laboratory for Sensory and Culinary Research at the end of 2018, the process of digitization of the laboratory continued in 2019. The aim of the digitization was to **simplify, integrate and make the work of the laboratory transparent**. TV monitors were set up for communication and presentation inside and outside the lab, eBooking system was developed to reserve lab space / resources, and software for sensor testing was implemented, making paper forms and pens go down in history. At the end of the year, preparations began in accordance with the Multimedia System Technology Solution study for equipping the lab with audiovisual equipment in 2020. A new vision and mission for the laboratory were created. The Vision - We are dedicated to research, development and innovation of delicious food for the benefit of health and quality of life, and the Mission - With the application of new information technologies and culinary techniques, we improve culinary research and sensory testing in the process of product development and quality control. Two new internal standards were also created: the Good Hygiene Practice Standard and the TV Content Standard.

PODRAVKA'S NUTRITIONAL STRATEGY (2014-2020)

Activities related to the development of new products according to the nutritional profile have been continued in compliance with the Company's Nutritional Strategy regarding the reduction of salts, sugars and fats and / or *"clean label"* tactics and enrichment with healthy, positive ingredients (probiotics, proteins, fibers, etc.).

NEW GENERATION SALT – RECOGNITION OF PODRAVKA'S PATENT AND COOPERATION

At the end of the year, the European Patent Office announced the intention of recognizing Podravka's patent, entitled *"Salt substitute composition and use thereof"* (EP3349594), invented by Podravka's Research and Development and external support, successfully completing a research project started in 2013. Then a project, but in 2019 a product under the new Podravka brand "Salut" by which the company introduces a **new generation of salt** to the market of consumers who care about their health. Salute is commercialized as a **unique blend of mineral salts with 35% less sodium** for everyday meal preparation or additional salting. International recognition has also come from culinary experts through the Superior Taste Award, by the International Taste Institute, Brussels. In addition to being a product, Salut is used as an ingredient in new product recipes that seek to reduce salt / sodium intake, bringing 10 new products (three liquid soups, three liquid seasonings and four ready-made meals) to the Australian market in 2019 under the Vegeta brand. In addition to Podravka's basic range, the results of the project of using Salut in cheese, implemented in cooperation with the Faculty of Food Technology of the University of Osijek, have provided excellent taste acceptability, especially in the production of ripe cheeses. The results of the project are described in the original scientific paper by a group of authors from the Faculty and from Podravka entitled *"Physico-chemical properties, spreadability and consumer acceptance of low-sodium cream cheese"*, which will be published in the journal Mljekarstvo in 2020.

COOPERATION WITH STATE AUTHORITIES IN BUILDING THE INNOVATION SYSTEM OF THE REPUBLIC OF CROATICA

Podravka's representative, also chairing the Thematic Innovation Council for Food and Bio-Economy (the main coordinating body for the TPP *"Food and Bioeconomics"* provided for by the S3 Smart Specialization of the Republic of Croatia 2016-2020), which has almost 40 members from small, medium and large companies, scientific-research organizations, public authorities and the business sector, actively contributed to the work of the Innovation Council for Industry and the National Innovation Council, through sessions and active participation in the creation of new strategies and policies in the field of research, development and innovation in the Republic of Croatia.

COOPERATION WITH THE LOCAL COMMUNITY TO IMPROVE THE NUTRITION OF PRIMARY SCHOOL CHILDREN IN SCHOOL KITCHENS IN THE COUNTY

In 2019, the project of the Koprivnica-Križevci County and nutritionists from Research & Development entitled *"A Smart Meal for Smart Children"* was completed, with the aim to **develop a nutrition system and organize the work of school kitchens** in primary schools (18) in the Koprivnica-Križevci County. The project began in 2018, and the following outcomes were achieved this year: material produced for an educational booklet and leaflet on proper nutrition; monthly menu norms aligned with the nutritional needs of school children; positive user opinion as a result of monitoring satisfaction of participants ie. pupils and teachers; proposal for the project logo, presentation of menu acceptance results in a poster exhibit at FENS2013 in Dublin, under the heading *"Children's Acceptance of the Pilot Program of School Meals in the Rural Region of Northern Croatia"*.

LONG-TERM COOPERATION ON APPROXIMATION OF MILITARY MEALS WITH THE CROATIAN ARMY CONTINUED

From 2013 to the present, there has been continuous cooperation between the Ministry of Defence of the Republic of Croatia and Podravka's nutritionists through the approximation of military nutrition standards with NATO standards, since Podravka is a permanent partner in the preparation of individual combat rations (IBOs). Alignment with NATO standards means a continuous process of innovating and harmonizing the recipes of Podravka's products in the IBO package, which starts from theoretical assumptions, product development to taste satisfaction testing. At the end of 2019, innovations in nutritional quality of products according to the NATO standard were positively evaluated by the Croatian Armed Forces.

ŽITO

Žito has developed good relations with various higher education organizations in the field of agriculture and food (BIC Ljubljana, Piramida Maribor) and the Biotechnical Faculty in Ljubljana. It enables students to practice and gain valuable experience in practical work. Žito's employee has been appointed representative of the industry in the Strategic Council of the Higher Vocational School of the Education Centre Piramida Maribor. The Strategic Council is the highest body of the school that adopts the long-term developmental programme of the school, proposes the annual work plan and monitors quality assurance at university studies.

In 2019, Žito continued to pursue two research projects: Functional Food of the Future (4F4) and Antibiotic Extraction from the Food Chain (ABFREE). Cooperation with other consortium partners was carried out according to the plan in compliance with the submitted project documentation.

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

BELUPO

Belupo's Research & Development sector is focused on the **development of new medicines, technology transfer from associate partners to Belupo's manufacturing facilities, and optimization of products from its current portfolio**, in line with the ever-increasing standards of the pharmaceutical industry.

Through the involvement in numerous company projects such as the introduction of serialization in European markets and aggregation for the Russian market, R&D contributes to maintaining Belupo's quality system in cooperation with other sectors, including active participation in inspections of regulatory agencies conducted in 2019.

Due to continuous requests coming from the European Medicines Agency and transmitted through national regulators and ultimately to drug manufacturers, the scope of activities in the preparation of documents has increased with the aim of harmonizing and implementing new processes both in the product development and in the maintenance phase, and the documents accompanying the product through the entire life cycle.

In 2019, the development of several products from the dermatological group of drugs continued, for one of which an extensive clinical study is being conducted. New solid drugs in the form of tablets and powder for oral solution have been developed from the anti-inflammatory and anti-rheumatic, anti-diabetics, and cardiovascular groups of drugs.

Products developed at Research & Development and released and placed on the market in 2019 are as follows: Agnis Combi 5o + 850 mg and 50 + 1000 mg film-coated tablets, Zynol 1.5 mg / ml and 3 mg / ml oral mucosa sprays and Zynol 1.5 mg / ml gargling solution, Neofen Rapid 400 mg film-coated tablets and Belodex foam in the cosmetics category.

Throughout 2019, Research & Development professionals participated in the continuation of activities related to technology transfer to the newly built extension of manufacturing plants, thus contributing to increased plant productivity.

Through the project Lean Six Sigma, projects that confirmed the real possibility of creating new value by applying process optimization while monitoring and eliminating the cause of deviation were successfully completed in the first wave of transformation. In the second wave of the continued transformation, Research & Development representatives were given significant roles.

Cooperation with the scientific community continued in a number of projects with the Ruđer Bošković Institute, the Faculty of Pharmacy and the Faculty of Science.

2 Certification

PODRAVKA

During 2019, audits of quality assurance and food safety management systems were carried out by accredited certification authorities and organizations according to several international standards.

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

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

The audits confirmed compliance with the following international standards:

R.B.	STANDARD	LOCATIONS	AUTHORITY
1	**ISO 9001:2015**	1. Podravka Inc. (all locations in Croatia)	**Certification Authority SGS**
2	**HACCP** according to Codex Alimentarius	1. Podravka Inc. (all locations in Croatia)) 2. Mirna Inc., Rovinj	**Certification Authority SGS**
3	**IFS Food, Version 6.1** International Featured Standards - Food	1. Podravka Inc. headquarters, Koprivnica Soups & Vegeta Factory, Koprivnica Baby Food & Cream Spreads Factory, Koprivnica Danica production plant, Koprivnica Production of semi-prepared and ready-made meals, Koprivnica 2. Kalnik Factory, Varaždin 3. Mirna Inc., Rovinj 4. Vegetable Factory, Umag	**Certification Authority SGS**
		1. Podravka Lagris, Czech Republic	**Certification Authority TÜV SÜD**

4	**BRC, Issue 8** (British Retail Consortium) Global Standard for Food Safety	1. Podravka Inc. headquarters, Koprivnica 2. Soup & Vegeta Factory, Koprivnica 3. Baby Food & Cream Spreads Factory, Koprivnica	**Certification Authority SGS**
5	**HALAL**	1. Danica production plant, Koprivnica 2. Soups & Vegeta Factory, Koprivnica 3. Baby Food & Cream Spreads Factory, Koprivnica 4. Kalnik Factory, Varaždin 5. Fruit Factory, Koprivnica 6. Snacks Factory, Koprivnica 7. Restaurant Podravska klet, Koprivnica	**Halal quality Certification Centre** ***Emirates Authority for Standardization & Metrology**
		1. Soups & Vegeta Factory, Koprivnica 2. Baby Food & Cream Spreads Factory, Koprivnica 3. Snacks Factory, Koprivnica	***Emirates Authority For Standardization & Metrology**
6	**KOSHER**	1. Kalnik Factory, Varaždin 2. Soups & Vegeta Factory, Koprivnica 3. Fruit Factory, Koprivnica 4. Snacks Factory, Koprivnica 5. Mill, Koprivnica	**Rabin Kotel Da-Don**
7	**BIO**	1. Podravka Inc., Koprivnica › Ecological tea › Ecological grits › Ecological rice › Ecological puree › Ecological cereal › Ecological seeds › Ecological tomato products › Bio oatmeal merc blage 500 g › Bio rice vacuum 800 g › Bio biozone millet 500 g › Bio oatmeat merc 500 g › Bio polenta 450 g › Bio biozone buckwheat 500 g	**Austria Bio Garantie**

8	**AOECS Gluten free**	1. Snacks Factory, Koprivnica	**Certification Authority SGS**
9	**EUROPEAN VEGAN**	1. Kalnik Factory, Varaždin 2. Snacks Factory, Koprivnica	**Association „Prijatelji životinja“** (*Frineds of Animals*)
10	**RSPO Supply Chain Certification Standard**	1. Soups & Vegeta Factory, Koprivnica	**Certification Authority SGS**

Compared to previous years, the following changes occurred in 2019:

- Recertification of the following factories according to the new version of **IFS Food, Version 6.1:**
  - Soups and Vegeta Factory, Koprivnica
  - Baby Food and Cream Spreads Factory, Koprivnica
  - Danica production plant, Koprivnica
  - Production of Semi-prepared and ready-made meals, Koprivnica
  - Kalnik Factory, Varaždin
- Recertification of the following factories according to the new version of BRC, Global Standard for Food Safety, Issue 8
  - Soups and Vegeta Factory, Koprivnica
  - Baby Food and Cream Spreads Factory, Koprivnica
- Cease of certification for the Fruit Factory according to **IFS standard**
- Cease of certification for the Danica production plant according to **HALAL standard by Emirates Authority for Standardization & Metrology (ESMA)**
- Certification of Mirna Inc., Rovinj according to the **HACCP Codex Alimentarius**
- ***AOECS Gluten free*** – part of the range at the Snacks Factory certified
- ***EUROPEAN VEGAN*** – certification of products from the Chutney category and Crispy bread products
- ***RSPO Supply Chain Certification Standard*** - part of the range at Soups and Vegeta Factory certified
- BIO product certification - extension of the product range

ŽITO

In 2019, 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.

R.B.	STANDARD	LOCATION	AUTHORITY
1	**ISO 9001:2015**	Žito Group with Šumi Candies Ltd. Krško & sales segment of Podravka Ltd. Ljubljana	**SIQ - Slovene Institute for Quality Ljubljana**
2	**IFS Food ver.6.1**	1. Žito PC Žito Šmartinska Ljubljana 2. Žito PC Gorenjka 3. Žito PC Kruh pecivo 4. Žito PC Pekarna Vrhnika 5. Žito PC Dolenjske pekarne 6. Žito PC Gradišče 7. Šumi candies d.o.o. Krško 8. Žito Pekarna Vič	**QA –Quality Austria**
3	**BIO certificate Žito**	91 products, i.e. process including Žito Retail Ltd.	**Institut kon-cert, Maribor**
4	**BIO certificate Podravka Ltd. Ljubljana**	Sales of Bio products	**Institut kon-cert, Maribor**
5	**RSPO Suply Chain cer. System - (palm fat)**	1. ŠUMI Candies Ltd., Krško 2. Žito Ltd. Frozen food and Toast programme	**BV – Bureau Veritas d.o.o. Slovenija, Ljubljana**
6	**HALAL**	ŠUMI Candies Ltd. Krško	**Islamic Community in R. Slovenia**
7	**HALAL**	ŠUMI Candies Ltd. Krško	**Institute Mannheim, Germany**
8	**UTZ**	ŠUMI Candies Ltd., Krško	
9	**Kosher**	Toast programme	**K Meshulash /Triangel K Inc. NY, USA**
10	**Vegan**	19 products: Šumi fruit jelly - 2 products. Žito Frozen food - 9 products, Žito Toast - 8 products	**European Vegetarian Label (Institut Padma)**

- Good Manufacturing Practice (GMP)

  An inspection by the Croatian Agency for Medicinal Products and Medical Devices (HALMED) has checked all systems in accordance with EudraLex - Volume 4 - *Good Manufacturing Practice (GMP) guidelines Part I*, according to all chapters and annexes, and found that Belupo meets good manufacturing practice and can distribute its medicines to EU markets and other markets that recognize EU GMP certification.

- Certifikat ISO 9001:2015

  The Certification company SGS Adriatica Ltd. has awarded Belupo an ISO 9001: 2015 Certificate, which is part of the international standard for Quality Management Systems. This notable recognition signifies c**ompliance of the quality system with the stated standard** and fully confirms the applied "process" mindset and customer orientation..

- AAA Credit Excellence Certificate for 2019

  According to the performance criteria, **Belupo Inc. was listed among the 2.37% best Croatian companies** and confirmed its AAA standard of credit excellence - as announced by the Bisnode analytics company..

- ISO 13485: 2016 certification

  The Certification company UDEM Adriatic Ltd. has awarded Belupo the Certificate ISO 13485: 2016, an **internationally recognized standard for the quality management system** in the pharmaceutical industry. The ISO 13485 certification includes certain specific requirements for medical products such as design, production, quality control, storage, sales and distribution.

3 New products

CULINARY BUSINESS UNIT

The year 2019 in the Culinary Business Unit was marked by a **big anniversary of the Vegeta brand, which celebrated its 60th birthday.** For this occasion, a campaign was prepared that activated consumers and included them in designing special packaging for Vegeta - doses of 400 g and bags of 200 g, which then appeared on the shelves of Croatia, Bosnia & Herzegovina, Serbia, Macedonia and Montenegro at the end of the year. The entire anniversary was rounded off with a birthday celebration that, in retrospect, showed Vegeta's development path from 1959 to the present.

On the track of clean label and transparency trends, present in almost all markets, the **Vegeta Natur project continued as one of the key growth generators** within the Culinary Business Unit. During 2019, the range was expanded with **targeted special seasonings** in the markets of the Adria region, Russia and Western Europe, as well as bases for **cereal soups** in the Russian market. Vegeta Natur represents the concept of expanding the Vegeta brand portfolio into different categories, so that the Culinary Business Unit, following the Vegeta Natur concept, will continue to bring numerous innovations in the future and interact with consumers in all key markets.

Following the aforementioned clean label trend and by listening to the wishes of its consumers, t**he complete Vegeta Maestro monospice range in the markets of the Adria region was redesigned** and the shape of the bottle in which they were packed changed. The redesign sought to communicate natural, pure spices, emphasizing the particular use of each spice, with the aim of informing consumers about broader possibilities of use. This enabled the Vegeta Maestro spice line to come close to the Vegeta Natur concept, so it now forms an integral unit on shelves. In addition to the redesign, **innovations were made in the product range**, with the aim of completing the offer of spices and creating stronger blocks on shelves.

In addition to global / regional projects, in 2019, Vegeta also presented several projects tailored to the target markets, thus launching the **Vegeta NO MSG project** in the category of universal seasonings and soups in bags in Poland and Russia that were customized to the specific situation of the target market in terms of production and communication. At the same time, on the other end of the world, in Australia, ready-made soups in stand-up pouches were launched under the **Vegeta Vavoom brand** as a practical solution for a quick and delicious meal. On the domestic market and in the markets of Serbia, Kosovo and Macedonia, an assortment of **new Vegeta Fant seasoning mixes was launched**, thus attempting to "*breathe in*" a more modern, dynamic look and create an efficient tool for communicating with younger consumers.

In addition to innovations on the Vegeta brand, innovations were made in the range of all other brands within the Culinary Business Unit. Thus, the Fant range of products in the Adria region was enriched with two new items - **Fant seasoning mix for oven-baked vegetables** and **Fant seasoning mix for beef in olive sauce.** An extension of Podravka's popular "rooster" in the **instant soup** category of Podravka Soups was made for the Baltic and Ukrainian markets. With this extension, the legendary product will approach younger generations of consumers through a more modern visual expression and even quicker and simpler preparation of the product itself. The **renovation of the entire range of Fini Mini soups**, found on the shelves of the Adria region with innovative recipes and new, up-to-date designs is also worth mentioning.

A new product brand - **Salut** - was launched on the markets of Croatia, Bosnia & Herzegovina and Australia. It is a **unique blend of mineral salts with 35% less sodium**, which is the perfect substitute for table salt. Despite reducing sodium intake, it provides the same, great taste to meals. This platform has ensured excellent cooperation with Belupo as well as the Croatian Society for Hypertension, which will be continued in 2020.

Two new purees have been developed within the Baby Food category for the youngest consumers: **Lino Cornelino 150 g** and **Lino Zobelino with plum 200 g**. Lino Cornelino is corn porridge ideal for introducing the first solid food into a baby's diet because it contains no added sugar or gluten, and Lino Zobelino with Plum with its full plum flavour meets all the functional needs of infants.

The following trends and listening to consumers have encouraged the Lino brand to step deeper into the category of breakfast cereals.

The new **Čokolino Plus white** has been prepared for all Čokolino lovers. Čokolino Plus white is a white version of the popular Čokolino flavour and is enriched with oatmeal, corn flakes and crispy cereals. This nutritious cereal meal is the perfect combination for any start of the day or a busy daily schedule.

There is also a **brand new blend of dehydrated flakes, crunchy cereals and superfood ingredients** of chia seeds and oats called **Lino Nutri Balance.** Lino Nutri Balance comes in two variants: Lino Nutri Balance CHIA and Lino Nutri Balance OATS. Perfectly balanced whole grain ingredients make a rich meal ready in no time: prepared with water and ready to eat right away!

Continuing on the successful launch of Lino Lada Gold in 2018, the year 2019 was marked by the second consecutive Superior Taste Award with three stars.

The range is enriched with **three new Lino Lada Gold packagings**: 700 g jar, 2.5 kg bucket and 20 g Lino Lada Gold single serve packet so that those who have not yet tried this perfect combination of hazelnut creamy spread and chopped hazelnuts, have the opportunity to try and continue consuming in boosted portions.

At the end of the year, consumers were rewarded with a **convenient 1 kg large winter packaging** of the still most loved flavour Lino Lada duo.

The expanded offer of the best-selling flavours with a successful marketing mix and expansion on customer shelves has **strengthened the leading position of Lino Lada cream spreads** in the Croatian market and **doubled its share in the markets of the Adria region.**

Dolcela was extremely innovative in 2019 by launching new categories and new flavours of desserts. In the dessert preparation segment, **Dolcela's new range of premium desserts** is the answer to the world's most significant trends - quick and easy preparation, no cooking, and a premium taste experience. Dolcela launched a **range of cooking chocolate** and **cake toppings, new flavours of Dolcela premium pudding, and cake creams** enriched with **Mousse vanilla and Mousse chocolate**.

Dolcela is also successfully adapting to the changing habits in the direction of ready-made desserts by building its position in the category of ready-made cakes and the launch of **Dolcela Cake2go Brownies and Blondies** shelf stable desserts whose **taste consumers rated above all expectations.**

The year 2019 was the year of the expansion of the salty product range in the Snack category.

Chips were launched in four different variants: **Kviki salty chips; Kviki chips salted crinkle-cut; Kviki chips paprika; Kviki chips paprika crinkle-cut.**

Kviki fishes introduced a new salty poppy-free crispy variation: **Kviki crispy fishes**.

This year has resulted in a significant **increase in revenue** and a further growth of market share compared to the previous year, due to strong marketing support and new products.

PODRAVKA FOOD BUSINESS UNIT

For categories within the Podravka Food Business Unit, the year 2019 was marked by premiumisation of the product range through the introduction of new, innovative value-added products.

Therefore, the **Tomato category bravely stepped into the bio segment by launching the Bio Tomato line**. The Vegetables portfolio is richer with the line of Delicatessen vegetables, excellent and nutritionally rich specialties. The Condiment category was upgraded with **Home-made chutney**, and the innovation cycle was completed with the introduction of a **new line of vegetable spreads**, which represent a true innovation within the Podravka portfolio. Podravka's flour range is richer for two new types of specialty flours - **spelt integral and buckwheat flour**, which offer consumers an alternative to the standard types of flour.

In 2019, the Fish Business Unit continued the innovation cycle started last year, which is reflected in the following: renovation of traditional brands of the Mirna factory in Rovinj, innovations in the tuna segment, the territorial expansion of the Eva brand and a new communication platform.

Mirna has more than 142 years of tradition in the production and processing of fish, and the brands Mirela, Rovinj and Arena are the crests of the range. In 2019, the visual renewal of these brands **highlighted their quality, craftsmanship and rich heritage,** thus repositioning them closer to the preferences of younger audiences.

Three new products in the Eve range prove that Eva tuna can be perfectly matched with oregano, lemon and smoked flavours. The aim of their release is to bring a bit of energy to the market and to offer more choices and flavours to tuna fans, strengthening their passion for tuna even more.

The well-known **Eva products are equipped with a new outfit, cardboard boxes,** intended for export to the US and Canada overseas markets. Although the supply of fish products in these markets is very generous, consumers appreciate the quality, and with the quality of Eva it is difficult to compete. As a result, in 2019, an entire range of Eva fish was launched and the demand for products is steadily increasing.

The Business Unit - Meat Products, Meat Solutions and Savoury Spreads continued the process of stabilization of the sausage range during 2019 and started the innovation-investment cycle in all categories.

In order to take an innovative step forward and offer consumers something completely new and different, the idea of the **CRAFT line of sausage products** under the MAJSTOR (MASTER) brand was born.

The MAJSTOR brand represents **knowledge, experience, dedication and passion.** Products under the MAJSTOR brand are made from the highest quality beef and pork according to proven recipes of a top sausage master.

Four products were launched under the MAJSTOR brand: **Jager semi-durable sausage**, a delicacy admired for generations, **Vinka** durable sausage capped with nectar of the finest grapes, hot and temperamental long-lasting sausage **Vatroslava** and a real treasure among sausages, a mild durable sausage **Blaženka**. The whole concept was rounded off by integrated marketing communication through the *"Master I Trust"* campaign.

Fast selling articles that are attractive to both consumers and customers were launched for sales via the slicer, where 60% of the sales of sausage products take place. **Meat luncheon, Mosaic salami** and **Wiener** sausage are new products made with the highest quality meat, gluten-free and lactose-free in combination with selected blends of the finest spices.

In the subcategory of frankfurters, alongside the Hot dog frankfurter, a **Classic variant** was launched, with innovations made on the packaging in the form of perforation for easier consumption.

At the very end of 2019, super seven pâtés from the next generation of the Podravka pâté range arrived on the Croatian market.

Podravka pâtés shined a new look in a distinctive red colour and modern design. Seven different, perfectly spreadable pâtés will find their place on family tables and in picnic bags.

Made from pure meat, rich in protein and free from palm oil, preservatives and flavour enhancers, they are presented as they really are, natural and delicious!

The new generation of pâtés includes: **Classic Chicken Pâté, Spicy Chicken Pâté, Chicken Pâté with Cream, Chicken Liver Pâté, Chicken Pâté with Aivar, Tea Pâté** and **Liver Pâté.**

On the wings of the good results of Piketa Pâté, a line of **Piketa Slices was launched** in alu seal packaging.

The Piketa line consists of four products: **Meat Luncheon, Chicken-Beef, Chicken with Vegetables** and **Turkey-Chicken Luncheon** in a grammage of 100 g.

These products are the perfect choice for consumers with lower purchasing power.

In the Ready-Made Meal Category, during 2019, the focus was on s**trengthening the leader position of Beef Goulash** in both the domestic and foreign markets. Through a series of tactical activities, we wanted to remind consumers of the original and unique recipe of this product, as well as to teach them how to complement and serve this product in different ways to be closer to the nutritional preferences of a particular market.

The **line of new ready-made meat meals under the Vegeta brand for Australia** was listed in Coles, Australia's second largest national chain, and placed into the entire sales network. Products adapted to the local climate are supported through a series of marketing activities aimed at bringing the new range closer to the Australian consumer.

In the line of **chilled ready-made meals,** the emphasis was on redefining and optimizing the range for the HoReCa channel and hot bars as a rapidly growing sales segment within retail customers.

In 2019, the focus was on developing innovative products in line with nutritional trends and balanced nutrition requirements.

In 2019, Žito was one of the signatories of the Liability Association, which, together with six Slovenian bakeries, is committed to **gradually reducing salt in bread and increasing the content of whole grains in bakery products.**

The quality of Žito's products has once again been proven at the 19th Grading of bread, bakery and fine pastry, biscuits, pastas and desserts, organized by the Bakery Section of the Slovenian Chamber of Commerce. The Žito Group received 39 gold awards, 32 of which were awarded for bakery products.

Breakfast is the most important meal of the day as it provides the energy for a successful start to the day. Honey, butter, apple and milk are the most commonly used products for making a traditional breakfast, so the harmony of these flavours has been included in the new bread, called **Breakfast bread**. This bread was also included in the promotion of breakfast, thus contributing to the all-Slovenian campaign promoting the importance of breakfast for a good and successful day.

Point-of-sale baking products (semi-baked breads, pastries) are a big trend, which is why the range of these products has been expanded for both domestic and other markets. One of the best accepted products in this range are **Snail (pužić) snacks in different flavors** (vanilla, cinnamon, walnut) for strengthening the presence in this product category.

A new product has been added to the specialty Zito toast line - **Protein Toast**, featuring a high protein content. Protein is important for building and maintaining muscle, which is why protein toast is an excellent complement to the regular menu. Like all other Žito Toasts, Protein Toast contains no preservatives.

More and more consumers are looking for gluten-free products. A line of g**luten-free Crispy breads** has been prepared for them. The four flavours perfectly match with sweet or savory spreads, or they can be added to salads and soups or just as a simple standalone snack, always at hand.

In 2019, the **Sport müsli line underwent complete transformation.** The recipe was refreshed and new trendy flavours added. Sport müsli products are characterized by high dietary fibre content, high quality natural ingredients, richness of vitamins and minerals and an extraordinary taste. The whole line is packed in new practical and modern packaging with an attractive design.

A new line of **popular oatmeal in four flavours** has been added to the Zlato polje brand in practical mono-portion packaging. The interesting combination of flavours was enriched with proteins in two types of oatmeal, bringing the brand even closer to a younger and more active consumer population.

The Žito frozen product range was completed with **Protein Rolls,** which contain as much as 11% protein, making them an ideal choice for athletes and recreational athletes alike. Like all other Žito's frozen side dishes, they can be easily prepared as a great stand-alone meal with sauce or as a delicious side dish to a variety of different meals.

For those who like sweet treats, **new dumplings with Lino Lada** have been prepared. You can choose between Lino Lada nougat filling and a dark pastry variant with white milky Lino Lada.

The 1001 CVET Tea Group has been extended with new functional teas, which are a combination of carefully selected herbs, spices and real teas. Therefore, they have a beneficial effect in lightening your mood and bringing a touch of nature into your life. These are four excellent blends of tea for four different situations and options: for evening rituals, **for easier coping with cold weather, for daily encouragement and activation, and for a balanced lifestyle.** At the same time, teas are a gentle reminder that it is good to find time for yourself in this busy lifestyle.

With the development of candy, we followed the trend of reducing sugar and prepared a line of gummy candy with 30% less sugar. So, consumers who know the classic Swiss menthol and Eucalyptus gummy candy can also try the **less sweet Šumi Herba gummy variants.** For those who like fruit or cola flavours, less sweet Šumi cola worms and Šumi gummy numbers are prepared.

The chocolate category, Gorenjka, has been expanded with a **new line of filled chocolate.** The new chocolates will win over all Lino Lada fans as they come in three flavors: milk, coconut and gold.

RUSSIAN FEDERATION

In 2019, the Russian market launched **Brudol (Ibuprofen)** suppositories for children in two doses of 60 mg and 125 mg.

Brudol 60 mg suppositories for children from 3 months to 2 years of age help reduce fever, including colds and flu related, as well as reactions to vaccines received and to relieve moderate to severe pain such as teething and earache pain.

Brudol 125 mg suppositories for children 12.5 to 20 kg (approx. 2 to 6 years of age) are intended for lowering fever, relieving mild to moderate pain such as teething, toothache, headaches, sprains, strains and pain relief for sore throat and earache and cold and flu pain also.

POLAND

A new prescription drug **Beloflow (solifenacin)** 5 mg and 10 mg film-coated tablets were released on the Polish market.

Beloflow is used to treat urinary urge incontinence and / or increased frequency of urination and urgent need to urinate in patients with overactive bladder syndrome.

CZECH REPUBLIC

The non-prescription drug **Belozyme (benzidaminchloride) spray 15 ml and 30 ml, a 120 ml** solution for oral mucosa and the cosmetic product **Belodex (dexpanthenol) foam 150 ml** were released in the Czech Republic market.

