

# **PODRAVKA INC. ANNUAL REPORT FOR 2019**



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A multi-story building with a red overlay. The building has many windows and a sign on top that reads "PODRAVKA". A construction crane is visible in the foreground, and a person is walking on the sidewalk. The sky is dark and cloudy.

PODRAVKA

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

# 1 Introductory words of the President of the Management Board

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## DEAR STAKEHOLDERS OF PODRAVKA,

After 2018, Podravka **continued with the trend of constant sales growth** in 2019. Therefore, we can proudly say that we have ended 2019 with HRK 2.078,8m of sales revenue and operating income of HRK 115,2m.

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 our success are employees** who, through their hard and diligent work, contribute to achieving top results. Accordingly, during 2019, **Podravka significantly improved the material rights of its employees** and, in addition to the payment of the one-off bonus for successful business results, implemented additional incentive measures such as increased base salary and fixed supplement, savings in the 3rd pension pillar, jubilee awards and Easter bonus. Hence, in 2019, Podravka employees received a net average of HRK 10,100 in a range of salary additions, and an additional HRK 1,000 net was paid into the voluntary third pension pillar of the employee's choice.

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 19,1 percent, while the domestic stock indices Crobex and Crobex10 individually increased 15,4 percent and 18,0 percent, respectively.

Organic growth is based on brand development and product innovation in all categories of Podravka's product range, and our success has been confirmed through the trust and rewards received from both consumers and the profession.

Thus, the treasury of Podravka's product quality awards in 2019 is richer for new Superior Taste Awards, the world's most acclaimed award in the food segment, for Lino Lada Gold and products from the Vegeta, Eva and Fant product range.

Speaking of brands, the past 2019 was also marked by the celebration of a great jubilee, the 60th anniversary of Podravka's leading brand Vegeta, which in its six decades of existence has entered the kitchens of consumers from more than 50 countries worldwide, becoming not only the most successful Croatian export product, but also a world-conquering phenomenon.

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, Podravka 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 worldwide.

*President of the Board*

*Marin Pucar*

A stylized, handwritten signature in black ink, likely belonging to Marin Pucar, the President of the Board. The signature is fluid and cursive, with a large initial 'M' and 'P'.



# 2 Podravka profile

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## NAME AND HEADQUARTERS LOCATION

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

## ORGANIZATIONAL STRUCTURE

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The organizational structure of Podravka Inc. **follows the operations of the SBA Food**. Business units included in the Strategic Business Area Food are related to certain product groups:

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

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

- ADRIA REGION
- INTERNATIONAL MARKETS.

**The Adria** region consists of the Market of the Republic of Croatia and Southeast European Market.

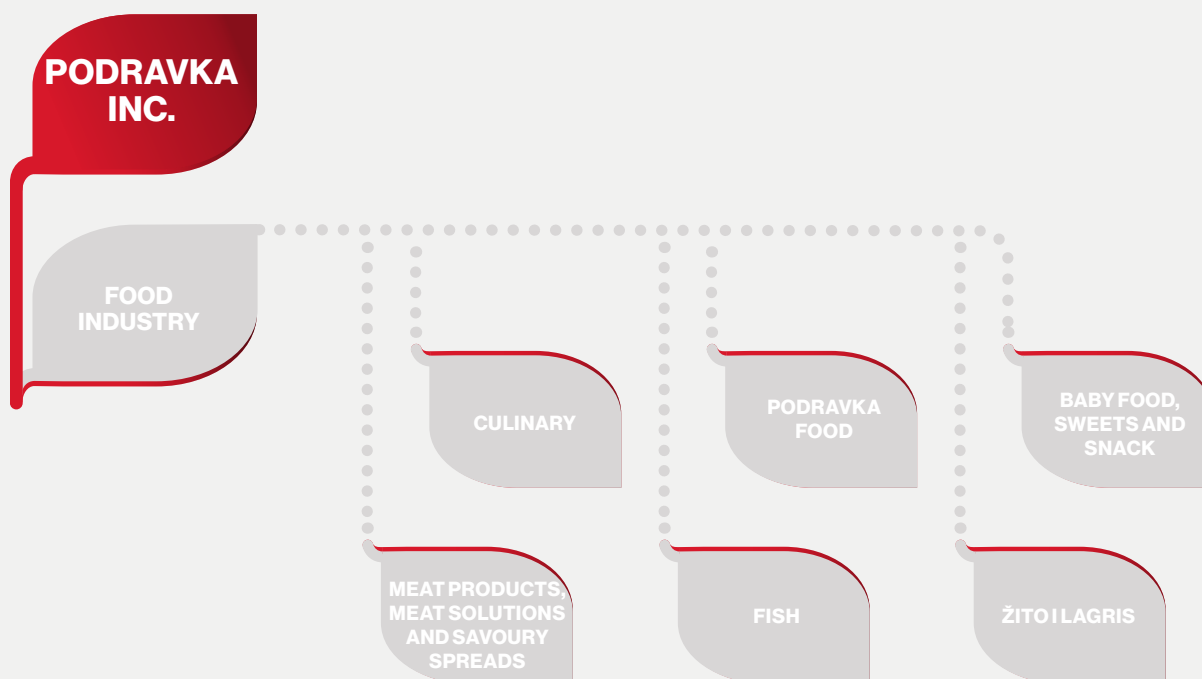
**International markets** include the Central European Market, the Western European Market and Overseas Countries, the Eastern European Market and the New Markets.

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

An important part of the business organization of Podravka Inc. 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 also 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 Inc. 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.

**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.

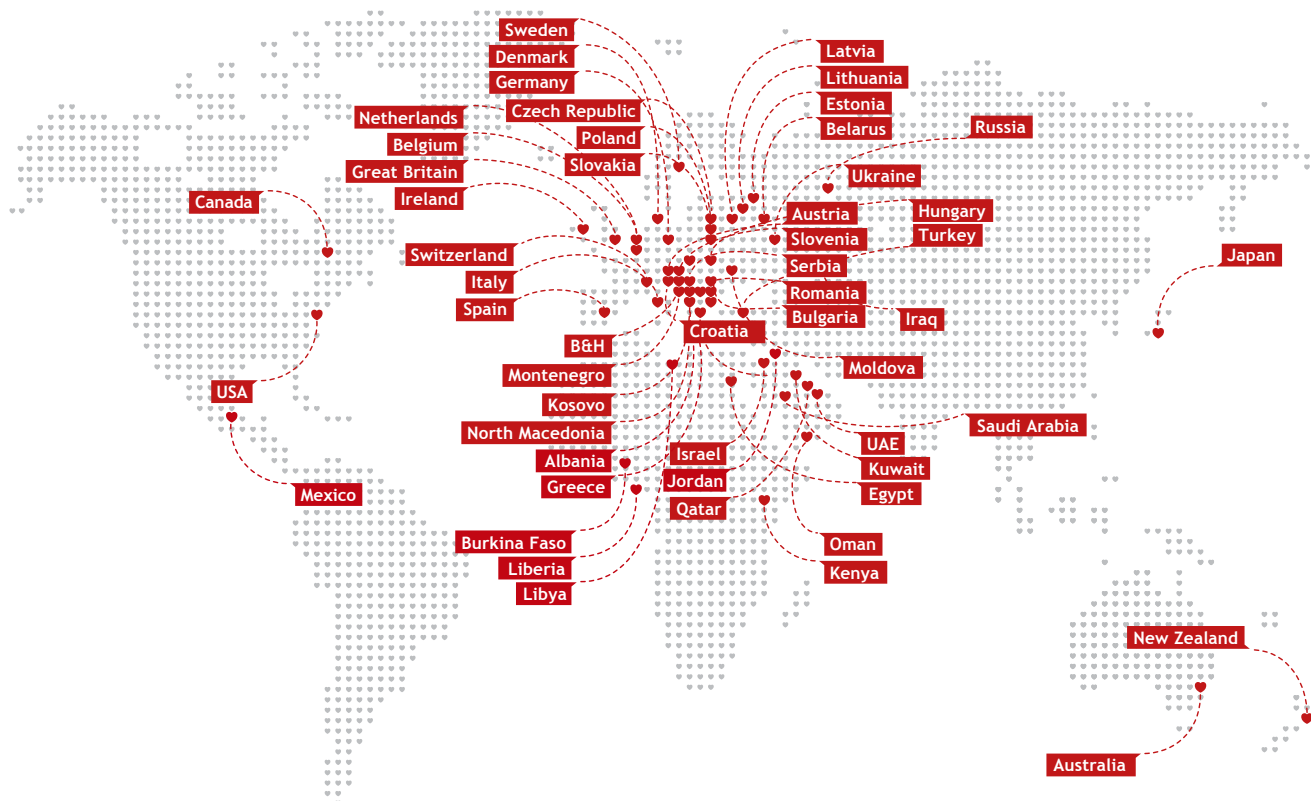
**PODRAVKA VEGETABLES** perfectly preserve and refine the original flavours of vegetables throughout the year and bring them to our consumers' tables. Sterilized and pickled so they can be used all year round, without any significant changes in their nutritional value. Harvested at the most convenient 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.



## LOCATION OF BUSINESS ACTIVITIES



Podravka's business activities within the Strategic Business Area Food take place on both domestic and international markets that are divided as follows:

- **Adria region** that includes Croatia and countries of South Eastern Europe (Slovenia, Bosnia and Herzegovina, Serbia, Northern Macedonia, Montenegro, Kosovo, Albania, Bulgaria and Greece)
- **International markets** that include:
  - **Central Europe** that includes the countries of 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 MENA countries (UAE, Saudi Arabia, Iraq, Qatar, Kuwait, Oman, Levant and North African countries), Africa (East Africa and West Africa) and Asia.

## 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
<b>TOTAL</b>	<b>7,120,003</b>	<b>100.00</b>

## SUPPLY CHAIN

### CHARACTERISTICS OF THE SUPPLY CHAIN OF PODRAVKA INC.

Podravka Inc.'s supply chain is organized on the principle of **Supply Category Management** and **Supplier Relationship Management**.

The Company'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 the 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 best possible and achieving better and more transparent results, **Podravka Inc. successfully uses advanced information technologies such as e-contracting platform, e-tenders and e-auctions.**

*Supplier Relationship Management* is of strategic importance to Podravka. Segmentation and a differentiated approach to suppliers, given their contribution to creating added value for the company, contributes significantly to the business success of Podravka Inc. 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.**

Podravka Inc. **continually implements and improves the food safety system and manages quality** 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).

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

In 2019, Podravka Inc. generated sales with a total of 3,091 suppliers from 56 countries worldwide, of which the majority of turnover was realized with domestic suppliers.

In the structure of imports, 85% are suppliers from EU Member States (464 suppliers) cover, while the majority of turnover from NON EU countries mainly comes from Switzerland, Thailand, Turkey and countries in the region (Northern Macedonia, Serbia, Bosnia and Herzegovina).

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. A high 64% of the total turnover has been realized at local level as a result of fully respecting this criteria.



## SIGNIFICANT CHANGES IN THE SUPPLY CHAIN OF PODRAVKA INC.

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Given the large number of suppliers with whom Podravka 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 company 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

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

- referring employees who work in special work conditions and, if necessary, other employees, to **regular medical examinations** at occupational health clinics;
- developing new products that **promote better human health and quality of life**, in terms 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, fats, etc.);
- communicating development and reformulation results, **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 adverse 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 capacity of our own technological resources** by developing innovative products;
- continuous improvement of **efficient waste management** by reducing waste materials and raw materials, rationalizing the use of consumables and educating employees.

## EXTERNAL INITIATIVES OF PODRAVKA

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**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.** 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

# 3

## Corporate governance

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

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At the General Assembly, the **shareholders get to vote in person, through their proxy or authorized person**. Shareholders entered in the computer system of the Central Depository & Clearing Company 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

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

**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 core team preparing and conducting the initial public offering (IPO) and listing of Pliva shares on the Zagreb and London Stock Exchanges. In 1999, he moved to Lura Inc. to the post of Managing Director. In 2002, he continued his career at the Adris Group Inc. as a member of the Board responsible for development. Since 2012, he has been working at the Vukina and Partners Ltd. Law Firm as a business consultant.

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

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

## LUKA BURILOVIĆ

### Supervisory Board deputy president

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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

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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

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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**

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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**

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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

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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

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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 Sišćani. During 2015 - 2016, he served as the appointed director for Pestova Sh.P.K. at the European Bank for Reconstruction and Development (EBRD).

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



## MARINA DABIĆ

### 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 Strathclyde

University, Glasgow in the area of transfer of knowledge and strategic management.

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

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

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

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

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



## 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*.

## PETAR VLAČIĆ

Petar Vlačić 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).

## 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.

## MANAGEMENT BOARD

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Pursuant to the provisions of the Articles of Association of Podravka Inc., the Management Board consists of three to six members appointed by the Supervisory Board. The Management Board is appointed for 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 were as follows:

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 2019 to Management Board members of Podravka Inc. amounted to HRK 11,165 thousand.

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, he was Supervisory Board member of Danica Ltd. and Belupo Inc. In 2012, he became Management Board member of the Croatian Chamber of Commerce, and its deputy president in 2016, 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 PharmaSwiss 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

## Expected development

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

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The aim of Podravka is company growth and **development through the efficient management of the product range**, focusing on key brands (Vegeta, Podravka, Lino), 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 the markets of the Adria region, Podravka aims to be the **leading manufacturer of branded products**, and in Central and Eastern Europe it aims to achieve additional growth and strengthen market positions.

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

## GENERAL STRATEGIC GOALS

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

To be the **leading food company** on defined strategic markets.

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

To keep pace with or be ahead of the average of industries in which Podravka operates on key markets regarding the levels of cost and production efficiency. To reduce costs of procurement, sales and distribution, general and administrative costs and thus enable **higher investments in marketing, research and product development**, and to **improve cash flow**, necessary for optimum operations, by better financial management.

**To be the leader** or strong second place competitor in defined business units on strategic markets and to strengthen the existing international markets.

To contribute to the **development of Croatian economy** and to be the consolidator of the food industry in the region.

## KEY FACTORS OF SUCCESS

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### 1. COMPANY STRENGTHS AND VALUES

#### EMPLOYEES

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

#### QUALITY

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

#### LONG-ESTABLISHED TRADITION

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

#### SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

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

#### PODRAVKA BRANDS AND CONSUMER TRUST

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

#### WIDE DISTRIBUTION NETWORK

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

#### PARTNER RELATIONS

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

## 2. PROFITABLE GROWTH

### FOCUS ON KEY BRANDS

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

### BUSINESS INVESTMENTS

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

### STRENGTHENING THE EXISTING MARKET POSITIONS

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

### INTERNATIONALIZATION

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

### STRATEGIC PARTNERSHIPS AND ACQUISITIONS

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

### 3. OPERATING EFFICIENCY

#### MORE EFFICIENT COST MANAGEMENT

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

#### CONTINUOUS MONITORING OF THE PRODUCT RANGE PROFITABILITY

Podravka focuses on profitability through the restructuring of certain areas and thus intends to release capital for investments in profitable categories. Caring about its product range and long-term understanding of consumer needs enables Podravka to provide high-quality products and strengthen its own brands.

#### STRATEGY CASCADING – CLEAR GOALS AND RESPONSIBILITIES

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

#### BUSINESS UNITS

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

#### DEVELOPMENT OF INTERNAL COMPETENCIES

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

## RISK FACTORS

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

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

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

Podravka's activities in the area of risk management continued to focus on developing the Enterprise Risk Management project; ERM. This project refers to the process of integrated analyses and reports on key risks that the company is exposed to, identifying potential events which can have negative effects on the Company's business results and managing the identified risks, accordingly. 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. 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 undergo the analysis and reporting process within the ERM project. During 2019, Podravka revised the input data within the scope of the ERM project for Podravka Inc., including 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 addition to being a tool for improving business processes, the purpose of the ERM project is to limit the Company's potential losses, improve investor relations management, increase financial safety and integrate risk reports and analyses into the decision-making process, thus creating additional value for the Company and matching return rates with assumed risks arising from operating activities.

## FINANCIAL RISKS

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An integral part of the overall ERM project is the Escalation procedure for managing financial risks. This procedure is applied when it is assessed that due to extraordinary circumstances an immediate decision on some business activities has to be made in a manner that differs from Podravka'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 together with active management of excess liquidity investment and active management of financial assets and liabilities.

## CURRENCY RISK

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Podravka conducts certain transactions in foreign currencies and is therefore, exposed to the risk of fluctuations in exchange rates. The most significant exposure to changes in exchange rates of the Croatian kuna during 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'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, Podravka continued to apply the model of managing transaction currency risk called "Layer hedging". This model is applied to the following basket of currencies: USD, AUD, CAD, RUB, CZK, HUF and PLN. The integral parts of the model include the identification of risk sources and exposure measurement (using the Monte Carlo method of Value at Risk simulation), process of contracting derivative financial instruments for hedging purposes and the

control and reporting system. Additionally, within the model, exposure limit parameters were set which are triggers for contracting the prescribed hedge levels. Using the Bloomberg terminal, macroeconomic projections are regularly monitored and derivative financial instruments for currency risk management are contracted. Also, Podravka 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 currency 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.

## INTEREST RISK

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Podravka 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. Podravka 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, Podravka is **not significantly exposed to any interest rate risk.**

## CREDIT RISK AND RISK OF DEBT COLLECTION

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

Podravka **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'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 and their takeover by the Fortenova Group, Podravka continues its business cooperation with companies of the Fortenova 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 for a particular customer category 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 as appropriate.