Belozyme spray 15 ml and 30 ml and a 120 ml solution for oral mucosa is a topical analgesic and anti-inflammatory drug for painful conditions and swelling in the pharynx and mouth in adults and children over six years of age.

Belozyme contains the active substance benzidamine hydrochloride, which belongs to the group of non-steroidal anti-inflammatory drugs and works to stop pain and swelling (inflammation). It is used for inflammation of the pharyngeal mucosa and gums, mouth ulcers and discomfort associated with dentures or after dental surgery.

Belodex foam 150 ml contains dexpanthenol (provitamin B5) and is used to protect and regenerate dry, sensitive and irritated skin. It restores and stabilizes the skin's natural protective function, preventing water loss, thus keeping the skin moist and supple.

Belodex foam can be applied in conditions of dryness and redness of the skin due to exposure to external influences such as sunlight, heat and cold. In these cases, applying the foam will bring relief through restoring the elasticity and softness of the skin. The special foam formulation is extremely gentle and easy to lubricate.

Belodex foam is indicated in infants, children and adults.

SLOVAKIA

The market of Slovakia launched two new prescription drugs **Abuxar (febuoxostat)** 80 mg film-coated tablets and **Beloretin (isotretinoin)** 10 mg and 20 mg capsules.

Abuxar film-coated tablets are used for the treatment of gout in patients with chronic hyperuricemia for conditions where urate deposition (including a history or presence of tophus and / or cartilage arthritis) has already occurred and drug therapy with allopurinol has not been effective enough or intolerance to allopurinol has developed and in patients with impaired renal function.

Beloretin is used to treat severe forms of acne resistant to the appropriate use of standard treatments with systemic drugs and topical therapy.

SLOVENIA

A total of six new products were launched in the Slovenian market during 2019: two prescription drugs **Midza (lacosamide)** 50 mg, 100 mg, 150 mg, 200 mg film-coated tablets and **Rasagilin Belupo** 1 mg, non-prescription drugs **Ibubel Combo gel** 50 g, **Rubisept** 15 ml and 30 ml spray and **Rubisept 120 ml solution** for oral mucosa, the cosmetic product **Belodex foam** and the medicinal product **Belobaza** in 400 g pakaging.

Midza 50 mg, 100 mg, 150 mg, 200 mg film-coated tablets contain lacosamide and is a new antiepileptic drug in the Belupo portfolio used in the treatment of epilepsy (to reduce seizures).

Rasagilin Belupo 1 mg is used to treat Parkinson's disease and also helps to increase and maintain dopamine levels in the brain.

Rubisept (benzidamine chloride) 15 ml and 30 ml spray and a 120 ml solution for oral mucosa is a topical analgesic and anti-inflammatory drug for painful conditions and swelling in the throat and mouth in adults and children over six years of age.

Rubisept contains the active substance benzidamine hydrochloride, which belongs to the group of non-steroidal anti-inflammatory drugs and works to stop pain and swelling (inflammation). It is used for inflammation of the pharyngeal mucosa gums, mouth ulcers and discomfort associated with dentures or after dental surgery.

Ibubel Combo gel 50 mg / g contains ibuprofen and levomenthol for topical treatment of rheumatic pain, muscle pain, back pain and swelling caused by exhaustion, strains and other sports injuries, and in neuralgia (pain caused by nerve damage). Ibuprofen reduces pain and inflammation, while levomenthol cools and soothes sore or inflamed areas.

Belobase 400 g is a medical product used for the daily protection, care and healing of sensitive skin of adults and children. It can be used alone and in combination with topical corticosteroids.

BOSNIA AND HERZEGOVINA

Three new prescription drugs were launched on the B&H market during 2019: **Agillas (Rasagilin** 1 mg tablets), **Beleptic (lacosamide** 50 mg, 100 mg, 150 mg, 200 mg) film tablets, **Zaracet** (**paracetamol + tramadol** 650 mg + 75 mg) film-coated tablets and two non-prescription products Bezidine (benzidamine chloride) 15 ml and 30 ml spray and **Belodex foam**.

Zaracet (paracetamol + tramadol 650 mg + 75 mg) film-coated tablets are a combination of tramadol and paracetamol indicated for symptomatic treatment of moderate to severe pain. Administration of the drug should be limited to patients whose moderate to severe pain requires the use of a combination of tramadol and paracetamol.

Bezidine is used to treat many painful conditions of the mouth and throat, including: sore throat and gum infections, mouth ulcers, aphtha, and discomfort associated with dentures or after dental surgery. Benzidamine specifically affects local inflammation mechanisms such as pain, oedema or granuloma. Topically applied benzidamine exerts its anti-inflammatory effect by reducing oedema, reducing exudate formation and has analgesic properties and local anaesthetic effect.

SERBIA AND MONTENEGRO

Five new drugs were released on the Serbian market: prescription drugs **Azolar (aripiprazole)** 10 mg, 15 mg, 30 mg tablets, **Abuxar (febuoxostat)** 80 mg and 120 mg film-coated tablets, **Irumed (lisinopril** 10 mg) tablets, **Zaracet (paracetamol + tramadol** 650 mg + 75 mg) film-coated tablets and the non-prescription drug **Lordiar (loperamide** 2 mg) capsules.

Azolar (aripiprazole) 10 mg, 15 mg, 30 mg tablets are indicated for the treatment of schizophrenia in adults and adolescents aged 15 and over, for the treatment of moderate to severe manic episodes in bipolar type I disorder and for the prevention of new manic episodes in adults with predominantly manic episodes in which previous manic episodes have responded to aripiprazole treatment.

Abuxar (febuoxostat) 80 mg and 120 mg film-coated tablets for the treatment of gout in patients with chronic hyperuricemia for conditions where urate deposition (including a history or presence of tophus and / or cartilage arthritis) has already occurred and drug therapy with allopurinol has not been effective enough or intolerance to allopurinol has developed and in patients with impaired renal function.

Irumed (lisinopril 10 mg) tablets contain the active substance lisinopril, which belongs to a group of drugs called ACE inhibitors. Irumed is used in the treatment of: high blood pressure (hypertension), heart insufficiency - a condition in which the heart does not properly pump blood through the body, after a recent heart attack (acute myocardial infarction), and renal problems associated with type 2 diabetes (diabetes) and high blood pressure.

Zaracet (paracetamol + tramadol 650 mg + 75 mg) film-coated tablets are a combination of tramadol and paracetamol indicated for symptomatic treatment of moderate to severe pain. Administration should be limited to patients whose moderate to severe pain requires the use of a combination of tramadol and paracetamol.

Lordiar (loperamide 2 mg) capsules help relieve diarrhoea by slowing down bowel overactivity.

NORTHERN MACEDONIA

The Macedonian market introduced five new drugs during 2019: **prescription drugs Razagilin Belupo** 1 mg tablets, **Alopurinol Belupo** 200 mg tablets and **Amora** 5mg + 5mg and 10 mg + 5mg capsules, **Urutal** 24 mg tablets and the **non-prescription drug Silymarin Forte** film tablets.

Aloprinol Belupo 200 mg tablets are used to treat gout and prevent other conditions associated with increased uric acid production such as kidney stones and other renal disorders.

Amora is a combination of drugs (ramipril + amlodipine 5 mg + 5mg, 10 mg + 5mg) administered for the treatment of hypertension (high blood pressure) in patients whose blood pressure has been regulated by administering certain active substances at the same doses in combination, but in separate drugs.

Urutal 24 mg tablets contain betahistine and are used to treat dizziness, tinnitus and hearing loss associated with Meniere's syndrome.

Silymarin Forte is a herbal drug used to relieve hepatic dysfunction due to chronic hepatitis B and C, cirrhosis and alcoholic liver disease alongside stopping alcohol intake.

NEW PRODUCTS IN THE CROATIAN MARKET - PRESCRIPTION DRUGS

Q-PIN SR 50 MG, 150 MG, 200 MG, 300 MG, 400 MG PROLONGED-RELEASE TABLETS

Q-PIN SR is an additional pharmaceutical form of quetiapine in Belupo's range of antipsychotics. Quetiapine is an atypical antipsychotic indicated in the treatment of schizophrenia, bipolar disorder, and as an adjunctive therapy for major depressive episodes in patients with major depressive disorder who have had a suboptimal response to antidepressant monotherapy. The existence of multiple doses and forms of quetiapine allows an individualized dosing schedule for each indication.

ROSIX COMBI 20 MG / 10 MG, 10 MG / 10 MG TABLETS, 5 MG / 10 MG TABLETS

Rosix Combi belongs to a group of drugs that lower lipid levels by selectively inhibiting the absorption of cholesterol and related plant sterols in the intestine, as well as endogenous cholesterol synthesis. Each tablet contains 20 mg, 10 mg and 5 mg rosuvastatin and 10 mg ezetimibe, respectively. Rosix Combi is used as a dietary supplement in the treatment of primary hypercholesterolemia and to reduce the risk of cardiovascular events in patients with coronary heart disease and who have a history of acute coronary syndrome. The recommended dose is one tablet of adequate intensity per day.

ROSIX-AM 10 MG / 5 MG, 10 MG / 10 MG, 20 MG / 5 MG, 20 MG / 10 MG HARD CAPSULES

Rosix-Am is indicated for the prevention of serious cardiovascular events in adult hypertensive patients. Rosix-Am is indicated for the treatment of hypertension in adult patients estimated to be at high risk for a first cardiovascular event in addition to the correction of other risk factors or with one of the following conditions it coincides with: primary hypercholesterolemia, mixed dyslipidemia or homozygous familial hypercholesterolemia. Rosix-Am is available in four dose combinations of rosuvastatin and amlodipine. The recommended dose of Rosix-Am is one hard capsule a day.

ABUXAR 80 MG, 120 MG FILM-COATED TABLETS

Abuxar, in addition to the well-known Alopurinol, is an additional drug in Belupo's range of drugs for gout treatment. It contains the active substance febuxostat, which achieves a therapeutic effect by reducing uric acid levels by selectively inhibiting xanthine oxidase. It is indicated in the treatment of chronic hyperuricemia, for conditions where urate deposition has already occurred, including the presence of tophus and / or cartilage arthritis. Prophylaxis for gout attacks is recommended for a period of at least six months.

NUTRIBEL DIABET - 200 ML

Nutribel Diabet, chocolate and vanilla flavours, is a new product that has expanded Belupo's existing range of enteral nutrition products. It is intended for the diet of malnourished patients with diabetes or hyperglycaemia or when nutritional requirements of the usual diet cannot be met due to medical reasons. It contains slow-digesting complex carbohydrates for a better regulation of blood glucose, gluten-free and lactose-free levels. The preparation is given only under medical supervision and can be used as a sole source of nutrition or as a dietary supplement.

BELOFLUX 5 MG, 10 MG FILM-COATED TABLETS

Beloflux film-coated tablets belong to a new pharmacotherapeutic group in Belupo's portfolio of drugs called urinary antispasmodics. The active substance solifenacin at doses of 5 mg and 10 mg daily is used for the symptomatic treatment of urge incontinence and / or increased frequency of urination and urgent need for urination in patients with overactive bladder syndrome.

NEOFEN RAPID 200 MG, 400 MG FILM-COATED TABLETS

Neofen Rapid is a new non-prescription drug from the Neofen brand. It contains the active substance ibuprofen in ibuprofen lysine salt form. The advantage of ibuprofen lysine is that it is quickly released from the tablet, which provides a faster impact than standard ibuprofen.

It belongs to the group of drugs with anti-inflammatory and anti-rheumatic effect and is used in: mild to moderately painful conditions (eg. low back pain, toothache, muscle pain, joint pain, menstrual pain, neuropathic pain), acute migraine with or without aura and for the treatment of tension headaches, common cold and flu pain.

ZYNOL 1.5MG / ML, ORAL MUCOSA SPRAY, 30 ML SOLUTION; ZYNOL 3 MG / ML, ORAL MUCOSA SPRAY, 15 ML SOLUTION; ZYNOL 1.5MG / ML GARGLING / MOUTHWASH SOLUTION 120 ML

ZYNOL is a new non-prescription drug. It contains the active substance benzidamine chloride, and it works to stop pain and swelling (inflammation). It belongs to the group of non-steroidal anti-inflammatory drugs (NSAIDs) for topical use and is used to treat many painful conditions of the mouth and throat, including: sore throat and inflamed mouth, mouth ulcers, aphtha, and discomfort associated with dentures or after dental surgery.

BELODEX 5% foam is a new non-prescription product registered in the Cosmetics class. It contains the active substance dexpanthenol (provitamin B5). It is used for the protection and regeneration of dry, sensitive and irritated skin. It restores and stabilizes the skin's natural protective function, preventing water loss, thus keeping the skin moist and supple.

4 Employee relations

PODRAVKA

Starting from the fact that human capital is the major source of a company's competitive advantage, **employees and their needs, motivation and satisfaction have continued to be a priority** for the management throughout 2019.

The **knowledge, skills and abilities of employees are maximally used** in order to serve the strategic goals of the Company.

The Company's management has approved and supported the implementation of numerous education and training programs for employees to **enable them to acquire new business knowledge and develop and upgrade required skills**. An internal competition for formal education was announced, providing a transparent opportunity for further training for all permanent employees.

During 2019, in Podravka Inc. 53 permanent workers were employed and 30 young workers as trainees, while 83 part-time workers were given a permanent contract. In Belupo Inc. during 2019, 41 trainees were employed and 24 workers changed their status from part-time to permanent employees.

The Management of Podravka Inc. made **two decisions during 2019 to pay additional workers' compensation**. A reward of HRK 1,000 net was paid to all Podravka Inc. employees in Croatia in two instalments of HRK 500 paid in June and July.

Thereafter, employees received HRK 1,000 net in October.

At the end of the year, employees of the Podravka Group companies in Croatia were paid an additional bonus of HRK 1,500 as a payroll supplement for November and HRK 1,500 in one-off bonus due to good business results.

In addition to the aforementioned awards and salary supplements, **the employees were paid an Easter bonus and holiday allowance and a Christmas present for children** in accordance with the Collective Agreement for the Podravka Group.

In 2019, Podravka traditionally organized the annual gathering of retirees, of whom there are more than 3,000, and employees with anniversary 30, 35, 40 and more years of service, a total of 290 jubilees. It is well known that Podravka is one of the few companies in Croatia that organizes such gatherings.

Podravka **rewarded and educated its employees at corporate educational and sports games** held in May in Baško polje. It was also an opportunity to celebrate the outstanding business results during the three days of socializing. In this way, **Podravka showed how important it is to invest in employees and enhance their satisfaction.**

SOCIAL DIALOGUE

At the beginning of the year an Annex to the Collective Agreement of the Žito Group was signed regulating the remuneration system. This has brought **salary increases to the target groups of employees** (in production, warehouses, maintenance and retail). Talks continued throughout the year and negotiations were successfully concluded on a new Collective Agreement, effective as of 1 January 2020.

EDUCATION

The inclusion of Žito's employees in various educational programmes proves that the **company takes care of the professional, expert and career development of its employees.**

A significant amount of the funds was earmarked for professional seminars for key staff to familiarize themselves with current topics and broaden their knowledge in their field of expertise.

Internal training for bakers from Žito's bakeries was organised together with the BIC Biotechnical Education Centre and Žito's mentors, where they gained important and especially practical knowledge and experience.

The school for leadership and communication influenced a better working environment, productive relationships and effective team connections for employees. Training was also organized for all directors, managers and shift managers on the topic of absenteeism management.

According to the needs, many employees are engaged in Croatian language courses and to a lesser extent English language courses.

An e-training course was organised for all employees working with computers, where they developed skills for working with tools from the MS Office suite, especially Word and Excel, at two levels of complexity.

GRANARY OF HEALTH

In 2019, considerable attention was devoted to **promoting healthy lifestyles and raising awareness of healthy eating among employees**. The project, called *Granary of Health*, aims to raise employee awareness of healthy lifestyles in and out of the workplace, reduce stress and increase awareness of the importance of eating healthy, maintaining fitness and exercising. Žito's employees were encouraged to participate in sports events, such as the Koprivnica Marathon, Business Run Ljubljana and Ljubljana Marathon races, as well as at the Sports Games of the Union of Agriculture and Food Industry of Slovenia at Debeli Rtič. During the year, healthy snacks were provided for employees such as pears and plums. In autumn, an internal competition was held within the project with the aim to activate healthy ideas in the company. Over 70 proposals were received and the top three were awarded.

A total of 70 health ambassadors were selected among employees and trained for their role in an educational workshop. This workshop took place in July, and then ambassadors in their organizational units began as active motivators promoting health, thus contributing to the successful implementation of the project among their colleagues.

These healthy activities are reported under a new heading "Granary of Health" in the Drobtinica informative leaflet.

EMPLOYEE GATHERINGS

In 2019, employees gathered at the traditional picnic at the Kodeljevo Sports Park in Ljubljana, where Žito's ambassadors of health - the acrobatic group Dunking Devils performed, the nutritionist Mojca Cepuš shared healthy eating tips, employees competed in sports games and enjoyed sweet treats in the fruit garden. They were also offered relaxation with Access Bars treatments.

They mingled and enjoyed carnival donuts, cake and Gorenjka's rolls and celebrated the success of the Slovenian men's volleyball team. Women's Day was an opportunity to give presents to female colleagues. In December, the children of employees received gifts at the traditional meeting with Santa Claus, which took place at the Festival Hall in Ljubljana.

BELUPO

Belupo is recognized in the labour market as the **strongest Croatian pharmaceutical company with a 48-year long tradition of successful business, which offers career opportunities for more than 1500 employees in numerous markets**. Quality, stability, job security, care for people, educational opportunities, modern technology, wealth of knowledge, clear vision, focus on business goals and maintaining health - this is what makes Belupo a **recognizable company in the job market.**

Belupo manages to attract **the best, highest quality people** from the job market and guide them into its business.

Belupo nurtures a **comfortable organizational climate**, a positive atmosphere in which employees are not afraid to try and succeed, trust, collaboration, focus on learning, and trends. Belupo has its own production, new factories, tradition, experience and youth, a focus on long-term relationships with all stakeholders and pronounced social sensitivity, employs, expands business, builds a team of young people who today work at Belupo's new factories. The company is seeking candidates who share the values Belupo is focused on: **excellence, passion, confidence, customer satisfaction and innovation.**

The ideal candidate is knowledgeable, highly motivated, strives to acquire new knowledge and work in his/her area of interest and identify with Belupo's vision to be the leading pharmaceutical company in Central and Eastern Europe. The challenge of working in recruitment jobs lies in continuous monitoring and setting trends in the educational system and in the labour market, and today, communication with candidates is fast and direct, and candidates with both extensive as well as no experience are employed.

The job placement internship program helps young people gain their first work experience and become independent experts with the support of experienced mentors.

Many of the daily challenges in business, employee demands, the desire for quick promotion and high salaries are now a trend in many large companies and among a large number of employees. **Employees are rewarded through Christmas and Easter bonuses, annual leave benefits, education program funding, outstanding performance incentives, rewarding innovative approaches to achieving business goals, and numerous intangible incentives such as a structured internship program and start-up for new employees, an individual approach to motivation and career planning, days off for training, engaging in a corporate knowledge dissemination system, and a culture of praising and recognising success.**

Belupo is a company that **supports motherhood**, that is, starting a family. It is an employer with a 60% female workforce and 15 years of tradition in promoting maternity through a benefit of HRK 10,000. Since 2005, this motivating bonus has been paid out more than 270 times, with the Belupo family expanding to an average of eighteen children annually. This trend is on the rise and, therefore, it is planned to introduce a start-up program after maternity leave as an additional measure of maternity stimulation. A happy employee equals a successful company and it is the formula of success advocated by the company leadership.

5 Activities in the field of environmental protection

PODRAVKA INC. continuously develops and improves processes, products and services, aiming to reduce the negative impact on the environment. In 2019, 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 both municipal and hazardous waste** compared to the year 2018. In 2019, Podravka Inc. produced 12.07 tonnes of hazardous waste, 4,054.09 tonnes of non- hazardous waste of which 374.8 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 its respective disposal for all locations of Podravka Inc. are submitted to the Environmental Pollution Register (ROO) database maintained by the Ministry of Environmental Protection and Energy.

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 Ministry of Environmental Protection and Energy. 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 the Ministry of Environmental Protection and Energy.

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 all legal obligations and submitting the emission units to the Union Registry.

WASTE WATER MANAGEMENT

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

COMPLIANCE WITH REGULATIONS

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

INSPECTION CONTROLS

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

During the monitoring of legal regulations and continuous care of environmental protection, in 2019 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

In 2019, the Podravka Group's Sustainable Development Report for 2018 was prepared and published, in compliance with the requirements contained in the Global Reporting Initiative Standards (GRI-core option).

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

(https://www.podravka.hr/kompanija/odgovornost/odrzivi-razvoj/)

and is available to all interested parties.

WASTE AND PACKAGING WASTE MANAGEMENT

The Žito company has for a number of years been trying to **reduce the amount of waste and has consistently been separating the generated waste in production units**. It is obligatory to mark all the waste at the place of origin and collection with number and type of waste and additional illustrated instructions of what belongs in each container.

In 2019, due to legislative changes (elimination of returns from stores), the amount of generated organic waste was reduced by approximately 37%.

Where feasible, the volume of containers increased, and the number of waste collection decreased.

A detailed waste separation system, as implemented in production units, was introduced last year in the offices of the administration building. At the same time, employees were asked to remove bins for mixed municipal waste from offices, and only paper bins were installed. In order to encourage such thinking and behaviour, a poster with tips on how to be "environmentally responsible" was prepared.

In accordance with the legislation, waste is separated at the place of origin, records are kept and regular reports on the types and quantities of waste generated are introduced. Accordingly, standards for the use of packaging by product and for export packaging have been established. Quarterly reports are prepared for the packaging waste management company and an environmental tax on packaging waste is paid to the authorized institution.

INSPECTION CONTROLS IN 2019

During the inspections carried out in 2019, no irregularities were detected in relation to environmental legislation.

AIR PROTECTION – AIR EMISSIONS

Žito Ltd. uses natural gas as the main fuel in most processes. In 2019, a switch to natural gas was carried out at one of the plants where oil was still being used. Emission measurements and particle measurements from the combustion plant were carried out and reports from the combustion plant provided.

NOISE

Noise measurements and reports to authorized institutions were carried out in accordance with the legislation.

REFRIGERANTS

A list of refrigerants is maintained and periodic leak testing of refrigerant units is carried out with regard to refrigerant quantities and the amount of refrigerant retrieved when removing the unit. Annual reporting to authorized institutions is provided.

WASTE WATER

Where necessary, controls were carried out as well as reports to authorized institutions and payments of environmental charges.

ENVIRONMENT PROTECTION

In 2019, the training of new employees continued regularly. Standard operating procedures and some work instructions describing procedures for the preparation of all types of waste for treatment were revised.

WASTE MANAGEMENT

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

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

In 2019, 35 different types of waste were recorded at Belupo in the total amount of approximately 436 tonnes.

PROCESSING METHOD / PER TOTAL QUANTITY	RECYCLING	THERMAL PROCESSING	LANDFILL
Waste amount %	58.49	36.79	4.72

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

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

AIR EMISSIONS

Belupo pays great attention to air emissions by tracking dust emissions and organic solvents emissions from technological drains, as well as emissions of NO_2, CO, SO_2 and CO_2 from energy drains.

During 2019, emissions at technological and energy drains were measured. **Emission border values were within allowed limits,** as proven by records, and the measurement results were reported to the Ministry of Environmental Protection and Energy.

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 Environmental Protection and Energy. 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 substitute substances that damage the ozone layer are used and authorized services provide regular maintenance and permeability control. During 2019, control of the permeability of controlled substances from cooling devices was regularly performed.

ENVIRONMENT POLLUTION REGISTER

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

COMPLIANCE WITH LEGISLATIVE REGULATIONS

Monitoring compliance with legislation regulations and their implementation into Belupo systems continued throughout 2019. No regulatory violations were reported during the year.

WATER PROTECTION

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 of all the agents used for water disinfection. **Maintenance and cleaning of the waste water drainage system is regularly performed.**

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

RISK MONITORING

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

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

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

6 Social responsibility

PODRAVKA

With its sustainable development-oriented management, Podravka systematically considers the impact of its business on the economy, environment and society. Like in all previous decades, a commitment to **maintaining the highest standards of ethical conduct and responsible corporate governance are at the heart of Podravka's business.**

In a competitive business environment, Podravka strives for **continuous improvement of its business and development of its product range**, maintaining the leading position in selected categories, while respecting the diversity and focusing on the production of high quality and health-friendly products based on good manufacturing practice and principles of quality and food safety management.

In its business operations, Podravka is committed to **preserving, protecting and improving the quality of the environment** in which it creates new economic, environmental and social values for its stakeholders. In order to improve the quality of life of the community in which it operates, since its inception, Podravka has been investing in science and education, sustainable development, culture, the arts, sports, and gladly promotes corporate social responsibility. Guided by the values that pervade the company culture: **creativity, trust, passion, innovation and excellence**, Podravka strives to contribute to the **development of the general social community** through three key areas: promoting a healthy lifestyle, the professional development of employees by stimulating their excellence and creativity and an understanding for the needs of the community in which it operates.

By using its own potentials and designing and implementing concrete projects, Podravka promotes networking and exchange of knowledge, experience and information, and creates and fosters initiatives and projects aimed at balanced economic development, **improving the quality of life and preserving the environment**.

The foundation for the Company's success and development are responsible, creative and satisfied employees, ready at any time to contribute to the well-being of the company and to invest extra effort and time in achieving above average results. With its approach to business and employees, Podravka provides a **dynamic work environment and the opportunity for professional and personal growth and development.** It actively supports and implements informative and counselling programs to protect the health of its employees, their families and the local community. Apart from caring about its current employees, Podravka gives recognition to its retired employees as well. In addition to cooperating with and supporting the work of Podravka's Pensioners' Association, a traditional gathering of pensioners and employees with jubilee long service is held every year.

During 2019, Podravka **initiated and participated in numerous socially responsible and charity projects**. Podravka's Lino All-rounder has for 14 consecutive seasons encouraged sport, healthy lifestyle and fellowship among primary school children throughout Croatia. Podravka has also shown its concern for the healthy growing up of the youngest ones by supporting the children's race in the Poreč half marathon and through sporting events all over the country, which aim to encourage children and young people to exercise and engage in physical activity.

As the children are our future, in 2019 Podravka established cooperation with the largest and most active student association in Croatia, eSTUDENT. Together, Podravka and eSTUDENT work on promoting and motivating young people to care for their health, healthy nutrition and regular exercise.

Podravka is **especially devoted to humanitarian work** in which Podravka's Volunteers' Association - PULS is a prominent leader that has initiated or partnered with many worthwhile causes. In cooperation with other associations, such as those that provide assistance for children with disabilities and therapeutic riding, and institutions also, competitions were held to contribute to the development of the most vulnerable groups and improve their quality of life, and donations were made to the Koprivnica Hospital.

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 its future operations, the Podravka Group will continue to invest in **building relations with its employees and strengthening consumer trust** by recognizing their desires and needs, as well as feeling the needs of the community in which it operates.

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

In 2019, carnival donuts were donated to the Botrstvo Zveze projateljev mladine Moste-Polje Project, the Food Bank and Radio Ognjišće which raised funds at a charity carnival dance to build a health centre in Uganda. The excess bread that remains daily at the Žito Vodnikov trg Ljubljana store is donated to the Vicencijeve zveze association of volunteers for their day care centre for the homeless. Bread and bakery products were also donated to the Maribor Red Cross Regional Association for the Drobtinica 2019 campaign. Žito also donated products to the charity project Iskrica Nedeljski dnevnik, and supported the charity relay Sk8aj with a Heart 2019. Donation of pretzels helped the Institute for Tourism and Culture Kranj participate in a charity fundraising event for the Karničar family from Jezersko, and with the donation of Žito's ready-made pancake mix and Lino Lada, Žito participated in the Pancake Charity Festival organised by the Rotaract Club Maribor.

Traditionally, Žito has been participating in the Biggest Lions Dessert event with a huge 100 metre Gorenjka roll, where € 3,500 was raised in 2019 for the Deaf and Blind Association Dlan and the Pod Strehco Institute.

In 2019, the 1001 CVET brand donated € 20,000 to young Slovenian skiers for whom, in autumn 2018, funds were raised as part of the *“Z okusi narave do okusa zmage”* campaign through a donation of 10 cents from each SLO SKI 1001 CVET badge received from boxes of tea sent by consumers.

On the Slovenian Food and Traditional Slovenian Breakfast Day, which is celebrated on 15 November, Žito brightened the morning for five lifeguard teams, mountain rescue teams, firefighters and employees and patients at the maternity word of the Hospital in Kranj with baskets full of sweets. Bread for breakfast was also donated to students from 27 countries at the Ljubljana Livada Elementary School, through which Žito delivered a message about the importance and tradition of Slovenian breakfast at an entertaining meeting with Boštjan Gorenc - Pižamo.

During the last month of 2019, the Šumi brand shared festive, sweet moments with children. On St. Nicholas Day, a tonne of Šumi candy was traditionally donated to various charities that cheer up children during the Christmas season. For more than 500 children from all over Slovenia, an incredible experience with the Dunking Devils acrobatic group was sponsored and they were also given presents.

In 2019, as a member of the Bakery Section operating within the Chamber of Agricultural and Food Companies in the Slovenian Chamber of Commerce, Žito signed the *"Liability Obligations"* charter. The company is thus committed to reducing the proportion of added salt in bread by 5% by 2022 while increasing the proportion of integral ingredients in bakery products. This signing shows a responsible attitude towards consumers and a contribution to the development of the bakery industry for the benefit of customers.

Corporate social responsibility for Belupo is a voluntary way of company management and acting in general. Every business decision takes into account the broader perspectives of social, environmental and economic governance for the **benefit of employees, satisfaction of partners, consumers and customers, sustainable financial results and responsible and sustainable investment in the local community.**

By constantly adapting to new conditions and challenges, Belupo maintains its leading position in the pharmaceutical industry. Belupo has a clear long-term goal: **success in highly demanding social, economic and environmental circumstances.** This success is based on key company values: trust, passion, innovation and creativity, excellence, and partnership with associates, customers and consumers. Responsibility to all business segments and responsibility to everyone with whom Belupo operates provides high market competitiveness. Investments in the real economy (industry, innovation and infrastructure) and job creation enable decent work and sustainable economic growth. In addition, sustainable economic growth and jobs create the sustainability of Europe's social model, pension and health systems.

It is these positive drivers of change that Belupo wants for others. Locally, it is investment in the community in which it acts and operates. The hiring of new employees, investing in their knowledge and skills, and in their well-being, health and safety at work, is what empowers the community of people, employees, who are the drivers of change in the business itself, but also of the community in which Belupo operates.

Specifically, the care of all 1,500 employees - their well-being, safety at work, health and education, is certainly one of the most important business segments that contributes to the company's sustainability. Belupo pays jubilee awards for years of service at Belupo, salary bonuses for Christmas and Easter, long-term sickness benefits, cash support for the death of a close family member and supplementary health insurance. These are just some of the benefits and allowances on a yearly basis by which Belupo shows social sensitivity to its employees. In addition, amendments to the Collective Labour Agreement were adopted this year, which had the effect of increasing the substantive rights of each employee. That is why Belupo's employees remain loyal to the company, as evidenced by their expressed attitudes, which have earned the company **the Best Employer Award several times**.

Belupo, as a pharmaceutical company **committed to better quality of life and health,** invests most of its funds in healthcare institutions and associations that help in the treatment of certain diseases. Belupo affects the quality of life and health of local community citizens by organizing public health actions every year to alert patients to the importance of prevention and timely treatment.

In the next business year, Belupo will **continue to implement and improve its socially responsible practices.** The additional positive changes that Belupo wants for the company and its employees will be reflected in contributions (economic, environmental and social) through which the company strives to achieve its global sustainable development goals. Although many challenges await the Company, it is believed that together they will be the drivers and implementers of positive changes in a sustainable way for a socially responsible economic growth and development of the Croatian economy in general.

7 Significant promotional activities

60 YEARS OF VEGETA

In its six decades of existence, Vegeta has spiced and inspired numerous dishes and won hearts in many countries worldwide. On the occasion of this great anniversary, consumers were invited to become part of Vegeta's history by creating their own Vegeta labels. Among the 32,000 creations that were received, the **top 60 were selected and awarded**, and all the arrived designs were printed and during October 2019 placed on shelves in stores throughout the market covered by the birthday campaign.

In addition to the contest for consumers, Vegeta's Jubilee Anniversary has been celebrated with a **special collection of designer T-shirts by the fashion duo ELFS**. To celebrate Vegeta's 60th birthday, inspired by the legendary Vegeta chef, they prepared cotton T-shirts with the Vegeta Chef prints in three trendy variants, suitable for any fashion combination.

Vegeta's very birthday was marked with a solemn celebration, **a journey through six decades of success**. Numerous guests experienced a unique journey with a specially arranged train from Zagreb to Koprivnica, where the programme led them back in time, to the distant 1959. The celebration continued at the old Soups and Vegeta Factory, where it all began, and where a play celebrating the work of Professor Zlata Bartl, the inventor of this unique food seasoning, was staged as part of the programme. Along with many dignitaries from business and social life, the celebration was attended by the Speaker of the Croatian Parliament, the Prime Minister and the Ministers of the Croatian Government.

PODRAVKA WITH ITS AMBASSADOR ZLATKO DALIĆ AT GULFOOD, THE LARGEST FOOD FAIR IN DUBAI

With the support of its ambassador Zlatko Dalić, Podravka attended Gulfood - **the largest and most important specialized food industry fair in the Middle East** with over 5,000 exhibitors. Podravka has been exhibiting for the third year in a row at Gulfood, which is visited by about 90,000 visitors annually. During the five days of the fair, visitors had the opportunity to visit Podravka's stand and enjoy their favourite brands such as Vegeta, Lino, Kviki, Šumi, Žito and Dolcela. **To the delight of many visitors, Podravka's culinary promoter Mišel Tokić was joined by the Croatia national team coach, Zlatko Dalić.**

FANCY FOOD SHOW IN THE USA

One of the largest food fairs in the United States, the Fancy Food Show, specialized in delicatessen products that was held in New York, brought together more than 10,000 companies from 37 countries around the world. The most represented were European countries - Italy, France, Spain, Greece and Turkey. Podravka was also presented at this fair in cooperation with the distributor Grand Prix Trading. **In addition to the inevitable Vegeta, chutney, Lino Lada, jam and fruit spreads and products from the meat assortment were also exhibited**.

PODRAVKA GROUP AT THE CENTENARY FAIR ANUGA

Anuga, the world's largest food fair in Cologne, was a meeting place for exchanging ideas and perspectives, getting to know and deepening relationships amongst current partners, distributors and food producers for nearly 7,500 exhibitors and over 165,000 visitors.

The Podravka Group was presented with its three companies: Podravka, Žito and Lagris through tastings and sampling of Podravka chutney, Žito bread and pastries from the Toasts program, Šumi candy and Vegeta Natur.

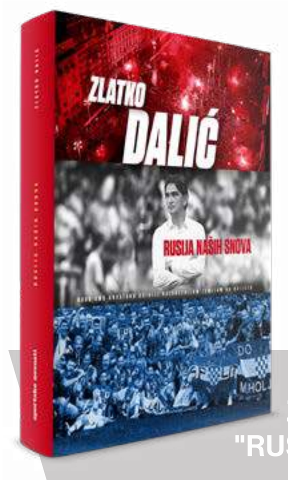
MOSTAR ECONOMIC FAIR

Podravka has traditionally been part of the most successful trade show in Bosnia and Herzegovina and the region as well - the 22nd Mostar International Trade Fair.

Podravka's exhibition space at the fair was enhanced with recognizable Podravka brands - Vegeta Natur, Lino Lada Gold and Dolcela. In addition, Podravka together with the Koprivnica-Križevci County organized a traditional festive dinner to mark the opening of the fair.

CONTINUED COOPERATION WITH THE SARAJEVO FILM FESTIVAL

The long-lasting golden partnership between the Sarajevo Film Festival and Podravka continued at the 25th Sarajevo Film Festival 2019. **Podravka has for many years supported the growth and flourishing of the Sarajevo Film Festival**, participating in events that led to the festival becoming one of the most respectable cultural events in South East Europe. Traditionally, a handful of events were held during the festival, and Podravka's delicious snacks were one of the festival's favourite treats. In addition, Podravka organized a reception for honouring the festival winners at the closing ceremony and sponsored the Heart of Sarajevo award for the Best Short Film.



PROMOTIONS OF ZLATKO DALIĆ'S BOOK "RUSSIA OF OUR DREAMS"

The historic football summer of 2018 was also recorded in writing: Dalić, in collaboration with Podravka and the sports magazine "*Sportske Novosti*", wrote the book *"Russia of Our Dreams."* In Moscow, on the occasion of celebrating Croatia's Independance Day, and with the **aim of positioning Croatia on the economic and tourist map of the world**, Podravka prepared an appropriate program to promote Dalić's book, "*Russia of Our Dreams*". In cooperation with the Embassy of Croatia in the Russian Federation, Podravka gathered a number of guests, business partners and media representatives, symbolically, on the date the 2018 FIFA World Cup began in Russia.

Apart from Russia, the book was promoted all over Croatia and Bosnia and Herzegovina, and Zlatko Dalić, as brand ambassador, together with Podravka **promoted the values of hard work and effort required for outstanding exceptional results.**

PODRAVKA SUPPORTED THE 20TH MEDITERRANEAN FILM FESTIVAL

Podravka supported the 20th Mediterranean Film Festival in Široki Brijeg. The Mediterranean Film Festival is **the oldest documentary film festival in the region**. MFF is one of the few festivals that financially rewards festival winners and thus supports them in the implementation of new film projects. This year, Podravka joined by sponsoring one of the three major awards, and in addition, organised a party within the children's program for the youngest visitors.

COLLABORATION WITH PETAR GRAŠO

The natural ingredients of Vegeta Natur food seasoning highlight the finest flavours in all dishes and make preparation quick and easy. In order to expand its product offer within the Vegeta Natur range, a collaboration with Petar Grašo began, which, **in addition to music, nurtures a passion for culinary art.** With his knowledge of food and cuisine from all around the world, and especially the Mediterranean region, Grašo **contributes to the development of new products that consumers love, want and expect, thus setting new trends in modern cuisine.**

Podravka **rounded off its successful business year** with music in collaboration with Petar Grašo through a music video for Grašo's song *"Fritula"*. Grašo and other Podravka ambassadors along with the festive atmosphere of the song voiced Podravka's story of success: Croatia national football team coach Zlatko Dalić, with whom Podravka collaborated for Lina Lada Gold, Sandra Perković, ambassador of Vegeta Natur, dancers Marko Mrkić and Helena Janjušević, who dance even better with Lino Nutri Balance, chef Ivan Pažanin, a lover of fish specialties with Eva products, and the handball team of Podravka Vegeta, together with their trainer Zlatko Saračević also supported their most important sponsor.

COLLABORATION BETWEEN PODRAVKA, PODRAVKA HANDBALL CLUB AND THE FASHION DUO ELFS

On the occasion of the 64th birthday of the Handball Club Podravka Vegeta, a **convenient birthday calendar was created in which Podravka handball players shone in the festive dresses designed by the fashion duo ELFS.** The birthday atmosphere of the calendar is complemented by Vegeta Maestro spices that perfectly match the colours of the packaging with the handball players and their dresses.

In addition to the birthday calendar, collaboration between Podravka and the Handball Club was reflected in *"spicing-up"* the players' fashion statement: at the beginning of the new European season in the Champions League, Podravka donned new trainers in the colour of Vegeta created by the fashion duo ELFS. **In this creative way, not only Podravka's largest Vegeta brand, but also Croatian fashion and sports were promoted outside Croatia.**

PODRAVKA AT THE JUBILEE 30TH ATP IN UMAG

Traditionally, the strongest tennis tournament in Croatia was held in the second half of July. ATP "Plava laguna" Croatia Open Umag Tennis Tournament has **acquired the title of one of the most important international events in Croatia** in its 30 years of existence, and Podravka was present as in previous years.

On the first weekend of the tournament, Podravka's masters of the art of cooking prepared Linočinkas, pancakes stuffed with Lino Lada, while the Kviki gaming corner was held at the Social Arena.

During the exhibition matches, Kviki and Lino entertained the audience, while in the Taste Istria area, Podravka's promoters presented delicious Podravka dishes for all gourmets.

PODRAVKA AWARDS OPGS (FAMILY FARMS) OWNED BY CROATIAN VETERANS AND THEIR FAMILIES FOR SUCCESSFUL COOPERATION

Pursuant to the Agreement with the Ministry of Croatian Veterans in realizing the potential purchase of products of Croatian veterans' cooperatives for the needs of industrial processing in the period from 2018 to 2020, **Podravka has in 2018 cooperated with 16 family farms owned by Croatian veterans and their families.** As a sign of appreciation for successful cooperation and incentive for further support, Podravka presented the awards to the representatives of these OPGs, for which it allocated a total of HRK 100 thousand.

The awards ceremony, along with representatives of OPG owners and Podravka, was attended by Tomo Medved, Minister of Croatian Veterans, Nevenka Benić, State Secretary of the Croatian Homeland War Veterans Administration and their family members, Marijana Tkalec, Head of the Sector for the Care of Croatian Veterans from the Homeland War and the Preservation of the Values of the Homeland War and the heads of the referral centres of the Croatian veterans' cooperatives.

THE IRRIGATION SYSTEM OF AGRICULTURAL LAND IN THE AREA OF THE KOPRIVNICA-KRIŽEVCI COUNTY WAS PRESENTED

Podravka presented the first phase of the agricultural irrigation project in the Koprivnica-Križevci County, more precisely on 5 hectares with an overlap on 10 hectares, at a site in Sigetec in the municipality of Peteranec.

The presented irrigation method of spraying is also suitable, subject to adequate water temperature, for night spraying, for vegetable, root and legume crops, which will be mostly cultivated on these plots for Podravka's needs, respecting the rules of crop rotation. Podravka will irrigate vegetables on its plots at this location, but other users and landowners, as Podravka's permanent subcontractors, will also be included.

In the next phase, the Koprivnica-Križevci County will also be involved by preparing projects and applying for EU and state budget funds. The aim of the project is to motivate other Podravka subcontractors and land user, in order to irrigate over 200 hectares of land at this location.

22ND TOMATO DAY HELD IN UMAG

Organized by Podravka, the City of Umag and the Tourist Board of the City of Umag, the humanitarian culinary project of Tomato Day, which commemorates the centuries-old tradition of tomato processing in Umag, was successfully held for the 22nd time. In addition to a professional event that honoured the most successful tomato growers, there was also a *"Tomato Festival"*, a humanitarian and culinary event in which Podravka's culinary promoters prepared a multitude of delicacies, which were enjoyed at promotional prices while raising funds for the procurement of radiology appliances for the Health Centre in Umag.

THE FINALS OF THE 13TH LINO ALL-ROUNDER HELD IN KOPRIVNICA

In 2019, the educational and sports project of Podravka and the sports magazine "Sportske Novosti" continued with the aim of boosting school sports, developing healthy habits and encouraging cultural creativity. **The 13th season of the Lino All-rounder brought together 10,000 elementary school students**, with the top 24 competing in the finals in Koprivnica. In addition to the best athletes, the best literary awards were also awarded, and were supported by well-known guests: Tara Thaler and Dino Jelusić, Zlatko Horvat, Roko Prkačin, Enes Garibović, Ana Konjuh, Magdalena Ećimović and Korina Karlovčan.

ŽITO

participates in **numerous business, professional, educational, sports and cultural events and fairs** where it presents its products.

SPORT

Teas 1001 CVET and Gorenjka cheered up the participants of the 27th cross country skiing for people from business, diplomacy and politics, jumpers and fans at the World Cup Finals in ski jumping on Planica and hikers at the Od vzhoda do vzhoda event. The 1001 CVET teas and pastries were also present at the 55th Golden Fox women's alpine skiing race. Nanos Tea 1001 CVET became the official tea of Vojko's mountain lodge on mount Nanos, and at the opening of the renovated lodge the mountaineers dined on Zlato polje and Maestro dishes.

Zlato polje products also accompanied runners at the 14th DM Race, Business run Ljubljana, where participants could taste Žito's bread, and the winner received Gorenjka chocolate, and at the 2nd MigiMigi Day sporting event. Gorenjka chocolate and Jelen bread delighted runners at the Tek za Kranj race. Grain products were also present at the ATP Challenger Tennis Tournament Zavarovalnica Sava Slovenia Open in Portorož and the children's tennis tournament - *Let's Play Tennis!* at the Millenium Sports Centre where the youngest were cheered by the Lino Cup and Lino products.

PROFESSIONAL AND EDUCATIONAL EVENTS

In May, the Mill and Bakery Symposium was traditionally supported, and Žito's products were presented during the entire year at numerous conferences and seminars as snacks for participants: Slovenian Advertising Festival, Slovenian Conference on Public Relations, Slovenian Marketing Conference, FMCG Summit, Portorož Business Conference, SEMPL and the expert gathering of Slovenian Masters Club members. Students who participated in the Tutoring Project event of the Faculty of Medicine at the University of Maribor - *Kam po študiju* medicine were also indulged with Žito cream slices.

TRADE FAIRS AND PROMOTIONAL EVENTS

Cereal products were presented at the ISM International Confectionery Fair in Germany and at the largest AGRA agri-food fair in Gornja Radgona. A chocolate, weighing 97 kilos, delighted the visitors of the Chocolate Festival, as well as chocolate lovers at the Čokoljana event where Žito presented its products. Cereal bread and bakery products were also tasted by participants at the Festival of Excellent Bakery Products, which took place at Pogačar square in Ljubljana in May. The Lino mascot presented Lino Lada duo to the passengers on Ljubljana's local buses.

Žito brought a culinary overture to the Ljubljana Summer Festival as guests were served the products Zlato polje, Gorenjka, Žito bread and Lino Lada at the introductory event. Zito's bread was also presented at the Pubec Styrian Wines Salon and the V rovih wine route under the Old Town of Kranj. Among others, Žito products could not be missed at the opening of the renovated Maxi Gourmet Market in Ljubljana. Maestro spices traditionally spiced up the Aktual grill party.

At the final event of the Vegan Challenge, products with the European vegetarian V-label certification were presented. Natura products were part of a meal during the Wellness Weekend organized by the magazine Bodi zdrava at the Topolšica Spa.

Gorenjka's chocolate was also present at the United Nations event in the United States. In celebration of the four national holidays of Slovenia, Croatia, Canada and Madagascar, visitors received a Gorenjka chocolate bar.

Žito was also present at many events for children. At the final event of the Škis' Stork project, the small winners of the competition celebrated with Šumi candy and Čokolino. Šumi candy was also a dessert at the final event of the project We Promote Friendship *(Spodbujamo prijateljstvo)* and at the Magic Day *(Čarobni dan)* in Tivoli, where children competed in the Šumi shooting at the goal and ring throwing competitions. Candies were also a sweet treat for the children at the presentation of holiday travels by Slovenian Railways.

The Lino mascot and the Lino products were at the forefront of the Magic Day event at the Volčji Potok Arboretum, and Lino sweetened the pancakes served at the gathering with vlogger Lea Filipovič - Lepo Afno at WOOP Trampoline Park in Ljubljana. Gorenjka, Šumi Candy and Lino products also cheered up the winners of the Oddaj contest at the City Library of Ljubljana.

SERIALIZATION INTRODUCED

After extensive preparation and lengthy efforts on the project, a new phase in Belupo's life was successfully launched: the serialization of prescription drugs, by which the requirements of the EU Directive 2011/62 and the Delegated Commission Regulation EU 2016/161 related to the protection against counterfeit drugs, have been fulfilled. In this way, each packaging of prescription medicine intended for one of the EU markets has a unique code and other prescribed safety features that reduce the possibility of counterfeiting and thus increase the safety of drug administration.

ISO 9001: 2015 CERTIFICATION

The Certification company SGS Adriatica Ltd. completed the Quality System Assessment of Belupo on 12 June 2019 and made the decision to award the ISO 9001: 2015 certification, which is part of the international standard for quality management systems. This great recognition for Belupo represents compliance of the quality system with the stated norm, that is, it fully confirms the application of *"process"* thinking and customer orientation.

ISO 13485: 2016 CERTIFICATION

On 4 October, the Certification company UDEM Adriatic Ltd., awarded Belupo the ISO 13485: 2016 Certification, an internationally recognized standard for the quality management system in the pharmaceutical industry. The ISO 13485 certification includes certain specific requirements for medical products such as design, production, quality control, storage, sales and distribution.

HALMED REPRESENTATIVES VISITED BELUPO

A HALMED inspection took place in Belupo from 28 to 31 October. The reason for their arrival is the renewal of the EU GMP certification. During the inspection, all systems were checked in accordance with EudraLex - Volume 4 - Good Manufacturing Practice (GMP) guidelines Part I, according to all chapters and annexes. The EU GMP Certificate is a document which confirms that Belupo fulfils the requirements of good manufacturing practice and can distribute its drugs to the European Union and other markets that recognize the EU GMP Certificate.

GMP INSPECTION OF THE RUSSIAN REGULATORY AUTHORITY

The GMP Inspection of the Russian Regulatory Authority visited Belupo from 2 - 6 December to renew the GMP certification. The inspection is conducted every three years and, based on the GMP certificate of Russia, Belupo is free to export its drugs and market them on the Russian market in the coming period.

IN BELUPO'S TRANSFORMATION PROCESS, PROJECTS HAVE COMPLETED THE ANALYZE PHASE AND ARE ENTERING THE IMPROVE PHASE

In the DMAIC cycle, all LSS Transformation Program projects have entered the fourth phase, Improve, in which project processes are improved - changes are proposed and introduced. Thereafter, the final phase, Control, remains where the performance of changes is monitored and whether the transformed process is suitable to everyone examined.

BELUPO'S SCHOOL OF HEALTH IN PULA

Belupo's Expert Meeting *"Living for Health"*, organized by the Croatian Market, was held in mid-April at the Hotel Histria in Pula, the largest city in the County of Istria, a city of beautiful sites and high architectural value, making it a worthy host of Belupo's School of Health. I was attended by 150 general practitioners from continental Croatia. As part of the expert meeting, a panel discussion entitled *"Two is Better"* and a series of interactive workshops were held.

COMPLETION OF THE 1ST WAVE OF LEAN SIX SIGMA TRANSFORMATION PROJECTS OF BELUPO

The Lean Six Sigma (LSS) method is the right way to seek and find better business solutions. The LSS monitors all the steps of the process and in each step involves the people who participate in the process as well as those to whom the result of that process is to serve - either as end users or in the further steps of production.

The application of solutions that emerged from the first wave of Belupo's transformation projects started. All the applied procedures will continue to be monitored, evaluated and improved. This is one of the ways in which our transformation continues.

The effect of LSS transformation is becoming more and more visible every day - the thinking process in every pore of the company is changing and the application of transformation approaches and procedures is increasing.

SCHOOL OF HEALTH IN ŠIBENIK

Belupo's Experts Meeting *"Living for Health"*, organized by the Croatian Market, was held on the first weekend of spring in Šibenik, a beautiful city of unique urban expression, surrounded by a picturesque archipelago full of Mediterranean spirit and colourful tourist attractions. The three-day gathering was attended by 130 GPs from continental Croatia.

26TH TRADITIONAL DAYS OF BELUPO

Like the past 25, Belupo organized the Days of Belupo again this year and hosted more than 320 pharmacists. The participants also discussed a number of current topics and challenges facing pharmacy, as well as the pharmaceutical industry - a strategic branch of the Croatian economy.

6TH CROATIAN PHARMACEUTICAL CONGRESS WITH INTERNATIONAL PARTICIPATION

The 6th Croatian Pharmacy Congress with international participation was held under the motto *"A New Age of Pharmacy - Ready for the Challenges"* at the Valamar Lacroma Hotel in Dubrovnik from 4 to 7 April. The working part of the Congress included more than one hundred lectures divided into thematic units, several panel discussions, forums and workshops, and 135 poster presentations. Amongst others, Belupo was presented through lectures on innovations, trends and regulatory challenges in the pharmaceutical industry.

LEADER INVEST 2019.

The topic of the panel discussion at Leader invest, held on 28 February in Koprivnica and attended by managers and owners of the most successful companies in North-western Croatia, was creating a positive investment environment in this part of Croatia. Board member, Ms Ksenija Punčikar attended the panel and pointed out that Belupo had the largest investment in North-western Croatia, having invested HRK 1 billion since 2000, of which more than HRK 500 million was invested in the new drug factory put into operation in 2017.

13TH HEALTH MEASURING - LIVING FOR HEALTH

"Living for Health" is Belupo's slogan under which the event " Health Measuring" was held on 27 April, the 13th in a row, in the main square of Koprivnica. An impressive number of some 400 citizens, for whom health measuring was organized, visited the Belupo event and in a short time, through eight mini-clinics, measured their health. Specifically, more than a thousand check-ups were made by Belupo's permanent health care assistants, doctors, nurses, pharmacists and nutritionists.

BELUPO AND INTERNATIONAL STUDENTS IN A PUBLIC HEALTH ACTION

Belupo and the European Pharmaceutical Students' Association EPSA organized a public health action on 2 November at the main square in Poreč to advise on the importance of prevention in maintaining one's health. Just over a hundred citizens of Poreč and their guests were able to quickly and free of charge measure their blood pressure, blood sugar and triglycerides, peak airflow in the lungs, oxygen supply to the skin, analyse skin condition and, with the calculation of body mass index, get advice on a proper diet.

WINTER SCHOOL OF RESEARCH COMMERCIALISATION

Belupo was presented at the Winter School of Research Commercialisation at the Faculty of Pharmacy and Biochemistry, University of Zagreb, on 28 November, with a lecture on *"Nutraceuticals - Pharma & Food Synergy"*, held by Jelena Miličević, an expert associate from Nutraceuticals.

PANEL DISCUSSION ON THE ROLE OF EXPORTS IN MODERN ECONOMIC POLICY

Nearly 5,000 employees in the Croatian pharmaceutical industry, assembled at CEAs Association of Manufacturers of Drugs, generated more than HRK 7 billion in sales revenue in the last fiscal year, of which as much as 70 percent was generated by exports, was heard at the panel discussion on the role of exports in modern economic policy. Belupo's CEO, Hrvoje Kolarić, was amongst the panelists.

5TH BELUPO BUSINESS CONFERENCE IN LOVRAN

The 5th Business Conference held from 19 to 22 May in Lovran, gathered about fifty participants from all Belupo's markets - Croatia, Slovenia, Poland, Czech Republic, Slovakia, Bosnia and Herzegovina, Serbia, Northern Macedonia, Russia, the Ukraine and Kazakhstan. Just three days of gathering, working and socializing revealed that the true leaders of the 21st century are exactly those who know how to manage a team of associates, who are driven by inspiration and a passion for success.

BELUPO AT A PANEL DEDICATED TO GENDER EQUALITY

Belupo participated in a panel where the Croatian Employers' Association, the Embassy of Canada in the Republic of Croatia and the Embassy of the United Kingdom in the Republic of Croatia presented 28 new members of CEAs Base of Business Women - a project launched in cooperation with the Ombudsperson for Gender Equality of the Republic of Croatia.

8 Digital innovations

Digital technology has greatly changed the behaviour of our customers and consumers. It has permeated their daily lives and provided new ways to connect with brands through many different online platforms. **Staying in the focus of consumers and being part of their digital experience has been Podravka's guiding principle in 2019.**

Particularly important is the completion of the planned three-year development part of the Podravka.io project, which has **modernized Podravka's digital eco-system**. Podravka.io is the central digital repository of various types of online content available for use in current and future online projects in all markets. This project enables faster and more efficient time to market for future digital projects, greater technological agility, flexibility in choosing partners for the development of digital solutions and at the same time single sign-on for users.

In 2019, **55 online marketing campaigns were conducted** and the following web platforms were developed for brand communication: Vegeta60g, Vegeta Natur, Summer campaign, Spices of Inspirations, Fant, Fini Mini, Majstor, Podravka aivar, RajčiCar, Salut, Bio tomato.

New brand profiles were launched on social networks: IG Podravka, FB and IG Dolcela, FB and IG Lino Lada, FB and IG Zlatopolje, FB and IG Šumi.

The blogger network expanded as well as influencers who extended even to nano influencers. Lino products continue to regularly pass through the hands of Croatian YouTube stars, while Kviki has already become an indispensable part of the gaming world. This is especially emphasized by the successful communication achieved at the largest regional gaming fair Reboot InfoGamer.

The function of all Podravka's social media profiles is to **actively promote Podravka products**. They are an essential part of the media mix of every campaign, have extremely high reach, allow direct communication with consumers, reach out to a younger target group and very often deliver better results than any other media in online campaigns.

Amongst the thousands of business users active on social networks, Coolinarika, Podravka Hrvatska and Lino occupy the **top three places in the Fast Moving Consumer Goods (FMCG) category on Facebook Hrvatska**. **Coolinarika's Facebook page also ranks third in the Facebook rankings of all brands in Croatia.** The results of a survey conducted by Socialbakers, a global company specialised in social media analysis, have confirmed this great success.

COOLINARIKA

is not only a guest in the kitchens of millions of its users, but also **a warmly welcomed friend, especially on social networks**. With 630,000 followers and an annual paid reach of 3 million unique users (43% more than in 2018), Coolinarika's Facebook page is a **significant digital platform for communication with regional consumers,** especially those from Croatia, Serbia and Bosnia and Herzegovina. Content posted on this site are extremely interesting to users, with just video recipes viewed 8.5 million times, and the figure exceeding to over 1.2 million on Coolinarika's Instagram profile. **Active user engagement on Coolinarika's Instagram increased** as their engagement grew by a whopping 86% in just one year. The number of users who follow this profile has grown to 184,000 with an annual paid reach of 2.8 million users (13% more than in 2018).

8,500,000 video recipes viewes

3,000,000 paid reach of unique users

630,000 followers

184,000 followers

1,200,000 video recipes viewes

86% user engagement growth

PODRAVKA HRVATSKA

with its 187,000 Facebook and 14,000 Instagram followers, has **entered the homes of more than 81% of these social network users in Croatia**, thus enabling direct communication with consumers. With 1 million Facebook users reached, it achieved 49% more than in 2018 and Instagram reached the same number. Half a million likes, shares and comments confirm that **users really enjoyed the contents** posted on these two platforms.

14,000 followers

187,000 followers

1,000,000 paid reach of unique users

1,000,000 paid reach of unique users

500,000 likes, shares, comments

LINO

The Lino and Lino Baby Facebook pages gained nearly 12,000 new followers in 2019. Thus, Lino's Facebook profile ended the year 2019 with a total of 175,147, and Lino Baby with 46,498 followers. Posts on the Lino profile in 2019 reached one million users, while posts on the Lino Baby profile reached 850,000 users. Given the popularity of Lino's teddy bear, **Lino's Instagram profile was launched** in February 2019, attracting 8,000 followers in its first, incomplete, year. It also reached 1 million users in 11 months and achieved an excellent engagement rate of 9.27%.

KVIKI FACEBOOK

profile at the end of 2019 had 28,321 followers, with Facebook posts reaching 1.2 million users a year and an excellent engagement rate of 5.70%. The Kviki Instagram profile has 1,500 followers. In 2019, it's posts and stories reached more than 900,000 users with an engagement rate of 5.92%.

5.70%
engagement rate

1,500,000
paid reach of unique users

28,321
followers

5.92%
engagement rate

1,500
followers

900,000
paid reach of unique users

DOLCELA

The contents of the Dolcela Facebook page reached nearly one million users in 2019. They expressed their interest in the Dolcela brand and products through 147,000 likes, comments or shares. In its first year, the Dolcela fan community grew to 48,700 users. Dolcela Instagram garnered 17,400 followers through its first year while its contents reached 1.2 million users. Contents were viewed over 8 million times, and a total of 280,000 likes, comments and shares were collected.