Depending on the needs and collection status of receivables on individual markets, during 2019, Podravka contracted insurance of receivables for a selected group of markets. (The Company secured receivables on the markets of the Republic of Croatia, Turkey, Qatar, Belarus, the United Arab Emirates, Saudi Arabia, Oman, Kuwait, Egypt, Japan and Kenya).

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



## PRICE RISK

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The cost of raw materials could have a significant role in the cost of finished products that the Company 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 Company, 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 Company'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 Company for the purpose of better price trends assessment and reducing the risk of price volatility in the market.

## LIQUIDITY RISK

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Podravka manages liquidity risk by setting an appropriate liquidity risk management framework, in order to **efficiently manage short and long-term funding and liquidity requirements and by maintaining adequate liquidity reserves** and available credit lines.

Continuous cash flow management through regular analyses and observing the maturity of receivables and liabilities towards customers, suppliers, banks and other financial institutions ensures sufficient levels of liquidity necessary for the Company's regular business operations.

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

Additional efforts in cash flow planning at the level of all related companies made in earlier periods continued during 2019, and have resulted in additional optimization of Podravka's liquidity.

## BRAND MANAGEMENT

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Business conditions in most markets in which Podravka operates are challenging due to local, regional and global competition, but also because of the risk of a drop in spending power, strengthening of customer power and new market and consumer trends that are emerging in the environment. 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 Podravka is continuously faced with the need to promptly identify and anticipate them in order to adapt its products and brands, accordingly. As a result, Podravka is constantly designing and developing innovative solutions in line with the expectations of its customers and clients 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, Podravka has confirmed that it is the **leader in setting food trends in Croatia and beyond.**

## BUSINESS SEGMENT MANAGEMENT

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As a company that sees the achievement of its goals through both organic and inorganic business growth, an optimal selection of the strategic segments of product categories, markets and sales channels has a significant impact on the opportunities for that growth. For that reason, Podravka **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 Podravka additionally internationalises its operations and diversifies its product portfolio. This significantly **reduces any risk of dependence on a particular product, market or business partner.**

## CLIENT RELATIONS MANAGEMENT

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

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

In addition, Podravka makes every effort to ensure the best preconditions for further successful long-term growth through the harmonization and optimization of existing pricing policies and price levels in current 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

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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

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

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

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

# NON-FINANCIAL REPORT

# 1 Podravka Research and Development

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## „GO WEST“ PROJECT

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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

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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

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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

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In 2019, a two-year project of mapping the state of technological devices at Podravka's production sites (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.

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

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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)

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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

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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

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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.

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

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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.

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

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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*".

# 2 Certification

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.

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:

NO.	STANDARD	LOCATIONS	AUTHORITY
1	ISO 9001:2015	1. Podravka Inc. (all locations in Croatia)	Certification Authority SGS
2	HACCP according to Codex Alimentarius	1. Podravka Inc. (all locations in Croatia)	Certification Authority SGS
3	IFS Food, Version 6.1 International Featured Standards - Food	1. Podravka Inc. headquarters, Koprivnica Soups & Vegeta Factory, Koprivnica Baby Food & Cream Spreads Factory, Koprivnica Danica production plant, Koprivnica Production of semi-prepared and -made meals, Koprivnica 2. Kalnik Factory, Varaždin 3. Vegetable Factory, Umag	Certification Authority SGS
4	BRC, Issue 8 (British Retail Consortium) Global Standard for Food Safety	1. Podravka Inc. headquarters, Koprivnica 2. Soups & Vegeta Factory, Koprivnica 3. Baby Food & Cream Spreads Factory, Koprivnica	Certification Authority SGS

5	<b>HALAL</b>	<ol style="list-style-type: none"> <li>1. Danica Factory, Koprivnica</li> <li>2. Kalnik Factory, Varaždin</li> <li>3. Fruit Factory, Koprivnica</li> <li>4. Restaurant “Podravska klet”, Koprivnica</li> <li>5. Soups &amp; Vegeta Factory, Koprivnica</li> <li>6. Baby Food &amp; Cream Spreads Factory, Koprivnica*</li> <li>7. Snacks Factory, Koprivnica</li> </ol>	<b>Halal quality Certification Centre</b>  <b>Emirates Authority For Standardization &amp; Metrology</b>
6	<b>KOSHER</b>	<ol style="list-style-type: none"> <li>1. Kalnik Factory, Varaždin</li> <li>2. Soups &amp; Vegeta Factory, Koprivnica</li> <li>3. Fruit Factory, Koprivnica</li> <li>4. Snacks Factory, Koprivnica</li> <li>5. Mill, Koprivnica</li> </ol>	<b>Rabin Kotel Da-Don</b>
7	<b>BIO</b>	<ol style="list-style-type: none"> <li>1. Podravka Inc., Koprivnica <ul style="list-style-type: none"> <li>› Ecological tea</li> <li>› Ecological grits</li> <li>› Ecological rice</li> <li>› Ecological puree</li> <li>› Ecological cereal</li> <li>› Ecological seeds</li> <li>› Ecological tomato products</li> <li>› Bio oatmeal merc blage 500 g</li> <li>› Bio rice vacuum 800 g</li> <li>› Bio biozone millet 500 g</li> <li>› Bio oatmeal merc 500 g</li> <li>› Bio polenta 450 g</li> <li>› Bio biozone buckwheat 500 g</li> </ul> </li> </ol>	<b>Austria Bio Garantie</b>
8	<b>AOECS Gluten free</b>	<ol style="list-style-type: none"> <li>1. Snacks Factory, Koprivnica</li> </ol>	<b>Certification Authority SGS</b>
9	<b>EUROPEAN VEGAN</b>	<ol style="list-style-type: none"> <li>1. Kalnik Factory, Varaždin</li> <li>2. Snacks Factory, Koprivnica</li> </ol>	<b>Association „Priatelji životinja“ (Friends of Animals)</b>
10	<b>RSPO Supply Chain Certification Standard</b>	<ol style="list-style-type: none"> <li>1. Soups &amp; Vegeta Factory, Koprivnica</li> </ol>	<b>Certification Authority SGS</b>

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 Factory, Koprivnica
  - Production of Semi-prepared and ready-made meals, Koprivnica
  - Kalnik Factory, Varazdin
- 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

# 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, the **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 Eva 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 strengthening 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.



# 4

## Employee relations

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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 full-time workers were employed and 30 young workers as trainees, while 83 part-time workers were given a permanent contract.

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, Podravka employees 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 3000, 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**.

# 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.



# 6

## Social responsibility

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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, Podravka 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.

# 7 Significant promotional activities

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.



60 YEARS OF VEGETA

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

#### 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.

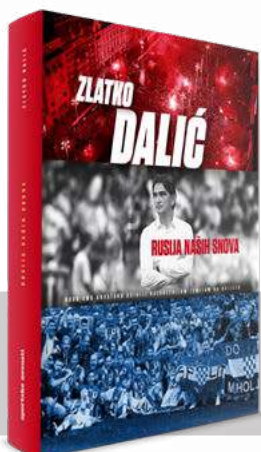
With the support of its ambassador Zlatko Dalić, Podravka attended Gulfood - **the largest and most important specialized food industry fair** in the Middle East with over 5,000 exhibitors. Podravka has been exhibiting for the third year in a row at Gulfood, which is visited by about 90,000 visitors 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.**

#### PODRAVKA 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.

Podravka was presented through tastings and sampling of Podravka chutney, Žito bread and pastries from the Toasts program, Šumi candy and Vegeta Natur.





## 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 Independence 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.**

## THE FINALS OF THE 13<sup>TH</sup> 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 **13<sup>th</sup> 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.



## PODRAVKA PODRAVKA AT THE JUBILEE 30<sup>TH</sup> 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.

## 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.**

## 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.

## 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.



## 22<sup>ND</sup> 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 22<sup>nd</sup> 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 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.



# 8

## Digital innovations

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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, **24 web platforms were developed** for brand communication: Vegeta60g - HR&BiH, SRB, CG, Vegeta Natur - RU and HR, Summer campaign - HR, PL, SK, CZ, HU, SI, DE, AU, Spices of inspirations - HR, MK, Fant - HR and MK, Fini Mini - HR and MK, Majstor - HR, Podravka aivar - HR, RajčiCar - HR, Salut - HR, Bio tomato - HR.

**New 13 brand profiles were launched on social networks:** IG Podravka HR, FB and IG Dolcela HR, FB and IG Lino Lada CG and HU, FB and IG Zlatopolje HR, FB and IG Šumi HR, IG Vegeta KAZ, IG Vegeta Natur LV.

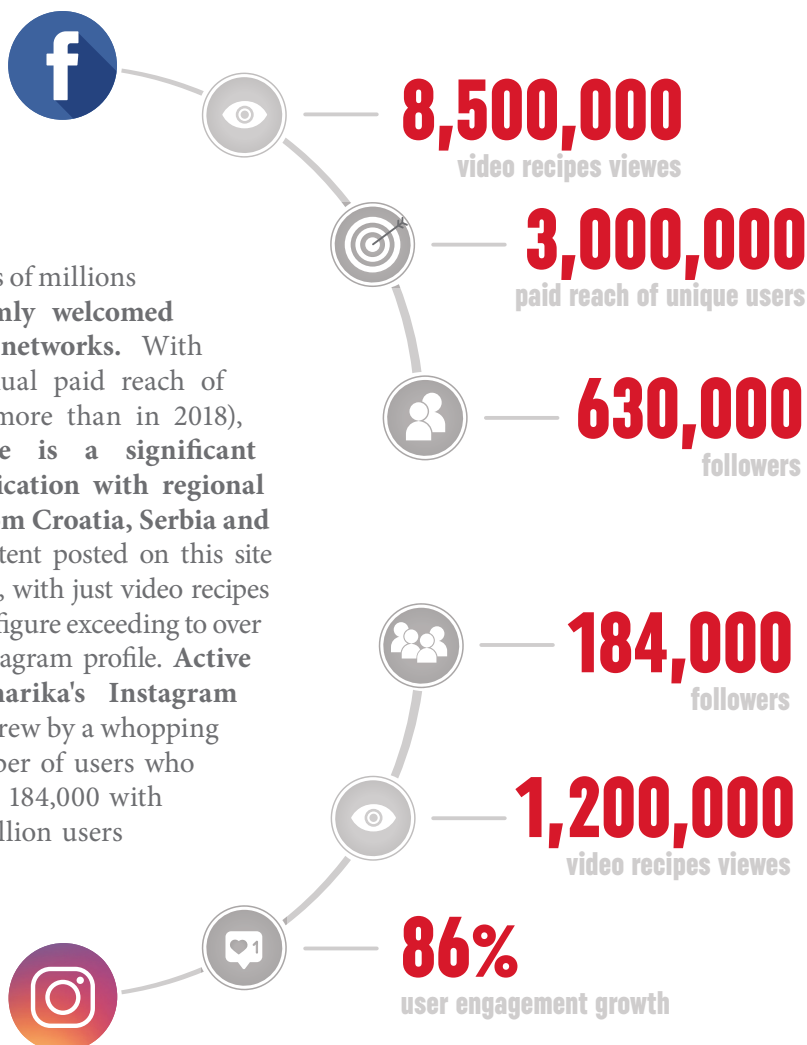
The blogger network expanded as well as influencers who extended even to nano influencers. Lino products continue to regularly pass through the hands of Croatian YouTube stars, while Kviki has already become an indispensable part of the gaming world. This is especially emphasized by the successful communication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

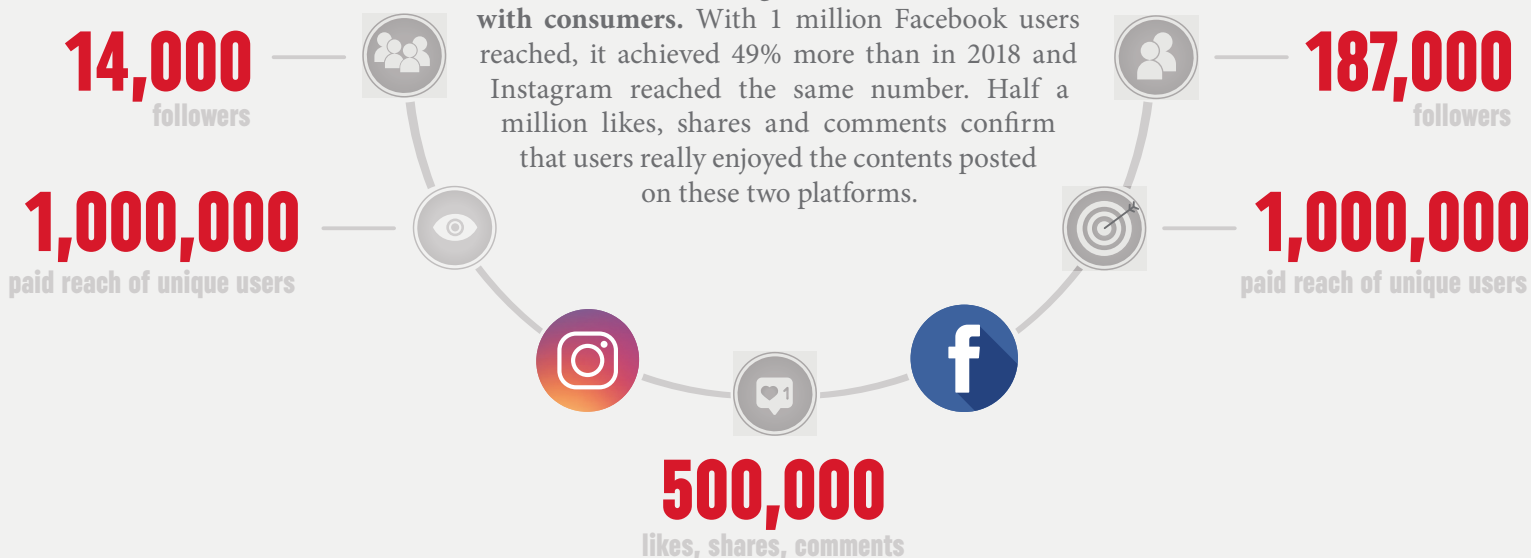
## COOLINARIKA

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).



## PODRAVKA HRVATSKA

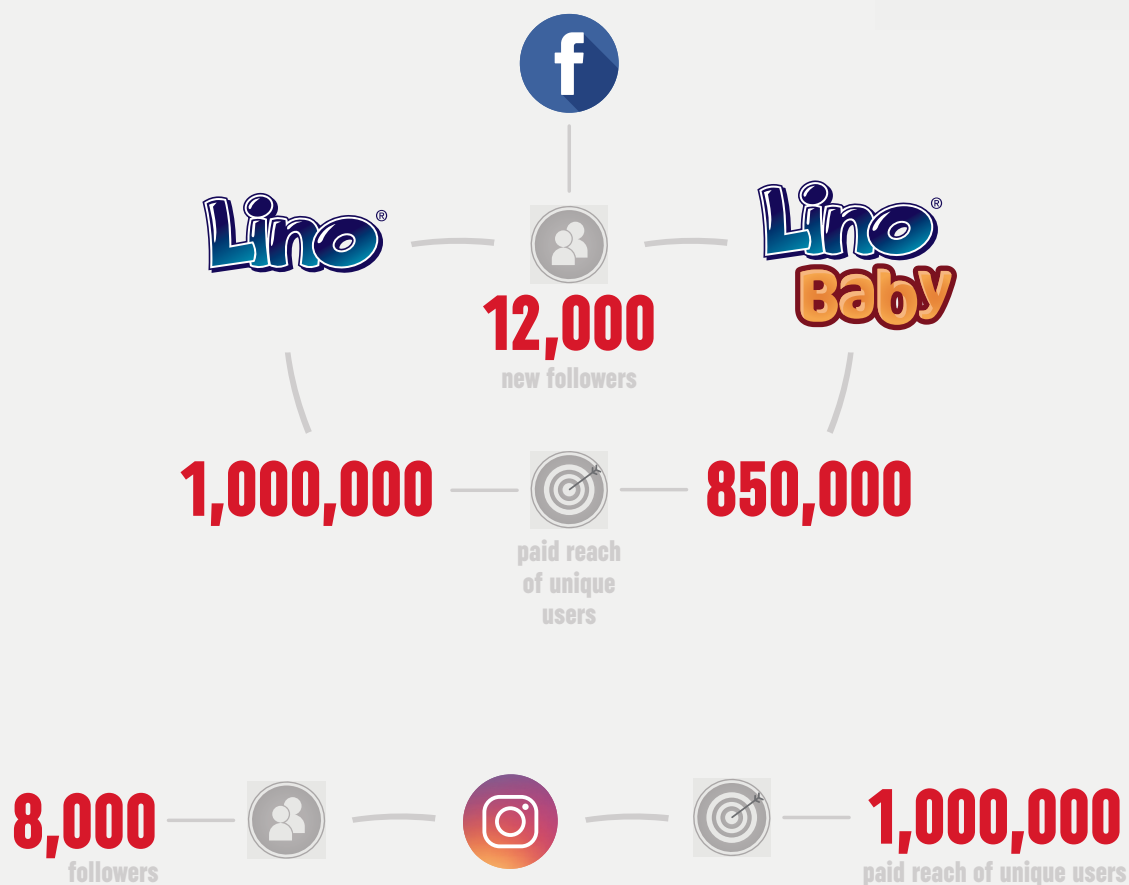
with its 187,000 Facebook and 14,000 Instagram followers, has entered the homes of more than 81% of these social network users in Croatia, thus **enabling direct communication with consumers**. With 1 million Facebook users reached, it achieved 49% more than in 2018 and Instagram reached the same number.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