147,000
likes, shares, comments

1,000,000
paid reach of unique users

48,700
followers

280,000
likes, shares, comments

17,400
followers

1,200,000
paid reach of unique users

The contents of the Podravka Croatia **YT channel** were **viewed more than 11 million times** in 2019, and the most watched video was the one for the product Čokolino Fit (893,624 views).

COOLINARIKA is still not only the **prolonged cooking aid of every culinary virtuoso,** but those who are just trying to become one as well. Every day, its digital plate **serves millions of people with information, advice and inspiration**, and with a database of more than 188,000 recipes on offer, no one is left behind. The contents of Coolinarika's website were viewed 320 million times in 2019, while video recipes alone garnered nearly 6.5 million views.

188,000
recipes

320 MIL
website views

6.5 MIL
video recipes views

In online communication, Podravka **approaches more and more consumers through interesting and more personal online concepts.** Celebrating Vegeta's 60 years, users in the region were able to create customized label designs for Vegeta's packaging using specially developed web applications. More than 33,000 ideas were received.

Kviki was first activated on Viber by launching stickers in Viber's sticker market that accompanied over 900,000 messages. The Majstor brand took a different approach to presenting new products by posting on social networks instead of using ads, which produced great results. The Fini-Mini brand chose a more entertaining approach wanting to show the redesign of its products through a prize competition that collected a total of 24,000 entries. A Facebook and Google campaign created for tourists from seven foreign markets who decided to spend their summer holidays in Croatia was conducted in their home markets and in Croatia. The campaign encouraged recalling the purchase of selected Podravka products during their summer holidays in Croatia.

In 2019, **major steps were taken in the field of digital communication**. Maestro and Zlato Polje Facebook profiles were re-established. Better consumer awareness has contributed to the excellent results on the social network, where 1,186,299 views on Maestro and 806,159 views on Zlato polje were recorded throughout the year. The focus of the Zlato polje profile was on the interaction of followers with the content of the posts. The engagement rate on the Zlato polje profile was as high as 20.9%, exceeding the average value by more than five times.

In 2019, Žito also brought its stories closer to Instagram users, where as many as seven new profiles of the brands Šumi, Zlato polje, 1001 Cvet, Gorenjka, Žito, Podravka and Maestro were posted in the first half of the year. This facilitates easier communication and contact with consumers throughout the year.

The brands Šumi and Zlato polje were supported with new Facebook and Instagram profiles in the Croatian market.

In line with the trendy approaches in the field of digital communication, campaigns were also innovated by prominent influential people from the digital world in Slovenia. With their help, unique campaigns were created that reached more than 500,000 different followers.

The average measured values on individual social platforms in Slovenia in 2019 show continuous growth, among which the most prominent according to specific focuses are the following:

Podravka
15,675,983
views

Žito
10.04%
average engagement rate

Gorenjka
16,346
likes

Žito
1,761,593
views

Gorenjka
63.9 %
engagement rate

Šumi
23.5 %
engagement rate

Zlato Polje
21.1 %
engagement rate
>1000
new followers

1001 Cvet
27.2 %
engagement rate
95,807
views

The largest expansion is in online communication. Changes are extremely rapid and the **focus of digital innovation in 2019 is on technological modernization and optimization of Belupo's online platforms** - *www.belupo.hr; www.zdravobudi.hr; www.neofen.hr* as well as redefining online communication standards - DigiPR activities, SEO optimization and information relevance.

The development of the *zdravobudi.hr* tportal, in the 10 years since its foundation, has created a community with more than 3 million users and contributed to the development of a responsible self-treatment trend.

The zdravobudi fun page had more than 6 million views on Facebook in 2019; a reach of 728,057 users, who left 28,152 comments on the zdravobudi profile.

The goals of Belupo's social media communication are as follows:

- Brand awareness - increase awareness of both current and new products and gain attention of the target group.
- Engagement - attract quality users that will result in increased sales but also increased interaction on social media channels.
- Customer Experience - turn users into loyal brand ambassadors by improving the customer service.

3 MIL
users

6 MIL
views

28,152
comments

9 Awards and recognitions

A NEW SUPERIOR TASTE AWARD FOR PODRAVKA - THE MOST ACCLAIMED AWARD IN THE FOOD SEGMENT IN THE WORLD

Podravka's **treasury of quality for product awards is richer for another 11 Superior Taste Awards,** the most acclaimed award in the food segment in the world. For the second time, Lino Lada Gold and Žito buckwheat bread with nuts were awarded the highest grades and 3 STA stars. The Superior Taste Award was also presented to Vegeta Maestro smoked paprika, Vegeta Natur deltapack, Fant spaghetti bolognese seasoning mix, Eva delicatessen sardines with rosemary and sea salt, Rich soup with mushrooms and buckwheat, Eva delicatessen sardines with black olives, Eva tuna salad with aivar and Salut.

The Superior Taste Award is presented by the Brussels-based International Taste & Quality Institute - iTQi, with companies from more than 120 countries worldwide competing for this prestigious award. The Superior Taste Award is presented by a jury of over 200 members from more than 20 countries. Their talents are recognized in Chef & Sommelier competitions or reputable institutions such as Le guide Michelin or Gault & Millau.

The grading process is rigorous and involves sensory grading using the blind-tasting method, with a focus on the intensity of the taste of the product itself without comparing it with other products.

PODRAVKA WON THE BUILDING PUBLIC TRUST AWARD

As part of the annual award ceremony of the Zagreb Stock Exchange, the consultant firm PricewaterhouseCoopers Croatia (PwC Croatia) awards the Building Public Trust Award. The goal of the award is to **recognise and reward companies diversified through clarity and transparency of reporting.** PwC experts reviewed the reports of selected companies and assessed them against the set transparency criteria (progress, website, strategy, risk information, financial information, corporate governance, social responsibility) and selected five companies that entered the final selection for the award, including Podravka.

Podravka received the Building Public Trust Award in 2019, which is a **great recognition for the clarity and transparency of reporting to stakeholders**, such as shareholders, investors, banks, regulators and others.

GOLD KEYS FOR PODRAVKA AND BELUPO

The Croatian Exporters' Association, as part of the 14th Convention of Croatian Exporters held under the title *"Role of Exports in Modern Economic Policy"*, awarded Podravka the *"Golden Key"* for **the best exporter to Bosnia and Herzegovina**, and Belupo **the best exporter to the Russian Federation** in 2018. The market of Bosnia and Herzegovina is traditionally one of Podravka's largest and most important export markets, with HRK 260.3 million in exports, and in the Russian Federation, Belupo achieved a 16 percent growth in 2018 compared to 2017.

PODRAVKA WAS NAMED PRODUCER OF THE YEAR AND LINO LADA GOLD PRODUCT OF THE YEAR

The Golden Basket is an award given for the fourth consecutive year by the specialized retailer and FMCG industry magazine *"Ja TRGOVAC"*. The decision on listing and awarding for all categories was made by a specially assembled panel of experts and representatives of professional institutions on the basis of submitted applications, available indicators and conducted analyses.

In the *"Producer of the Year"* competition, **Podravka has once again confirmed its status as a leader in the FMCG industry and deservedly won first place due to its record business results over the past year, and by improving employee substantive rights, developing and upgrading brands and winning numerous awards in 2018.**

Based on high quality market and environment analyses, a new product, Lino Lada Gold, was launched within the recognized high quality and reliable Lino Lada brand. Chocolate spread with chopped hazelnuts complemented the Lino Lada range and established the Lino Lada brand as the one with the largest selection of flavours and as market leader. Thanks to these distinguished achievements, **Lino Lada Gold won the Golden Basket in the Product of the Year category and confirmed the status of one of the most successful new product launches.**

PODRAVKA AND LEDO COOPERATION AWARDED WITH GOLD

Lino Lada ice cream, created in cooperation between Podravka and Ledo, was **proclaimed the best in the world.** At the prestigious world competition held in Sweden, the International Ice Cream Consortium honoured the unique taste and appearance of Lino Lada ice cream with gold. It is recognized as an **innovative and attractive concept, a high-quality product and a technically highly demanding project.**

The International Ice Cream Consortium has been operating worldwide for 33 years, and Ledo, as the largest Croatian producer of industrial ice cream, has been a member of this association for many years.

TWO VALUABLE RECOGNITIONS FOR PODRAVKA AND ITS PRODUCTS IN 2019 ON THE MARKET OF BOSNIA AND HERZEGOVINA

Podravka had a great year in Bosnia and Herzegovina, as evidenced by the awards that arrived at the end of 2019. Podravka's products are a *"must have"* in as many as six categories by the choice of both retailers and consumers, organized by *"In Store"* magazine: Soups and Stock Cubes, Seasoning Spices (Vegeta and Fant), All for Baby, Food (Lino), Cream spreads (Lino Lada), Jams and Fruit Spreads (Podravka jam and fruit spreads) and Warm drinks (Podravka teas).

Also, Podravka Ltd. Sarajevo won the Golden Bisnode Certificate of Solvency Excellence, a prestigious certificate of business excellence that was handed to Podravka at the traditional Bisnode4Exellence event. The solvency excellence certificate is one of the few recognitions by which companies prove to their potential partners that they are reliable, responsible and well-managed companies that are desirable business partners.

VEGETA AWARDED IN POLAND

The Vegeta brand was awarded the title *"Leader of the 15th Anniversary"* at the national poll *"Laur Konsumenta"*, which tested the popularity of brands among Polish consumers.

This award and recognition **sum up Vegeta's long-standing popularity, visibility and quality in a wide competition in the Polish market** - the Vegeta brand won the title of *"Leader of the 15th Anniversary"* as the most awarded brand, which has for years been receiving the highest number of votes in the Laur Konsumenta poll.

The basis of assessment are the opinions of respondents collected in a multilevel survey that aims to identify the most visible, innovative and recognized brand, product or service.

VEGETA NATUR WINS "SELECTED PRODUCT OF THE YEAR" AWARD

At the 10th edition of the *"Selected Product of the Year 2019 - Best New Consumer-Voted Products"* ceremony, **Vegeta NATUR was announced the winner in the category of Spices.**

The competition was organized in 28 categories, based on a market survey conducted by Exact Business Solutions on a total sample of 4814 Romanian consumers aged 18-54, internet users from urban areas. The competition was organized by the Media Concept Store, the Romanian Product of the Year license holder, awarded by Product of the Year Worldwide, the owner of the *"Selected Product of the Year"* trademark.

"Product of the Year" is an international concept, launched in France in 1987, which awards innovative products and is now actively present in 47 countries. The purpose of the *"red label"* is to be a guide to the best products on the market and to their manufacturers and also to support marketing campaigns.

PODRAVKA'S SUMMER CAMPAIGN WON THIRD PLACE IN THE INDOOR KREATIVAC 2019 COMPETITION

The creative solution for the summer campaign with the motto *"Great food for a great summer!"* and the appropriate visuals of Podravka's products and mascots, placed Podravka among the ten finalists of the creative competition INdoor KREATIVAC 2019. In the finals, Podravka won third place and in a strong competition amongst finalists from both the public and private sectors **once again showed that it keeps up with the latest trends.**

VEGETA PROCLAIMED A LASTING AND TRUSTWORTHY CROATIAN BRAND

"Brands are trademarks that turn into beliefs, ideas, a world to identify with. They have been around for centuries, grown with generations and become synonyms for quality" a quotation written in the paper *"24sata"*, citing **Vegeta as one of the most successful Croatian brands** with a long tradition and a recognizable slogan like *"With Vegeta dishes taste better! "*.

According to *"24sata"*, Vegeta has *"with superior and consistent quality, endorsed by numerous awards and recognitions, been an inspiration and a must have product"* and plays an important role in life and in business, with added value that goes beyond the features of the brand itself.

KSENIJA RAVNJAK, SECRETARY TO THE PRESIDENT OF PODRAVKA'S MANAGEMENT BOARD, NAMED THE BEST CROATIAN SECRETARY

The National Professional Association Croatian Business Secretary declared Ksenija Ravnjak, secretary of Podravka's CEO **the best secretary in the category of large companies**.

The Croatian Business Secretary Association has awarded this award for the 24th time, and there are five categories in which awards are given: small, medium and large companies, budget and non-profit organizations.

PODRAVKA'S BRANDS FAVOURITE AMONG CROATIAN WOMEN

For the first time in Croatia, the Woman's Choice Award was presented, and behind the project is a team of the strongest women's media brand - miss7. Based on Ipsos research into the habits, attitudes and favourite brands of women where women aged between 20 and 55 decided on the winners, **Podravka's brands celebrated in as many as three categories.**

According to the highest number of votes, **Podravka's products were voted the best in the categories of favourite cereal, favourite food seasoning and favourite soup.** Lino was named the favourite brand in the cereal category, Vegeta was the first in the food seasoning category, while Podravka soups were the favourite in the soup category.

PODRAVKA'S DIGITAL CHANNELS TAKE THE TOP THREE PLACES ON FACEBOOK CROATIA

Amongst the thousands of business users, **Coolinarika, Podravka Croatia and Lino occupy the first three places on Facebook Croatia in the category of Fast-Moving Consumer Goods** (FMCG). This remarkable success has been confirmed according to a survey conducted by the global social media analysis company Socialbakers.

Coolinarika has maintained its leading position in 2019 in this ranking and has over 600,000 followers with millions of user reach, while second place is held by the Facebook profile Podravka Croatia, which through this channel successfully communicates directly with its consumers, and statistics show that every second Facebook user in Croatia has seen the content of the site at least once. The popularity of Lino's Facebook page shows that it is ranked third with almost 180,000 followers, with a reach of over 1.2 million Facebook users.

Coolinarika's Facebook page, along with the aforementioned first place in the FMCG segment, is also **ranked third on the list of all brands on Facebook in Croatia.**

To be at the top of this ranking is valuable recognition for Podravka's digital team for **placing quality content on social networks that users have rewarded with a large number of likes, comments, content sharing and active participation** on Coolinarika, Podravka Croatia and Lina's Facebook profiles.

"PODRAVSKA KLET" RESTAURANT AGAIN AMONG THE 100 BEST CROATIAN RESTAURANTS

Continuing its long-standing success, this year again the restaurant *"Podravska klet"* **won the trust of both consumers and the profession and was selected among the 100 best restaurants in Croatia.**

More than 2,500 restaurants competed for the top 100 this year, and the selection was held in three rounds: in the first part restaurant guests voted on the Gastronaut portal, in the second part caterers, and finally members of the Honourable Committee established the final list of the top best.

This flattering title confirms the supreme gastronomic offer of the restaurant *"Podravska Klet"*, known for its quality and unique interior, and is also proof of the cult status it holds in the Croatian hospitality industry.

"PODRAVSKA KLET" MADE A POSITIVE IMPRESSION ON THE TOURIST PATROL

Evaluating places in Croatia has been the task of the paper *"Večernji list"* for over 40 years. The tidiness, quality and variety of the accommodation and catering offer or additional facilities are just some of the categories that reporters of *"Večernji list"*, called the Tourist Patrol, evaluate when visiting a certain place and talking with the locals.

Amongst the evaluated establishments of the Koprivnica region was the restaurant *"Podravska klet"*, which, with a high result of 94 points out of a possible 100, once again proved that it provides a high quality and varied offer and that the service is at a remarkable level.

ŽITO

Numerous awards and recognitions won during 2019 best **testify to the excellence and quality of Žito's products**.

At the 19th expert evaluation of bread, bakery and fine bakery pastries, pasta, biscuits and desserts, **Žito received 39 awards for product excellence** from the Bakery Section of the Agricultural and Food Companies Chamber at the Slovene Chamber of Commerce. The bread Krušnik also received the Distinguished Product of the Year 2019 award, and Buckwheat Bread with Walnuts received three stars for outstanding product quality and taste at the Superior Taste Award 2019, organized by the International Taste & Quality Institute.

Teas under the brand 1001 CVET won the Trusted Brand 2019 award for the tenth year in a row, as the most reliable brand that is awarded by the magazine Reader's Digest.

BELUPO

HRVOJE KOLARIĆ HAS BEEN ELECTED MEMBER OF THE CEA (CROATIAN EMPLOYERS' ASSOCIATION) EXECUTIVE BOARD

At its last session held in May, the Council of Members of the Croatian Employers' Association unanimously **elected Hrvoje Kolarić, a member of Podravka's Management Board and President of the Belupo Board, as a member of the Executive Board - a collective body for managing the operations of the CEA**.

"GOLDEN KEYS" FOR BELUPO AND PODRAVKA

The Croatian Exporters' Association awarded Podravka the *"Golden Key"* for the best exporter to Bosnia and Herzegovina and Belupo for **the best exporter to the Russian Federation** in 2018 on the 5th June, as part of the 14th Convention of Croatian Exporters, entitled *"The Role of Exports in Modern Economic Policy"*.

FINANCIAL REPORT

1 Business results

INTRODUCTION NOTES

In line with the Agrokor's creditors settlement of 4th July 2018, which became effective as of 26th October 2018, the Fortenova Group became operational on 1st April 2019, thus implementing the plan of financial and ownership restructuring initiated following difficulties in operations of the Agrokor concern. An important element of the Agrokor's creditors settlement is the agreement on the payment of the so-called *"border debt"* to suppliers, related to the business results of the company Konzum d.d., i.e. Konzum plus d.o.o. from 2018 to 2021. In April 2018, in line with then available relevant information on the settlement within the process of extraordinary administration, Podravka Inc. estimated the recoverability of the claimed receivables and impaired receivables in the amount of HRK 44.1m, which was booked in 2017. Since in 2018 the published monthly business reports of Konzum d.d. were significantly better than expected, the updated calculation of the receivables recoverability resulted in higher present value and at the end of 2018 the impairment of receivables was corrected to HRK 36.2m. In 2019, the updated calculation of receivables recoverability resulted in higher present value since the results of Konzum plus in 2018 and the results of Konzum plus for the first nine months of 2019 are higher than expectations included in the last-year's analysis, and on this basis at the end of 2019 the impairment of receivables was corrected to HRK 24.0m

In the 1-12 2019 period, based on IFRS 15 *Revenue from Contracts with Customers,* certain fees for various promotional and marketing activities that were recorded within marketing expenses, the Pharmaceuticals segment reclassified to decrease in sales. The reclassification amount is HRK 11.9m, of which HRK 10.6m relates to the prescription drugs category, and the remainder to the non-prescription programme. Geographically, HRK 11.6m relates to the Eastern Europe region, while the remaining portion relates to Croatia.

Podravka Group calculates EBITDA in a way that EBIT was increased by depreciation and amortisation and value adjustments of non-current assets, while normalized EBITDA is calculated in a way that normalized EBIT was increased by depreciation and amortization. For transparency purposes, in addition to the reported operating results, the Podravka Group also presents normalised operating results, without the effect of items treated by management as one-off items. The overview and explanation of value adjustments of non-current assets used in the calculation of EBITDA, overview and explanations of items treated by management as one-off items and the overview of methodology of calculation of normalized result are provided in the *"Additional tables for 1-12 2019"* section.

In the 1-12 2019 period, the adoption of new IFRS 16 Leases resulted in lower lease expenses by estimated HRK 38.0m (Food estimated HRK 30.5m, Pharmaceuticals estimated HRK 7.5m), while depreciation and amortisation were higher by HRK 36.2m (Food HRK 29.0m, Pharmaceuticals HRK 7.3m), interest expense by HRK 2.8m (Food HRK 2.3m, Pharmaceuticals HRK 0.4m), and gains from the write-off of right-of-use assets amounted to HRK 0.1m (Food HRK 0.0m, Pharmaceuticals HRK 0.1m). Estimated profitability in 2019. without IFRS 16 influence as well as the methodology of cost of lease estimation are provided in section *"Additional tables for 1-12 2019"*.

Decimal differences are possible due to rounding.

SALES REVENUES BY SEGMENT IN 2019

SALES REVENUES BY SEGMENT				
(in HRK millions)	**2018**	**2019**	**Δ**	**%**
Food	**3,335.3**	**3,454.0**	**118.8**	**3.6%**
Own brands*	3,093.4	3,220.6	127.2	4.1%
Other sales*	241.9	233.5	(8.4)	(3.5%)
Pharmaceuticals	**896.9**	**955.4**	**58.5**	**6.5%**
Own brands	747.1	783.4	36.3	4.9%
Other sales	149.8	172.0	22.2	14.8%
Podravka Group	**4,232.1**	**4,409.4**	**177.3**	**4.2%**
Own brands	3,840.5	4,004.0	163.5	4.3%
Other sales	391.6	405.4	13.8	3.5%

**During 2019, certain products were reclassified from other sales to own brands. For comparability purposes, the change was made in both observed periods.*

Movements of revenues of the Food segment (2019 compared to 2018):

- **Own brands** recorded HRK 127.2m higher sales (+4.1%), primarily due to the growth in sales of all business units, as a result of stronger selling and marketing activities, demand for newly launched products and the expanded distribution of certain categories. The Culinary, Baby food, sweets and snacks and Fish business units had the most significant impact on the revenue increase**,**
- **Other sales** recorded HRK 8.4m lower sales (-3.5%), as a result of lower sales of trade goods in the markets of Bosnia and Herzegovina and Serbia,
- Consequently, the **Food segment** recorded HRK 118.8m higher sales (+3.6%).

Movements of revenues of the Pharmaceutical segment (2019 compared to 2018):

- **Own brands** recorded HRK 36.3m higher sales (+4.9%), primarily due to the increase in demand and sales in the markets of Russia, Croatia, Serbia and Slovakia,

- **Other sales** revenues are HRK 22.2m higher (+14.8%), as a result of higher sales of trade goods in the markets of Bosnia and Herzegovina and Croatia,
- Consequently, the **Pharmaceuticals segment** recorded HRK 58.5m higher sales revenue (+6.5%),

Movements of the Podravka Group revenues (2019 compared to 2018):

- **Own brands** of the Podravka Group recorded a sales growth of HRK 163.5m (+4.3%),
- The revenues from other sales are HRK 13.8m higher (+3.5%),
- Consequently, the Podravka Group sales revenues are HRK 177.3m higher (+4.2%).

SALES REVENUES BY BUSINESS UNIT AND CATEGORY IN 2019

SALES REVENUES BY BUSINESS UNIT AND CATEGORY				
(in HRK millions)	**2018**	**2019**	**Δ**	**%**
BU Culinary	894.0	934.7	40.7	4.5%
BU Baby food, sweets and snacks*	407.2	435.9	28.7	7.0%
BU Podravka food	392.0	401.0	9.0	2.3%
BU Žito and Lagris*	949.2	956.9	7.7	0.8%
BU Meat products	270.4	284.1	13.7	5.1%
BU Fish	180.5	207.9	27.5	15.2%
Prescription drugs	643.6	670.0	26.5	4.1%
Non-prescription programme	103.5	113.4	9.8	9.5%
Other sales	391.6	405.4	13.8	3.5%
Other sales Food	241.9	233.5	(8.4)	(3.5%)
Other sales Pharmaceuticals	149.8	172.0	22.2	14.8%
Podravka Group	**4,232.1**	**4,409.4**	**177.3**	**4.2%**

**At the end of 2019, the Oil products subcategory was reclassified from the BU Baby food, sweets and snacks to BU Žito and Lagris. For comparability purposes, the change was made in both observed periods.*

Movements of revenues by business unit and category (2019 compared to 2018):

- The **Culinary business** unit recorded HRK 40.7m higher sales (+4.5%), primarily in the categories Seasonings, Soups and Food mixes, due to the optimum mix of selling and marketing activities and the demand for new products, resulting in sales growth in all regions except the New markets region,
- The **Baby food, sweets and snacks** business unit recorded HRK 28.7m higher sales (+7.0%), driven by marketing activities in categories Creamy spreads, Baby food and Snacks and by excellently received new and innovated products of the Lino Lada and Kviki brands. The business unit recorded growth in all regions except the New markets region,
- The **Podravka Food business unit** recorded HRK 9.0m higher sales (+2.3%), where the increase in sales of the Flour, Condiments and Tomato categories managed to compensate for lower revenues of the Frozen vegetables category. The Flour and Condiments categories increased due to stronger selling and marketing activities and increased demand, while lower sales of the Frozen Vegetables category is connected to the problems with procurement of raw materials from a supplier from Serbia,
- The **Žito and Lagris business unit** recorded HRK 7.7m (+0.8%) higher sales than in the comparative period. This is a result of a continuous growth of the Bakery and mill products and Pasta categories, compensating for the lower sales of the Confectionery and Pulses, Groats and Oil products categories,
- The **Meat products, meat solutions and savoury spreads business unit** recorded an increase in sales of HRK 13.7m (+5.1%), primarily due to the increase in sales of ready-to-eat meals and luncheon meats categories,
- The **Fish business unit** on an annual level recorded a double-digit revenue growth of HRK 27.5m (+15.2%) compared to 2018, primarily due to the increased demand and stronger selling and marketing activities in the Adria region. The revenue growth was mainly impacted by the sales of Tuna and Sardine categories,
- The **Prescription drugs category** recorded HRK 26.5m higher sales (+4.1%), with the most significant increase recorded in the markets of Russia, Serbia and Slovakia, which compensated for the decrease in sales in the markets of Turkey, Bosnia and Herzegovina and Kosovo. The sales growth in the market of Russia is a result of continuous demand for Belupo products and significant selling activities in the second half of the year, while the decrease in sales in the markets of Turkey and Kosovo is a result of changes in local legislation,
- The sales of the **Non-prescription programme** category are HRK 9.8m higher (+9.5%), primarily as a result of the sales growth in the OTC drugs and the natural products subcategories in the markets of Croatia, Slovenia and Russia due to increased demand and targeted marketing and selling activities,
- The **Other sales category** recorded HRK 13.8m higher sales (+3.5%), primarily as a result of the increase in sales of trade goods of the Farmavita company in the Pharmaceuticals segment. In the Food segment, other sales dropped by HRK 8.4m (-3.5%) due to the decrease in sales of trade goods in the markets of Bosnia and Herzegovina and Serbia.

SALES REVENUES BY REGION IN 2019

SALES REVENUES BY REGION				
(in HRK millions)	2018	2019	Δ	%
Adria	**2,964.4**	**3,082.6**	**118.1**	**4.0%**
Food*	2,331.8	2,423.9	92.1	3.9%
Pharmaceuticals	632.6	658.7	26.1	4.1%
WE and Overseas	**436.4**	**466.2**	**29.8**	**6.8%**
Food	434.7	465.4	30.7	7.1%
Pharmaceuticals	1.7	0.8	(0.9)	(52.4%)
Central Europe	**508.3**	**509.5**	**1.3**	**0.3%**
Food*	448.2	446.2	(2.0)	(0.4%)
Pharmaceuticals	60.1	63.3	3.2	5.4%
Eastern Europe	**292.4**	**334.9**	**42.5**	**14.5%**
Food	103.1	103.3	0.2	0.2%
Pharmaceuticals	189.3	231.6	42.3	22.4%
New markets	**30.7**	**16.1**	**(14.5)**	**(47.4%)**
Food	17.5	15.2	(2.3)	(12.9%)
Pharmaceuticals	13.2	0.9	(12.3)	(93.0%)
Podravka Group	**4,232.1**	**4,409.4**	**177.3**	**4.2%**

** Since the beginning of 2019, as part of reorganisation, the market of Bulgaria was transferred from the Central Europe region to the Adria region. For comparability purposes, the change was made in both observed periods.*

Movements of revenues by region (2019 compared to 2018):

- The **Adria region** recorded HRK 118.1m higher sales (+4.0%) than in the comparative period. In the Food segment, total revenue growth of HRK 92.1m (+3.9%) was recorded following the growth of all business units and as a result of implemented selling and marketing activities, expanded distribution and launching of new and innovated products. Revenues of the Pharmaceuticals segment are HRK 26.1m higher (+4.1%) primarily as a result of the increase in sales of trade goods and non-prescription programme,
- Revenues of the **Western Europe and Overseas region** grew by HRK 29.8m (+6.8%) on an annual level. In the Food segment, the revenue growth was recorded by almost all business units, led by the Culinary and the Meat products, meat solutions and savory spreads. The Pharmaceuticals segment recorded HRK 0.9m lower revenues (-52.4%), which did not have a significant impact on the region's performance,
- The **Central Europe region** recorded HRK 1.3m higher sales (+0.3%) compared to 2018. The Food segment recorded HRK 2.0m lower sales (-0.4%) where the significant increase in sales of the Culinary business unit was not able to compensate for the decrease in sales of the Žito and Lagris business unit in Rice, Pulses, Groats and Oil products categories and trade goods (decrease in sales of poppy seed). The Pharmaceuticals segment recorded a total sales growth of HRK 3.2m (+5.4%), primarily due to the increase in sales in the markets of Slovakia and the Czech Republic following increased selling activities in the second half of the year,
- Revenues of the **Eastern Europe region** on an annual level rose by HRK 42.5m (+14.5%). In the Food segment, the significant increase in revenues of the Culinary, Žito and Lagris, and Fish business units compensated for the decrease in sales of the Podravka Food business unit following lower sales of the Frozen vegetables category, connected to the problems with procurement of raw materials from a supplier from Serbia, and lower sales of trade goods (decrease in sales of poppy seed). In the Pharmaceuticals segment, a significant revenue growth was recorded as a result of a continuous increase in demand for Belupo products in the markets of Russia and Ukraine and significant selling activities in the second half of the year,
- The **New markets region** recorded a decrease in sales of HRK 14.5m (-47.4%). The decrease in sales of the Food segment of HRK 2.3m (-12.9%) is primarily a result of lower sales of the Baby food, sweets and snacks business unit. In the Pharmaceuticals segment, a revenue decrease is a consequence of changes in legislation in the market of Turkey.

PROFITABILITY OF THE FOOD SEGMENT IN 2019

PROFITABILITY OF FOOD SEGMENT					NORMALIZED			
(in HRK millions)	2018	2019	Δ	%	2018	2019	Δ	%
Sales revenue	3,335.3	3,454.0	118.8	3.6%	3,335.3	3,454.0	118.8	3.6%
Gross profit	1,110.8	1,158.6	47.8	4.3%	1,112.3	1,159.7	47.4	4.3%
EBITDA*	322.9	326.4	3.5	1.1%	317.7	333.0	15.2	4.8%
EBIT	173.3	164.3	(9.1)	(5.2%)	180.7	180.2	(0.5)	(0.3%)
Net profit after MI	145.0	137.9	(7.1)	(4.9%)	150.0	139.9	(10.1)	(6.8%)
Gross margin	33.3%	33.5%		+24 BP	33.3%	33.6%		+23 BP
EBITDA margin	9.7%	9.5%		-23 BP	9.5%	9.6%		+11 BP
EBIT margin	5.2%	4.8%		-44 BP	5.4%	5.2%		-20 BP
Net margin after MI	4.3%	4.0%		-36 BP	4.5%	4.1%		-45 BP

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

Normalised profitability of the Food segment (2019 compared to 2018)

- The Food segment recorded 4.3% higher **gross profit** while the gross margin recorded is 33.5%. This is a result of higher sales revenues and the positive impact of the sales structure itself. In addition, the estimated effect of movements in prices of raw materials and supplies amounts to negative HRK 26.1m[1],
- The reported **Operating profit (EBIT)** is 5.2% lower, while normalized operating profit is slightly below the comparative period. It should be noted that in the observed period, in line with its strategy, the company increased marketing investments by HRK 19.8m (+11.5%), which contributed to the increase in sales that successfully compensated for higher staff costs of HRK 42.4m (+5.5%) and costs related to the sales growth. Higher staff costs are a result of the planned improvement in material rights of employees,
- Reported **net profit after minority interests** is HRK 7.1m lower, while normalized net profit after minority interests is HRK 10.1m lower than in the comparative period. On top of impacts above the EBIT level, it is necessary to point out less favourable movements in foreign exchange differences on borrowings (HRK -0.3m in 2019; HRK +5.5m in 2018). Profitability of the Pharmaceutical segment in 2019

1 Obtained as used volumes of raw materials and supplies in 2019*prices in 2019 – used volumes of raw materials and supplies in 2019*prices in 2018..

PROFITABILITY OF FOOD SEGMENT					NORMALIZED			
(in HRK millions)	2018	2019	Δ	%	2018	2019	Δ	%
Sales revenue	896.9	955.4	58.5	6.5%	896.9	955.4	58.5	6.5%
Gross profit	447.7	472.9	25.2	5.6%	452.2	472.9	20.7	4.6%
EBITDA*	140.8	182.6	41.8	29.7%	147.0	182.6	35.6	24.2%
EBIT	85.1	119.3	34.2	40.1%	91.3	119.3	28.0	30.6%
Net profit after MI	60.7	83.6	23.0	37.9%	66.3	83.6	17.4	26.2%
Gross margin	49.9%	49.5%		-41 BP	50.4%	49.5%		-92 BP
EBITDA margin	15.7%	19.1%		+341 BP	16.4%	19.1%		+272 BP
EBIT margin	9.5%	12.5%		+299 BP	10.2%	12.5%		+230 BP
Net margin after MI	6.8%	8.8%		+199 BP	7.4%	8.8%		+136 BP

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

Normalised profitability of the Pharmaceuticals segment (2019 compared to 2018):

- The Pharmaceuticals segment recorded 5.6% higher reported **gross profit,** while at the same time the gross margin stands at 49.5%. This is a result of higher sales revenue and the positive impact of the sales structure itself,
- Reported **Operating profit (EBIT)** is 40.1% higher, while normalized operating profit increased by 30.6% as a result of the significant increase in sales and favorable movements in foreign exchange differences on trade receivables and trade payables (HRK +13.8m in 2019; HRK -12.9m in 2018). This compensated for higher staff costs of HRK 20.1m (+8.7%), which is in line with the planned improvement in the material rights of employees,
- Reported **net profit after minority interests** is HRK 23.0m higher, while normalized net profit after minority interests is HRK 17.4m higher. This is primarily a result of impacts above the EBIT level, which compensated less favorable movements in foreign exchange differences on borrowings (HRK -1.9m in 2019; HRK +6.0m in 2018).

PROFITABILITY OF THE PODRAVKA GROUP					NORMALIZED			
(in HRK millions)	2018	2019	Δ	%	2018	2019	Δ	%
Sales revenue	4,232.1	4,409.4	177.3	4.2%	4,232.1	4,409.4	177.3	4.2%
Gross profit	1,558.4	1,631.5	73.1	4.7%	1,564.5	1,632.6	68.1	4.4%
EBITDA*	463.7	509.0	45.3	9.8%	464.7	515.5	50.8	10.9%
EBIT	258.4	283.5	25.1	9.7%	272.0	299.5	27.5	10.1%
Net profit after MI	205.7	221.6	15.9	7.7%	216.3	223.6	7.2	3.3%
Gross margin	36.8%	37.0%		+18 BP	37.0%	37.0%		+6 BP
EBITDA margin	11.0%	11.5%		+59 BP	11.0%	11.7%		+71 BP
EBIT margin	6.1%	6.4%		+32 BP	6.4%	6.8%		+36 BP
Net margin after MI	4.9%	5.0%		+16 BP	5.1%	5.1%		-4 BP

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

Normalised profitability of the of the Podravka Group (2019 compared to 2018):

- The Podravka Group recorded 4.7% higher reported **gross profit**, where the strong impact comes from both business segments. Cost of goods sold increased by 3.9%, which eventually resulted in the gross margin of 37.0% in the reporting period. In addition, the estimated effect of movements in prices of raw materials and supplies of the Food segment amounts to negative HRK 26.1m[2],
- The reported **operating profit (EBIT)** is HRK 25.1m higher, while normalized operating profit is HRK 27.5m higher. This is a result of the increase in sales in both business segments and favourable movements in foreign exchange differences on trade receivables and trade payables (HRK +18.6m in 2019; HRK -19.5m in 2018), which allowed stronger marketing investments of HRK 18.4m (+8.1%), compensated higher staff costs of HRK 62.5m (+6.2%) and costs related to the sales growth. Higher staff costs are a result of the planned improvement in material rights of employees,
- Reported net profit after minority interests is HRK 15.9m higher, while normalized net profit after minority interests is HRK 7.2m higher. On top of impacts above the EBIT level, it is necessary to point out less favourable movements in foreign exchange differences on borrowings than in the comparative period (HRK -2.2m in 2019; HRK +11.5m in 2018).

2 Obtained as used volumes of raw materials and supplies in 2019*prices in 2019 – used volumes of raw materials and supplies in 2019*prices in 2018.

PODRAVKA GROUP'S OPERATING EXPENSES STRUCTURE

PODRAVKA GROUP	REPORTED				NORMALIZED			
(in HRK millions)	2018	2019	Δ	%	2018	2019	Δ	%
Cost of goods sold	2,673.7	2,777.9	104.2	3.9%	2,667.6	2,776.8	109.2	4.1%
General and administrative expenses*	311.7	334.6	22.9	7.3%	306.1	329.8	23.6	7.7%
Selling and distribution costs	568.9	605.5	36.7	6.4%	575.4	604.9	29.5	5.1%
Marketing expenses	407.8	436.7	28.9	7.1%	407.8	436.7	28.9	7.1%
Other income (expenses), net*	11.6	-28.8	-40.5	(347.8%)	3.1	-38.3	-41.4	(1.316.0%)
Total operating expenses	**3,973.7**	**4,125.9**	**152.2**	**3.8%**	**3,960.1**	**4,109.9**	**149.8**	**3.8%**

**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 3.9% higher compared to 2018, while at the normalised level it would be 4.1% higher. This is a result of a higher sales realized, the sales structure itself, the increase in prices of raw materials and supplies (estimated negative effect in the Food segment of HRK 26.1m[3]) and higher staff costs impacted the increase.

In 2019, **general and administrative expenses** grew by HRK 22.9m (+7.3%) compared to 2018, primarily as a result of higher staff costs and different dynamics of movements in provisions. On the normalized level, general and administrative expenses are HRK 23.6m higher (+7.7%)**.**

In the observed period, **selling and distribution costs** are HRK 36.7m (+6,4%) higher lower compared to 2018 primarily due to increase in sales and higher staff costs. On the normalized level, selling and distribution costs grew by HRK 29.5m (+5.1%). Decrease in provision for receivables related to relationship with Fortenova Group, former Agrokor concern, made in 2019, is recorded within other income and expenses, net, while the decrease in provision for receivables made in 2018 was included in selling and distribution costs.

In 2019, **marketing expenses** are HRK 28.9m or 7.1% higher than in 2018. The costs of marketing investments are HRK 18.4m higher (+8.1%), while the remaining portion relates to expenses of the marketing department. This is a result of stronger investments in the promotion of newly launched products and further development of own brands through effective and diverse marketing activities.

Other (expenses) income, net amounted to HRK +28.8m, while in the comparative period they amounted to HRK -11.6m. This line item includes value adjustments stated in the *"Additional tables for 1-12 2019"* section and foreign exchange differences on trade

3 Obtained as used volumes of raw materials and supplies in 2019*prices in 2019 – used volumes of raw materials and supplies in 2019*prices in 2018.

receivables and trade payables that amounted to HRK +18.6m in 2019 period, while in the comparative period they amounted to HRK -19.5m. Decrease in provision for receivables related to relationship with Fortenova Group, former Agrokor concern, made in 2019, is recorded within other income and expenses, net, while the decrease in provision for receivables made in 2018 is included in selling and distribution costs.

KEY CHARACTERISTICS OF THE PODRAVKA GROUP'S FINANCIAL POSITION

Compared to 31 December 2018, **property, plant and equipment** of the Podravka Group are HRK 43.3m or -1.9% lower due to regular depreciation in the current period.

Inventories of the Podravka Group are HRK 100.0m or 11.8% higher than as at 31 December 2018., as a result of the strategic increase in inventories of the fish range due to increased demand and production and the increase in inventories of raw materials and supplies, which is in line with the planned production dynamics.

Trade and other receivables of the Podravka Group are HRK 10.0m or 1.1% higher than as at 31 December 2018. These departures are in line with normal operations.

Cash and cash equivalents of the Podravka Group at the end of the observed period are HRK 155.5m lower (-73.7%) compared to 31 December 2018. This is explained in the "Key characteristics of the cash flow statement in 1-12 2019" section.

As at 31 December 2018, **long-term and short-term borrowings** of the Podravka Group are HRK 190.0m lower than as at 31 December 2018, as a result of continued repayment of a portion of borrowings in line with the strategy of further deleveraging.

Trade and other payables[4] of the Podravka Group are HRK 52.3m lower or -7.9% compared to 31 December 2018, which is in line with regular operations.

4 Trade and other payables + Income tax payable + Provisions.

DEBT INDICATORS	REPORTED				NORMALIZED			
(in HRK millions)	2018	2019	Δ	%	2018	2019	Δ	%
Financial debt*	966.2	878.0	(88.3)	(9.1%)	966.2	878.0	(88.2)	(9.1%)
Net debt**	755.1	822.4	67.3	8.9%	755.1	822.4	67.3	8.9%
Interest expense	17.9	14.9	(3.0)	(17.0%)	17.9	14.9	(3.0)	(17.0%)
Net debt/ EBITDA***	1.6	1.6	0.0	(0.8%)	1.6	1.6	(0.0)	(1.8%)
EBIT / interest expense****	14.4	19.1	4.6	32.2%	15.2	20.1	4.9	32.7%
Equity and total asset ratio	62.89%	65.92%		+303 BP	62.89%	65.92%		+303 BP

**2019 Financial debt: Non-current and current borrowings + Liabilities for right-of use assets + Financial liabilities at fair through profit and loss; 2018 Financial debt: Non-current and current borrowings + Financial liabilities at fair value through profit and loss,*

***Net debt: Financial debt – Cash and cash equivalent,*

****Reported: Net debt / EBITDA; Normalized: Net debt / normalized EBITDA,*

*****Reported: EBIT Interest expense; Normalized: normalized EBIT / Interest expense.*

The new accounting standard IFRS 16 is effective as of 1st January 2019, which regulates methods of recognising, measuring, presenting and disclosing leases, i.e. prescribes the obligation of a lessee to recognise assets and liabilities for all leases, other than leases with a term of up to 12 months or with low value leases. Accordingly, the Podravka Group includes right-of-use assets (leases) in debt as at 31 December 2019 in the amount of HRK 101.8m. The total amount of debt is lower by HRK 88.3m compared to 31 December 2018. If the right-of-use assets were excluded, the indebtedness would be HRK 190.1m lower as a result of repayment of a portion of borrowings. Financial liabilities at fair value through profit or loss are HRK 0.1m lower.

As at 31 December 2019, the total debt of the Podravka Group related to borrowings and other interest-bearing financial liabilities amounted to HRK 878.0m, of which HRK 468.1m relates to long-term borrowings, HRK 307.7m to short-term borrowings, HRK 101.8m to liabilities for right-of-use assets, and HRK 0.3m to swap and forward contract liabilities. The average weighted cost of debt on all the stated liabilities as at 31 December 2019 was 1.4%, while if the liabilities for right-of-use assets were excluded it would be 1.2%.

The increase in net debt as at 31 December 2019 in relation to the comparative period is the result of the adoption of the new IFRS 16, i.e. presentation of leases as liabilities and their inclusion in debt. If we exclude the liability for right-of-use assets from the net debt calculation, the net debt as at 31 December 2019 would amount to HRK 720.5m and would be HRK 34.6m lower compared to 2018. Short-term and long-term borrowings decreased by HRK 190.0m, cash and cash equivalents are 155.5m lower, and financial liabilities at fair value through profit or loss are HRK 0.1m lower.

If normalized EBITDA was calculated excluding the liabilities for right-of-use assets, it would amount to HRK 477.5m on the annual level for 2019, while interest expense calculated excluding the liabilities for right-of-use assets in the same period would amount to HRK 12.1m. Consequently, without the effect of the new IFRS 16, it is estimated that the net debt to normalized EBITDA ratio would be 1.5, while the interest coverage ratio would be 24.6.

KEY CHARACTERISTICS OF CASH FLOW OF PODRAVKA GROUP

(in HRK millions)	2018	2019	Δ
Net cash flow from operating activities	316.9	272.9	(44.0)
Net cash flow from investing activities	(126.1)	(144.1)	(18.1)
Net cash flow from financing activities	(341.9)	(284.3)	57.5
Net increase / (decrease) of cash and cash equivalents	**(151.0)**	**(155.5)**	**(4.5)**

In 2019, **net cash flow from operating activities** was HRK 272.9m as a result of operating business growth and dynamics of movements in working capital.

Net cash flow from investing activities in the reported period amounted to negative HRK 144.1m, primarily as a result of capital expenditures amounting to HRK 153.9m. The most significant **capital expenditures** in 2019 were related to:

- Continued investment activities in Mirna Inc. related to the development of fish business, which increase capacities and competitiveness of the product range, and installation of a modern wastewater treatment machine, improving the safety of production processes,
- The production line for gluten-free products in the Snacks factory, enabling the expansion of the product range and investment in the new industrial oven for baking salty snacks, which ensures the continuity and safety of production,
- Investment in modernization of the line for the production of creamy spreads, increasing the existing capacities and possibilities for growth of the existing products and the expansion of the product range,
- Investment in development of information technologies with the aim to improve business operations,
- Investment in a palletizer in the vegetable factory Umag with the aim to increase production capacity and improve working conditions.

In 2020, **capital expenditures are expected** to be at a level of HRK 298.0m and in the 2021-2023 period at a level of approximately HRK 200.0m.

In 2019, **net cash flow from financing activities** amounted to negative HRK 284.3m, mainly as a result of further repayment of borrowings in the net amount of HRK 192.9m. The difference in relation to the repayment of borrowings in the balance sheet primarily relates to foreign exchange differences.

ADDITIONAL TABLES FOR 1-12 2019

VALUE ADJUSTMENTS AND EBITDA CALCULATION

EBITDA is calculated in a way that EBIT was increased by depreciation and amortization and value adjustments of non-current assets. Exceptionally, due to their specific nature, calculation includes value adjustments of receivables related to relationship with former Agrokor concern, now the Fortenova Group. The overview of value adjustments used in EBITDA calculation is provided in the table below.

VALUE ADJUSTMENTS	2018			2019		
(in HRK millions)	Group	Food	Pharma	Group	Food	Pharma
Production line equipment*	4.8	4.8	-	0.5	0.5	-
Assets held for sale*	14.8	14.8	-	7.4	7.4	-
Investment property*		-	-	10.4	10.4	-
Claimed receivables related to relationship with Fortenova Group**	14.8	(7.9)	-	(12.1)	(12.1)	-
Other*		0.9	-	3.3	3.3	-
Total	**-**	**12.6**	**-**	**9.4**	**9.4**	**-**

**See the note "Other expenses", **For 2019 see the note "Other revenues", for 2018 see the note "Trade and other receivables".*

REPORTED EBITDA CALCULATION	2018			2019		
(in HRK millions)	Group	Food	Pharma	Group	Food	Pharma
Reported EBIT	**258.4**	**173.3**	**85.1**	**283.5**	**164.3**	**119.3**
+amortization	192.7	137.0	55.7	216.0	152.7	63.3
+value adjustments	12.6	12.6	-	9.4	9.4	-
Reported EBITDA	**463.7**	**322.9**	**140.8**	**509.0**	**326.4**	**182.6**

NORMALIZED EBITDA CALCULATION	2018			2019		
(in HRK millions)	Group	Food	Pharma	Group	Food	Pharma
Normalized EBIT	**272.0**	**180.7**	**91.3**	**299.5**	**180.2**	**119.3**
+amortization	192.7	137.0	55.7	216.0	152.7	63.3
+value adjustments	-	-	-	-	-	-
Normalized EBITDA	**464.7**	**317.7**	**147.0**	**515.5**	**333.0**	**182.6**

PROFITABILITY EXCLUDING IFRS 16 INFLUENCE	2019 REPORTED			2019 NORMALIZED		
(in HRK millions)	Group	Food	Pharma	Group	Food	Pharma
EBITDA	**509.0**	**326.4**	**182.6**	**515.5**	**333.0**	**182.6**
-estimated cost of lease*	38.0	30.5	7.5	38.0	30.5	7.5
+gains from right-of-use assets write-off	(0.1)	(0.0)	(0.1)	(0.1)	(0.0)	(0.1)
Estimated EBITDA	**470.9**	**295.9**	**175.0**	**477.5**	**302.4**	**175.0**
EBIT	**283.5**	**164.3**	**119.3**	**299.5**	**180.2**	**119.3**
+depr. and amort. of right-of-use assets	36.2	29.0	7.3	36.2	29.0	7.3
+ gains from right-of-use assets write-off	(0.1)	(0.0)	(0.1)	(0.1)	(0.0)	(0.1)
-estimated cost of lease*	38.0	30.5	7.5	38.0	30.5	7.5
Estimated EBIT	**281.7**	**162.7**	**119.0**	**297.7**	**178.7**	**119.0**
Net income	**221.6**	**137.9**	**83.6**	**223.6**	**139.9**	**83.6**
+ depr. and amort. of right-of-use assets	36.2	29.0	7.3	36.2	29.0	7.3
+gains from right-of-use assets write-off	(0.1)	(0.0)	(0.1)	(0.1)	(0.0)	(0.1)
+interest expense for right-of use assets	2.8	2.3	0.4	2.8	2.3	0.4
-estimated cost of lease*	38.0	30.5	7.5	38.0	30.5	7.5
Estimated net income	**222.5**	**138.7**	**83.8**	**224.5**	**140.7**	**83.8**

**At the end of 2018 estimation was made showing how much would the cost of lease amount in 2019, excluding the influence of IFRS 16, as well as the plan of depreciation and interest expense for 2019 that derive from adoption of the new IFRS 16 standard. Afore mentioned showed that estimated cost of lease in 2019 would total to 97.6% of add up together depreciation and interest expense. Estimated cost of lease for 2019 is calculated in a way to add up realized depreciation and interest expense in 2019, that derive from adoption of the new IFRS 16 standard and multiply by 0.976.*

OVERVIEW OF THE PROFIT AND LOSS STATEMENT NORMALIZATION IN 2019

REPORTED AND NORMALIZED PROFITABILITY	2018			2019		
(in HRK millions)	Group	Food	Pharma	Group	Food	Pharma
Reported gross profit	**1,558.4**	**1,110.8**	**447.7**	**1,631.5**	**1,158.6**	**472.9**
+ impairment of inventories	6.1	1.6	4.5	1.1	1.1	-
Normalized gross profit	**1,564.5**	**1,112.3**	**452.2**	**1,632.6**	**1,159.7**	**472.9**
Reported EBITDA	**463.7**	**322.9**	**140.8**	**509.0**	**326.4**	**182.6**
+ initial impact of IFRS 9	1.4	0.6	0.8	-	-	-
+ severance payments (long term sick-leave)	5.6	4.7	0.9	4.8	4.8	-
+ impairment of inventories	6.1	1.6	4.5	1.1	1.1	-
+ sale of Mirna Inc, non-operational assets	(12.0)	(12.0)	-	-	-	-
+ reservation for advanced payment	-	-	-	0.6	0.6	-
Normalized EBITDA	**464.7**	**317.7**	**147.0**	**515.5**	**333.0**	**182.6**
Reported EBIT	**258.4**	**173.3**	**85.1**	**283.5**	**164.3**	**119.3**
+ normalization above EBITDA level	1.0	(5.2)	6.2	6.5	6.5	-
+ impairment of production line equipment	4.8	4.8	-	0.5	0.5	-
+ impairment of asset held for sale	14.8	14.8	-	7.4	7.4	-
+ impairment of investment property	-	-	-	10.4	10.4	.
+ claimed receivables related to relationship with Fortenova Group	(7.9)	(7.9)	-	(12.1)	(12.1)	-
+ other value adjustments	0.9	0.9	-	3.3	3.3	-
Normalized EBIT	**272.0**	**180.7**	**91.3**	**299.5**	**180.2**	**119.3**
Reported net profit after MI	**205.7**	**145.0**	**60.7**	**221.6**	**137.9**	**83.6**
+ normalization above EBIT level	13.6	7.4	6.2	16.0	16.0	-
+ ESOP programme net expenses	2.1	1.6	0.4	-	-	-
+ estimated impact on taxes*	(5.1)	(4.1)	(1.0)	(14.0)	(14.0)	-
Normalized net profit after MI	**216.3**	**150.0**	**66.3**	**223.6**	**139.9**	**83.6**

**In 2019 includes tax effect of Podravka Afrika recapitalization by Podravka Inc. (HRK -9,2m) and tax effect of Podravka Inc. receivables impairment related to Podravka Moskva (HRK -0,9m); In 2018 includes tax effect of Podravka Inc. impairment of investment in Podravka Dubai (HRK -4,9m).*

2 Share in 1-12 2019

LIST OF MAJOR SHAREHOLDERS AS AT 31 DECEMBER 2019

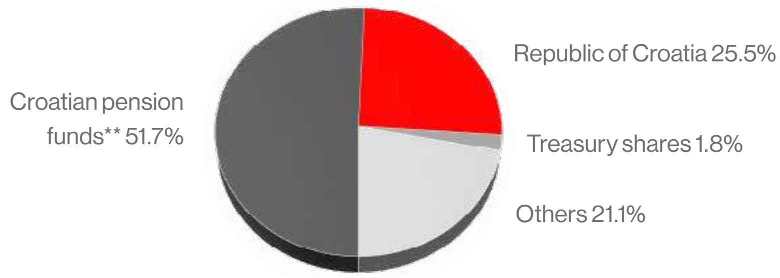
NO.	SHAREHOLDER	NUMBER OF SHARES	% OF OWNERSHIP
1	Republic of Croatia*	1,815,376	25.5%
2	PBZ Croatia Osiguranje mandatory pension fund, category B	1,070,901	15.0%
3	AZ mandatory pension fund, category B	902,874	12.7%
4	Erste Plavi mandatory pension fund, category B	724,316	10.2%
5	Raiffeisen mandatory pension fund, category B	625,298	8.8%
6	Podravka d.d. - treasury account	127,916	1.8%
	Other shareholders	1,853,322	26.0%
	Total	**7,120,003**	**100.0%**

**The Restructuring and Sale Centre holds 1,241,253 shares through four accounts, Kapitalni fond d.d. holds 406,842 shares, the Republic of Croatia additionally holds 167,281 shares on a separate account.*

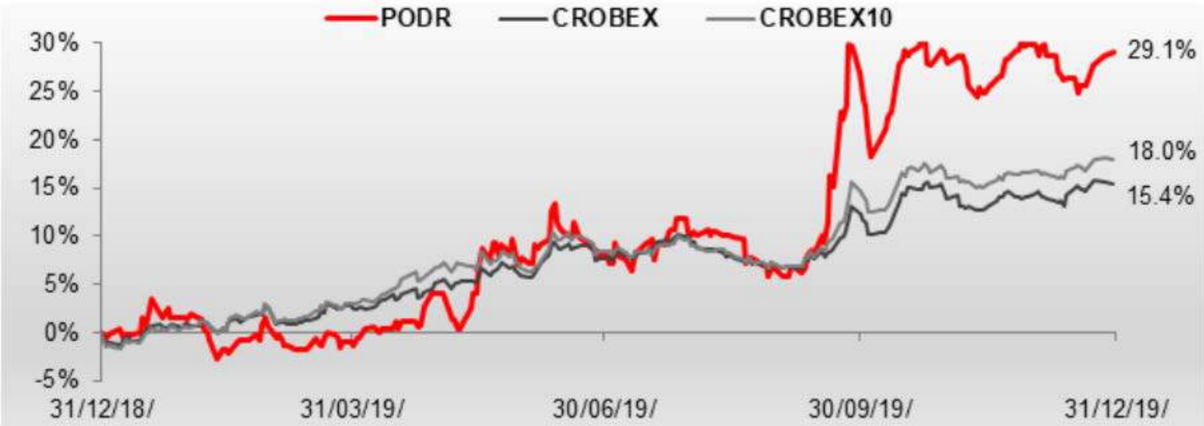
Podravka Inc. has a stable ownership structure where the most significant share is held by domestic the Republic of Croatia and pension funds. As at 31 December 2018, the Republic of Croatia holds 25.5% stake, domestic pension funds (mandatory and voluntary) hold a total of 51.7% stake, and Podravka Inc. has 1.8% of treasury shares. As at 31 December 2018, Supervisory Board members owned 16 shares of Podravka Inc., while Management Board members owned 970 shares of Podravka Inc.

Podravka Inc.'s shares have been listed on the Prime Market of the Zagreb Stock Exchange 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. Podravka Inc.'s shares are included in six indices of Zagreb Stock Exchange (CROBEX, CROBEX 10, CROBEXtr, CROBEXprime, CROBEXnutr i ADRIAprime).

OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2019.



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



(closing price in HRK; closing points)	31 December 2018	31 December 2019	%
PODR	375.0	484.0	29.1%
CROBEX	1,748.8	2,017.4	15.4%
CROBEX10	1,017.1	1,199.9	18.0%

At 2019 level, Podravka's share market price grew 29.1%, exceeding the growth of domestic stock indices CROBEX and CROBEX10, which increased 15.4% and 18.0%, respectively.

PERFORMANCE IN THE CROATIAN CAPITAL MARKET IN 1-12 2019

(in HRK. in units)[1]	2018	2019	%
Weighted average daily price	316.5	429.1	35.6%
Average daily number of transactions	12	12	4.0%
Average daily volume	1,450	1,110	23.4%
Average daily turnover	458,850.9	476,423.6	3.8%

In 2019, the average weighted daily price of the Podravka's share soared 35.6% compared to 2018. The average daily volume decreased by 23.4%, while the average daily volume and the average daily number of transactions improved by 3.8% and 4.0%, respectively, compared to 2018.

VALUATION

(in HRK millions. last price and earnings per share in HRK)*	2018	2019	%
Last price	375.0	484.0	29.1%
Weighted average number of shares	6,964,479	6,984,803	0.3%
Market capitalization[2]	2,611.7	3,380.6	29.4%
EV[3]	3,409.1	4,249.3	24.6%
Normalized earnings per share	31.1	32.0	3.0%
EV / sales revenue	0.8	1.0	19.6%
EV / normalized EBITDA	7.3	8.2	12.4%
EV / normalized EBIT	12.5	14.2	13.2%
Last price / normalized earnings per share ratio (P / E)	12.1	15.1	25.3%

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

1 Weighted average daily price calculated as the weighted average of average daily prices in the period, where the weight is daily volume. Daily volume weight is calculated as a ratio between daily volume and total volume in the reported period. Formula: *Weighted average daily price in the reported period = Σ average daily price*(daily volume/total volume in the reported period).*

Other indicators calculated as the average of average daily transactions/volume/turnover in the reported period.

Block trades are excluded from the calculation.

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

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

CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR 2019

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 23 March 2020 for issue to the Supervisory Board and are signed below to signify this:

Marin Pucar
President of the Management Board

Davor Doko
Member of the Management Board

Hrvoje Kolarić
Member of the Management Board

Ljiljana Šapina
Member of the Management Board

Marko Đerek
Member of the Management Board

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

PODRAVKA
PREHRAMBENA INDUSTRIJA d.d.
KOPRIVNICA 222

Koprivnica, 23 March 2020

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

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

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

Independent auditor's report

To the Shareholders of Podravka d.d.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Podravka d.d. (the Company) and its subsidiaries (together- the Group), which comprise the consolidated statement of financial position as at 31 December 2019, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 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 EU (IFRS as adopted by EU).

Basis for opinion

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

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

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

Key audit matters

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

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

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

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

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Other matter

Consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 29 April 2019.