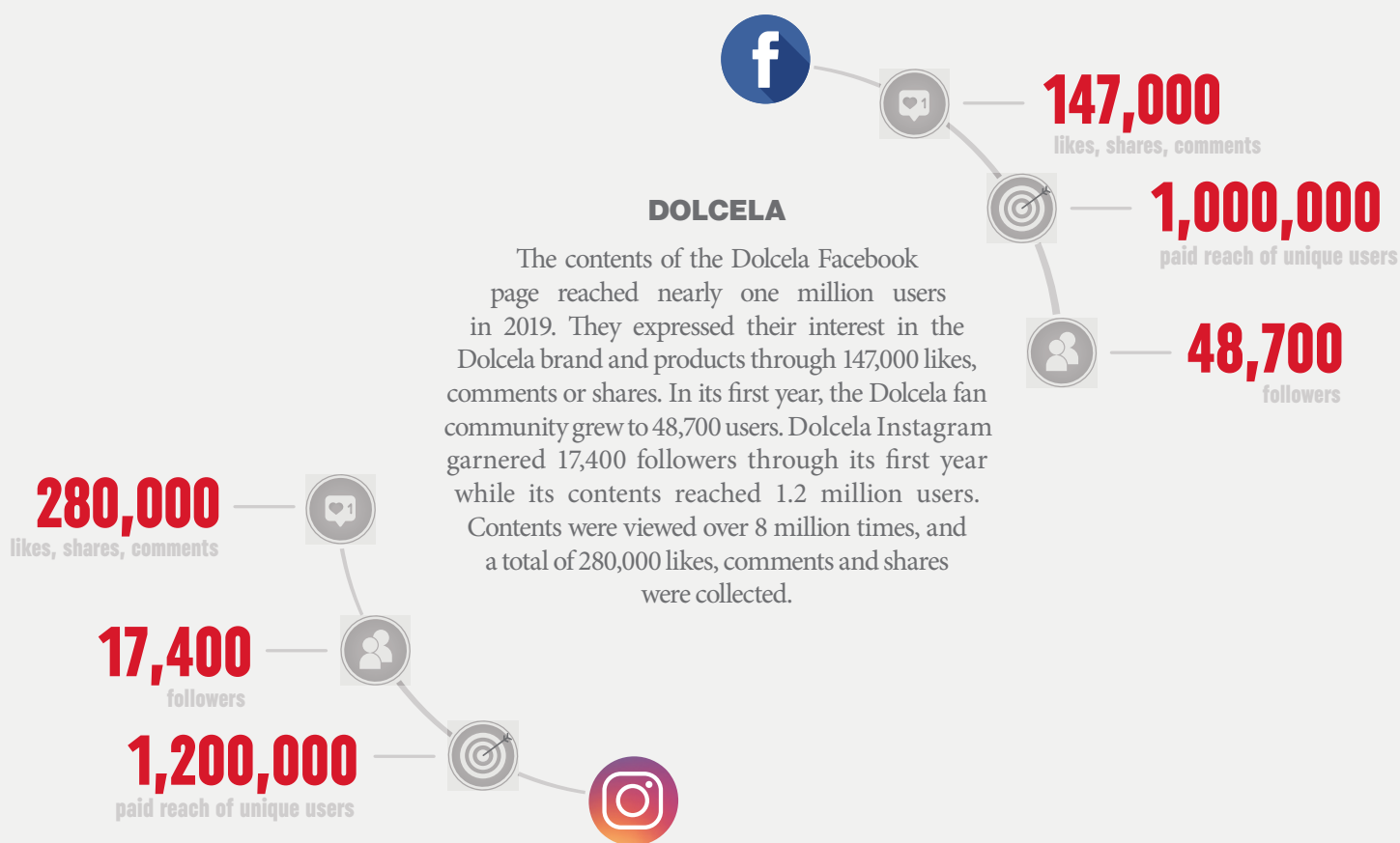
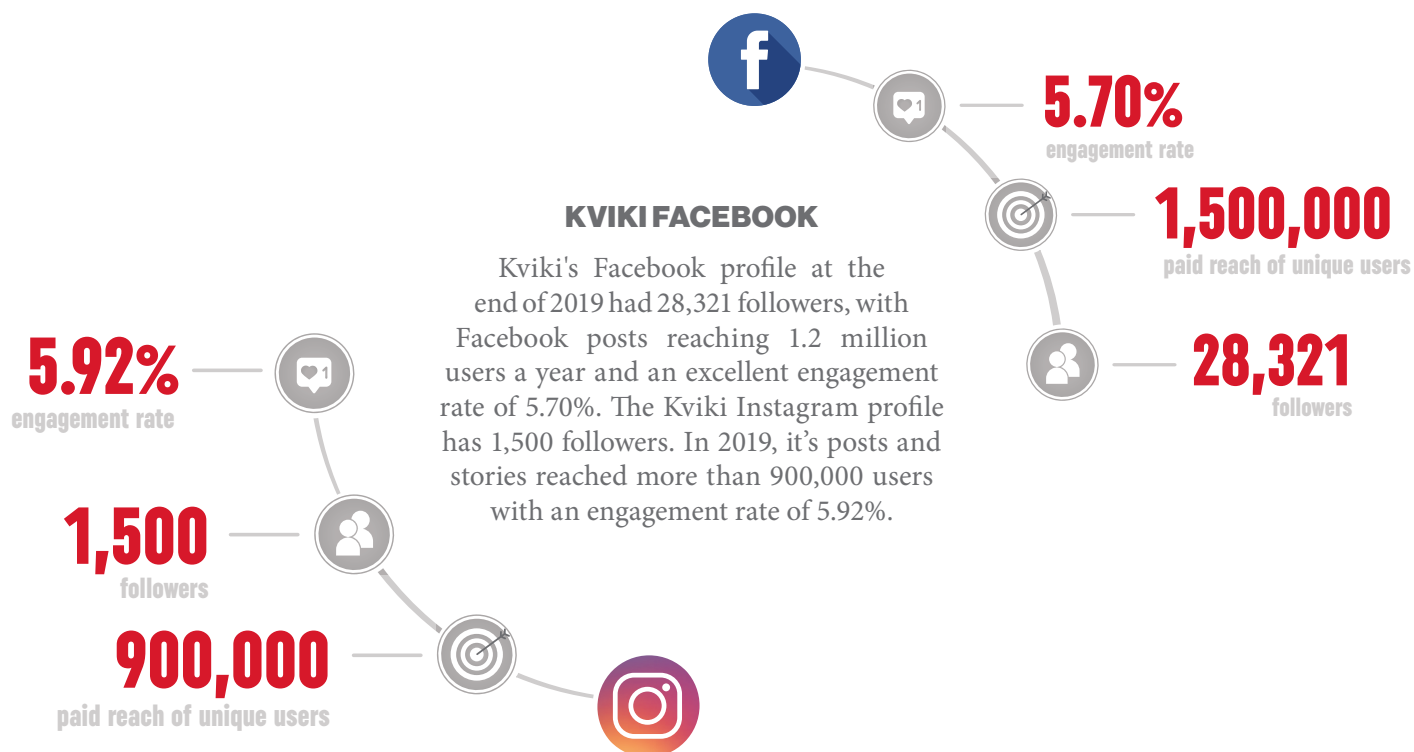




## LINO

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%.





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.



# 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 *new Superior Taste Awards*, the most acclaimed award in the food segment in the world. For the second time, Lino Lada Gold was 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.

## “GOLDEN KEY” FOR PODRAVKA

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. **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.

## 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.



## “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 Gastronom 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.

## KSENİJA 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 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**.

## “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.

## 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.

## 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.

## 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 Lino's Facebook profiles.



# FINANCIAL REPORT

# 1 Business results

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## INTRODUCTION NOTES

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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.

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

In the 1-12 2019 period, the adoption of new IFRS 16 Leases resulted in lower lease expenses by estimated HRK 13.1m, while depreciation and amortization were higher by HRK 12.6m, interest expense by HRK 0.8m and gains from the write-off of right-of-use assets amounted to HRK 0.0m. 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 in tables are possible due to rounding.

## KEY CHARACTERISTICS OF PODRAVKA INC. BUSINESS RESULTS IN 2019

PROFITABILITY OF PODRAVKA INC.					NORMALIZED			
(in HRK millions)	2018	2019	Δ	%	2018	2019	Δ	%
Sales revenue	1,937.1	2,078.8	141.7	7.3%	1,937.1	2,078.8	141.7	7.3%
Gross profit	604.1	624.5	20.5	3.4%	604.1	624.5	20.5	3.4%
EBITDA*	222.0	229.3	7.3	3.3%	232.1	234.1	2.0	0.8%
EBIT	111.0	115.2	4.2	3.7%	144.2	136.6	(7.6)	(5.3%)
Net profit	113.1	145.2	32.0	28.3%	137.8	152.8	15.0	10.9%
Gross margin	31.2%	30.0%		-114 BB	31.2%	30.0%		-114 BB
EBITDA margin	11.5%	11.0%		-43 BB	12.0%	11.3%		-72 BB
EBIT margin	5.7%	5.5%		-19 BB	7.4%	6.6%		-87 BB
Net margin	5.8%	7.0%		+114 BB	7.1%	7.3%		+24 BB

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

In 2019, Podravka Inc. recorded sales of HRK 2,078.8m, which is 7.3% higher compared to the same period of the previous year. At the same time, gross profit reached HRK 624.5m, with the gross margin stands at 30.0% as a result of stronger selling and marketing activities, demand for newly launched products and distribution expansion of certain categories. Reported operating profit (EBIT) amounted to HRK 115.2m (+3.7%), while in the comparative period it amounted to HRK 111.0m. In 2019, reported net profit amounted to HRK 145.2m (+28.3%) compared to 2018. Besides afore mentioned, reported net income was also positive impacted by a higher financial income and lower tax. Normalized net profit amounted to HRK 152.8m.

As at 31 December 2019, total assets of Podravka Inc. amounted to HRK 3,042.7m and was 1.6% higher than at the end of 2018. The significant increase on the assets side was in inventories (HRK +69.6m) as well as in investments in subsidiaries (HRK +39.2m) while cash and cash equivalents significantly decreased (HRK -66.0m). On the equity and liabilities side, the most significant increase was recorded in reserves (HRK +48.4m) and retained earnings (HRK +33.2m), while significant decrease was recorded in borrowings (HRK -67.2m).

Cash flow from operating activities in 1-12 2019 amounted to positive HRK 92.3m, as a result of operations and movements in the working capital. Cash flow from investing activities at the same time amounted to negative HRK 57.7m, primarily due to cash outflow for the purchase of non-current tangible and intangible assets. In the same period, cash flow from financing activities amounted to negative HRK 100.5m in relation to the comparative period due to the repayment of a portion of borrowings and the dividend distribution. In the 1-12 2019 period, cash at bank and in hand decreased by HRK 66.0m, and consequently the amount of cash and cash equivalents as at 31 December 2019 was HRK 2.2m.

#### ADDITIONAL TABLES FOR 1-12 2019

#### VALUE ADJUSTMENTS AND EBITDA CALCULATION

VALUE ADJUSTMENTS	2018	2019
(in HRK millions)	Podravka Inc.	Podravka Inc.
Production line equipment*	4.8	0.5
Assets held for sale*	25.3	10.0
Investment property*	-	10.4
Claimed receivables related to relationship with Fortenova Group**	(7.9)	(12.1)
Other*	0.9	7.9
<b>Total</b>	<b>23.1</b>	<b>16.7</b>

\*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)	Podravka Inc.	Podravka Inc.
<b>Reported EBIT</b>	<b>111.0</b>	<b>115.2</b>
+depreciation and amortization	87.9	97.5
+value adjustments	23.1	16.7
<b>Reported EBITDA</b>	<b>222.0</b>	<b>229.3</b>

NORMALIZED EBITDA CALCULATION	2018	2019
(in HRK millions)	Podravka Inc.	Podravka Inc.
<b>Normalized EBIT</b>	<b>144.2</b>	<b>136.6</b>
+depreciation and amortization	87.9	97.5
+value adjustments	-	-
<b>Normalized EBITDA</b>	<b>232.1</b>	<b>234.1</b>

PROFITABILITY EXCLUDING IFRS 16	2019 REPORTED	2019 NORMALIZED
(in HRK millions)	Podravka Inc.	Podravka Inc.
<b>EBITDA</b>	<b>229.3</b>	<b>234.1</b>
-estimated cost of lease*	13.1	13.1
+gains from right-of-use assets write-off	(0.0)	(0.0)
<b>Estimated EBITDA</b>	<b>216.2</b>	<b>221.0</b>
<b>EBIT</b>	<b>115.2</b>	<b>136.6</b>
+depr. and amort. of right-of-use assets	12.6	12.6
+ gains from right-of-use assets write-off	(0.0)	(0.0)
-estimated cost of lease*	13.1	13.1
<b>Estimated EBIT</b>	<b>114.6</b>	<b>136.1</b>
<b>Net income</b>	<b>145.2</b>	<b>152.8</b>
+depr. and amort. of right-of-use assets	12.6	12.6
+gains from right-of-use assets write-off	(0.0)	(0.0)
+interest expense for right-of use assets	0.8	0.8
-estimated cost of lease*	13.1	13.1
<b>Estimated net income</b>	<b>145.4</b>	<b>153.0</b>

\*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 98.3% 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 0.983.



## NORMALIZATION OVERVIEW OF PODRAVKA INC

	2018	2019
(in HRK million)	Podravka Inc.	Podravka Inc.
<b>Reported EBITDA</b>	<b>222.0</b>	<b>229.3</b>
+severance payments (long term sick-leave)	4.7	4.8
+initial impact of IFRS 9*	0.2	-
+provision for related party trade receivables*	5.2	-
<b>Normalized EBITDA</b>	<b>232.1</b>	<b>234.1</b>
<b>Reported EBIT</b>	<b>111.0</b>	<b>115.2</b>
+normalization above EBITDA level	10.1	4.8
+impairment of production line equipment	4.8	0.5
+impairment of asset held for sale	25.3	10.0
+investment property	-	10.4
+claimed receivables related to relationship with Fortenova Group	(7.9)	(12.1)
+other	0.9	7.9
<b>Normalized EBIT</b>	<b>144.2</b>	<b>136.6</b>
<b>Reported net profit</b>	<b>113.1</b>	<b>145.2</b>
+normalization above EBIT level	33.2	21.4
+ESOP programme net expenses	1.6	-
+estimated impact on taxes**	(10.2)	(13.8)
<b>Normalized net profit</b>	<b>137.8</b>	<b>152.8</b>

\*See the note "Trade and other receivables"; \*\*In 2019 estimated tax effect of Podravka Afrika recapitalization by Podravka Inc. (HRK -9.2m) and tax effect of provision for trade receivables toward Podravka Moskva by Podravka Inc. (HRK -0.9m) are included; in 2018 tax effect of a decrease of investment in subsidiary Podravka Dubai by Podravka Inc. (HRK -4.9m) is included.

# 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%
<b>Total</b>		<b>7,120,003</b>	<b>100.0%</b>

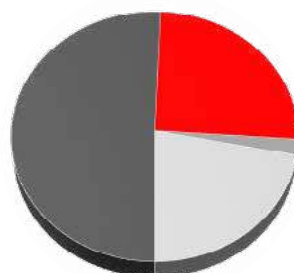
\*The Restructuring and Sale Centre holds 1,241,253 shares through four accounts, Kapitalni fond d.d. holds 406,842 shares, the Republic of Croatia additionally holds 167,281 shares on a separate account.

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

Croatian pension  
funds\*\* 51.7%



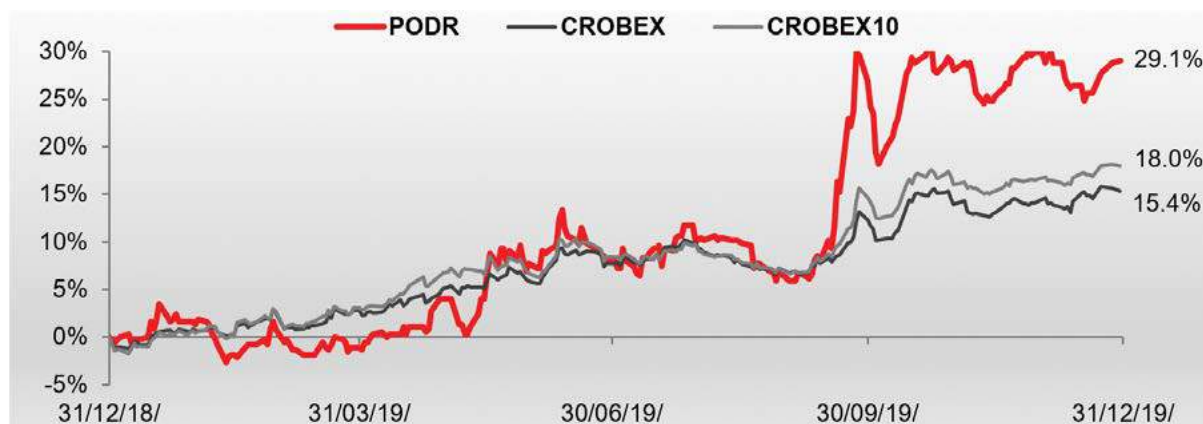
Republic of Croatia 25.5%

Treasury shares 1.8%

Others 21.0%

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

## SHARE PRICE MOVEMENT IN 1-12 2019



(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	1017.1	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) <sup>1</sup>	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%

<sup>1</sup> 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 = 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.