Other information included in the Group's Annual Report for year 2019

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

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

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

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

1. The information given in the enclosed Management report for the 2019 financial year are consistent, in all material respects, with the enclosed consolidated financial statements;

2. The enclosed Management report for 2019 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

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

4. Elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Group's annual report for the year 2019 are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed consolidated financial statements;

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

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Responsibilities of management and Audit Committee for the consolidated financial statements

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Company on by the General Meeting of Shareholders on 18 June 2019.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 23 March 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

Report on Regulatory requirements

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

Berislav Horvat
President of the Management Board and certified auditor
Ernst & Young d.o.o.
Radnička cesta 50
10000 Zagreb, Republic of Croatia
23 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of HRK)	*Note*	2019	2018
Revenues	*8*	4,409,417	4,232,149
Cost of goods sold	*11*	(2,777,903)	(2,673,716)
Gross profit		**1,631,514**	**1,558,433**
Other income	*9*	50,797	40,397
General and administrative expenses	*11*	(334,585)	(317,300)
Selling and distribution costs	*11*	(605,548)	(568,884)
Marketing expenses	*11*	(436,699)	(407,778)
Other expenses	*10*	(21,933)	(46,425)
Operating profit		**283,546**	**258,443**
Financial income	*13*	874	13,130
Financial expenses	*14*	(18,569)	(21,070)
Net finance costs		**(17,695)**	**(7,940)**
Profit before tax		**265,851**	**250,503**
Income tax	*15*	(38,747)	(38,924)
Profit for the year		**227,104**	**211,579**
Other comprehensive income:			
Items that will not be reclassified to profit or loss account			
Actuarial gain/(loss) net of deferred tax		(1,095)	937
Items that can be subsequently reclassified to profit and loss account			
Exchange differences on translation of foreign operations		1,881	(14,548)
Total other comprehensive income		**786**	**(13,611)**
Total comprehensive income		**227,890**	**197,968**
Profit attributable to:			
Equity holders of the parent		221,586	205,711
Non-controlling interests		5,518	5,868
Total comprehensive income attributable to:			
Equity holders of the parent		222,278	192,270
Non-controlling interests		5,612	5,698
Earnings per share (in HRK):			
- Basic	*16*	31.72	29.54
- Diluted	*16*	31.51	29.45

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

(in thousands of HRK)	*Note*	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Goodwill	*17*	27,250	26,782
Intangible assets	*18*	244,559	236,176
Property, plant and equipment	*19*	2,212,979	2,256,318
Right-of-use assets	*20*	100,168	-
Investment property	*21*	118,240	134,187
Non-current financial assets	*23*	43,178	6,366
Deferred tax assets	*15*	149,065	152,079
Total non-current assets		**2,895,439**	**2,811,908**
Current assets			
Inventories	*24*	948,260	848,230
Trade and other receivables	*25*	948,767	938,766
Financial assets at fair value through profit and loss	*26*	12	296
Income tax receivable		5,361	5,834
Cash and cash equivalents	*27*	55,589	211,106
Non-current assets held for sale	*28*	30,393	29,921
Total current assets		**1,988,382**	**2,034,153**
Total assets		**4,883,821**	**4,846,061**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	*29*	1,698,636	1,691,884
Reserves	*30*	853,580	796,850
Retained earnings	*31*	620,878	516,603
Attributable to equity holders of the parent		**3,173,094**	**3,005,337**
Non-controlling interests	*32*	46,334	42,369
Total shareholders' equity		**3,219,428**	**3,047,706**
Non-current liabilities			
Borrowings	*34*	468,088	623,454
Liability for right-of-use assets	*20*	70,218	-
Provisions	*35*	73,578	70,611
Other non-current liabilities	*36*	19,363	20,703
Deferred tax liability	*15*	39,083	40,213
Total non-current liabilities		**670,330**	**754,981**
Current liabilities			
Trade and other payables	*37*	606,571	658,861
Income tax payable		17,755	15,914
Financial liabilities at fair value through profit and loss	*33*	292	415
Borrowings	*34*	307,742	342,332
Liability for right-of-use assets	*20*	31,610	-
Provisions	*35*	30,092	25,852
Total current liabilities		**994,062**	**1,043,374**
Total liabilities		**1,664,393**	**1,798,355**
Total equity and liabilities		**4,883,821**	**4,846,061**

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 2019

(in HRK thousands)	Share capital	Reserve for treasury shares	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Retained earnings	Total	Non-controlling interests	Total
As at 1 January 2018	**1,689,947**	**147,604**	**50,903**	**189,738**	**58,570**	**320,047**	**403,303**	**2,860,112**	**36,671**	**2,896,783**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	205,711	205,711	5,868	211,579
Foreign exchange differences	-	-	-	-	-	(14,378)	-	(14,378)	(170)	(14,548)
Actuarial losses (net of deferred tax)	-	-	-	-	-	937	-	937	-	937
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(13,441)**	**-**	**(13,441)**	**(170)**	**(13,611)**
Transactions with owners recognised directly in equity										
Allocation from retained earnings	-	-	7,542	-	3,220	32,947	(43,709)	-	-	-
Liquidation of a subsidiary	-	-	-	-	-	(280)	-	(280)	-	(280)
Exercise of options	7,362	-	-	-	-	-	-	7,362	-	7,362
Fair value of share-based payment transactions	(2,868)	-	-	-	-	-	-	(2,868)	-	(2,868)
Dividend paid	-	-	-	-	-	-	(48,702)	(48,702)	-	(48,702)
Purchase of treasury shares	(2,557)	-	-	-	-	-	-	(2,557)	-	(2,557)
Total transactions with owners recognised directly in equity	**1,937**	**-**	**7,542**	**-**	**3,220**	**32,667**	**(92,411)**	**(47,045)**	**-**	**(47,045)**
As at 31 December 2018	**1,691,884**	**147,604**	**58,445**	**189,738**	**61,790**	**339,273**	**516,603**	**3,005,337**	**42,369**	**3,047,706**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	221,586	221,586	5,518	227,104
Foreign exchange differences	-	-	-	-	-	1,787	-	1,787	94	1,881
Actuarial gains (net of deferred tax)	-	-	-	-	-	(1,095)	-	(1,095)	-	(1,095)
Other comprehensive income	-	-	-	-	-	692	-	692	94	786
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**692**	**221,586**	**222,278**	**5,612**	**227,890**
Transactions with owners and transfers recognised directly in equity										
Allocation from retained earnings (note 29)	-	-	7,913	-	2,256	44,234	(54,403)	-	-	-
Fair value of share-based payment transactions (note 28)	7,554	-	-	-	-	-	-	7,554	-	7,554
Dividend paid	-	-	-	-	-	-	(62,908)	(62,908)	-	(62,908)
Additional acquisition of minority interests (note 30)	-	-	-	-	-	1,635	-	1,635	(1,647)	(12)
Total transactions with owners recognised directly in equity	**6,752**	**-**	**7,913**	**-**	**2,256**	**45,869**	**(117,311)**	**(54,521)**	**(1,647)**	**(56,168)**
As at 31 December 2019	**1,698,636**	**147,604**	**66,358**	**189,738**	**64,046**	**385,834**	**620,878**	**3,173,094**	**46,334**	**3,219,428**

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 2019

(in thousands of HRK)	***Note***	**2019**	**2018**
Profit for the year		**227,104**	**211,579**
Income tax	*15*	38,747	38,924
Depreciation and amortization	*11*	216,023	192,671
Liquidation of subsidiary		-	(2,211)
Impairment loss on property, plant, equipment and intagibles	*10*	3,746	4,809
Impairment loss on assets held for sale	*10*	7,410	16,318
Write-off on investment	*10*	-	885
Reversal of impairment of non-current assets	*9*	(12,124)	-
Reversal of the impairment of assets held for sale	*10*	10,399	-
Loss (Gain) from sale of right-of-use assets		(75)	-
Capital reserve ESOP	*39*	-	(4,961)
Remeasurement of financial assets and liabilities at FVTPL		161	(1,000)
Share-based payment transactions		7,554	7,725
Loss on disposal of property, plant, equipment and intangibles		(2,860)	3,254
Gain on disposal of assets held for sale		(1,043)	(11,805)
Gain per options contracts		-	(121)
Impairment losses on inventory and trade receivables		2,989	(3,431)
Increase/(decrease) in provisions		7,207	(2,610)
Interest income		(476)	(641)
Impairment of loans given		-	(750)
Interest expense		15,840	18,993
Effect of changes in foreign exchange rates		87	(16,773)
		520,688	**450,855**
Changes in working capital:			
Increase in inventories		(100,030)	(42,425)
(Increase)/decrease in trade and other receivables		(38,176)	8,458
Decrease in trade and other payables		(59,137)	(59,261)
Cash generated from operations		**323,345**	**357,627**
Income taxes paid		(33,720)	(20,652)
Interest paid		(16,684)	(20,033)
Net cash from operating activities		**272,941**	**316,942**
Cash flows from investing activities			
Purchase of property, plant, equipment and intangibles		(153,897)	(166,135)
Decrease of investment in subsidiary and non-related parties		20	200
Proceeds from sales of pharmacy rights		500	438
Sale of assets held for sale	*28*	1,628	37,262
Proceeds from sale of property, plant, equipment and intangibles		7,106	1,306
Loans given		(41)	(37)
Proceeds from loans given		70	130
Proceeds from disposal of shares and other investments		-	121
Interest received		460	641
Dividends received		16	21
Net cash from investing activities		**(144,138)**	**(126,053)**
Cash flows from financing activities			
Dividend paid		(62,177)	(48,724)
Proceeds from issue of share capital		(12)	-
Purchase of treasury shares	*29*	-	(2,557)
Sale of treasury shares		6,130	2,092
Proceeds from borrowings		409,950	117,392
Repayment of borrowings		(638,211)	(410,068)
Net cash from financing activities		**(284,320)**	**(341,865)**
Net (increase) / decrease of cash and cash equivalents		**(155,517)**	**(150,976)**
Cash and cash equivalents at beginning of year		211,106	362,082
Cash and cash equivalents at the end of year	27	**55,589**	**211,106**

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

Podravka prehrambena industrija d.d., Koprivnica ("the Company") is incorporated in the Republic of Croatia. The principal activities of the Group comprise production of a wide range of food products 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 29.

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 2019:

President	Želimir Vukina (from 1 July 2019)
President	Dubravko Štimac (until 30 June 2019)
Deputy President	Luka Burilović
Member	Marina Dabić (from 1 July 2019)
Member	Tomislav Kitonić (from 1 July 2019)
Member	Damir Grbavac (until 18 June 2019)
Member	Petar Vlaić (until 30 June 2019)
Member	Ksenija Horvat
Member	Ivana Matovina
Member	Petar Miladin
Member	Dajana Milodanović
Member	Krunoslav Vitelj

Management Board during 2019

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

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

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

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

These are the Group's first financial statements which include the adoption of IFRS 16 Leases. The changes in accounting policies are explained in note 5.

These financial statements were authorised for issue by the Management Board on 23 March 2020.

(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 2019. 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 with owners.

(iv) Loss of control over subsidiaries

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

(v) Transactions eliminated on consolidation

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Goodwill

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

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

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

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

3.3 Non-current assets held for sale

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

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

3.4 Revenue recognition

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Revenue recognition (continued)

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

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

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

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

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

(iii) Revenue from services

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

(iv) Finance income

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

3.6 Leases

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Leases (continued)

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

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

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

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

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

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 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.

3.9 Borrowings and borrowing costs

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 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.

3.11 Dividends

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

3.12 Segment reporting

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

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

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

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

3.13 Taxation

(i) Income tax

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Taxation (continued)

(ii) Deferred tax assets and liabilities

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

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

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

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

(iii) Investment tax credits

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

(iv) Tax exposure

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

(v) Value added tax (VAT)

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 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.

3.16 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)

3.17 Intangible assets

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

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

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

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

(ii) Computer software

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Impairment of non-financial assets

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is expensed immediately. In situation when an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

3.19 Inventories

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

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

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

3.20 Trade receivables

i) Trade receivables

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Trade receivables (continued)

ii) Bills of exchange

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

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

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

3.22 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.

3.23 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.

3.24 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 corporate bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income.

(iv) Long-term employee benefits

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

(v) Short-term employee benefits

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

(vi) Share-based payments

The Group operates 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.

3.25 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)

3.26 Financial instruments

A. Financial assets

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at:

- amortised cost;
- fair value through other comprehensive income (FVOCI) – debt instruments;
- fair value through other comprehensive income (FVOCI) – equity instruments;
- or FVTPL (fair value through profit or loss).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instruments that is not held for trading, the Group may irrevocably elect to present subsequent changes in the instrument’s fair value in OCI. This election is made on an instrument-by-instrument basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

A Financial assets (continued)

(ii) Classification and subsequent measurement (continued)

Business model assessment

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

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

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

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

A Financial assets (continued)

(ii) Classification and subsequent measurement (continued)

Subsequent measurement and gains and losses

The table below provides an overview of key provisions of the accounting policy used by the Group for subsequent measurement of financial assets and recognition of gains and losses on each class of financial assets:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt instruments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity instruments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the instruments. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

B. Financial liabilities

(i) Recognition and initial measurement

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

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

(ii) Classification and subsequent measurement

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

(iii) Derecognition

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

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

C. Offsetting

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

D. Derivative financial instruments

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

E. Impairment of non-derivative financial assets

Recognition of impairment losses

The Group recognises loss allowances for expected credit loss (ECL)s on:

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

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

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

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 360 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are estimate of credit losses. Credit losses are measured as the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. Regular external trade receivables that are not past due and uncollected receivables past due up to 360 days from the maturity date are impaired using the percentage that reflects the expectations of the non-collection of trade receivables (ECL). The percentage of impairment is determined on the basis of the average of the previous three-year period (historical rate) separately for each of the Group’s companies. The calculation of the historical rate is adjusted for extraordinary and specific circumstances, if required.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial instruments (continued)

E Impairment of non-derivative financial assets (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a significant delay of payment by the borrower;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off of financial assets

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group has a policy of writing off the gross carrying amount of a financial asset upon the legal statute of limitation and it generally expects no recovery of the amount written off.

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 2019 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:

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards.

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

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform.

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU.

The Group does not anticipate that the adoption of these Standards and Interpretations will have a significant impact on the financial statements of the Group.

NOTE 5 – IMPACT OF NEW ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2019:

IFRS 16: Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

The Group applies IFRS 16 Leases from 1 January 2019.

The following table and the notes below explain the impact of IFRS 16 Leases on the Group's financial statements:

Adoption of IFRS 16 Leases	**31.12.2019**	**1.1.2019**	**31.12.2018**
		(in thousands of HRK)	
Right-of-use assets	100,168	112,206	-
Lease liabilities	**101,828**	**112,206**	**-**
Current portion of long term liability for right-of-use assets	31,610	-	-
Long term liabilty for right-of-use assets	70,218	112,206	-
Equity			
Retained earnings	**39,749**	**-**	**-**

Reconciliation of lease liability at 1 January 2019 with future operating lease payments at 31 December 2018:

(in thousand HRK)	
Operating lease commitments as at 31 December 2018	145,364
Weighted average incremental borrowing rate as at 1 January 2019	2.66%
Discounted operating lease commitments as at 1 January 2019	115,714
Less:	
Commitments relating to short-term leases and low-value assets	(3,508)
Lease liabilities as at 1 January 2019	**112,206**

IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income.

NOTE 5 – IMPACT OF NEW ACCOUNTING POLICIES (CONTINUED)

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

The Amendments relate to whether the measurement, in particular impairment requirements, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the Group does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28.

IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The Amendments require the Group to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements.

The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

The amendments to IFRS 3 clarify that when the Group obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when the Group obtains joint control of a business that is a joint operation, the Group does not remeasure previously held interests in that business.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

IAS 23 Borrowing Costs

The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that the Group borrows generally.

The adoption of these Standards and Interpretations had no significant impact on the financial statements of the Group except of IFRS 16 Lease that have a material impact of the group's financial statements as presented above.

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements in conformity with Financial reporting standards as adopted by the European Union (EU IFRS) requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of EU IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed more detail below.

(i) Deferred tax assets recognition

The deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (see note 15).

(ii) Actuarial estimates used in determining obligations for employee benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see note 35).

(iii) Consequences of certain legal actions

The Group is involved in a number of legal actions which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal actions, and the provisions for the Group's obligations arising from these legal actions are recognised on a consistent basis.

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

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

Where the Group is a plaintiff in a particular court case, any economic benefits expected to flow to the Group as a result are recognised only when virtually certain which is generally as at the date of inflow of these economic benefits.

Provisions for the Group's obligations arising from legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 3.21 and 35).

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(iv) Recoverability of trade and other receivables

The recoverable amount of trade and other receivables is estimated at present value of future cash flows discounted at the market interest rate at the measurement date. Short-term receivables with no stated interest rate are measured by the amount of original invoice if the effect of discounting is not significant.

The Group regularly reviews the ageing structure of trade receivables and monitors the average collection period. In cases where debtors with extended payment periods (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.

(v) Impairment testing for goodwill, brands and rights

The Group tests goodwill, brands and rights for impairment on an annual basis in accordance with accounting policy 3.14. For the purposes of impairment testing, goodwill, brands and rights with indefinite useful lives and brands and rights with finite useful lives have been allocated to cash generating units within reportable segments at their net carrying amount at the reporting date as follows:

	Goodwil	Brands	Rights
Operating segment		*(in thousands of HRK)*	
Culinary	-	8,928	-
BP Baby food, sweets and snack	-	21,144	-
BP Podravka food	-	439	-
BP Žito and Lagris	27,250	46,017	-
BP Meat products, solutions and spreads	-	-	-
BP Fish	-	18,800	-
Pharmaceuticals	-	-	54,832
Other - unallocated	-	-	16,263
	27,250	**95,328**	**71,095**

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

Goodwill

Goodwill relates entirely to goodwill arising on acquisition of the subsidiary Podravka Lagris a.s. The Group annually performs an impairment test in order to assess whether the recoverable amount of goodwill indicates potential impairment of its carrying amount. The calculation of the recoverable amount of goodwill is based on five-year plans for sales on the Czech market and business plans of the subsidiary developed by the Group bearing in mind its corporate selling and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories) and the analysis of its competitors. The 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 4.99%.

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 2019 and 2018. The sensitivity analysis of presumptions indicates the need for the impairment of goodwill in case of a decrease in the terminal growth rate by 265 basis points in the amount of HRK 269 thousand (assuming an unchanged weighted average cost of capital rate). On the other hand, if the weighted average cost of capital increased by 92 basis points (assuming an unchanged terminal growth rate) there would be a need for the impairment in the amount of HRK 162 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) 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 2019 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 4.26% to 8.42%, while the applied terminal growth rate ranges from 2.10% to 3.44%.

For the first brand, with a possible increase in the average weighted cost of capital by 264 basis points (with unchanged terminal growth rate) there would be an indication of impairment of HRK 13 thousand. On the other hand, with a possible reduction of the terminal growth rate (with unchanged weighted average cost of capital rate) by 318 basis points there would be an indication of impairment of HRK 30 thousand. For the second brand, with a possible increase in the average weighted cost of capital by 311 basis points (with unchanged terminal growth rate) there would be an indication of impairment of HRK 5 thousand. On the other hand, with a possible reduction of the terminal growth rate (with unchanged weighted average cost of capital rate) by 385 basis points there would be an indication of impairment of HRK 9 thousand. For the third brand, with a possible increase in the average weighted cost of capital by 438 basis points (with unchanged terminal growth rate) there would be an indication of impairment of HRK 285. On the other hand, with a reasonably possible (up to 500 basis points) change in the terminal growth rate (with unchanged weighted average cost of capital rate) there is no indication of impairment of the brand.

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

When calculating the fair value of brands whose dominant market is the Slovenian market (a total of 22 brands), rates equal to the weighted average cost of capital after tax (WACC) per individual market and the food industry were used, ranging from 4.26% to 6.83%, while the applied terminal growth rate ranges from 1.62% to 2.46%.

For the first brand, with a possible increase in the average weighted cost of capital by 485 basis points (with unchanged terminal growth rate) there would be an indication of impairment of HRK 6 thousand. On the other hand, with a reasonably possible (up to 500 basis points) change in the terminal growth rate (with unchanged weighted average cost of capital rate) there is no indication of impairment of the brand. For the second brand, with a possible increase in the average weighted cost of capital by 496 basis points (with unchanged terminal growth rate) there would be an indication of impairment of HRK 505. On the other hand, with a reasonably possible (up to 500 basis points) change in the terminal growth rate (with unchanged weighted average cost of capital rate) there is no indication of impairment.

During 2019, the Group had no impairment losses with respect to brands.

(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 2020 to 2024, 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 8.34% after taxation (for assets that generate the majority of revenues on the Croatian market).

During 2019, the Group had no impairment losses with respect to pharmaceutical rights.

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

The Group annually performs analysis of impairment indicators for property, plant and equipment in order to assess whether the recoverable amount indicates potential impairment of their carrying amount. For production facilities, i.e. factories, in 2019, the Group engaged an independent valuer who determined the market value of properties.

During 2019 the Group recognised the impairment of property and plant in the amount of HRK 3,742 thousand and of equipment in the amount of HRK 459 thousand (2018: HRK 4,809 thousand).

In 2019, the Group impaired investment property in the amount of HRK 10,399 thousand.

Also, in 2019 the Group recognised the impairment loss on assets held for sale in Poland in the amount of HRK 1,305 thousand and assets in Tanzania in the amount of HRK 5,105 thousand.

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.

NOTE 7 – DETERMINATION OF FAIR VALUES

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

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

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

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1* - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2* - inputs other than quoted prices included in level 1, that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3* - input variables for assets or liabilities that are not based on observable market data (unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more significant inputs are not based on observable market data, the fair value estimate is included in level 3.

In preparing these financial statements, the Group has made the following significant fair value estimates, as further explained in detail in the following notes:

- note 23: Non-current financial assets
- note 26: Financial assets at fair value through profit or loss
- note 28: Non-current assets held for sale
- note 33: Financial liabilities at fair value through profit or loss
- note 39: Share-based payments

NOTE 8 – SALES REVENUE

Sales revenue

	2019	2018
	(in thousands of HRK)	
Revenue from sale of products and merchandise	4,381,430	4,202,361
Revenue from services	27,987	29,788
	4,409,417	**4,232,149**

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.

(in thousands of HRK)	Segment revenues 2019	Segment expenses 2019	Segment depreciation 2019	Segment profits/(loss) 2019
BP Culinary	934,698	685,601	26,035	223,062
BP Baby food, sweets and snack	435,892	361,018	23,384	51,490
BP Podravka food	401,014	395,316	23,059	(17,361)
BP Žito	956,928	916,025	39,805	1,098
Žito and related companies	*798,505*	*754,258*	*35,961*	*8,286*
Other companies	*158,423*	*161,767*	*3,844*	*(7,188)*
BP Meat products, solutions and spreads	284,135	288,954	14,851	(19,670)
BP Fish	207,918	203,266	6,633	(1,981)
Pharmaceutical	955,378	790,216	63,297	101,865
Other	233,454	236,333	2,618	(5,498)
	4,409,417	**3,876,729**	**199,682**	**333,005**
Finance income (note 13)				874
Other income (note 9)				50,797
Central administration costs				(78,324)
Other expenses (note 10)				(21,933)
Finance expenses (note 14)				(18,569)
Profit before tax				**265,851**

NOTE 8 – SALES REVENUE (CONTINUED)

(in thousands of HRK)	Segment revenues 2018	Segment expenses 2018	Segment depreciation 2018	Segment profits/(loss) 2018
BP Culinary	894,046	655,187	16,897	221,962
BP Baby food, sweets and snack	407,223	331,012	18,407	57,804
BP Podravka food	391,989	389,111	18,275	(15,397)
BP Žito	949,243	899,385	44,539	5,319
Žito and related companies	*785,560*	*729,264*	*42,069*	*14,227*
Other companies	*163,683*	*170,121*	*2,470*	*(8,908)*
BP Meat products, solutions and spreads	270,433	268,477	13,000	(11,044)
BP Fish	180,456	180,582	3,352	(3,478)
Pharmaceutical	896,880	743,422	55,677	97,782
Other	241,879	247,007	1,569	(6,697)
	4,232,149	**3,714,183**	**171,716**	**346,251**
Finance income (note 13)				13,130
Other income (note 9)				40,397
Central administration costs				(81,780)
Other expenses (note 10)				(46,425)
Finance expenses (note 14)				(21,070)
Profit before tax				**250,503**

Balance sheet by segments

(in thousands of HRK)	31.12.2019 Total	31.12.2019 Pharmaceuticals	31.12.2019 Nutrition Segments	31.12.2018 Total	31.12.2018 Pharmaceuticals	31.12.2018 Nutrition Segments
ASSETS						
Total non-current assets	2,895,439	1,009,373	1,886,066	2,811,908	1,024,114	1,787,794
Total current assets	1,988,382	567,911	1,420,471	2,034,153	555,572	1,478,581
Total assets	**4,883,821**	**1,577,284**	**3,306,537**	**4,846,061**	**1,579,686**	**3,266,375**
LIABILITIES						
Equity	3,173,094	1,059,739	2,113,355	3,005,337	976,050	2,029,287
Minority interest	46,334	46,738	-404	42,369	40,487	1,882
Total long-term liabilities	670,330	275,880	394,450	754,981	354,721	400,260
Total current liabilities	994,062	194,927	799,135	1,043,374	208,428	834,946
Total equity and liabilities	**4,883,821**	**1,577,284**	**3,306,537**	**4,846,061**	**1,579,686**	**3,266,375**

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

NOTE 8 – SALES REVENUE (CONTINUED)

Segment revenues and results (continued)

BP Culinary comprises the following product groups: seasonings, soups, ready-to-cook meals and bouillons, food mixes and monospices.

BP Baby food, sweets and snacks comprises the following product groups: Lino world, sweets, drinks and snacks.

BP Podravka Food comprises the following product groups: condiments, tomato, sauces, fruit, vegetables and Podravka flour.

BP Žito and Lagris comprises the following product groups: core food, bakery and mill products, tea, confectionery and cereals for adults.

BP Meat products, meat solutions and savoury spreads comprises the following product groups: canned meat, sausages, food solution and other meat.

BP Fish comprises fish products.

The Pharmaceutical segment comprises the following: ethical drugs (medically prescribed drugs), non-prescription program (drugs for which no medical prescription is required), nutraceuticals and trade goods and services. Pharmaceuticals segment is regulated by the Croatian Institute for Health Insurance, which provides 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:

(in thousands of HRK)	**2019**	**2018**
Region Adria	3,082,564	2,964,415
Region Central Europe	509,538	508,263
Region Western Europe and overseas countries	466,233	436,401
Region Eastern Europe	334,946	292,411
Region New markets	16,136	30,659
	4,409,417	**4,232,149**

NOTE 8 – SALES REVENUE (CONTINUED)

Information about major customers

Third-party sales in Croatia account for 32% (2018: 32%) of the total revenue from external customers, whereas the remaining 68% (2018: 68%) represent foreign sales. Top 20 customers participate with 32% (2018: 33%) in the value of external sales in total income.

Sales to major customers owned or controlled by the same third party group represent approximately 10% of the Group's total revenue in 2019 (2018: approximately 11% of the total revenue). Below is a more detailed overview of countries by geographical area:

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

NOTE 9 – OTHER INCOME

	2019	2018
	(in thousands of HRK)	
Interest and foreign exchange differences on trade receivables	19,991	-
Reversal of impairment of financial assets	12,124	-
Grant income	10,093	9,890
Profit on disposal of property, plant, equipment and intangibles	2,860	-
Gain on disposal of assets held for sale	1,043	11,805
Gains on write-off right-of-use assets	78	-
Reversal of provisions	29	5,608
Other income	4,579	13,094
	50,797	**40,397**

Grant income mainly refers to non-repayable state grants in agriculture.

NOTE 10 – OTHER EXPENSES

	2019	2018
	(in thousands of HRK)	
Value adjustment of investments	10,399	-
Impairment loss on assets held for sale (note 28)	7,410	16,318
Impairment loss on property, plant and equipment (note 19)	3,746	4,809
Interest expense relating to trade payables and other	373	2,900
Loss on disposal of assets held for sale	5	-
Loss on disposal of property, plant, equipment and intangibles	-	3,254
Interest and foreign exchange differences on trade receivables and payables	-	18,259
Value adjustment of investments in equity instruments	-	885
	21,933	**46,425**

NOTE 11 – EXPENSES BY NATURE

	2019	2018
	(in thousands of HRK)	
Raw materials supplies, energy and cost of goods sold including change in inventory	2,147,882	2,073,623
Staff costs (note 12)	1,066,326	1,003,786
Advertising and promotion	245,357	227,002
Services (i)	228,186	225,011
Depreciation and amortisation (ii)	216,023	192,671
Transport	103,132	97,808
Entertainment	30,702	30,162
Taxes and contributions independent of operating results	26,059	22,970
Daily allownaces and other business travel expenses	23,925	21,133
Rental expense	14,386	44,637
Cost of disposal of packaging, administrative fees, etc	11,128	10,384
Telecommunications	10,618	10,853
Bank charges	5,685	5,413
Impairment of trade receivables (note 25)	2,989	(3,428)
Other (iii)	22,337	5,653
Total cost of goods sold, selling and distribution costs, marketing costs and general and administrative costs	**4,154,735**	**3,967,678**

(i) Costs of services include audit fees. Fees for the audit of the Group’s financial statements amounted to HRK 2,374 thousand (2018: HRK 2,412 thousand). During 2019, the Group did not receive any non-audit services from the auditor.

(ii) Depreciation and amortisation include HRK 1,282 thousand of government grants for co-financing of assets (2018: HRK 590 thousand).

(iii) “Other” mainly relates to insurance premiums of HRK 15,234 thousand (2018: HRK 10,362 thousand), and provisions for other future expenses of HRK 2,427 thousand (2018: income of HRK 2,506 thousand).

The Group reports gross profit as revenue from the sale of products less operating expenses as shown in the specification above with the net effect of other income (Note 9) and other expenses (Note 10).

NOTE 11 – EXPENSES BY NATURE (continued)

The following tables present expenses by nature contained in cost of goods sold:

	2019	2018
	(in thousands of HRK)	
Raw material and supplies	1,552,270	1,445,829
Cost of goods sold	554,515	559,031
Staff costs	457,169	432,272
Depreciation and amortisation	125,698	127,327
Production services	63,670	77,875
Taxes and contributions independent of operating results	9,353	8,115
Other expenses (transport, rent, education, etc)	15,228	23,267
Cost of goods sold	**2,777,903**	**2,673,716**

In 2019, the Group recognised as part of cost of goods sold HRK 1,125 thousand of impairment of inventories of frozen vegetables (in 2018, the Group recognised as part of cost of goods sold HRK 1,555 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 reports gross profit as revenue from the sale of products less cost of goods sold as shown in the specification above.

Depreciation and amortisation allocated to each function is as follows:

	2019	2018
	(in thousands of HRK)	
Cost of goods sold	125,698	127,327
Selling, logistics and distribution costs	43,810	22,536
General and administrative expenses	35,348	36,463
Marketing expenses	11,167	6,345
	216,023	**192,671**

Staff costs allocated to each function is as follows:

	2019	2018
	(in thousands of HRK)	
Cost of goods sold	457,169	432,272
Selling, logistics and distribution costs	293,112	280,037
General and administrative expenses	205,304	187,597
Marketing expenses	110,741	103,880
	1,066,326	**1,003,786**

NOTE 12 – STAFF COSTS

	2019	2018
	(in thousands of HRK)	
Salaries	962,853	938,991
Transport	25,943	18,977
Termination benefits	8,820	7,492
Share options (note 39)	7,554	2,093
Other cost of employees	61,156	36,233
	1,066,326	**1,003,786**

Other cost of employees mostly relate to Christmas and Easter bonus and other non taxable employee benefits in the amount of HRK 28,025 thousand (2018: HRK 20,520 thousand) and payment of holiday in the amount of HRK 20,327 thousand (2018: HRK 12,837 thousand).
As at 31 December 2019, the number of staff employed by the Group was 6,652 (2018: 6,517).
In 2019, termination and retirement benefits of HRK 6,218 thousand were paid to 90 employees (2018: termination and retirement benefits of HRK 7,452 thousand were paid to 99 employees).

NOTE 13 – FINANCE INCOME

	2019	2018
	(in thousands of HRK)	
Unrealised gains per interest rate swap contract	390	864
Interest on term deposits	378	354
Other interests	98	287
Net foreign exchange gains on borrowings	-	11,488
Remeasurement of financial instruments at fair value through profit or loss	8	137
	874	**13,130**

NOTE 14 – FINANCE EXPENSES

	2019	2018
	(in thousands of HRK)	
Interest expense and similar charges	15,840	18,993
Net foreign exchange loss on borrowings	2,173	-
Unrealised losses per forward	556	-
Capital reserve ESOP	-	2,077
	18,569	**21,070**

During 2019, reference interest rates remained at low levels, which, coupled with regular repayment of borrowings, resulted in decreased interest expense on borrowings.

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.

During 2019, the Group had investments with interest expense amounting to HRK 40 thousand (2018: HRK 403 thousand) capitalised into buildings and equipment.

NOTE 15 – INCOME TAX

Income tax expense consists of:

	2019	2018
	(in thousands of HRK)	
Current income tax	36,605	27,158
Deferred tax expense	2,142	11,766
	38,747	**38,924**

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:

	2019	2018
	(in thousands of HRK)	
Profit before taxation	**265,851**	**250,503**
Income tax at 18%	47,853	44,357
Non-taxable income	(3,532)	-
Non-deductible expenses	7,593	10,343
Tax incentives (research and development, education and other)	(3,441)	(209)
Recognition of previously unrecognized temporary differences and tax	(9,675)	-
Temporary differences and tax losses not recognised as deferred tax assets	3,489	(9,117)
Utilisation of tax losses previously not recognised as deferred tax asset	(1,228)	(4,182)
Effect of different tax rates	(2,664)	(2,268)
Tax for the previous year	(49)	-
Tax paid abroad	401	-
Income tax	**38,747**	**38,924**
Effective tax rate	15%	16%

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 2019, deferred tax asset of HRK 17,210 thousand was used from this basis.

NOTE 15 – INCOME TAX (CONTINUED)

Unused tax losses

In accordance with tax regulations, as at 31 December 2019 the Group has unused tax losses in the amount of HRK 106,974 thousand (2018: HRK 87,499 thousand) which consist of tax losses in Slovenia (in the amount of HRK 3,116 thousand), Hungary (in the amount of HRK 319 thousand), Tanzania (in the amount of HRK 72,840 thousand), Poland (in the amount of HRK 9,222 thousand), Germany (in the amount of HRK 10,444 thousand), Russia (in the amount of HRK 6,336 thousand), Serbia (in the amount of HRK 289 thousand) and Croatia (in the amount of HRK 4,408 thousand).

Unused tax losses carried forward were recognized as deferred tax assets in the amount of HRK 2,774 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:

	2019	2018
	(in thousands of HRK)	
Tax losses expiring at 31 December 2019	-	3,885
Tax losses expiring at 31 December 2020	-	2,636
Tax losses expiring at 31 December 2021	3,374	19,758
Tax losses expiring at 31 December 2022	4,570	38,991
Tax losses expiring at 31 December 2023	1,278	10,895
Tax losses expiring at 31 December 2024	4,698	1,412
Tax losses with no expiration date	93,054	9,922
	106,974	**87,499**

Deferred tax assets

Deferred tax assets arise from the following:

2019	Opening balance	Acquistions	Recognised in profit or loss	Recognised directly in equity	Foreign exchange differences	Closing balance
			(in thousands of HRK)			
Basis:						
Intangible assets	4,994	-	(453)	-	-	4,541
Property, plant and equipment	4,791	-	2,511	-	1	7,303
Financial assets	12,184	-	12,521	-	-	24,705
Provisions	11,498	-	817	224	9	12,548
Share-based payments	1,335	-	(72)	-	-	1,263
Inventories	7,086	-	4,096	-	3	11,185
Investment tax credit	100,984	-	(17,210)	-	-	83,774
Unutilised tax losses carried forward	4,043	-	(1,419)	-	120	2,744
Receivables	-	-	1,002	-	-	1002
Other deferred tax assets	5,164	-	(5,164)	-	-	-
Deferred tax assets	**152,079**	**-**	**(3,371)**	**224**	**133**	**149,065**

2018	Opening balance	Acquistions	Recognised in profit or loss	Recognised directly in equity	Foreign exchange differences	Closing balance
			(in thousands of HRK)			
Basis:						
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
Deferred tax assets	**170,386**	**-**	**(18,307)**	**-**	**-**	**152,079**

NOTE 15 – INCOME TAX (CONTINUED)

Deferred tax assets (continued)

The reassessment of recoverability of past differences where new circumstances indicating the recoverability of differences related to financial assets were determined had the most significant effect on the increase in deferred tax assets in 2019.

During 2019, deferred tax assets increased based on tangible assets in the amount of HRK 2,511 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.

The utilisation of tax benefit in the amount of HRK 17,210 thousand had the most significant effect on the decrease in deferred tax asset.

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

In 2018, intra - group sale of intangible assets (Warzywko brand) resulted in 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 liability

Deferred tax liabilities arise from the following:

2019	**Opening balance**	**Recognised in profit or loss**	**Foreign exchange differences**	**Closing balance**
		(in thousands of HRK)		
Basis:				
Intangible assets	(9,207)	(2,156)	(30)	(11,393)
Property, plant and equipment	(31,006)	3,385	(69)	(27,690)
	(40,213)	**1,229**	**(99)**	**(39,083)**

2018	**Opening balance**	**Recognised in profit or loss**	**Foreign exchange differences**	**Closing balance**
		(in thousands of HRK)		
Basis:				
Intangible assets	(10,752)	1,547	(2)	(9,207)
Property, plant and equipment	(35,940)	4,939	(5)	(31,006)
	(46,692)	**6,486**	**(7)**	**(40,213)**

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 189,217 were not exercised (2018: 173,744 options). The price of all unexercised share options is lower than the share market price as at 31 December 2019. 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:

	2019	2018
Ordinary shares as at 1 January	7,120,003	7,120,003
Effect of treasury shares	(135,200)	(155,524)
Weighted average number of shares at 31 December (basic)	**6,984,803**	**6,964,479**
Effect of share based payments	46,513	20,220
Weighted average number of shares at 31 December (diluted)	**7,031,316**	**6,984,699**

Basic and diluted earnings/(loss) per share for continued and discontinued operations and the Group as a whole was as follows:

	2019	2018
Basic earnings per share		
Profit for the year attributable to the owners of parent company (in thousands of HRK)	221,586	205,711
Basic earnings per share (in HRK)	31.72	29.54
Diluted earnings per share		
Profit for the year attributable to the owners of parent company (in thousands of HRK)	221,586	205,711
Diluted earnings per share (in HRK)	31.51	29.45

NOTE 17 - GOODWILL

(in thousands of HRK)	2019	2018
Cost		
At 1 January	67,304	67,304
At 31 December	**67,304**	**67,304**
Accumulated impairment losses		
At 1 January	40,522	39,902
Effect of changes in the foreign exchange rates	(468)	620
At 31 December	**40,054**	**40,522**
Carrying amount at 31 December	**27,250**	**26,782**

During 2019 and 2018 there was no impairment of goodwill. A more detailed description of the approach and methods used in impairment testing is provided in note 6(v).

NOTE 18 – INTANGIBLE ASSETS

(in thousands of HRK)	Software and licences	Rights, registration files, know how	Brands	Intangible assets in progress	Total
Cost					
At 1 January 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)
At 31 December 2018	**250,814**	**241,288**	**202,367**	**28,184**	**722,653**
Accum. amortisation and impairments					
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)
At 31 December 2018	**(208,488)**	**(170,757)**	**(107,232)**	**-**	**(486,477)**
Carrying amount as at 31 Dec 2018	**42,326**	**70,531**	**95,135**	**28,184**	**236,176**
Cost					
At 1 January 2019	250,814	241,288	202,367	28,184	722,653
Effect of foreign exchange differences	148	57	376	3	584
Additions	(114)	-	-	32,721	32,607
Transfers	11,938	8,861	-	(20,799)	-
Disposals and write-off's	(2,279)	(1,079)	(438)	(789)	(4,585)
Transfer from tangible fixed assets	-	-	-	77	77
Transfer to tangible assets	-	-	-	(22)	(22)
At 31 December 2019	**260,507**	**249,127**	**202,305**	**39,375**	**751,314**
Accum. amortisation and impairments					
At 1 January 2019	(208,488)	(170,757)	(107,232)	-	(486,477)
Effect of foreign exchange differences	(134)	(23)	(183)	-	(340)
Disposals and write-off's	2,279	870	438	-	3,587
Charge for the year	(15,403)	(8,122)	-	-	(23,525)
At 31 December 2019	**(221,746)**	**(178,032)**	**(106,977)**	**-**	**(506,755)**
Carrying amount as at 31 Dec 2019	**38,761**	**71,095**	**95,328**	**39,375**	**244,559**

Of the total amount of accumulated amortisation and impairment losses HRK 24,550 thousand relates to accumulated impairment losses (2018: HRK 24,988 thousand).

The total intangible assets with indefinite useful lives as at 31 December 2019 amount to HRK 166,423 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.

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Equipment	Assets under construction	Total
Cost				
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-off's	(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
Trasfer to investment in property	(13,316)	-	-	(13,316)
At 31 December 2018	**2,897,033**	**2,393,515**	**103,128**	**5,393,676**
Accum. depreciation and impairments				
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-off's	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)
Trasfer to investment in property	7,102	-	-	7,102
At 31 December 2018	**(1,644,204)**	**(1,492,827)**	**(327)**	**(3,137,358)**
Carrying amount as at 31 Dec 2018	**1,252,829**	**900,688**	**102,801**	**2,256,318**
Cost				
At 1 January 2019	2,897,033	2,393,515	103,128	5,393,676
Effect of foreign exchange differences	2,183	1,223	31	3,437
Additions	363	2,114	118,812	121,289
Transfers	13,276	128,200	(141,476)	-
Disposals and write-off's	(3,285)	(51,563)	(104)	(54,952)
Transfer to assets held for sale (i)	(28,151)	(676)	-	(28,827)
Transfer to intagible assets	-	-	(55)	(55)
Transfer from assets held for sale (i)	-	12	-	12
Impairment of assets	-	-	(1,615)	(1,615)
At 31 December 2019	**2,881,419**	**2,472,825**	**78,721**	**5,432,965**
Accum. depreciation and impairments				
At 1 January 2019	(1,644,204)	(1,492,827)	(327)	(3,137,358)
Effect of foreign exchange differences	(1,945)	(550)	-	(2,495)
Disposals and write-off's	1,351	50,851	-	52,202
Charge for the year	(54,062)	(99,896)	-	(153,958)
Transfer to assets held for sale (i)	23,090	676	-	23,766
Impairment of non-current assets	(1,672)	(459)	-	(2,131)
Transfer from assets held for sale (i)	-	(12)	-	(12)
At 31 December 2019	**(1,677,442)**	**(1,542,217)**	**(327)**	**(3,219,986)**
Carrying amount as at 31 Dec 2019	**1,203,977**	**930,608**	**78,394**	**2,212,979**

During 2019, the Group impaired property and equipment in the amount of HRK 2,131 thousand and investments under construction in the amount of HRK 1,615 thousand (2018: HRK 4,809 thousand). (i) During 2019, the Group reclassified property, plant and equipment to assets held for sale in the amount of HRK 5,061 thousand (2018: HRK 15,590 thousand).
During 2018, the Group reclassified property, plant and equipment to investment property in the amount of HRK 6,214 thousand.

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets under construction relate mainly to investments in modernisation of production capacities and product mix expansion.

During 2019, the Group had investments under which interest expense in the amount of HRK 40 thousand (2018: HRK 403 thousand) was capitalised in property and equipment using the estimated capitalisation rate of 1.21% (2018: 1.62%).

Mortgaged assets

The Group has a syndicated loan agreed with the EBRD and several business banks in the total amount of EUR 123 million. The properties of Podravka d.d., Belupo d.d. and Žito d.o.o. (users of the syndicated loan) were pledged as a security instrument. In addition to instruments for the syndicated loan, the Group has pledged assets also for other borrowings. Buildings, land and equipment of the Group with a net carrying amount of HRK 894,856 thousand (2018: HRK 926,288 thousand) are pledged as collateral against the Group's borrowings.

NOTE 20 – RIGHT-OF-USE ASSETS

Movements in right-of-use assets:

(in thousands of HRK)	Land	Buildings	Total land and buildings	Equipment	Total
Cost					
As at 1 January 2019	12,814	49,038	61,852	50,354	112,206
Additions	-	12,053	12,053	13,418	25,471
Disposals and write-off's	-	(1,120)	(1,120)	(370)	(1,490)
Balance at 31 December	**12,814**	**59,971**	**72,785**	**63,402**	**136,187**
Accumulated depreciation					
As at 1 January 2019	-	-	-	-	-
Charge for the year	325	13,864	14,189	22,058	36,247
Exchange rate effect	-	68	68	50	118
Disposals and write-off's	-	(242)	(242)	(104)	(346)
Balance at 31 December	**325**	**13,690**	**14,015**	**22,004**	**36,019**
As at 31 December	**12,489**	**46,281**	**58,770**	**41,398**	**100,168**

Movements in lease liabilities for right-of-use assets:

	2019	2018
	(in thousands of HRK)	
As at 1 January 2019	112,206	-
Interest expense	2,773	-
Increase of lease liabilities during the year	24,327	-
Lease liabilities payments	(38,119)	-
Exchange rate difference	641	-
As at 31 December 2019	**101,828**	**-**
Current portion of long term liability for right-of-use assets	31,610	-
Long term liabilty for right-of-use assets	70,218	-

Amounts recognised in the statement of comprehensive income:

	2019	2018
	(in thousands of HRK)	
Depreciation expense of right-of-use asset	36,247	-
Interest expense of lease liabilities	2,773	-
Expenses related to short-term leases and leases of low-value asstes etc.	23,401	-
Total amount recognised in profit/(loss)	**62,421**	**-**

NOTE 21 – INVESTMENT PROPERTY

(in thousands of HRK)	
Cost	
As at 1 January 2019	-
Transfer from non-current assets held for sale	121,866
Transfer from property, plant and equipment	12,321
Balance at 31 December	**134,187**

Cost	
As at 1 January 2019	167,378
Exchange rate effect	65
Disposals and write-off's	(799)
Transfer to non-current assets held for sale	(8,508)
Impairment of assets	(10,399)
Balance at 31 December	**147,737**
Accumulated depreciation	
As at 1 January 2019	(33,191)
Exchange rate effect	(23)
Disposals and write-off's	303
Charge for the year	(2,177)
Transfer to non-current assets held for sale	5,591
Balance at 31 December 2019	**(29,497)**
Net book value at 31 December 2019	**118,240**

In 2019, the Group impaired land and building in Rijeka in the amount of HRK 10,399 thousand (2018: HRK 0).

In addition, the Group reclassified a portion of investment property in Slovenia to non-current assets held for sale in the amount of HRK 2,917 thousand.

In 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 1,523 thousand (2018: HRK 1,293 thousand), while rental income from the property amounts to HRK 2,929 thousand (2018: HRK 3,500 thousand).

NOTE 22 – SUBSIDIARIES

Group consists of the Company and the following subsidiaries in which the Company has an ownership and control:

Name of subsidiary	Country	2019	2018	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	99%	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 sale and distribution
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
Podravka-International E.O.O., Sofia *****	Bugarska	100%	0%	Sale and distribution of food and beverages
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
Podravka d.o.o., Sarajevo	Bosnia and 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	0%	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 2019, the Group established the subsidiary Podravka International E.O.O. Sofia

******In 2019, the subsidiary LD Žito d.o.o. was liquidated.

NOTE 23 – NON-CURRENT FINANCIAL ASSETS

	2019	2018
	(in thousands of HRK)	
Financial instruments	54,133	-
Impairment of financial instruments	(17,736)	-
Loans receivable	6	8
Other receivables and deposits	1,483	1,475
Equity instruments	5,292	4,883
	43,178	**6,366**

In 2019, in line with the Agrokor's creditors settlement, the Group recorded financial instruments in return for trade receivables from customers owned or controlled by the same third party group in the gross amount of HRK 54,133 thousand. During 2019, it reversed the impairment of financial instruments in the amount of HRK 12,124 thousand.

Equity instruments mainly relate to investments in unquoted equity instruments.

In 2018, investment in other equity instruments was impaired in the amount of HRK 885 thousand, whose cost is recorded within other expenses (note 10).

NOTE 24 – INVENTORIES

	2019	2018
	(in thousands of HRK)	
Raw materials and supplies	335,782	328,043
Work in progress	35,827	38,969
Finished goods	419,979	359,688
Merchandise	156,672	121,530
	948,260	**848,230**

In 2019, the Group recognised impairment loss with respect to inventories in the amount of HRK 1,673 thousand (2018: HRK 18,194 thousand of impairment loss). The movement in inventory impairment provision is included in the statement of comprehensive income in line item 'Cost of goods sold'.

NOTE 25 – TRADE AND OTHER RECEIVABLES

	2019	2018
	(in thousands of HRK)	
Current receivables		
Trade receivables	1,085,898	1,052,625
Receivables on discounted bills of exchange	-	57,722
Impairment of receivables for expected credit losses	(1,255)	(1,361)
Impairment of receivables	(196,781)	(229,418)
Net trade receivables	**887,862**	**879,568**
Advances to suppliers	9,341	9,187
Loans given	15	7
Net VAT receivable	21,663	23,596
Prepaid expenses	18,468	18,817
Receivables from employees	1,826	1,256
Other receivables	9,592	6,335
	948,767	**938,766**

In 2019, in line with the Agrokor's creditors settlement, the Group reclassified third party trade receivables owned or controled by the same third party Group to non-current financial assets.

During 2018, the Group recognised the reversal of impairment of these receivables in the amount of HRK 7,905 thousand since the customer had better results than estimated.

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

	2019	2018
	(in thousands of HRK)	
At 1 January	230,779	240,999
Net (decrease) / Increase	5,654	(1,033)
Amounts collected	(2,665)	(2,395)
Transfer to financial assets	(31,526)	-
Written off as uncollectable	(4,206)	(6,792)
At 31 December	**198,036**	**230,779**

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:

	2019	2018
	(in thousands of HRK)	
Non due	728,401	705,601
0-90 days	140,786	154,059
91-180 days	12,499	15,428
181-360 days	6,176	4,480
	887,862	**879,568**

Major customers

Net trade receivables from major customers owned or controlled by the same third party Group as at 31 December 2019 amount to HRK 102,241 thousand (2018: HRK 140,585 thousand).

NOTE 26 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	(in thousands of HRK)	
Forward contracts	12	296
	12	**296**

During 2019, 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 2019 amounting to HRK 12 thousand.

The nominal value of currency forwards as at 31 December 2019 amounted to HRK 39,135 thousand with the contracts maturing in the period from 24 January 2020 to 18 June 2020 (2018: HRK 20,437 thousand, with the contracts maturing in the period from 10 January 2019 to 12 November 2019).

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 27 – CASH AND CASH EQUIVALENTS

	2019	2018
	(in thousands of HRK)	
Cash with banks	49,849	193,927
Short-term deposits – up to 3 months	5,412	16,763
Cash in hand	328	416
	55,589	**211,106**

Cash with banks relates to transaction accounts at commercial banks that carry an average interest rate ranging from 0.00% to 0.15%.

Deposits relate to deposits at commercial banks with maturity up to three months that carry a variable interest rate up to 3.69%.

The Group has certain transactions in foreign currencies and cash on bank accounts mainly in EUR (HRK 20,378 thousand), HRK (HRK 8,950 thousand), PLN (HRK 5,265 thousand) and RUB (HRK 4,676 thousand), while in other currencies it holds HRK 16,320 thousand.

NOTE 28 – NON-CURRENT ASSETS HELD FOR SALE

	2019	2018
	(in thousands of HRK)	
Land and buildings	27,450	22,787
Equipment	2,943	7,134
	30,393	**29,921**

In 2019, the Group sold a portion of non-current assets held for sale with the carrying value of HRK 1,628 thousand and realised gain on sale in the amount of HRK 1,043 thousand.
Of the total amount of land and buildings held for sale, HRK 12,331 thousand relates to land and buildings in Poland, HRK 1,239 thousand to land and buildings in Tanzania, HRK 3,957 thousand to land and buildings in Croatia and HRK 9,924 thousand on the market of Slovenia.
In 2019, the Group recognised impairment of land and buildings held for sale in Poland in the amount of HRK 1,305 thousand (2018: HRK 0) and the impairment of land, buildings and equipment in Tanzania in the amount of HRK 6,105 thousand (2018: HRK 5,873 thousand).
In 2019, the Group reclassified land and buildings in Croatia and Slovenia to assets held for sale in the amount of HRK 7,982 thousand.
In 2018, the Group recognised impairment of land and buildings held for sale in Rijeka in the amount of HRK 9,416 thousand, impairment of a property in Koprivnica in the amount of HRK 1,195 thousand and made a reclassification to investment property in the amount of HRK 121,866 thousand.

Fair value measurement

Land and property held for sale in the amount of HRK 30,393 thousand are measured at fair value less costs of sell due to the fact that this value is lower than the net carrying value prior to classification as held for sale. The Group has made an estimation of fair value on classification date and regularly checks if estimation needs to be revised. During 2019, land, buildings and equipment in Poland and Tanzania were impaired.

Fair value measurement according to inputs used in evaluation is classified as level 3 (see note 7). The following table summarizes the valuation methods and techniques as well as significant inputs used in measuring the fair value at the classification date:

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

Equipment held for sale

The amount of HRK 2,943 thousand as at 31 December 2019 relates to equipment in the production plant in Tanzania (2018: HRK 7,134 thousand).

NOTE 29– SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pcs)	*(in thousands of HRK)*			
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)
At 31 December 2018	**6,974,228**	**1,566,401**	**179,692**	**(54,209)**	**1,691,884**
At 1 January 2019	6,974,228	1,566,401	179,692	(54,209)	1,691,884
Excercise of options (i)	17,859	-	(7,443)	6,641	(802)
Fair value of share based payments (i)	-	-	7,554	-	7,554
At 31 December 2019	**6,992,087**	**1,566,401**	**179,803**	**(47,568)**	**1,698,636**

As at 31 December 2019, the Company's share capital amounted to HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 127,916 relates to treasury shares (2018: HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 145,775 relates to treasury shares). Nominal value of one share amounts to HRK 220.00. All issued shares are fully paid in.

(i) Share based payments

During 2019, the Company did not purchase any treasury shares (2018: 7,000 treasury shares).

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

	2019		2018	
Structure of ownership	**Number of shares**	**% of ownership**	**Number of shares**	**% of ownership**
PBZ CO OMF - Category B	1,070,901	15.04	1,052,100	14.78
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	724,316	10.17	674,669	9.48
Raiffeisen OMF category B	625,298	8.78	625,298	8.78
CERP - Republic of Croatia	415,564	5.84	404,233	5.68
Kapitalni fond d.d.	406,842	5.71	406,842	5.71
HPB - Republic of Croatia	167,281	2.35	167,281	2.35
AZ Profit ODMF	101,840	1.43	101,840	1.43
Treasury account	127,916	1.80	145,775	2.05
Other shareholders	1,849,468	25.98	1,911,388	26.85
Total	**7,120,003**	**100.00**	**7,120,003**	**100.00**

NOTE 30 – RESERVES

(in thousands of HRK)	Reserves for treasury shares	Legal reserves	Reserves for reinvested profit	Statutory reserves	Other reserves	Total
At 1 January 2018	147,604	50,903	189,738	58,570	320,047	766,862
Allocation of profits (note 31)	-	7,542	-	3,220	32,947	43,709
Additional purchase of NCI	-	-	-	-	(280)	(280)
Foreign exchange rate differences	-	-	-	-	(14,378)	(14,378)
Actuarial losses (net of tax)	-	-	-	-	937	937
At 31 December 2018	**147,604**	**58,445**	**189,738**	**61,790**	**339,273**	**796,850**
At 1 January 2019	147,604	58,445	189,738	61,790	339,273	796,850
Allocation of profits (note 31)	-	7,913	-	2,256	44,234	54,403
Foreign exchange rate differences	-	-	-	-	1,787	1,787
The effect of acquiring additional minority interest	-	-	-	-	1,635	1,635
Actuarial losses (net of tax)	-	-	-	-	(1,095)	(1,095)
At 31 December 2019	**147,604**	**66,358**	**189,738**	**64,046**	**385,834**	**853,580**

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 2019, the General Assembly reached a decision to allocate the Company's profit from 2018 in the amount of HRK 49,061 thousand as follows: the amount of HRK 5,657 thousand to legal reserves, the amount of HRK 43,404 thousand to other reserves and the amount of HRK 62,908 thousand for the declared dividend (9.00 HRK per share).

In addition, in 2019, in accordance with the decision of its General Assembly, the subsidiary Belupo d.d. allocated the Company's profit as follows: the amount of HRK 2,256 thousand to legal reserves, the amount of HRK 2,256 to statutory reserves and HRK 831 thousand to other reserves.

NOTE 31 – RETAINED EARNINGS

Movement in retained earnings and accumulated loss is presented as follows:

	2019	2018
	(in thousands of HRK)	
At 1 January	**516,603**	**403,303**
- transfer to legal and other reserves	(54,403)	(43,709)
- dividend declared	(62,908)	(48,702)
- profit for the year	221,586	205,711
At 31 December	**620,878**	**516,603**

At 18 June 2019 General Assembly reached a decision to allocate the Company's profit for the declared dividend in amount of HRK 62,908 thousand, 9.00 HRK per share (2018.: 48,702 thousand, 7.00 HRK per share).

NOTE 32 – NON-CONTROLLING INTERESTS

Podravka Group has non-controlling interests arising from acquisitions of 65% of ownership interest in subsidiary Farmavita d.o.o. Sarajevo and 99.23% in the related company Mirna d.d. Summary financial information for the company Farmavita d.o.o., Sarajevo as at 31 December 2019 (excluding consolidation eliminations) and for the company Mirna d.d. are as follows:

31 December 2019	**Mirna d.d.**	**Farmavita**
(in thousands of HRK)		
Non-controlling interest	***0.8%***	***35.0%***
Statement of financial position		
Non-current assets	69,799	68,510
Current assets	49,316	122,022
Current liabilities	(106,527)	(45,140)
Non-current liabilities	(11,144)	(32,298)
Net assets	**1,444**	**113,094**
Statement of comprehensive income for the period		
Sales revenue	105,629	207,433
Profit after tax	(3,923)	18,550
Other comprehensive income	1	132
Total comprehensive income for the period	**(3,922)**	**18,682**
Statement of cash flows		
Net increase in cash and cash equivalents	**(25)**	**(2,147)**

The movement in non-controlling interest was as follows:

	2019	2018
	(in thousands of HRK)	
Balance at 1 January	42,369	36,671
Effect of acquiring non-controlling interests	(1,647)	-
Foreign exchange differences	94	(170)
Share in current year profit	5,518	5,868
Balance at 31 December	**46,334**	**42,369**
Relating to:		
Mirna d.d.	***(404)***	***1,882***
Farmavita d.o.o.	***46,738***	***40,487***

NOTE 33 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	(in thousands of HRK)	
Interest rate swap	-	390
Forwards	292	25
	292	**415**

The overview of interest rate swaps is as follows:

31.12.2019	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
SWAP 1 - EBRD	-	-	-	-	-	-	0.00%
SWAP 2 - EBRD	-	-	-	-	-	-	0.00%
	-	-	-				

31.12.2018	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
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%
	41,080	**16,448**	**390**				

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 to their 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, as shown in the table above, while during 2019 the interest rate swaps expired.

Fair value measurement

The fair value of interest rate swaps is based on projections of discounted 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).

NOTE 34 – LOANS AND BORROWINGS

	2019	2018
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	242,601	271,016
Banks abroad	225,283	351,824
Finance lease	204	614
	468,088	**623,454**
Current borrowings		
Banks in Croatia	157,417	176,081
Banks abroad	149,674	165,315
Finance lease	651	936
	307,742	**342,332**
Total borrowings	**775,830**	**965,786**

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.

b) Debt coverage ratio (DCR). The parameter is calculated as the ratio of consolidated net debt and consolidated EBITDA.

c) Equity ratio (ER). The parameter is calculated as the ratio of consolidated equity and consolidated total assets.

d) Cash flow cover ratio (CFC). The parameter is calculated as the ratio of consolidated cash flows and consolidated debt repayments.