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.

**SEPARATE  
FINANCIAL  
STATEMENTS  
FOR YEAR 2019**

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

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

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

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

The separate 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*

**Hrvoje Kolarić**

*Member of the Management Board*

**Marko Đerek**

*Member of the Management Board*

**Podravka d.d.**

Ante Starčevića 32  
48 000 Koprivnica  
Republic of Croatia



**Davor Doko**

*Member of the Management Board*

**Ljiljana Šapina**

*Member of the Management Board*

Koprivnica, 23 March 2020



## Independent auditor's report

To the Shareholders of Podravka d.d.

## Report on the audit of the financial statements

### Opinion

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance and its 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 financial statements* section of our report.

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

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

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

Key Audit Matter	How we addressed Key Audit Matter
<p><b>Impairment of brands</b></p> <p>A description of the key judgements and estimates regarding impairment of the Company's brands are included in Note 3 Summary of significant accounting policies and Note 6 Key accounting judgements and estimates. The assets are presented in Note 16 Intangible assets.</p> <p>The determination of recoverable amount, being the higher of value-in-use and fair value less costs to dispose, requires management judgement in both identifying and valuing the relevant cash generating units. Recoverable amounts are generally measured by using appropriate valuation techniques, such as present value techniques based on management's view of variables and market conditions, including future price and volume growth rates, the timing of future operating expenditure, and the most appropriate discount, long term growth rates and royalty rate.</p> <p>Considering the above mentioned, we believe that the assessment of recoverable amounts of brands is a key audit matter.</p>	<p>Audit procedures included understanding of the assets impairment process and walk through of controls implemented within. We examined the methodology used by management to assess the carrying value of respective intangible assets, to determine its compliance with IFRS as adopted by EU and consistency of application.</p> <p>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.</p> <p>We compared current year actual results with the figures included in the prior year forecast to evaluate assumptions used. We also evaluated management's key assumption for long-term growth rate by comparing it to historical growth results.</p> <p>We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis and tested the appropriateness of discount rates and royalty rates used in the calculation with the assistance of the specialists.</p> <p>We also assessed on the adequacy of the relevant disclosures in the financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>

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

## Other matter

Financial statements of the Company 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 Company's Annual Report for year 2019

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

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

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

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

1. The information given in the enclosed Management report for the 2019 financial year are consistent, in all material respects, with the enclosed 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 Company's annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and
4. Elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Company's annual report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed financial statements;

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

## **Responsibilities of management and Audit Committee for the financial statements**

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

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

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

## **Auditor's responsibilities for the audit of the financial statements**

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

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

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



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

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

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

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

#### *Appointment of Auditor and Period of Engagement*

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

#### *Consistence with Additional Report to Audit Committee*

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

**SEPARATE STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

<i>(in thousands of HRK)</i>	<i>Note</i>	<b>2019</b>	<b>2018</b>
Revenue from sales	8	2,078,803	1,937,102
Cost of goods sold	11	(1,454,255)	(1,333,006)
<b>Gross profit</b>		<b>624,548</b>	<b>604,096</b>
Other income	9	18,894	5,431
General and administrative expenses	11	(152,847)	(147,146)
Selling and distribution costs	11	(193,535)	(176,310)
Marketing expenses	11	(152,986)	(136,723)
Other expenses	10	(28,904)	(38,331)
<b>Operating profit</b>		<b>115,170</b>	<b>111,017</b>
Finance income	13	51,159	34,672
Finance expenses	14	(11,277)	(14,485)
<b>Net finance income</b>		<b>39,882</b>	<b>20,187</b>
<b>Profit before tax</b>		<b>155,052</b>	<b>131,204</b>
Income tax	15	(9,863)	(18,063)
<b>Net profit for the year</b>		<b>145,189</b>	<b>113,141</b>
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial gains/(loss) - (net of deferred tax)		(639)	259
<b>Total other comprehensive income</b>		<b>(639)</b>	<b>259</b>
<b>Total comprehensive income</b>		<b>144,550</b>	<b>113,400</b>

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

# SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

(in thousands of HRK)

	<i>Note</i>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	16	84,738	83,551
Property, plant and equipment	17	801,195	821,940
Right-of-use assets	18	36,822	-
Investment property	19	110,000	121,866
Investments in subsidiaries	20	978,279	939,068
Deferred tax assets	15	44,389	29,673
Non-current financial assets	21	37,152	5,631
<b>Total non-current assets</b>		<b>2,092,575</b>	<b>2,001,729</b>
<b>Current assets</b>			
Inventories	22	437,901	368,256
Trade and other receivables	23	508,929	554,525
Financial assets at fair value through profit and loss	24	7	296
Cash and cash equivalents	25	2,180	68,167
Non-current assets held for sale	26	1,075	1,075
<b>Total current assets</b>		<b>950,092</b>	<b>992,319</b>
<b>Total assets</b>		<b>3,042,667</b>	<b>2,994,048</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	27	1,696,863	1,690,066
Reserves	28	430,689	382,267
Retained earnings	29	150,057	116,836
<b>Total equity</b>		<b>2,277,609</b>	<b>2,189,169</b>
<b>Non-current liabilities</b>			
Borrowings	31	152,925	181,202
Liabilities of right-of-use assets	18	26,925	-
Provisions	32	34,787	32,817
<b>Current liabilities</b>		<b>214,637</b>	<b>214,019</b>
Trade and other payables	33	341,676	359,748
Income tax liabilities	15	15,227	12,604
Financial liabilities at fair value through	30	292	415
Borrowings	31	166,438	205,313
Liabilities of right-of-use assets	18	10,730	-
Provisions	32	16,058	12,780
<b>Total current liabilities</b>		<b>550,421</b>	<b>590,860</b>
<b>Total liabilities</b>		<b>765,058</b>	<b>804,879</b>
<b>Total liabilities and shareholders' equity</b>		<b>3,042,667</b>	<b>2,994,048</b>

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

## SEPARATE STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 31 DECEMBER 2019

<i>(in thousands of HRK)</i>	Share capital	Reserve for treasury shares	Legal reserves	Other reserves	Retained earnings	Total
<b>As at 1 January 2018</b>	<b>1,688,166</b>	<b>147,604</b>	<b>26,627</b>	<b>171,181</b>	<b>88,993</b>	<b>2,122,571</b>
<i>Comprehensive income</i>						
Profit for the year	-	-	-	-	113,141	113,141
Actuarial losses (net of deferred tax)	-	-	-	259	-	259
Other comprehensive income	-	-	-	259	-	259
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>259</b>	<b>113,141</b>	<b>113,400</b>
<i>Transactions with owners recognised directly in equity</i>						
Allocation from retained earnings (note 26 (i))	-	-	4,321	32,275	(36,596)	-
Purchase of treasury shares	(2,557)	-	-	-	-	(2,557)
Exercise of options	7,360	-	-	-	-	7,360
Fair value of share-based payment transactions (note 34)	(2,903)	-	-	-	-	(2,903)
Dividend paid	-	-	-	-	(48,702)	(48,702)
<b>Total transactions with owners recognised directly in equity</b>	<b>1,900</b>	<b>-</b>	<b>4,321</b>	<b>32,275</b>	<b>(85,298)</b>	<b>(46,802)</b>
<b>As at 31 December 2018</b>	<b>1,690,066</b>	<b>147,604</b>	<b>30,948</b>	<b>203,715</b>	<b>116,836</b>	<b>2,189,169</b>
<i>Comprehensive income</i>						
Profit for the year	-	-	-	-	145,189	145,189
Actuarial losses (net of deferred tax)	-	-	-	(639)	-	(639)
Other comprehensive income	-	-	-	(639)	-	(639)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(639)</b>	<b>145,189</b>	<b>144,550</b>
<i>Transactions with owners recognised directly in equity</i>						
Allocation from retained earnings (note 26 (i))	-	-	5,657	43,404	(49,061)	-
Exercise of options	4,479	-	-	-	-	4,479
Fair value of share-based payment transactions (note 34)	2,318	-	-	-	-	2,318
Dividend paid	-	-	-	-	(62,907)	(62,907)
<b>Total transactions with owners recognised directly in equity</b>	<b>6,797</b>	<b>-</b>	<b>5,657</b>	<b>43,404</b>	<b>(111,968)</b>	<b>(56,110)</b>
<b>As at 31 December 2019</b>	<b>1,696,863</b>	<b>147,604</b>	<b>36,605</b>	<b>246,480</b>	<b>150,057</b>	<b>2,277,609</b>

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

**SEPARATE STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(in thousands of HRK)

	<i>Note</i>	<b>2019</b>	<b>2018</b>
<b>Profit before tax</b>		<b>155,052</b>	<b>131,204</b>
Depreciation and amortization		97,489	87,898
Impairment loss on assets held for sale, property, plant, equipment and intangibles		3,746	15,421
Impairment of investment property		10,399	-
Reversal of impairment of non-current assets		(12,124)	-
Write-off on investment		4,637	8,916
Impairment of given loans and interests		10,019	6,648
Remeasurement of financial assets and liabilities at FVTPL		166	(1,000)
Dividend income		(45,874)	(21,651)
Share-based payment transactions		2,318	2,729
Gain on disposal of assets held for sale		-	(15)
Gain on disposal of property, plant, equipment		(716)	(246)
Gain per options contracts		-	(121)
Impairment losses on trade receivables		2,129	(1,546)
Increase in provisions		5,249	1,380
Interest income		(4,896)	(6,670)
Interest expense		9,754	12,863
Foreign exchange differences		323	(4,425)
		<b>237,670</b>	<b>231,385</b>
<b>Changes in working capital:</b>			
Increase in inventories		(69,645)	(22,640)
Increase in receivables		(24,039)	(17,346)
Decrease in payables		(19,927)	(11,897)
<b>Cash generated from operations</b>		<b>124,059</b>	<b>179,502</b>
Income tax paid		(21,700)	(5,480)
Interest paid		(10,070)	(13,588)
<b>Net cash from operating activities</b>		<b>92,288</b>	<b>160,434</b>
<b>Cash flows from investing activities</b>			
Increase of investments in subsidiaries		(3,827)	(200)
Purchase of property, plant, equipment and intangibles		(68,999)	(82,068)
Proceeds from sale of property, plant, equipment and intangibles		1,017	3,178
Proceeds from sale of assets held for sale		-	15
Loans given		(2,459)	(9,298)
Proceeds from loans given		297	36,231
Interest received		356	5,081
Proceeds from disposal of other investments		-	121
Dividends received		15,871	21
<b>Net cash from investing activities</b>		<b>(57,745)</b>	<b>(46,919)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		310,638	99,565
Repayment of borrowings		(343,285)	(227,738)
Purchase of treasury shares		-	(2,557)
Sale of treasury shares		6,129	2,092
Repayment of lease liabilities		(11,834)	-
Dividend paid		(62,177)	(48,724)
<b>Net cash from financing activities</b>		<b>(100,530)</b>	<b>(177,362)</b>
<b>Net increase of cash and cash equivalents</b>		<b>(65,987)</b>	<b>(63,847)</b>
Cash and cash equivalents at beginning of year		68,167	132,014
<b>Cash and cash equivalents at the end of year</b>	25	<b>2,180</b>	<b>68,167</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 1 – GENERAL INFORMATION

##### History and incorporation

Podravka prehrambena industrija d.d., Koprivnica ('the Company'), is incorporated in the Republic of Croatia. In 1934, the brothers Wolf opened in Koprivnica a fruit processing unit, the predecessor of the Company. Today, the Company is one of the leading companies in industry operating in the area of South-Eastern, Central and Eastern Europe. The principal activity of the Company comprises production of a wide range of foodstuffs.

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

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

##### Corporate governance and management

###### *General Assembly*

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

###### *Supervisory Board*

Members of the Supervisory Board in 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 Vlajić (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

A member firm of Ernst & Young Global Limited  
Mjerodavan sud: Trgovački sud u Zagrebu; Temeljni kapital: 20.000,00 kuna, uplaćen u cijelosti;  
Članovi Uprave: Berislav Horvat, Zvonimir Madunić  
Applicable court: Commercial court in Zagreb; Registered share capital is 20.000,00 HRK, fully paid;  
Members of the Board: Berislav Horvat, Zvonimir Madunić



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 2 – BASIS OF PREPARATION

*(i) Statement of compliance*

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

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

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

*(iii) Functional and presentation currency*

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### **3.1 Investments in subsidiaries**

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

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

##### **3.2 Non-current assets held for sale**

###### *Non-current assets held for sale*

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

##### 3.3 Revenue recognition

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

This core principle is delivered in a five-step model framework.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated.

In determining the transaction price, and the Company considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer.

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

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

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

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

##### *(ii) Revenue from sales of products and merchandise – retail*

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

##### *(iii) Revenue from services*

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

##### *(iv) Finance income*

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

##### 3.4 Leases

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

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

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

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

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

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

##### 3.4 Leases (continued)

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

Leases where the significant portion of risks and rewards of ownership are not retained by the Company are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

##### *Sale and leaseback*

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

If the transfer of an asset by the lessee is a sale, the Company as a seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. In this case the Company as a seller-lessee shall recognize only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, the Company shall make the adjustments to measure the sale proceeds at fair value. Any below-market terms shall be accounted for as a prepayment of lease payments and any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee. All potential adjustments are measured on the basis of the more readily determinable of the difference between the fair value of the consideration for the sale and the fair value of the asset and the difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

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

##### 3.5 Foreign currency transactions

##### *Transactions and balances in foreign currencies*

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

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

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

##### 3.6 Borrowings and borrowing costs

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

##### 3.6 Borrowings and borrowing costs (continued)

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

##### 3.7 Government grants

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

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

##### 3.8 Dividends

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

##### 3.9 Segment reporting

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

At the separate level, the following segments are internally monitored and reported:

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

##### 3.10 Taxation

###### (i) *Income tax*

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

Income tax for the current year is calculated on the basis of the tax laws enacted at the balance sheet date.

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

###### (ii) *Deferred tax assets and liabilities*

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

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

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

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

###### (iii) *Tax exposures*

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

###### (iv) *Value added tax (VAT)*

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

##### 3.11 Property, plant and equipment

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

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

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

Buildings	10 to 50 years
Equipment	3 to 30 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 3.13).

Gains and losses on disposals are determined as the difference between the income from the disposal and the asset's carrying amount, and are recognised in profit or loss within other income/expenses.

##### 3.12 Investment property

Investment property is property (land, buildings or a part of a building, or both) held to earn rentals or for capital appreciation (or both). Investment property is treated as long-term investments.

Investment property is carried at historical cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation of buildings is calculated using the straight-line method over their useful lives generally ranging from 10 to 50 years.

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

The Company discloses the fair value of investment property on the basis of periodical independent valuations by expert valuers.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

##### 3.13 Intangible assets

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

###### *(i) Brands and distribution rights*

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

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

###### *(ii) Computer software*

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

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

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

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

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

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

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

**3.14 Impairment of non-financial assets**

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is expensed immediately.

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

**3.15 Inventories**

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

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

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

**3.16 Trade receivables**

*i) Trade receivables*

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

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

**3.16 Trade receivables (continued)**

*ii) Bills of exchange*

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

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

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

**3.17 Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less. Bank overdrafts are included within current liabilities on the separate statement of financial position.

**3.18 Share capital**

Share capital consists of ordinary shares. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds of those transactions. Any excess of the fair value of the consideration received over the par value of the shares issued is presented in the notes as a share premium.

If the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

**3.19 Employee benefits**

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

In the normal course of business through salary payment, the Company makes payments to mandatory pension funds managed by third parties on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company is not obliged to provide any other post-employment benefits with respect to these pension schemes.

*(ii) Termination benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

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

**3.19 Employee benefits (continued)**

*(iii) Regular retirement benefits*

Benefits falling due more than 12 months after the reporting date are discounted to their present value based on the calculation performed at each reporting date by an independent actuary, using assumptions regarding the number of staff likely to earn regular retirement benefits, estimated benefit cost and the discount rate which is determined as average expected rate of return on investment in corporate bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income.

*(iv) Long-term employee benefits*

The Company recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefits will be payable, estimated benefit cost and the discount rate which is determined as the average expected rate of return on investment in corporate bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

*(v) Short-term employee benefits*

The Company recognises a provision for employee bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

*(vi) Share-based compensation*

The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). At each reporting date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision to original estimates, if any, in the separate statement of comprehensive income (profit or loss), with a corresponding adjustment to equity during the remaining vesting period.

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

**3.20 Provisions**

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

##### 3.21 Financial instruments

###### A. Financial assets

###### (i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

###### (ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at:

- amortised cost;
- fair value through other comprehensive income (FVOCI) – debt instruments;
- fair value through other comprehensive income (FVOCI) – equity instruments;
- or FVTPL (fair value through profit or loss).

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instruments that is not held for trading, the Company may irrevocably elect to present subsequent changes in the instrument's fair value in OCI. This election is made on an instruments-by-instruments basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.



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

**3.21 Financial instruments (continued)**

**A Financial assets (continued)**

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

*Business model assessment*

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

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

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

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

##### 3.21 Financial instruments (continued)

###### A Financial assets (continued)

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

###### *Subsequent measurement and gains and losses*

The table below provides an overview of key provisions of the accounting policy used by the Company for subsequent measurement of financial assets and recognition of gains and losses on each class of financial assets:

<b>Financial assets at FVTPL</b>	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
<b>Financial assets at amortised cost</b>	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
<b>Debt instruments at FVOCI</b>	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
<b>Equity instruments at FVOCI</b>	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the instruments. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

###### (iii) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

##### **3.21 Financial instruments (continued)**

##### **B. Financial liabilities**

##### **(i) Recognition and initial measurement**

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

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

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

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

##### **(iii) Derecognition**

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

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

##### **C. Offsetting**

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

##### **D. Derivative financial instruments**

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

##### 3.21 Financial instruments (continued)

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

###### *Recognition of impairment losses*

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

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

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and;
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

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

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

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

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 360 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

###### *Measurement of ECLs*

ECLs are estimate of credit losses. Credit losses are measured as the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive. Regular external trade receivables that are not past due and uncollected receivables past due up to 360 days from the maturity date are impaired using the percentage that reflects the expectations of the non-collection of trade receivables (ECL). The percentage of impairment is determined on the basis of the average of the previous three-year period (historical rate). The calculation of the historical rate is adjusted for extraordinary and specific circumstances, if required.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

##### 3.21 Financial instruments (continued)

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

###### *Credit-impaired financial assets*

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a significant delay of payment by the borrower;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

###### *Presentation of allowance for ECL in the statement of financial position.*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

###### *Write-off of financial assets*

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company has a policy of writing off the gross carrying amount of a financial asset upon the legal statute of limitation and it generally expects no significant recovery of the amount written off.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2019 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. 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.

##### **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).

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

##### Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments) (continued)

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 Company does not anticipate that the adoption of these Standards and Interpretations will have a significant impact on the financial statements of the Company.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 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 all leases except small value and short-term leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

The Company applies IFRS 16 Leases from 1 January 2019.

The following table and the notes below explain the impact of IFRS 16 Leases on the Company's financial statements:

Adoption of IFRS 16 Leases	<b>31.12.2019.</b>	<b>01.01.2019.</b>	<b>31.12.2018.</b>
	<i>(u tisućama kuna)</i>		
<b>Right-of-use assets</b>	<b>36,822</b>	<b>42,205</b>	-
<b>Lease liabilities</b>	<b>37,655</b>	<b>42,205</b>	-
Current portion of long term liability for right-of-use assets	10,730	-	-
Long term liability for right-of-use assets	26,925	42,205	-
<b>Equity</b>			
<b>Retained earnings</b>	<b>13,455</b>	-	-

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	59,527
Weighted average incremental borrowing rate as at 1 January 2019	2.06%
Discounted operating lease commitments as at 1 January 2019	45,096
<b>Less:</b>	
Commitments relating to short-term leases and low-value assets	<u>(2,891)</u>
<b>Lease liabilities as at 1 January 2019</b>	<b><u>42,205</u></b>

##### 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 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 Company 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 Company 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 Company 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 Company obtains joint control of a business that is a joint operation, the Company 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 Company borrows generally.

The adoption of these Standards and Interpretations had no significant impact on the financial statements of the Company except of IFRS 16 Lease that have a material impact of the company'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 32).

*(iii) Consequences of certain legal actions*

The Company is involved in a number of legal actions which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal actions, and the provisions for the Company's obligations arising from these legal actions are recognised on a consistent basis.

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

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

Where the Company is a plaintiff in a particular court case, any economic benefits expected to flow to the Company as a result are recognised only when virtually certain which is generally as at the date of inflow of these economic benefits. Provisions for the Company's obligations arising from legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 3.19 and 32).

*(iv) Recoverability of trade and other receivables*

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

*(iv) Recoverability of trade and other receivables (continued)*

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

By applying the percentage that reflects expectations on the non-collection of trade receivables (expected credit loss), the Company impairs undue regular external trade receivables and past due uncollected receivables up to 360 days from the maturity date.

In the process of regulating the collection of overdue debts, the Company actively negotiates with the respective debtors taking into account expectations of future business relations, significance of exposure to an individual debtor, possibilities of compensation, exercise of instruments of security (if any) or seizure of assets.

*(v) Impairment testing for brands and rights*

The Company tests brands and rights for impairment on an annual basis in accordance with accounting policy 3.13. For the purposes of impairment testing, 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.

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

*Brands*

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

The Company annually performs impairment tests in order to assess whether the recoverable amount of brands indicates potential impairment of their carrying amount whereby the primary focus is on brands where the difference between the recoverable amount and the carrying amount indicates a significant sensitivity to changes in key variables used in impairment testing. The calculation of the recoverable amount of brands is based on five-year plans for sales of products and categories which comprise a certain brand and which the Company developed bearing in mind its corporate selling and marketing strategy, trends on relevant markets where the brands are sold (such as estimated movements in gross domestic product, market share of relevant products and categories) and the analysis of its competitors. Cash flows created from such plans are discounted using the post-tax discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for brands as the weighted average cost of capital after tax (WACC) for the primary market the brand is sold on and the food industry.

For the purpose of fair valuation of brands whose dominant market is the Adria region as at 31 December 2019 the Company applied an income approach – the method of non-payment of royalties.

The basis of the method of non-payment of royalties is that the value of intangible assets equals the amount that the owner would pay for the licence over the assets if it had not been owned, i.e. the value equals post-tax discounted expenses saved if royalties, i.e. the compensation for the use of trademarks, are not paid.

When calculating the 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.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) *Impairment testing for brands and rights (continued)*

*Brands (continued)*

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.

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

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

The Company annually performs analysis of impairment indicators for property, plant and equipment in order to assess whether their recoverable amount indicates potential impairment of their carrying amount. For production facilities, i.e. factories, in 2019, the Company engaged an independent valuer who determined the market value of properties and during 2019 the Company 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).

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

During 2018, the Company engaged an independent expert valuer for the estimation of recoverable amount of assets held for sale and in line with the study, the property in Koprivnica was impaired in the amount of HRK 1,196 thousand.

During 2019, the Company had no impairment costs for property, plant and equipment held for sale.

During 2018, the Company reclassified a portion of assets held for sale to investment property. Prior to reclassification, the properties in Rijeka were impaired in the amount of HRK 9,416 thousand.

During 2019, the Company impaired investment property in the amount of HRK 10,399 thousand.

(vii) *Impairment test for investments in subsidiaries*

The Company annually performs analysis of impairment indicators for investments in subsidiaries where indications of impairment exist, based on the results of a static analysis of the Company's exposure compared to the net assets of the subsidiary. For investments identified as such, the Company estimates the recoverable amount and compares it with the carrying amount. The calculation of the recoverable amount is generally based on five-year business plans for the respective subsidiaries which the Company developed bearing in mind its corporate selling and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories) with respect to the applicable business segment and the analysis of its competitors. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected period of 2.5% for the subsidiary in the Czech Republic, 4% for the subsidiary in Serbia, 2.5% for the subsidiary in Poland and 1.8% for the subsidiary in Russia.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

##### *(vii) Impairment test for investment in subsidiaries (continued)*

Cash flows created from such plans are discounted using the post-tax discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test as the weighted average cost of capital after tax for the respective market and the food industry (in case of the company in the Czech Republic the post-tax discount rate amounts to 4.99%, for the company in Serbia to 7.46%, for the company in Poland to 5.46% and for the company in Russia to 8.79%). The expected rate of average annual revenue growth in the projected five-year period was 2% for the company in the Czech Republic, 3.1% for the company in Serbia, 2.2% for the company in Poland, and 3.7% for the company in Russia.

As a result of the impairment tests performed on investments in subsidiaries, during 2019 the Company incurred impairment losses in the subsidiary Podravka-Polska Sp.z o.o., Warszawa in the amount of HRK 1,449 thousand and in the subsidiary Podravka Moscow in the amount of HRK 3,188 thousand.

Investment in the subsidiary Podravka Lagris a.s. is not sensitive to changes in key variables. Even with significant changes in the terminal growth rate (with unchanged weighted average cost of capital rate) and the average weighted cost of capital (with unchanged terminal growth rate), there is no indication of impairment.

During 2019, the Company had impairment costs related to loan and interest receivables in the subsidiary Vegeta Podravka Limited Tanzania in the amount of HRK 2,820 thousand, HRK 920 thousand in the subsidiary Vegeta Limited Kenya and HRK 6,278 thousand in the subsidiary Gulf FZE Dubai.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 7 – DETERMINATION OF FAIR VALUES

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

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

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

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1* - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2* - inputs other than quoted prices included in level 1, that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3* - input variables for assets or liabilities that are not based on observable market data (unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more significant inputs are not based on observable market data, the fair value estimate is included in level 3. In preparing these financial statements, the Company has made the following significant fair value estimates, as further explained in detail in the following notes:

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 8 – SALES REVENUE

##### Sales revenue

	2019	2018
	<i>(in thousands of HRK)</i>	
Revenue from sale of products and merchandise	2,033,215	1,890,363
Revenue from services	45,588	46,739
	<b>2,078,803</b>	<b>1,937,102</b>

##### Key customers

Sales to major customers owned or controlled by the same third party Group represent approximately 11% of the Company's total revenue in 2019 (2018: approximately 11% of the total revenue).

Third-party sales in Croatia account for 54% (2018: 54%) of the total revenue from external customers, whereas the remaining 46% (2018: 46%) represent foreign sales.

For management purposes, the Company is organised in business units based on the similarity in the nature of individual product groups and has identified reportable segments in accordance with quantitative thresholds for segment reporting. The reportable segments of the Company are as follows:

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

The reportable segments are part of the internal financial reporting to the Management Board which was identified as the chief operating decision maker. The Management Board reviews the internal reports regularly and assesses the segment performance, and uses those reports in making operating decisions.

##### Segment revenues and results

Set out below is an analysis of the Company's revenue and results by its reportable segments, presented in accordance with IFRS 8 *Operating segments* and a reconciliation of segment profits to profit or loss before tax as presented in the statement of comprehensive income.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 8 – SALES REVENUE (CONTINUED)

##### Segment revenues and results (continued)

	Segment revenues	Segment expenses	Segment depreciation	Segment profits/ (loss)
<i>(in thousands of HRK)</i>	2018	2018	2018	2018
BP Culinary	696,677	511,352	15,107	170,218
BP Baby food, sweets and snack	352,776	283,928	17,264	51,584
BP Podravka food	320,041	303,264	17,430	(653)
BP Žito	50,865	51,031	1,018	(1,184)
BP Meat products, solutions and spreads	239,750	229,532	12,467	(2,249)
BP Fish	131,802	132,732	1,925	(2,855)
Other	145,191	131,204	1,734	12,253
	<b>1,937,102</b>	<b>1,643,043</b>	<b>66,945</b>	<b>227,114</b>
Financial income (note 13)				34,672
Other income (note 9)				5,431
Central administration costs				(83,197)
Other expenses (note 10)				(38,331)
Financial expenses (note 14)				(14,485)
<b>Profit before tax</b>				<b>131,204</b>

BP Culinary comprises the following product groups: seasonings, soups, ready-to-cook meals and bouillons, food mixes and monospices.

BP Baby food, sweets and snacks comprises the following product groups: Lino world, sweets, drinks and snacks.

BP Podravka Food comprises the following product groups: condiments, tomato, sauces, fruit, vegetables and Podravka flour.

BP Žito and Lagris comprises the following product groups: core food, bakery and mill products, tea, confectionery and cereals for adults.

BP Meat products, meat solutions and savoury spreads comprises the following product groups: canned meat, sausages, food solution and other meat.

BP Fish comprises fish products.

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

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

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, other income, other expenses, finance expenses, and income tax expense.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 8 – SALES REVENUE (CONTINUED)

##### Segment revenues and results (continued)

##### Geographical information

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

(in thousands of HRK)

	2019.	2018.
Region Adria	1,654,927	1,527,392
Region Western Europe and overseas countries	198,103	195,427
Region Central Europe	167,026	161,516
Region East Europe	47,698	38,452
Region New markets	11,049	14,315
	<b>2,078,803</b>	<b>1,937,102</b>

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

Region Adria	International markets				New markets	
	Western Europe and Overseas		Central Europe	Eastern Europe		
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	

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

#### NOTE 9 – OTHER INCOME

	2019	2018
	(in thousands of HRK)	
Reversal of impairment of financial assets	12,124	-
Foreign exchange gains on receivables and payables	4,589	-
Grant income	1,215	1,188
Profit on disposal of property, plant, equipment and intangibles (note 16 & 17)	716	246
Interest income relating to trade receivables	203	485
Income from reversal of legal provision	47	3,497
Gain on disposal of assets held for sale	-	15
	<b>18,894</b>	<b>5,431</b>

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 10 - OTHER EXPENSES

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Impairment of investment property	10.399	-
Write-off of related party loans (note 36)	10.019	6.648
Write-off on investments (note 20)	4.637	8.916
Impairment loss on property, plant and equipment (note 17)	3.746	4.809
Interest expense relating to trade payables	103	2.270
Trade foreign exchange differences	-	5.076
Impairment loss on assets held for sale (note 26)	-	10.612
	<b>28.904</b>	<b>38.331</b>

Impairment of loans to related parties includes impairment of interest receivable in the amount of HRK 2,151 thousand (2018: HRK 2,080 thousand).

#### NOTE 11 – EXPENSES BY NATURE

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Raw material, supplies and energy	878,022	786,990
Staff costs (note 12)	432,529	407,000
Cost of goods sold	320,856	281,800
Advertising and promotion	107,827	91,271
Depreciation and amortisation	97,489	87,898
Services	67,168	69,754
Transport	18,180	16,695
Taxes and contributions independent of operating	12,244	10,181
Daily allowances and other business travel expenses	8,995	7,641
Entertainment	6,609	6,270
Rental costs	6,202	15,482
Telecommunications	4,039	4,180
Packaging waste disposal fee	2,697	2,314
Bank charges	1,956	1,901
Professional education	1,343	970
Impairment of trade and other receivables, net (note 23)	757	(2,464)
Changes in value of inventory	(21,948)	3,258
Other expenses	8,658	2,044
<b>Total cost of good sold, selling and distribution expenses, marketing expenses and general and administrative costs</b>	<b>1,953,623</b>	<b>1,793,185</b>

Costs of services include audit fees. Fees for the audit of the Company's financial statements amounted to HRK 930 thousand (2018: HRK 1,079 thousand). During 2019, the Company did not receive any non-audit services from the auditor.

Depreciation and amortisation include HRK 1,073 thousand of government grants for co-financing of assets (2018: HRK 488 thousand).

The Company reports gross profit as revenue from the sale of products less operating expenses as shown in the specification above with the net effect of other income (Note 9) and other expenses (Note 10).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 11 – EXPENSES BY NATURE (CONTINUED)

The following tables present expenses by nature contained in cost of goods sold:

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Raw material and supplies	835,845	769,330
Cost of goods sold	320,856	281,800
Staff costs	199,597	188,844
Depreciation and amortisation	57,456	53,398
Production services	20,453	21,643
Taxes and contributions independent of operating results	6,442	5,369
Other expenses (transport, rent, education etc.)	13,606	12,622
	<b>1,454,255</b>	<b>1,333,006</b>

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

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

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Cost of goods sold	57,456	53,398
Selling, logistics and distribution costs	19,394	12,131
General and administrative expenses	19,118	22,147
Marketing expenses	1,521	222
	<b>97,489</b>	<b>87,898</b>

Staff costs allocated to each function are as follows:

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Cost of goods sold	199,597	188,844
Selling, logistics and distribution costs	106,750	100,163
General and administrative expenses	96,775	89,393
Marketing expenses	29,407	28,600
	<b>432,529</b>	<b>407,000</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 12 – STAFF COSTS

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Salaries	399,622	383,521
Transportation	11,067	6,085
Termination benefits	4,760	4,670
Share options (note 35)	2,318	1,257
Other employee benefits	14,762	11,467
	<b>432,529</b>	<b>407,000</b>

As at 31 December 2019, the number of staff employed by the Company was 3,166 (2018: 3,096).

In 2019, termination and retirement benefits of HRK 4,760 thousand were paid to 34 employees (2018: termination and retirement benefits of HRK 4,670 thousand paid to 37 employees).

#### NOTE 13 – FINANCE INCOME

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Dividends income from related parties	45,873	21,651
Interest on related party loans	4,739	6,408
Unrealized gains on swap contracts	390	864
Interest on term deposits	154	146
Remeasurement of financial assets and liabilities at FVTPL	-	136
Net foreign exchange gain on borrowings	-	5,229
Other interest	3	238
	<b>51,159</b>	<b>34,672</b>

Dividend received refers to income on the basis of declared dividends in subsidiaries Žito d.o.o., Ljubljana in the amount of HRK 29,586 thousand, Podravka d.o.o.e.l., Skopje in the amount of HRK 8,028 thousand, Podravka-International Kft, Budapest in the amount of HRK 3,657 thousand, Podravka-International s.r.o., Zvolen in the amount of HRK 3,439 thousand, and Lagris a.s., Lhota u Luhačovic in the amount of HRK 1,147 thousand while the remainder relates to dividends from investments in unrelated companies (2018: in subsidiaries Podravka-Int. Deutschland –“Konar” GmbH in the amount of HRK 3,185 thousand, Podravka-International Kft, Budapest in the amount of HRK 4,000 thousand, Podravka-International s.r.o., Zvolen in the amount of HRK 10,834 thousand, and Lagris a.s., Lhota u Luhačovic in the amount of HRK 3,611 thousand).