Bank borrowings in the amount of HRK 543,371 thousand (2018: HRK 706,099 thousand) are secured by mortgages over the Group's land and buildings and movables with a net carrying value of HRK 894,856 thousand (note 19).

The lease liabilities of the Group are as follows:

	Minimum lease		Finance cost		Present value	
	2019	2018	2019	2018	2019	2018
			(in thousands of HRK)			
Up to 1 year	676	987	(25)	(51)	651	936
Between 1 and 5 years	209	629	(5)	(15)	204	614
Total	**885**	**1,616**	**(30)**	**(66)**	**855**	**1,550**

	2019	2018
Included in the consolidated financial statements within:		
Current borrowings	651	936
Non-current borrowings	204	614
	855	**1,550**

NOTE 34 – LOANS AND BORROWINGS (CONTINUED)

The maturity of non-current borrowings (including the interest rate swap) is as follows:

	2019	2018
	(in thousands of HRK)	
Between 1 and 2 years	220,001	226,730
Between 2 and 5 years	248,087	357,733
Over 5 years	-	39,381
	468,088	**623,844**

Fixed and variable interest rates by major currencies are as follows:

	2019			2018		
	HRK	EUR	Other	HRK	EUR	Other
Non-current borrowings						
Banks in Croatia						
variable interest rate	-	1.40%	-	-	0.01	-
fixed interest rate	0.83%	1.36%	-	1.57%	1.80%	-
Banks abroad						
variable interest rate	-	0.94%	-	-	1.14%	-
fixed interest rate	-	-	4.72%	-	-	5.14%
Leases						
variable interest rate	-	6.02%	4.80%	-	6.09%	4.99%
fixed interest rate	-	-	-	-	-	5.74%
Current borrowings						
Banks						
variable interest rate	0.51%	-	2.75%	0.54%	-	2.79%
fixed interest rate	0.93%	-	2.94%	1.50%	-	3.94%

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

	2019		2018	
	fixed	variable	fixed	variable
	(in thousands of HRK)			
Non-current borrowings	238,253	229,835	241,763	381,691
Current borrowings	119,429	188,314	135,732	206,600
	357,682	**418,149**	**377,495**	**588,291**

The average weighted cost of debt on the Group's interest-bearing liabilities as at 31 December 2019 was 1.21% (31 December 2018: 1.62%).

NOTE 34 – LOANS AND BORROWINGS (CONTINUED)

The carrying amounts and fair values of the Group's long-term borrowings are as follows:

	Carrying value		Fair value	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)			
Non-current borrowings				
Banks in Croatia	242,601	271,016	241,845	272,616
Banks abroad	225,283	351,824	225,749	352,702
Finance leases	204	614	204	614
	468,088	**623,454**	**467,798**	**625,932**

The carrying amounts of the Group's borrowings (including the interest rate swap) are denominated in the following currencies:

	2019	**2018**
	(in thousands of HRK)	
Croatian kuna	113,832	69,470
EUR	623,656	839,252
Other currencies	38,342	57,454
	775,830	**966,176**

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:

	2019	**2018**
	(in thousands of HRK)	
Available for withdrawal	341,591	311,197
	341,591	**311,197**

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.

NOTE 34 – LOANS AND BORROWINGS (CONTINUED)

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

(in thousands of HRK)	Loans	Finance leases	Share capital	Other reserves	Retained earnings	Non-controling interests	Total
At 1 January 2019	965,786	-	1,691,884	339,273	516,603	42,369	3,555,915
Cash transactions:							
Loans received	409,950	-	-	-	-	-	409,950
Loans repayments	(602,865)	-	-	-	-	-	(602,865)
Repayment of lease liabilities	-	(35,346)	-	-	-	-	(35,346)
Sale of treasury shares	-	-	6,130	-	-	-	6,130
Dodatno stjecanje manjinskog interesa	-	-	-	1,635	-	(1,647)	(12)
Dividend paid	-	-	-	-	(62,177)	-	(62,177)
Total cash transactions	**(192,916)**	**(35,346)**	**6,130**	**1,635**	**(62,177)**	**(1,647)**	**(284,321)**
Non-cash transactions:							
Effect of change in exchange rates	2,591	726	-	1,787	-	94	5,198
Actuarial gains (net of deferred tax)	-	-	-	(1,095)	-	-	(1,095)
Transfer from retained earnings (note 31)	-	-	-	44,234	(54,403)	-	(10,169)
Other non-cash transactions	369	137,677	-	-	-	-	138,046
Gain from right-of-use assets write-off	-	(1,230)	-	-	-	-	(1,230)
Total other changes related to equity	-	-	622	-	220,855	5,518	226,995
At 31 December 2019	**775,830**	**101,828**	**1,698,636**	**385,834**	**620,878**	**46,334**	**3,629,340**

NOTE 35 – PROVISIONS

(in thousands of HRK)	Jubilee awards	Unused holiday accruals	Retirement benefits	Termination benefits and bonuses	Legal cases	Total
As at 31 December 2018						
Non-current	15,034	-	29,847	-	25,730	70,611
Current	2,165	17,002	-	6,357	328	25,852
At 1 January 2019	**17,199**	**17,002**	**29,847**	**6,357**	**26,058**	**96,463**
Increase of provisions	3,926	15,755	3,412	11,536	(29)	34,600
Utilised during the year	(2,477)	(17,002)	(1,500)	(6,093)	(321)	(27,393)
At 31 December 2019	**18,648**	**15,755**	**31,759**	**11,800**	**25,708**	**103,670**
Non-current	16,274	-	31,759	-	25,545	73,578
Current	2,374	15,755	-	11,800	163	30,092
	18,648	**15,755**	**31,759**	**11,800**	**25,708**	**103,670**

(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 2019.

(ii) Termination benefits and bonuses

As at 31 December 2019, the Group recognised HRK 11,800 thousand of provisions for bonuses to key management (2018: HRK 6,357 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:

	2019	2018
Discount rate	1,8% - 3,28%	2,9% - 2,96%
Fluctuation rate	4,69% - 11,85%	4,87% - 10,00%
Average expected remaining working lives (in years)	21	21

Management considers the Croatian corporate bond market to be a deep market.
Changes in the present value of the defined benefit obligation during the period:

	2019		2018	
(in thousands of HRK)	Jubilee awards	Retirement benefits	Jubilee awards	Retirement benefits
At 1 January	17,199	29,847	16,266	29,305
Past service cost	477	513	2,180	31
Current service cost	1,036	1,308	1,025	2,108
Interest expense	237	238	351	399
Actuarial (gains) / losses	2,330	1,375	(198)	(869)
Benefits paid	(2,631)	(1,522)	(2,425)	(1,127)
At 31 December	**18,648**	**31,759**	**17,199**	**29,847**

NOTE 36 – OTHER LONG-TERM LIABILITIES

	2019	2018
	(in thousands of HRK)	
Deferred income on government incentives	18,874	19,322
Other long-term liabilities	489	1,381
	19,363	**20,703**

Deferred income on government grants relates to non-monetary government grant to subsidiary in Slovenia and it is based on the amount of contributions for the employment of disabled persons.

In accordance with the relevant regulations, the aforementioned contributions are not paid into the government budget and it can be used for the acquisition of qualifying non-current tangible assets during three years' period. The amount of unpaid contributions is then recognized as government grant and transferred to profit or loss on a systematic basis over the useful life of the related assets. If the grant is not used for the acquisition of non-current assets within the prescribed period, unpaid contributions become payable.

The amount of deferred income on government grants that is expected to be transferred to profit or loss in the period of up to one year on a basis of depreciation of qualifying assets, or the amount of unpaid contributions, which will not qualify as a government grant and will become payable within one year, is recognized as a current liability in trade and other payables.

NOTE 37 – TRADE AND OTHER PAYABLES

	2019	2018
	(in thousands of HRK)	
Trade payables	406,551	476,655
Other payables	200,020	182,206
	606,571	**658,861**

At 31 December 2019 and 31 December 2018, 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:

	2019	2018
	(in thousands of HRK)	
Salaries and other benefits to employees	80,755	79,712
Accrued expenses	73,370	65,295
Deferred income	23,802	16,422
Taxes, contributions and other duties payable	5,173	6,043
Packaging waste disposal fee payable	1,244	671
Accrued interest	856	1,746
Advances received	2,102	2,941
Dividends payable	2,202	1,775
Other payables	10,516	7,601
	200,020	**182,206**

NOTE 38 – RISK MANAGEMENT

Categories of financial instruments are as follows:

	2019	2018
	(in thousands of HRK)	
Financial assets at amortised cost		
Long-term loans (note 23)	6	8
Long-term deposits (note 23)	1,483	1,475
Short-term loans (note 25)	15	7
Trade receivables (including bills of exchange) (note 25)	887,862	879,568
Cash and cash equivalents (note 27)	55,589	211,106
	944,955	**1,092,164**
Financial assets through other comprehensive income		
Equity instruments	5,292	4,883
Financial assets at fair value through profit or loss		
Financial instruments	36,397	-
Forward contracts (note 26)	12	296
	36,409	**296**
Total financial assets	**986,656**	**1,097,343**
Financial liabilities at amortised cost		
Finance lease liabilities (note 34)	855	1,550
Borrowings (note 34)	774,975	964,236
Lease liabilities (note 20)	101,828	-
Trade and interest payables (note 37)	407,407	478,401
	1,285,065	**1,444,187**
Financial liabilities at fair value through profit or loss		
Interest rate swap and forward contract (note 33)	292	415
	292	**415**
Total financial liabilities	**1,285,357**	**1,444,602**

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 26.

The Podravka Group considers that the carrying amount of investments in unquoted and quoted equity instruments with no active market approximates their fair value due to the fact that the respective instruments were acquired at a price willingly agreed by knowledgeable and unrelated parties.

The carrying amounts of finance lease liabilities and borrowings and lease liabilities approximate their fair values as these liabilities bear variable interest rates or fixed interest rate approximating market interest rates.

Financial liabilities relating to the interest rate swaps are measured at fair value as explained in note 33.

NOTE 38 – 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 Company 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:

	2019	2018
	(in thousands of HRK)	
Debt (non-current and current borrowings including interest rate swap)	776,122	966,201
Cash and cash equivalents	(55,589)	(211,106)
Net debt	720,533	755,095
Equity	3,219,428	3,047,706
Net debt to equity ratio	22%	25%

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 34).

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a possible financial loss to the Podravka Group. The Company adopted an 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, during 2019, the Podravka Group insured collection of receivables for a group of foreign markets (the Company insured receivables in the markets of the Republic of Croatia, Turkey, Qatar, Belarus, United Arab Emirates, Saudi Arabia, Oman, Kuwait, Egypt, Japan and Kenya).

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Credit risk management (continued)

The Podravka Group enters into business only with counterparties with good credit ratings, securing, when needed, receivables for the purpose of decreasing the risk of financial loss as a consequence of default. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

The Group's exposure to major customers

Following the progress of the extraordinary administration procedure over the Agrokor concern companies headquartered in Croatia and their takeover by the Fortenova group, Podravka continues its business cooperation with companies of the Fortenova group, taking into account the control of its overall exposure.

In line with the Agrokor's creditors settlement of 4th July 2018, which became effective as of 26th October 2018, the Fortenova Group became operational on 1st April 2019, thus implementing the plan of financial and ownership restructuring initiated following difficulties in operations of the Agrokor concern. An important element of the Agrokor's creditors settlement is the agreement on the payment of the so-called "border debt" to suppliers, related to the business results of the company Konzum d.d., i.e. Konzum plus d.o.o. from 2018 to 2021. In April 2018, in line with then available relevant information on the settlement within the process of extraordinary administration, Podravka d.d.. estimated the recoverability of the claimed receivables and impaired receivables in the amount of HRK 44,094 thousand which was booked in 2017. Since in 2018 the published monthly business reports of Konzum d.d. were significantly better than expected, the updated calculation of the receivables recoverability resulted in higher present value and at the end of 2018 the impairment of receivables was adjusted to HRK 36,189 thousand. In 2019, the updated calculation of receivables recoverability resulted in higher present value since the results of Konzum plus in 2018 and the results of Konzum plus for the first nine months of 2019 are higher than expectations included in the last-year's analysis, and on this basis at the end of 2019 the impairment of receivables was adjusted to HRK 24,015 thousand.

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 services where the required information is available (financial statements, credit ratings). The company's exposure and credit rating are continuously monitored through credit limits set by the company and insurer, which are continuously controlled and adjusted if appropriate.

Depending on the needs and the collection of receivables on individual markets, during 2019 the Podravka Group contracted insurance of receivable collection for a selected group of markets.

During 2019, the Podravka Group did not have significant damage claims related to the insurance of receivable collection.

NOTE 38 – 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 were continued in 2019 and resulted in additional optimisation of the Podravka Group's liquidity. The process of continuous monitoring of cash flows at the Podravka Group level, matching the maturity profiles of trade receivables and payables to customers and suppliers, banks and other financial institutions, enables timely ensuring optimum liquidity level required for Podravka Group's operating purposes.

Liquidity risk analysis

Tables below show contracted maturity of financial liabilities and financial assets of the Podravka Group stated in the consolidated statement of financial position at the end of each reporting period.

The tables have been drawn up based on the undiscounted cash flows based on contracted terms at reporting date and include cash flows from both interest and principal.

The liquidity risk analysis below shows no potential deficit of short-term liquidity for the Group.

as at 31 December 2019	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Interest rate swap and forward contracts	**292**	292	292	-	-
Trade and interest payables	**407,407**	407,407	406,728	679	-
	407,699	407,699	407,020	679	-
Interest bearing liabilities					
Lease liabilities	**855**	885	673	212	-
Borrowings	**774,975**	790,471	314,310	476,161	-
Lease liabilities	**101,828**	116,339	34,923	57,036	24,380
	877,658	907,695	349,906	533,409	24,380
	1,285,357	1,315,394	756,926	534,088	24,380
Non-interest bearing assets:					
Trade receivables	**887,862**	887,862	887,862	-	-
Financial instruments	**41,689**	41,689	-	41,689	-
Forward contracts	**12**	12	12	-	-
Cash and cash equivalents	**55,589**	55,589	55,589	-	-
	985,152	985,152	943,463	41,689	-
Interest bearing assets:					
Long-term loans	**21**	21	21	-	-
Long-term deposits	**1,483**	1,483	828	655	-
	1,504	1,504	849	655	-
	986,656	986,656	944,312	42,344	-
Net liquidity position	**(298,701)**	**(328,738)**	**187,386**	**(491,744)**	**(24,380)**

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management (continued)

Liquidity risk analysis (continued)

as at 31 December 2018	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Interest rate swap and forward contracts	**415**	415	415	-	-
Trade and interest payables	**478,401**	478,401	476,997	1,404	-
	478,816	478,816	477,412	1,404	-
Interest bearing liabilities					
Lease liabilities	**1,550**	1,611	908	703	-
Borrowings	**964,236**	997,893	354,301	603,712	39,880
	965,786	999,504	355,209	604,415	39,880
	1,444,602	1,478,320	832,621	605,819	39,880
Non-interest bearing assets:					
Trade receivables (including bills of exchange)	**879,568**	879,568	877,817	1,751	-
Financial instruments	**4,883**	4,883	-	4,883	-
Forward contracts	**296**	296	296	-	-
Cash and cash equivalents	**211,106**	211,106	211,106	-	-
	1,095,853	1,095,853	1,089,219	6,634	-
Interest bearing assets:					
Long-term loans	**15**	388	23	365	-
Long-term deposits	**1,475**	537	219	318	-
	1,490	925	242	683	-
	1,097,343	1,096,778	1,089,461	7,317	-
Net liquidity position	**(347,259)**	**(381,542)**	**256,840**	**(598,502)**	**(39,880)**

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks

(i) Interest rate risk management

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 in accordance with the agreed dates of changes in interest rates is as follows:

(in thousands of HRK)	**2019**	**2018**
EURIBOR based bank loans	382,560	536,112
EURIBOR based finance lease	852	1,483
TZMF bill of exchange based loans*	17,000	20,000
PRIBOR based bank loans**	17,737	30,691
LIBOR USD based bank loans***	-	5
	418,149	**588,291**

** 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, 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:

as at 31 December 2019	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
		(in thousands of HRK)			
At current interest rates	423,667	191,953	139,387	92,326	-
At current interest rates + 50 basis points	426,331	193,638	140,192	92,501	-
Effect of increase of interest rate by 50 bp	**(2,664)**	**(1,684)**	**(805)**	**(175)**	**-**

as at 31 December 2018	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
		(in thousands of HRK)			
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	-
Effect of increase of interest rate by 50 bp	**(4,748)**	**(2,190)**	**(1,527)**	**(1,031)**	**-**

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

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(ii) Price risk

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

The cost of raw materials can play a significant role in the cost of finished products the Podravka Group produces, therefore, it is subject to fluctuations of market prices of agricultural, food and pharmaceutical raw materials, whose impact cannot always be mitigated through the sale price for the buyer.

Protective customs and trade mechanisms in the EU protecting producers represent a risk in terms of increased customs duties for certain raw materials from third countries.
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 Company realises the procurement on the domestic and foreign markets, while the majority of turnover with foreign suppliers relates to suppliers from EU member states.

Among procurement function risks, the risk of availability of goods on market is one of the most significant, due to its possible impact on the Group's operations.

Over the last years, this risk is more prominent due to more frequent adverse weather conditions caused by climate change on the global level (long droughts, floods). The consequence are lower yields of some agricultural plants often coupled with their lower quality, which leads to the deficit of these raw materials in the free market (fresh and dried vegetables), even for several consecutive seasons. More frequent livestock diseases (African swine fever) cause global disruptions on the meat market, while political or social unrest in certain countries, state interventions on market (hazelnut, cocoa) or speculation with key agricultural and food products (wheat, sugar) are a constant threat in the global business environment.

Operating in such conditions, the procurement function of the Podravka Group minimizes these impacts through managing the strategic procurement categories and key suppliers, consolidation of purchasing volumes with the aim to strengthen market positions and ensure availability of raw materials for the production in required volumes, of satisfying quality and on time. Also, by continuously monitoring new technological solutions and introducing replacement raw materials where possible, the Podravka Group actively works on the mitigation and/or elimination of the risk of procurement of raw materials and availability of products.

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Risks of price fluctuations of basic raw materials

The market of agricultural and food products, as the most significant source of raw materials for the Company, is among the most sensitive markets of the modern world. Therefore, the volatility of prices of agricultural and food raw materials is a significant element in the Company's business environment, especially in conditions of prominent disruptions on the global and local markets. One of the reasons lies in the already mentioned risks of availability of goods due to environmental, geopolitical and social factors and speculations with key agricultural and food products, especially those in the wheat and sugar sectors. Exceptional price volatility is particularly relevant in the commodity market segment (hazelnut, sugar, spices, cocoa, powdered milk), and in the last year also in the segment of meat and meat products following the increased demand for pork in the market of China due to the swine fever.

Protective customs and trade mechanisms in the EU that, on one hand, protect EU producers, on the other hand pose a risk in terms of increased customs duties (antidumping) for certain raw materials from third countries.

In the part of pharmaceutical raw materials there has also been a rise in prices due to significant changes in the input raw material market. Due to the rise in ecological awareness and closure of factories in China that could not survive under the new conditions, there was a lack of primary raw materials which ultimately resulted in an increase in the prices of chemical syntheses.

To minimise these impacts, the Podravka Group's procurement function continuously monitors movements in prices and market trends, conducts joint tenders for certain strategic procurement categories, uses new procurement techniques (e-procurement, internet auctions) to increase the efficiency of the sourcing process and reduce the cost of procurement. Timely contracting, allocating a portion of risk to our suppliers, optimisation of material specifications and introduction of replacement raw materials, as well as active implementation of the Commodity Risk Management with strengthening of cost-driver analysis and technical analyses of all relevant inputs are only some of the measures taken by the Podravka Group for the purpose of best estimates of price movements and the minimisation of market price volatility risk.

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(iii) Currency risk

The carrying amounts of the Podravka Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows.

	Liabilities		Assets	
	2019	2018	2019	2018
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	687,905	812,494	270,163	360,696
Bosnia and Herzegovina (BAM)	43,873	44,938	129,865	135,310
Poland (PLN)	24,002	24,914	46,063	52,781
Russia (RUB)	8,179	1,651	150,658	100,176
Czech (CZK)	36,040	45,782	18,975	21,347
Other currencies	27,117	30,302	116,593	126,719

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 2019 to changes in the exchange rate of the Croatian kuna against EUR, BAM, PLN, RUB and CZK.

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).

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(iii) Currency risk (continued)

Foreign currency sensitivity analysis (continued)

Currency risks arise from operation of subsidiary companies in foreign markets and the purchase of food raw materials in the international market which is largely in Euro and US dollar. Similarly, the Podravka Group has a significant part of borrowings denominated in EUR.

During 2019, 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 2019, the Podravka Group concluded fx forward contracts for managing currency risk of the following foreign currencies: AUD, CAD, RUB, HUF and PLN. Due to the limited volatility of the EUR exchange rate and the exchange rate regime implemented by the Croatian National Bank, derivative financial instruments were not contracted for hedging purposes. Belupo d.d., a company in the Podravka Group, realises a significant portion of its revenue in the Russian market and is therefore exposed to changes of the RUB exchange rate. For the purposes of active monitoring and minimising the currency risk, in 2019 fx forward contracts were concluded as available hedging instruments.

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(iii) Currency risk (continued)

Foreign currency sensitivity analysis (continued)

The currency risk analysis is based on the official exchange rates for the currencies analysed above as per the Croatian National Bank, which were as follows, except for the Russian ruble for which the ECB exchange rate is used:

	31.12.2019	31.12.2018
EUR	7.4426	7.4176
BAM	3.8053	3.7925
PLN	1.7493	1.7259
RUB	0.1074	0.0933
CZK	0.2924	0.2876

The following table details the Podravka Group's sensitivity to a 1% increase in Croatian kuna against the relevant foreign currencies where the Podravka Group has significant exposure (EUR, BAM, RUB, PLN and CZK). The sensitivity analysis includes only outstanding cash items in foreign currency and their translation at the end of the period based on the percentage change in currency exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit where Croatian kuna changes against the relevant currency for the percentage specified above. For an inversely proportional change of Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit.

	EUR exposure 2019	2018	CZK exposure 2019	2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	(4,177)	(4,518)	(171)	(244)

	BAM exposure 2019	2018	PLN exposure 2019	2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	860	904	221	279

	RUB exposure 2019	2018
	(in thousands of HRK)	
Increase/(decrease) of net result	1,425	985

NOTE 38 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Sales function based risks

The Podravka Group generates 32% (2018: 32%) of its revenue on the Croatian market, whereas 68% (2018: 68%) of the sales are generated on international markets. The Podravka Group determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

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

The Podravka Group is making efforts through 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 38 – RISK MANAGEMENT (CONTINUED)

Business risks management (continued)

Risks of IT system disruptions

The Group intensely uses IT systems that enable it to efficiently manage the Group, communicate with customers and suppliers, and collect all the information that management can rely on in making decisions.

Given the high degree of automation of business processes through the use of IT systems, the Group takes the necessary measures to minimise IT system disruptions due to problems with IT equipment, the space in which it is located, viruses and unauthorised external breaches into the systems.

As each IT system disruption causes significant problems in operating systems and financial losses, the Group has implemented IT system recovery procedures through the construction of an auxiliary IT room that assumes the function of the main IT system room in case of a problem. In the normal operating mode, both IT system rooms work in the active-active mode.

The Group regularly conducts internal and external penetration tests (conducted by external independent security experts) to minimise the risk of using system vulnerabilities for the spread of viruses and the risk of unwanted external breaches into the IT systems.

Also, following the implementation of advance security monitoring systems, monitored on a daily basis, the risk of external breaches into the Podravka Group's IT systems is additionally reduced and minimised.

Podravka d.d. is in the final phase of implementing the ISO 27001 project aimed at additionally strengthening security procedures and raising awareness of IT security among the Podravka Group's employees.

Risks of dependency on management and key employees

The Group strongly relies on its employees as one of the major competitive advantages. Employees are the highest value of the Group, i.e. their abilities and skills, used to achieve the Group's goals and create added value.

The labour market 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 redundancy programmes of high quality 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.

NOTE 39 – 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 Group, in which case such an option generally becomes exercisable within six months from the occurrence of any of the circumstances described above. The following share-based payment options were effective as at 31 December 2019:

Date of issue	Number of options	Vesting terms	Contracted vesting period
Options granted to key management of the Group			
As at 31 December 2015	9,713	Service during the contracted vesting period	31.12.2020.
As at 15 February 2016	10,004	Service during the contracted vesting period	22.02.2020.
As at 1 June 2016	2,000	Service during the contracted vesting period	30.06.2023.
As at 12 December 2017	2,000	Service during the contracted vesting period	30.06.2023.
As at 12 December 2017	4,000	Service during the contracted vesting period	31.12.2022.
As at 12 December 2017	2,000	Service during the contracted vesting period	30.09.2021.
As at 17 March 2017	2,000	Service during the contracted vesting period	31.12.2022.
As at 17 March 2017	17,000	Service during the contracted vesting period	31.12.2022.
As at 21 July 2017	5,000	Service during the contracted vesting period	31.12.2022.
As at 1 May 2018	2,000	Service during the contracted vesting period	31.12.2022.
As at 30 June 2017	5,000	Service during the contracted vesting period	31.12.2022.
As at 31 December 2017	4,000	Service during the contracted vesting period	31.12.2022.
As at 31 July 2018	40,500	Service during the contracted vesting period	31.12.2023.
As at 31 July 2018	2,000	Service during the contracted vesting period	30.06.2023.
As at 23 July 2018	7,500	Service during the contracted vesting period	31.12.2023.
As at 13 December 2019	2,000	Service during the contracted vesting period	31.12.2023.
As at 4 October 2018	9,000	Service during the contracted vesting period	31.12.2023.
As at 10 December 2019	32,500	Service during the contracted vesting period	31.12.2024.
As at 28 May 2019	10,000	Service during the contracted vesting period	31.12.2024.
As at 28 May 2019	2,500	Service during the contracted vesting period	30.06.2023.
As at 30 July 2019	9,000	Service during the contracted vesting period	31.12.2024.
As at 13 December 2019	9,500	Service during the contracted vesting period	31.12.2024.
Total share options	**189,217**		

NOTE 39 – 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:

Share option programme for key management	2019	2018
Fair value at grant date (weighted average)	102	92
Share price at grant date (weighted average)	385	341
Exercise price (weighted average)	364	328
Expected volatility (weighted average)	17%	16%
Expected life (weighted average in years)	3.1	3.3
Risk-free interest rate (based on government bonds)	4.39%	4.88%

Expense recognised in profit or loss	2019	2018
		(in thousands of HRK)
Equity-settled share-based payment transactions	7,554	2,093

The exercise price of share options for key management is in the range HRK 300 to HRK 429.

Movement in number of share options and respective exercise prices in HRK is as follows:

	2019		2018	
	Number of options	Weighted average excercise price	Number of options	Weighted average excercise price
Outstanding at 1 January	173,744	328	130,051	334
Exercised	(50,027)	333	(7,000)	299
Expired	-	-	(10,307)	297
Granted	65,500	482	61,000	317
Outstanding at 31 December	**189,217**	**364**	**173,744**	**328**

As at 31 December 2019, there are 189,217 of outstanding options (2018: 173,744 options). In 2019, 50,027 options were exercised (2018: 7,000 options).

The weighted average exercise price of outstanding options at the end of 2019 is HRK 364. (2018: HRK 328). The price of all unexercised share options is lower than the share market price as at 31 December 2019. The weighted average remaining validity of options is 3.1 years at year end (2018: 3.3 years).

NOTE 39 – 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. During 2018, the qualifying employees were allocated shares, and therefore the capital reserve was reduced by HRK 4,961 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 based on ESOP.

NOTE 40 – RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are its related parties, are eliminated through consolidation and are not presented in this note.

Transactions with key management and Supervisory Board members

	2019	2018
	(in thousands of HRK)	
Key management remuneration		
Salaries, severance and bonus payments	54,318	50,777
Share-based payments (note 39 (i))	7,554	2,093
	61,872	**52,870**

Key management of the Group comprises the Management Board and executive directors and consisted of 65 persons (2018: 65 persons).

During 2019, a total of HRK 2,225 thousand (2018: HRK 1,929 thousand) was paid as compensation to members of the Supervisory Board at the Group level.

NOTE 41 – CONTINGENT LIABILITIES

	2019	2018
	(in thousands of HRK)	
Guarantees and warranties given	29,134	31,554
	29,134	**31,554**

Guarantees and warranties mainly relate to the potential liability of Podravka d.d. on the basis of customs guarantees and guarantees for transit procedures and guarantees for regular repayment of advances and contingencies on the basis of customs guarantees and payment guarantees to the Croatian Ministry of Economy, Entrepreneurship and Crafts of the Belupo Group, contingencies for performance guarantees of the Žito Group, and contingencies on the basis of customs guarantees of Podravka d.o.o. Belgrade.

With respect to guarantees and warranties granted, contingent liabilities have not been recognised in the consolidated statement of financial position as at 31 December as the Management Board estimated that, as at 31 December 2019 and 2018, it is not probable that they will result in liabilities for the Group.

NOTE 42 – COMMITMENTS

In 2019, the purchase costs of tangible fixed assets contracted with suppliers amounted to HRK 51,057 thousand (2018: HRK 36,992 thousand), which are not yet realised or recognised in the consolidated statement of financial position.

The future payments under operating leases in 2019 relate to the usage of IT equipment, while in 2018 they relate to the usage of vehicles, forklift trucks and IT equipment, as follows:

	2019	**2018**
	(in thousands of HRK)	
Up to 1 year	6,112	28,887
From 1 to 5 years	5,403	35,571
	11,515	**64,458**

NOTE 43 – EVENTS AFTER THE REPORTING PERIOD

On 27 February 2020 the High Commercial Court issued a verdict confirming the second-instance verdict of the subsidiary of the Podravka Group in court proceedings.
Under this circumstances, the subsidiary will use all further legal options to challenge the judgment and positive outcome is expected.