#### NOTE 14 – FINANCE EXPENSES

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Interest expense and similar charges	9,754	12,863
Net foreign exchange loss on borrowings	967	-
Remeasurement of financial instruments at fair value	556	-
Capital reserve ESOP	-	1,622
	<b>11,277</b>	<b>14,485</b>

During 2019, reference interest rates remained at low levels, which, coupled with regular repayment of borrowings, resulted in decreased interest expense on borrowings.

During 2019 and 2018, the Company had no investments for which interest expense could be capitalised. Other financial expenses in 2018 relate to the cost of allocated options in the employee stock ownership program through process of increase of share capital by public offering of new ordinary shares. For details see note 35 (ii).

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019**

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**NOTE 15 – INCOME TAX**

Tax (income)/expense consists of:

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Current income tax	24,437	15,275
Deferred tax (income)/expense	(14,574)	2,788
	<b>9,863</b>	<b>18,063</b>

*Reconciliation of the effective tax rate*

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

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
<b>Profit before taxation</b>	<b>155,052</b>	<b>131,204</b>
Tax calculated at 18% (2018:18%)	27,909	23,617
Non-taxable income	(8,258)	(9,052)
Non-deductible expenses	1,625	3,632
Tax incentives (research and development, education and other)	(150)	(134)
Reassessment of recoverability and write-off of deferred tax	(11,665)	-
Tax paid abroad	402	-
<b>Income tax</b>	<b>9,863</b>	<b>18,063</b>
<b>Effective tax rate</b>	<b>6%</b>	<b>14%</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 15 – INCOME TAX (CONTINUED)

##### *Deferred tax assets*

Deferred tax assets arose from the following:

	Opening balance	Recognised in profit or loss	Recognised directly in equity	Closing balance
<b>2019</b>				
	<i>(in thousands of HRK)</i>			
<b>Basis:</b>				
Intangible assets	687	(19)	-	668
Property, plant and equipment/ assets held for sale	4,571	2,423	-	6,994
Provisions	6,947	(1,047)	142	6,042
Inventory	3,501	489	-	3,990
Financial assets	12,343	12,087	-	24,430
Share based payments	1,335	(72)	-	1,263
Receivables	289	713	-	1,002
	<b>29,673</b>	<b>14,574</b>	<b>142</b>	<b>44,389</b>
<b>2018</b>				
	<i>(in thousands of HRK)</i>			
<b>Basis:</b>				
Intangible assets	13,267	(12,580)	-	687
Property, plant and equipment/ assets held for sale	1,823	2,748	-	4,571
Provisions	5,668	1,336	(57)	6,947
Inventory	2,804	697	-	3,501
Financial assets	6,066	6,277	-	12,343
Share based payments	2,636	(1,301)	-	1,335
Receivables	254	35	-	289
	<b>32,518</b>	<b>(2,788)</b>	<b>(57)</b>	<b>29,673</b>

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 2,423 thousand, since the impairment of tangible assets is considered to be non-deduct cost for tax purposes, and on this basis, income tax was calculated and deferred tax assets increased.

Deferred tax assets 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, the Company discharged deferred tax asset recognised on the basis of non-current intangible assets in the amount of HRK 12,580 thousand, the major part of which relates to the sale of the Warzywko brand. At the same time, during 2018 deferred tax assets were increased mainly on the basis of decrease in investments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 16 – INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	Software	Distribution rights	Brands	Investments in progress	Total
<b>Cost</b>					
At 1 January 2018	200,661	29,410	143,300	9,060	382,431
Additions	-	-	-	11,547	11,547
Transfers	19,069	-	-	(19,069)	-
Transfer to related parties	-	-	(84,786)	-	(84,786)
Disposals	(923)	-	-	-	(923)
<b>At 31 December 2018</b>	<b>218,807</b>	<b>29,410</b>	<b>58,514</b>	<b>1,538</b>	<b>308,269</b>
<b>Accumulated amortisation</b>					
At 1 January 2018	(167,833)	(29,410)	(92,939)	-	(290,182)
Charge for the year	(14,357)	-	(3,304)	-	(17,661)
Transfer to related parties	-	-	82,233	-	82,233
Disposals	892	-	-	-	892
<b>At 31 December 2018</b>	<b>(181,298)</b>	<b>(29,410)</b>	<b>(14,010)</b>	<b>-</b>	<b>(224,718)</b>
<b>Carrying amount</b>					
<b>As at 31 December 2018</b>	<b>37,509</b>	<b>-</b>	<b>44,504</b>	<b>1,538</b>	<b>83,551</b>
<b>Cost</b>					
At 1 January 2019	218,807	29,410	58,514	1,538	308,269
Additions	-	-	-	15,250	15,250
Transfers	9,999	-	-	(9,999)	-
Disposals	(1,780)	-	(438)	-	(2,218)
Transfers from non-current assets	-	-	-	12	12
<b>At 31 December 2019</b>	<b>227,026</b>	<b>29,410</b>	<b>58,076</b>	<b>6,801</b>	<b>321,313</b>
<b>Accumulated amortisation</b>					
At 1 January 2019	(181,298)	(29,410)	(14,010)	-	(224,718)
Charge for the year	(14,075)	-	-	-	(14,075)
Disposals	1,780	-	438	-	2,218
<b>At 31 December 2019</b>	<b>(193,593)</b>	<b>(29,410)</b>	<b>(13,572)</b>	<b>-</b>	<b>(236,575)</b>
<b>Carrying amount</b>					
<b>As at 31 December 2019</b>	<b>33,433</b>	<b>-</b>	<b>44,504</b>	<b>6,801</b>	<b>84,738</b>

Accumulated amortization and impairment losses include a total of HRK 1,510 thousand relating to accumulated impairment losses (2018: HRK 1,948 thousand of accumulated impairment losses).

The total intangible assets with indefinite useful lives as at 31 December 2019 relate to brands and amount to HRK 44,504 thousand (31 December 2018: HRK 44,504 thousand).

Intangibles in progress mostly relate to licence agreements.

During 2018, the Company sold the Warzywko brand and thereby earned net income of HRK 297 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of HRK)</i>	<b>Land and buildings</b>	<b>Equipment and fittings</b>	<b>Assets under construction</b>	<b>Total</b>
<b>Cost</b>				
At 1 January 2018	1,784,715	1,182,189	39,589	3,006,493
Additions	-	-	70,015	70,015
Approvals	-	(233)	-	(233)
Transfers	15,021	33,440	(48,461)	-
Purchase of used assets	-	84	-	84
Transfer from related companies	-	738	(4)	734
Transfer to related companies	-	(21)	-	(21)
Transfer to non current assets held for sale (i)	-	1,337	-	1,337
Disposals	-	(19,716)	-	(19,716)
<b>At 31 December 2018</b>	<b>1,799,736</b>	<b>1,197,818</b>	<b>61,139</b>	<b>3,058,693</b>
<b>Accumulated depreciation</b>				
At 1 January 2018	(1,283,488)	(895,703)	-	(2,179,191)
Charge for the year	(31,428)	(39,296)	-	(70,724)
Used assets write-offs	-	(84)	-	(84)
Transfer to related companies	-	9	-	9
Transfer from assets held for sale (i)	-	(1,337)	-	(1,337)
Disposals	-	19,383	-	19,383
Reversal of impairment	-	(4,809)	-	(4,809)
<b>At 31 December 2018</b>	<b>(1,314,916)</b>	<b>(921,837)</b>	<b>-</b>	<b>(2,236,753)</b>
<b>Carrying amount</b>				
<b>As at 31 December 2018</b>	<b>484,820</b>	<b>275,981</b>	<b>61,139</b>	<b>821,940</b>
<b>Cost</b>				
At 1 January 2019	1,799,736	1,197,818	61,139	3,058,693
Additions	-	-	53,749	53,749
Transfer	9,317	57,356	(66,673)	-
Purchase of used assets	-	101	-	101
Transfer to related companies	-	(106)	(66)	(172)
Transfer to intangible assets	-	-	(12)	(12)
Transfer from assets held for sale (i)	-	12	-	12
Disposals	(263)	(21,305)	-	(21,568)
Impairment	-	-	(1,615)	(1,615)
<b>At 31 December 2019</b>	<b>1,808,790</b>	<b>1,233,876</b>	<b>46,522</b>	<b>3,089,188</b>
<b>Accumulated depreciation</b>				
At 1 January 2019	(1,314,916)	(921,837)	-	(2,236,753)
Charge for the year	(31,021)	(39,414)	-	(70,435)
Used assets write-offs	-	(101)	-	(101)
Transfer to related companies	-	93	-	93
Transfer from assets held for sale (i)	-	(12)	-	(12)
Disposals	263	21,083	-	21,346
Reversal of impairment	(1,672)	(459)	-	(2,131)
<b>At 31 December 2019</b>	<b>(1,347,346)</b>	<b>(940,647)</b>	<b>-</b>	<b>(2,287,993)</b>
<b>Carrying amount</b>				
<b>As at 31 December 2019</b>	<b>461,444</b>	<b>293,229</b>	<b>46,522</b>	<b>801,195</b>

Accumulated depreciation and impairment losses include a total of HRK 16,238 thousand relating to accumulated impairment losses (2018: HRK 12,492 thousand of accumulated impairment losses).

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 17 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(i) During 2019, the Company 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: impairment of equipment in the amount of HRK 4,809 thousand).

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

##### *Mortgaged assets*

As at 31 December 2019, land and buildings of the Company with a net carrying amount of HRK 347,438 thousand (2018: HRK 362,424 thousand) are pledged as collateral against the Company's borrowings.

#### NOTE 18 – RIGHT-OF-USE ASSETS

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

*(in thousands of HRK)*

##### **Cost**

	Land	Buildings	Equipment	Total
As at 1 January 2019	12,814	4,528	24,863	42,205
Additions	-	4,339	2,915	7,254
Disposals and write-off's	-	-	(78)	(78)
<b>Balance at 31 December</b>	<b>12,814</b>	<b>8,867</b>	<b>27,700</b>	<b>49,381</b>

##### **Accumulated depreciation**

As at 1 January 2019	-	-	-	-
Charge for the year	326	2,413	9,846	12,585
Disposals and write-off's	-	-	(26)	(26)
<b>Balance at 31 December</b>	<b>326</b>	<b>2,413</b>	<b>9,820</b>	<b>12,559</b>

##### **As at 31 December**

<b>12,488</b>	<b>6,454</b>	<b>17,880</b>	<b>36,822</b>
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##### **Lease liabilities and the movements during period**

	2019	2018
	<i>(in thousands of HRK)</i>	
As at 1 January 2019	42,205	-
Interest expense	750	-
Increase of lease liabilities during the year	7,202	-
Lease liabilities payments	(12,585)	-
Exchange rate difference	83	-
<b>As at 31 December 2019</b>	<b>37,655</b>	<b>-</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 18 – RIGHT-OF-USE ASSETS (continued)

The following amounts are recognised in profit and loss

	2019	2018
	<i>(u tisućama kuna)</i>	
Depreciation expense of right-of-use asset	12,585	-
Interest expense of lease liabilities	750	-
Expenses related to short-term leases and leases of low-value assets etc.	8,898	-
<b>Total amount recognised in profit/(loss)</b>	<b>22,233</b>	<b>-</b>

#### NOTE 19 – INVESTMENT PROPERTY

*(in thousands of HRK)*

##### **Cost**

At 1 January 2018

Transfer from assets held for sale

**At 31 December 2018**

Land	Buildings	Total
-	-	-
89,246	58,709	147,955
<b>89,246</b>	<b>58,709</b>	<b>147,955</b>

##### **Accumulated depreciation**

At 1 January 2018

Transfer from assets held for sale

**At 31 December 2018**

##### **Carrying amount**

**At 31 December 2018**

-	-	-
(14,129)	(11,960)	(26,089)
<b>(14,129)</b>	<b>(11,960)</b>	<b>(26,089)</b>
<b>75,117</b>	<b>46,749</b>	<b>121,866</b>

##### **Cost**

At 1 January 2019

**At 31 December 2019**

89,246	58,709	147,955
<b>89,246</b>	<b>58,709</b>	<b>147,955</b>

##### **Accumulated depreciation**

At 1 January 2019

Charge for the year

Impairment

**At 31 December 2019**

##### **Carrying amount**

**At 31 December 2019**

(14,129)	(11,960)	(26,089)
-	(1,467)	(1,467)
-	(10,399)	(10,399)
<b>(14,129)</b>	<b>(23,826)</b>	<b>(37,955)</b>
<b>75,117</b>	<b>34,883</b>	<b>110,000</b>

In line with the management's decision, in 2019, properties in Rijeka were impaired in the amount of HRK 10,399 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 is higher than its current carrying amount. Operating expenses amount to HRK 1,523 thousand (2018: HRK 1,293 thousand) while rental income from the property amounts to HRK 1,102 thousand (2018: HRK 1,668 thousand).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 20 – INVESTMENTS IN SUBSIDIARIES

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

Name of subsidiary	Country	Ownership interest in%		Equity share in thousands of HRK		Principal activity
		31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.	
Žito d.o.o., Ljubljana	Slovenia	100.00	100.00	440,110	440,110	Sale and distribution of food and beverages
Belupo d.d., Koprivnica	Croatia	100.00	100.00	393,153	393,153	Production and distribution of pharmaceuticals
Lagris a.s., Lhota u Luhačovic	Czech Republic	100.00	100.00	68,754	68,754	Rice production and sale
Podravka-Polska Sp.z o.o., Warszawa (i)	Poland	100.00	100.00	20,641	22,090	Sale and distribution of food and beverages
Vegeta Podravka Limited, Dar es Salaam	Tanzania	85.00	85.00	-	-	Production and sale of food and beverages
Podravka-International Kft, Budapest	Hungary	100.00	100.00	5,343	5,343	Sale and distribution of food and beverages
Mirna d.d., Rovinj (i)	Croatia	99.00	90.41	45,128	5,115	Fish processing and production
Podravka Gulf Fze, Jebel Ali, Dubai	UAE	100.00	100.00	-	-	Sale and distribution of food and beverages
Podravka-Int. Deutschland –“Konar” GmbH	Germany	100.00	100.00	1,068	1,068	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen	Slovakia	75.00	75.00	1,034	1,034	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100.00	100.00	1,029	1,029	Sale and distribution of food and beverages
Podravka-International E.O.O Sofia (i)	Bulgaria	100.00	-	1,007	-	Sale and distribution of food and beverages
Podravka-International Pty. Ltd, Sydney	Australia	100.00	100.00	801	801	Sale and distribution of food and beverages
Podravka-International s.r.l., Bucharest (i)	Romania	100.00	100.00	126	84	Sale and distribution of food and beverages
Podravka d.o.o.e.l., Skopje	Macedonia	100.00	100.00	42	42	Sale and distribution of food and beverages
Podravka d.o.o., Sarajevo	Bosnia & Herz.	100.00	100.00	40	40	Sale and distribution of food and beverages
Podravka-International Inc. Wilmington	USA	100.00	100.00	3	3	Sale and distribution of food and beverages
Podravka d.o.o., Moskva (i)	Russia	100.00	100.00	-	402	Sale and distribution of food and beverages
Podravka d.o.o., Beograd	Serbia	100.00	100.00	-	-	Sale and distribution of food and beverages
				<b>978,279</b>	<b>939,068</b>	

- (i) During 2019, the Company increased share capital of the subsidiary Mirna d.d. by the amount of HRK 40,013 thousand, the subsidiary Podravka d.o.o., Moscow by the amount of HRK 2,786 thousand and Podravka – International s.r.l. Bucharest by the amount of HRK 42 thousand, and established the subsidiary Podravka International E.O.O. Sofia in the amount of HRK 1,007 thousand. During 2018, the Company increased share capital of the subsidiary Podravka Gulf Fze, Jebel Ali, Dubai by a borrowing in the gross amount of HRK 27,170 thousand that was fully impaired during 2017, whereby the value of interest in this subsidiary remained unchanged, and it also increased share capital of the subsidiary Podravka d.o.o., Moscow by the amount of HRK 400 thousand.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 20 – INVESTMENTS IN SUBSIDIARIES (CONTINUED)

In 2019, the Company impaired its share in the subsidiary Podravka d.o.o., Moscow in the amount of HRK 3,188 thousand and in the subsidiary Podravka-Polska Sp.z o.o., Warszawa of HRK 1,449 thousand. In 2018, the Company impaired its share in the subsidiary Podravka-Polska Sp.z o.o., Warszawa in the amount of HRK 8,031 thousand.

#### NOTE 21 – NON-CURRENT FINANCIAL ASSETS

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Financial instruments	54,133	-
Impairment of financial instruments	(17,736)	-
Loans to related companies	-	5,283
Loans to third parties	6	8
Deposits and other	216	199
Investments in other equity investments	533	141
	<b>37,152</b>	<b>5,631</b>

Loans to related parties are described in note 36.

In 2019, in line with the Agrokor's creditors settlement, the Company recorded financial instruments in return for trade receivables from customers owned or controlled by the same third party Group in the gross amount of HRK 54,133 thousand. During 2019, it reversed the impairment of financial instruments in the amount of HRK 12,124 thousand.

In 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 22 – INVENTORIES

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Raw materials and supplies	146,148	140,915
Work in progress	26,275	27,700
Finished goods	177,290	154,116
Merchandise	88,188	45,525
	<b>437,901</b>	<b>368,256</b>

During 2019, the Company recognized net impairment loss with respect to inventories in the amount of HRK 2,717 thousand (2018: HRK 3,874 thousand of net impairment loss with respect to inventories). The movement in inventory impairment provision is included in the statement of comprehensive income in line item 'Cost of goods sold'.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 23 – TRADE AND OTHER RECEIVABLES

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Trade receivables	294,294	284,078
Trade receivables - discounted bills of exchange	0	57,722
Accumulated impairment losses on receivables	(109,545)	(141,425)
Impairment of receivables for expected credit losses	(153)	(210)
<b>Net trade receivables</b>	<b>184,596</b>	<b>200,165</b>
Related party trade receivables	300,841	288,474
Provision for related party trade receivables	(11,380)	(11,213)
Loans and interest receivable from related parties	26,355	64,211
Advances to suppliers	83	-
Prepaid expenses	3,047	4,510
Net VAT receivable	3,281	7,029
Receivables from employees	922	521
Other receivables	1,184	828
	<b>508,929</b>	<b>554,525</b>

In 2019, in line with the Agrokor's creditors settlement, the Company reclassified third party trade receivables owned or controlled by the same third party Group to non-current financial assets.

In 2018, the Company reversed a portion of impairment of trade receivables from customers owned or controlled by the same group in the amount of HRK 7,905 thousand and impaired receivables from related parties in the amount of HRK 5,236 thousand.

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

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

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
At 1 January	152,848	156,541
Transfer (to instruments)	(31,526)	-
Reversal/increase	2,295	(1,365)
Amounts collected	(1,372)	(918)
Written off as uncollectible	(1,167)	(1,410)
<b>At 31 December</b>	<b>121,078</b>	<b>152,848</b>

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

Ageing analysis of trade receivables that are not impaired:

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Undue	300,056	327,127
Up to 90 days	102,399	95,596
91-180 days	33,872	36,043
181-360 days	37,730	18,660
	<b>474,057</b>	<b>477,426</b>

#### *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 23,103 thousand (2018: HRK 44,921 thousand).



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Forward contracts	7	296
	<b>7</b>	<b>296</b>

In 2019, the Company used forward contracts with commercial banks with the primary intention of managing the fluctuation of the exchange rates of foreign currencies with respect to the purchase and sale of foreign currencies. The positive fair value of these instruments as at 31 December 2019 amounted to HRK 7 thousand.

The nominal value of forward exchange contracts at 31 December 2019 amounted to HRK 34,974 thousand with maturities between 22 January 2020 and 18 June 2020 (2018: HRK 20,437 thousand with maturities between 10 January 2019 and 12 November 2019).

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

#### *Fair value measurement*

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

#### NOTE 25 – CASH AND CASH EQUIVALENTS

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Cash in banks	2,167	68,162
Cash in hand	13	5
	<b>2,180</b>	<b>68,167</b>

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

The Company has certain transactions in foreign currencies and cash on bank accounts mainly in HRK (HRK 1,270 thousand) and EUR (HRK 588 thousand) at 31 December 2019.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 26 – NON-CURRENT ASSETS HELD FOR SALE

	2019	2018
	<i>(in thousands of HRK)</i>	
Land and buildings	1,075	1,075
	<b>1,075</b>	<b>1,075</b>

*(i) Land and buildings*

The total amount of assets held for sale relates to a property in Koprivnica and land in Žminj for which the Company is still seeking a buyer and expects to sell during 2020.

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. In 2018, property in Koprivnica was impaired according to the independent expert valuer's estimate in the amount of HRK 1,196 thousand.

*(ii) Fair value measurement*

Fair value measurement is classified, according to inputs used in fair value measurement, as level 3 (see note 7). The following table summarizes the valuation methods and techniques as well as significant inputs used in measuring the fair value:

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

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

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**NOTE 27 – SHARE CAPITAL**

	<b>Number of shares</b>	<b>Ordinary shares</b>	<b>Share premium</b>	<b>Treasury shares</b>	<b>Total</b>
	<i>(in thousands of HRK)</i>				
At 1 January 2018	<b>6,957,444</b>	<b>1,566,401</b>	<b>182,267</b>	<b>(60,502)</b>	<b>1,688,166</b>
Purchase of treasury shares (i)	(7,000)	-	-	(2,557)	(2,557)
Exercise of options	23,784	-	(1,489)	8,849	7,360
Fair value of share based payments	-	-	(2,903)	-	(2,903)
<b>At 31 December 2018</b>	<b>6,974,228</b>	<b>1,566,401</b>	<b>177,875</b>	<b>(54,210)</b>	<b>1,690,066</b>
At 1 January 2019	<b>6,974,228</b>	<b>1,566,401</b>	<b>177,875</b>	<b>(54,210)</b>	<b>1,690,066</b>
Exercise of options	17,859	-	(2,162)	6,641	4,479
Fair value of share based payments	-	-	2,318	-	2,318
<b>At 31 December 2019</b>	<b>6,992,087</b>	<b>1,566,401</b>	<b>178,031</b>	<b>(47,569)</b>	<b>1,696,863</b>

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).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 27 – SHARE CAPITAL (CONTINUED)

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

	2019		2018	
	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 kategorije B	625,298	8.78%	625,298	8.78%
CERP - Republika Hrvatska	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%
<b>Total</b>	<b>7,120,003</b>	<b>100.00%</b>	<b>7,120,003</b>	<b>100.00%</b>

#### NOTE 28 – RESERVES

	Reserves for treasury shares	Legal reserves	Other reserves	Total
<i>(in thousands of HRK)</i>				
At 1 January 2018	147,604	26,627	171,181	345,412
Allocation of profits	-	4,321	32,275	36,596
Actuarial loss (net of deferred tax)	-	-	259	259
<b>At 31 December 2018</b>	<b>147,604</b>	<b>30,948</b>	<b>203,715</b>	<b>382,267</b>
At 1 January 2019	147,604	30,948	203,715	382,267
Allocation of profits (i)	-	5,657	43,404	49,061
Actuarial loss (net of deferred tax)	-	-	(639)	(639)
<b>At 31 December 2019</b>	<b>147,604</b>	<b>36,605</b>	<b>246,480</b>	<b>430,689</b>

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

##### *(i) Allocation of profits*

In 2019, the General Assembly reached a decision to allocate the Company's profit from 2018 in the amount of HRK 113,141 thousand as follows: the amount of HRK 5,657 thousand to legal reserves, the amount of HRK 43,404 thousand to other reserves, the amount of HRK 62,907 thousand for the declared dividend (9.00 HRK per share), while the remainder of HRK 1,173 thousand is retained in unallocated profit.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 29 – RETAINED EARNINGS

The movement in retained earnings is as follows:

	2019	2018
	<i>(in thousands of HRK)</i>	
<b>At 1 January</b>	<b>116,836</b>	<b>88,993</b>
- profit for the year (after tax)	145,189	113,141
- transfer to reserves	(49,061)	(36,596)
- dividend declared	(62,907)	(48,702)
<b>At 31 December</b>	<b>150,057</b>	<b>116,836</b>

At 18 June 2019 General Assembly reached a decision to allocate the Company's profit for the declared dividend in amount of HRK 62,907 thousand, 9.00 HRK per share (2018.: 48,702 thousand, 7.00 HRK per share).

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

	2019	2018
	<i>(in thousands of HRK)</i>	
Interest rate swap	-	390
Forwards	292	25
	<b>292</b>	<b>415</b>

Detailed overview of the interest rate swaps is as follows:

	Nominal amount of loan under IRS '000 EUR	Loan liability under IRS '000 EUR	Fair value of IRS '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part of interest rate per IRS
<b>31 Dec 2019</b>							
SWAP 1 - EBRD	-	-	-	-	-	-	-
SWAP 2 - EBRD	-	-	-	-	-	-	-
	-	-	-				

	Nominal amount of loan under IRS '000 EUR	Loan liability under IRS '000 EUR	Fair value of IRS '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part of interest rate per IRS
<b>31 Dec 2018</b>							
SWAP - EBRD	20,540	8,224	229	17.09.2014.	16.08.2019.	3M EURIBOR	0.40%
SWAP - EBRD	20,540	8,224	161	06.02.2015.	16.08.2019.	3M EURIBOR	0.19%
	<b>41,080</b>	<b>16,448</b>	<b>390</b>				

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 30 – FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Interest rate swaps 1 and 2 were entered into in 2014 and 2015 for the syndicated loan entered into 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, with a repayment plan adjusted to interest rate swaps to its maturity on 16 August 2019. As at 31 December 2018, the Company fixed interest rate expense for 84% 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 discounted estimated future cash flows based on terms and maturities of underlying contracts and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments which take into account the credit risk of the Company and the counterparty when appropriate. In accordance with the input variables used, the assessment is categorized in the fair value hierarchy as level 2 (see note 7).

#### NOTE 31 – BORROWINGS

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
<b>Non-current borrowings</b>		
Banks in Croatia	84,546	74,111
Banks abroad	68,379	107,091
	<b>152,925</b>	<b>181,202</b>
<b>Current borrowings</b>		
Banks in Croatia	117,902	136,701
Banks abroad	39,074	38,942
Related party borrowings	9,462	29,670
	<b>166,438</b>	<b>205,313</b>
<b>Total borrowings</b>	<b>319,363</b>	<b>386,515</b>

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 31 – BORROWINGS (CONTINUED)

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

- 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 107,452 thousand (2018: HRK 146,034 thousand) are secured by mortgages over the Company's land and buildings with a carrying amount of HRK 347,438 thousand (2018: HRK 362,424 thousand) (note 17).

The maturity of non-current borrowings (including the interest rate swap) is as follows:

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	91,665	98,439
Between 2 and 5 years	61,260	83,153
	<b>152,925</b>	<b>181,592</b>

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

	<b>2019</b>		<b>2018</b>	
	<b>HRK</b>	<b>EUR</b>	<b>HRK</b>	<b>EUR</b>
	<i>(in thousand of HRK)</i>			
<b>Non-current borrowings</b>				
<i>Banks in Croatia</i>				
Variable interest rate		1.40%		1.40%
Fixed interest rate	0.83%	0.72%	1.57%	1.10%
<i>Banks abroad</i>				
Variable interest rate		0.94%		1.14%
<b>Current borrowings</b>				
Banks	0.62%		0.63%	
Loans from related parties		2.00%		2.00%

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 31 – BORROWINGS (CONTINUED)**

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

	<b>2019</b>		<b>2018</b>	
	<b>fixed</b>	<b>variable</b>	<b>fixed</b>	<b>variable</b>
	<i>(in thousands of HRK)</i>			
Non-current borrowings	134,284	152,619	113,818	221,058
Current borrowings	15,461	17,000	31,640	20,000
	<b>149,745</b>	<b>169,619</b>	<b>145,458</b>	<b>241,058</b>

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

	<b>Carrying value 2019</b>	<b>Fair value 2019</b>	<b>Carrying value 2018</b>	<b>Fair value 2018</b>
<i>(in thousands of HRK)</i>				
<b>Non-current borrowings</b>				
Banks in Croatia	84,546	83,510	74,111	73,838
Banks abroad	68,379	68,379	107,091	107,091
	<b>152,925</b>	<b>151,889</b>	<b>181,202</b>	<b>180,929</b>

The carrying amounts of the Company's borrowings (including the interest rate swap) are denominated in the following currencies:

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Croatian kuna	113,832	69,470
EUR	205,531	317,436
	<b>319,363</b>	<b>386,905</b>

Most of the borrowings are denominated in EUR and the impact of changes in the EUR exchange rates is deemed significant as a result.

The Company has the following undrawn borrowing facilities:

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Floating rate:		
- expiring within one year	212,657	233,810
	<b>212,657</b>	<b>233,810</b>

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



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 31 – BORROWINGS (CONTINUED)**

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

	<b>Loans</b>	<b>Liabilities for right-of- use assets</b>	<b>Share capital</b>	<b>Retained earnings</b>	<b>Total</b>
<i>(in thousands of HRK)</i>					
At 1 January 2019	386,515	-	1,690,066	116,836	2,193,417
<i>Cash transactions:</i>					
Loans received	310,638	-	-	-	310,638
Loans repayment	(343,285)	(11,834)	-	-	(355,119)
Sale of treasury shares	-	-	6,129	-	6,129
Dividend paid	-	-	-	(62,177)	(62,177)
Total cash transactions	<b>(32,648)</b>	<b>(11,834)</b>	<b>6,129</b>	<b>(62,177)</b>	<b>(100,530)</b>
<i>Non-cash transactions:</i>					
The impact of changes in exchange rates	421	83	-	-	504
Other non-cash transactions	(34,925)	49,406	-	-	14,481
Total other changes related to capital	-	-	668	95,398	96,066
<b>At 31 December 2019</b>	<b>319,363</b>	<b>37,655</b>	<b>1,696,863</b>	<b>150,057</b>	<b>2,203,938</b>

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

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2019

### NOTE 32 – PROVISIONS

<i>(in thousands of HRK)</i>	<b>Jubilee awards</b>	<b>Unused holiday</b>	<b>Retirement benefits</b>	<b>Termination benefits and bonuses</b>	<b>Legal cases</b>	<b>Total</b>
<b>As at 31 December 2018:</b>						
Non-current	8,246	-	11,565	-	13,006	32,817
Current	1,641	6,339	-	4,637	163	12,780
	<b>9,887</b>	<b>6,339</b>	<b>11,565</b>	<b>4,637</b>	<b>13,169</b>	<b>45,597</b>
Increase/(decrease) in provisions	2,506	6,522	1,519	7,513	(47)	18,013
Utilised during the year	(1,630)	(6,339)	(12)	(4,637)	(147)	(12,765)
<b>At 31 December 2019</b>	<b>10,763</b>	<b>6,522</b>	<b>13,072</b>	<b>7,513</b>	<b>12,975</b>	<b>50,845</b>
<b>As at 31 December 2019:</b>						
Non-current	8,903	-	13,072	-	12,812	34,787
Current	1,860	6,522	-	7,513	163	16,058
	<b>10,763</b>	<b>6,522</b>	<b>13,072</b>	<b>7,513</b>	<b>12,975</b>	<b>50,845</b>

#### (i) Legal cases

Legal provisions relate to a number of legal proceedings initiated against the Company which stem from regular commercial activities and court cases including former employees. The expenses relating to the provisions are included in the separate statement of comprehensive income within Other income or Administrative expenses. Based on the expert opinion of legal advisers, management believes that the outcome of these legal proceedings will not give rise to any significant losses beyond the amounts provided as at 31 December 2019.

#### (ii) Termination benefits and bonuses

In 2019, the Company recognised HRK 7,513 thousand of provisions for bonuses to key management (2018: HRK 4,637 thousand).

#### (iii) Jubilee awards and regular retirement benefits

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

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

	<i>Estimate</i>	
	<b>2019</b>	<b>2018</b>
Discount rate	1.80%	2.96%
Fluctuation rate	9.15%	9.68%
Average expected remaining working lives (in years)	22	22

Management considers the Croatian corporate bond market to be a deep market.

Changes in the present value of the defined benefit obligation during the period:

	<b>2019</b>		<b>2018</b>	
<i>(in thousands of HRK)</i>	<b>Jubilee awards</b>	<b>Retirement benefits</b>	<b>Jubilee awards</b>	<b>Retirement benefits</b>
At 1 January	9,887	11,565	8,734	11,174
Past service cost	45	64	1,619	16
Current service cost	495	452	446	394
Interest expense	182	223	271	321
Actuarial (gains) / losses	1,784	780	44	(316)
Benefits paid	(1,630)	(12)	(1,227)	(24)
<b>At 31 December</b>	<b>10,763</b>	<b>13,072</b>	<b>9,887</b>	<b>11,565</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019**

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**NOTE 33 – TRADE AND OTHER PAYABLES**

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Trade payables	224,702	245,821
Related party payables	28,090	39,997
Other liabilities	88,884	73,930
	<b>341,676</b>	<b>359,748</b>

As 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 payables include the following:

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Salaries and other benefits to employees	35,868	34,662
Deferred income	15,196	14,435
Other accrued expenses	31,237	20,648
Package waste disposal fee payable	1,250	675
Accrued interest	571	920
Taxes, contributions and other duties payable	17	144
Dividends payable	2,202	1471
Other payables	2,543	975
	<b>88,884</b>	<b>73,930</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 34 – RISK MANAGEMENT

##### Financial risk management

Categories of financial instruments are as follows:

	2019	2018
	<i>(in thousands of HRK)</i>	
<b>Financial assets at amortised cost</b>		
Trade receivables (including bills of exchange received)	475,081	480,568
Cash and cash equivalents	2,180	68,167
Long-term loans	6	5,291
Long-term deposits	216	199
Short-term loans	25,331	61,069
	<b>502,814</b>	<b>615,294</b>
<b>Financial assets at fair value through other comprehensive income</b>		
Equity instruments	<b>533</b>	<b>141</b>
	<b>533</b>	<b>141</b>
<b>Financial assets at fair value through profit and loss</b>		
Financial instruments	36,397	-
Forward contracts	7	296
	<b>36,404</b>	<b>296</b>
<b>Total financial assets</b>	<b>539,751</b>	<b>615,731</b>
<b>Financial liabilities at amortised cost</b>		
Financial lease liabilities	37,656	-
Borrowings	319,363	386,515
Trade and interest payables	253,363	286,738
	<b>610,382</b>	<b>673,253</b>
<b>Financial liabilities at fair value through profit and loss</b>		
Interest swap and forwards	292	415
	<b>292</b>	<b>415</b>
<b>Total financial liabilities</b>	<b>610,674</b>	<b>673,668</b>

##### Fair value of financial instruments

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

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

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

At the reporting date, the carrying amounts of cash and cash equivalents, short-term deposits and short-term borrowings approximate their market value due to the short-term nature of those assets and liabilities and due to the fact that a majority of 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 24. The Company considers that the carrying amount of investments in unquoted and quoted equity instruments with no active market approximates their fair value due to the fact that the respective instruments were acquired at a price willingly agreed by knowledgeable and unrelated parties.

The carrying amounts of borrowings 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 30.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 34 – RISK MANAGEMENT (CONTINUED)

##### Financial risk management (continued)

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 Company's prescribed procedures, which may jeopardise the profitability or cause a significant loss of Company's cash (Escalation procedure for managing financial risks).

The Company 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, 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:

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Debt (long- and short-term borrowings including interest swap and forwards)	319,655	386,930
Cash and cash equivalents	(2,180)	(68,167)
Net debt	317,475	318,763
Equity	2,277,609	2,189,168
Net debt to equity ratio	14%	15%

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

##### Credit risk management

Credit risk refers to the risk that counterparties will default on their contractual obligations resulting in a possible financial loss for the Company. The Company adopted an upgraded "Collection of due receivables process" applied in operations with customers and it takes security instruments, wherever possible, for the purpose of hedging possible financial risks and loss as a consequence of default. In addition, the Company insured receivables in the country and receivables in foreign markets (Turkey, Qatar, Belarus, United Arab Emirates, Saudi Arabia, Oman, Kuwait, Egypt, Japan and Kenya) in order to reduce the risk of possible non-collection.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 34 – RISK MANAGEMENT (CONTINUED)

##### Financial risk management (continued)

##### Credit risk management (continued)

The Company enters into business only with counterparties with good credit ratings, securing, when needed, receivables for the purpose of decreasing the risk of financial loss as a consequence of default. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

##### *The Company'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 4<sup>th</sup> July 2018, which became effective as of 26<sup>th</sup> October 2018, the Fortenova Group became operational on 1<sup>st</sup> 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 Company accepts new customers and continues cooperation with existing customers with payment delays subject to meeting the Company's credit risk parameters. Receivables are analysed on a weekly basis and necessary measures are taken with respect to their collection.

Risk mitigation instruments for individual groups of customers are defined based on the financial performance ratios for individual customers, using a service 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 Company contracted insurance of receivable collection for a selected group of markets.

During 2019, the Company did not have significant damage claims related to the insurance of receivable collection.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2019

### NOTE 34 – RISK MANAGEMENT (CONTINUED)

#### Financial risk management (continued)

##### *Liquidity risk management*

The Company manages liquidity risk by setting an appropriate liquidity risk management framework for the management of the short and long-term funding and liquidity requirements and by maintaining adequate reserves and credit lines available. Additional efforts made in planning cash flows at the level of all related companies in previous years, in 2019 resulted in optimisation of the Company's liquidity. This is a result of continuous monitoring of forecast and actual cash flows and matching the maturity profiles of receivables and payables of the Company to customers and suppliers, banks and other financial institutions. In addition, the Company continuously monitors and analyses cash flows with the aim of an optimum liquidity management in order to ensure sufficient level of cash funds for operating purposes.

##### *Liquidity risk analysis*

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

The tables have been drawn up based on the undiscounted cash flows based on contracted terms at reporting date and include cash flows from both interest and principal.

The liquidity risk analysis below shows no potential deficit of short-term liquidity for the Company.

<i>as at 31 December 2019</i>	<b>Net book value</b>	<b>Contracted cash flow</b>	Up to one year	1 - 5 years	over 5 years
			<i>(in thousands of HRK)</i>		
<i>Non-interest bearing liabilities:</i>					
Interest rate swap and forward contracts	<b>292</b>	292	292	-	-
Trade and interest payables	<b>253.363</b>	253.363	253.363	-	-
	<b>253.655</b>	253.655	253.655	-	-
<i>Interest bearing liabilities:</i>					
Lease liabilities	<b>37.656</b>	46.439	11.706	15.729	19.004
Loans and borrowings	<b>319.363</b>	322.877	168.808	154.069	-
	<b>357.019</b>	369.316	180.514	169.798	19.004
	<b>610.674</b>	622.971	434.169	169.798	19.004
<i>Non-interest bearing assets:</i>					
Trade receivables	<b>475.081</b>	475.081	475.081	-	-
Financial instruments	<b>36.930</b>	36.930	-	36.930	-
Forward contracts	<b>7</b>	7	7	-	-
Cash and cash equivalents	<b>2.180</b>	2.180	2.180	-	-
	<b>514.198</b>	514.198	477.268	36.930	-
<i>Interest bearing assets:</i>					
Short-term loans	<b>25.337</b>	26.880	26.880	-	-
Long-term deposits	<b>216</b>	216	-	216	-
	<b>25.553</b>	27.096	26.880	216	-
	<b>539.751</b>	541.294	504.148	37.146	-
<b>Net liquidity position</b>	<b>(70.923)</b>	<b>(81.677)</b>	<b>69.979</b>	<b>(132.652)</b>	<b>(19.004)</b>

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

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**NOTE 34 – RISK MANAGEMENT (CONTINUED)**

**Financial risk management (continued)**

***Liquidity risk management (continued)***

*Liquidity risk analysis (continued)*

<i>as at 31 December 2018</i>	<b>Net book value</b>	<b>Contracted cash flow</b>	Up to one year	1 - 5 years	over 5 years
			<i>(in thousands of HRK)</i>		
<i>Non-interest bearing liabilities:</i>					
Interest rate swap and forward contracts	<b>415</b>	415	415	-	-
Trade and interest payables	<b>286,738</b>	286,738	286,738	-	-
	<b>287,153</b>	287,153	287,153	-	-
<i>Interest bearing liabilities:</i>					
Loans and borrowings	<b>386,515</b>	392,688	209,179	183,509	-
	<b>386,515</b>	392,688	209,179	183,509	-
	<b>673,668</b>	679,841	496,332	183,509	-
<i>Non-interest bearing assets:</i>					
Trade receivables (including bills of exchange)	<b>480,568</b>	480,568	480,568	-	-
Financial instruments	<b>141</b>	141	-	141	-
Forward contracts	<b>296</b>	296	296	-	-
Cash and cash equivalents	<b>68,167</b>	68,167	68,167	-	-
	<b>549,172</b>	549,172	549,031	141	-
<i>Interest bearing assets:</i>					
Long-term and short-term loans	<b>66,360</b>	76,396	70,773	5,623	-
Long-term deposits	<b>199</b>	199	-	199	-
	<b>66,559</b>	76,595	70,773	5,822	-
	<b>615,731</b>	625,767	619,804	5,963	-
<b>Net liquidity position</b>	<b>(57,937)</b>	<b>(54,074)</b>	<b>123,472</b>	<b>(177,546)</b>	<b>-</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 34 – RISK MANAGEMENT (CONTINUED)

##### Financial risk management (continued)

##### *Market risks*

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

Changes and projections of interest rates are monitored continuously. The Company 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 Company is not significantly exposed to interest rate risk.

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

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
EURIBOR based bank loans	152,619	221,058
TZMF based bank loans	17,000	20,000
	<b>169,619</b>	<b>241,058</b>

*\*TZMF- Treasury bills of the Ministry of Finance*

##### *Interest rate sensitivity analysis*

The sensitivity analysis below is determined based on the exposure to changes in contractual interest rates at the reporting date. For floating rate liabilities, the analysis is prepared by calculating the effect of a reasonably possible increase in interest rates on floating rate debt on the expected contractual cash flows of such debt compared to those calculated using the interest rates applicable at the current reporting period end date. 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 Company pays the difference between the fixed interest rate of the swap and the variable 3 M Euribor interest rate.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 34 – RISK MANAGEMENT (CONTINUED)

##### Financial risk management (continued)

##### *Market risks (continued)*

The estimated effect of the reasonably possible change in variable interest rates on the Company's result before tax for the reporting periods is as follows:

<i>as at 31 December 2019</i>	<b>Contractual cash flows</b>	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
		<i>(in thousands of HRK)</i>			
At currently applicable interest rates	<b>171,591</b>	87,512	54,669	29,410	-
At currently applicable interest rates + 50 basis points	<b>172,556</b>	88,147	54,943	29,466	-
<b>Effect of increase of interest rate by 50 basis points</b>	<b>(965)</b>	<b>(635)</b>	<b>(274)</b>	<b>(56)</b>	-

<i>as at 31 December 2018</i>	<b>Contractual cash flows</b>	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
		<i>(in thousands of HRK)</i>			
At currently applicable interest rates	<b>245,998</b>	91,647	70,371	83,980	-
At currently applicable interest rates + 50 basis points	<b>247,604</b>	92,311	70,959	84,334	-
<b>Effect of increase of interest rate by 50 basis points</b>	<b>(1,606)</b>	<b>(664)</b>	<b>(588)</b>	<b>(354)</b>	-

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 34 – RISK MANAGEMENT (CONTINUED)

##### **Operational risk management**

###### *(i) Price risk*

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

The cost of raw materials could have a significant role in the cost of finished products that the Company manufactures, therefore, it is subject to fluctuations of market prices of agricultural and food raw materials, whose impact cannot always be mitigated through the sale price for the buyer.

Protective customs and trade mechanisms in the EU protecting 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 most of the procurement on the domestic market, while the majority of turnover with foreign suppliers relates to suppliers from EU member states.

Among procurement function risks, the risk of availability of goods on market is one of the most significant, due to its possible impact on the Company's operations.

Over the last years, this risk is more prominent due to more frequent adverse weather conditions caused by climate change on the global level (long droughts, floods). 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 Company minimizes these impacts through managing the strategic procurement categories and key suppliers, consolidation of purchasing volumes with the aim to strengthen market positions and ensure availability of raw materials for the production in required volumes, of satisfying quality and on time. Also, by continuously monitoring new technological solutions and introducing replacement raw materials where possible, the Company actively works on the mitigation and/or elimination of the risk of procurement of raw materials and availability of products.

##### **Risks of price fluctuations of basic raw materials**

The market of agricultural and food products, as the most significant source of raw materials for the Company, is among the most sensitive markets of the modern world. Therefore, the volatility of prices of agricultural and food raw materials is a significant element in the Company's business environment, especially in conditions of prominent disruptions on the global and local markets. One of the reasons lies in the already mentioned risks of availability of goods due to environmental, geopolitical and social factors and speculations with key agricultural and food products, especially those in the wheat and sugar sectors. Exceptional price volatility is particularly relevant in the commodity market segment (hazelnut, sugar, spices, cocoa, powdered milk), and in the last year also in the segment of meat and meat products following the increased demand for pork in the market of China due to the swine fever.

Protective customs and trade mechanisms in the EU that, on one hand, protect EU producers, on the other hand pose a risk in terms of increased customs duties (antidumping) for certain raw materials from third countries. To minimise these impacts, the Company's procurement function continuously monitors movements in prices and market trends, conducts joint tenders for certain strategic procurement categories, uses new procurement techniques (e-procurement, internet auctions) to increase the efficiency of the sourcing process and reduce the cost of procurement. Timely contracting, allocating a portion of risk to our suppliers, optimisation of material specifications and introduction of replacement raw materials, as well as active implementation of the Commodity Risk Management with strengthening of cost-driver analysis and technical analyses of all relevant inputs are only some of the measures taken by the Company for the purpose of best estimates of price movements and the minimisation of market price volatility risk.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 34 – RISK MANAGEMENT (CONTINUED)

##### Operational risk management (continued)

###### (ii) Currency risk

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows.

	Liabilities		Assets	
	2019	2018	2019	2018
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
European Union (EUR)	277,318	363,971	154,077	193,377
USA (USD)	5,559	9,196	37,942	24,491
Russia (RUB)	-	-	26,736	14,974
Australia (AUD)	-	-	15,297	11,116
Poland (PLN)	5,312	2,664	31,419	28,572
Other currencies	1,490	3,787	5,013	8,418
	<b>289,679</b>	<b>379,617</b>	<b>270,484</b>	<b>280,948</b>

##### Foreign currency sensitivity analysis

The Company performs certain transactions in foreign currencies and is therefore exposed to risks of changes in exchange rates, with the highest exposure during 2019 to changes in the exchange rate of the Croatian kuna against EUR, USD, RUB, AUD and PLN.

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 Company decided to proactively manage key risks (including currency risk).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 34 – RISK MANAGEMENT (CONTINUED)

##### Operational risk management (continued)

##### *Foreign currency sensitivity analysis (continued)*

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

During 2019, the Company 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 Company 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 Company 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.

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:

	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
EUR	<b>7.44258</b>	7.417575
USD	<b>6.649911</b>	6.469192
RUB	<b>0.107431</b>	0.093251
AUD	<b>4.651031</b>	4.567191
PLN	<b>1.749261</b>	1.725941

The following table details the Company’s sensitivity to a 1% increase in Croatian kuna against the relevant foreign currencies where the Company has significant exposure (EUR, USD, RUB, AUD and PLN). The sensitivity analysis includes only outstanding cash items in foreign currency and their translation at the end of the period based on the percentage change in currency exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit where Croatian kuna increases 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 34 – RISK MANAGEMENT (CONTINUED)

##### Operational risk management (continued)

##### *Foreign currency sensitivity analysis (continued)*

	EUR exposure		USD exposure	
	2019	2018	2019	2018
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	

Increase/(decrease) of net result	(1,232)	(1,706)	324	153
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	RUB exposure		AUD exposure	
	2019	2018	2019	2018
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	

Increase/(decrease) of net result	267	150	153	111
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	PLN exposure	
	2019	2018
	<i>(in thousands of HRK)</i>	

Increase/(decrease) of net result	261	259
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##### *(iii) Sales function based risks*

The Company generates 53.52% (2018: 54.13%) of its revenue on the domestic market, whereas 46.48% (2018: 45.87%) of the sales are generated on international markets. The Company determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

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

The Company is making efforts through harmonization and optimization of existing pricing policies and price levels for existing markets in the EU/CEE to secure a basis for the continuing successful long-term growth and avoid decrease in profit margins.

#### **Business risks management**

##### **Industry risks**

In the food industry, market trends as well as consumer habits change in a very short period of time. Due to this risk, the Company seeks to constantly improve the processes and meet market conditions. In the food industry, where the focus is on products and brands, the Company complies with legislative, health and manufacturing regulations. Clear legal regulation creates most of the production and sales processes within the Company and is subject to change, depending on the bodies adopting it. One of the major risks associated with the food industry is consumer health. All production processes are subject to international standards. By implementing better internal processes, the Company seeks to eliminate the majority of potential threats.

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

### **FOR THE YEAR ENDED 31 DECEMBER 2019**

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#### **NOTE 34 – RISK MANAGEMENT (CONTINUED)**

##### **Business risks management (continued)**

###### **Competition risk**

The Company sells products both on the Croatian and international markets, and is exposed to numerous competitors in all product categories. Innovations, adjustments of the product price, quality and packaging are key changes that the Company is paying attention to in order to be different from competition.

In addition, the reputation of the brand, or the Company, is intangible value that differentiates it from the competition and creates the advantage. The fact that the Company is focused on securing the highest level of quality of its products contributes to the reputation that depends on many own products on the market on a daily basis.

Monitoring of consumer habits and preferences that are subject to constant changes, and adjustments to them, are one of a series of activities that the Company undertakes to maintain and increase the existing market positions and margins. An important element in the struggle with major international competitors is the difference between the financial resources needed for the overall promotion and sales of products, and it is often the key factor in reaching out to a new consumer.

###### **Risks of IT system disruptions**

The Company intensely uses IT systems that enable it to efficiently manage the Company, communicate with customers and suppliers, and collect all the information that management can rely on in making decisions.

Given the high degree of automation of business processes through the use of IT systems, the Company takes the necessary measures to minimise IT system disruptions due to problems with IT equipment, the space in which it is located, viruses and unauthorised external breaches into the systems.

As each IT system disruption causes significant problems in operating systems and financial losses, the Company has implemented IT system recovery procedures through the construction of an auxiliary IT room that assumes the function of the main IT system room in case of a problem. In the normal operating mode, both IT system rooms work in the active-active mode.

The Company regularly conducts internal and external penetration tests (conducted by external independent security experts) to minimise the risk of using system vulnerabilities for the spread of viruses and the risk of unwanted external breaches into the IT systems.

Also, following the implementation of advance security monitoring systems, monitored on a daily basis, the risk of external breaches into the Company's IT systems is additionally reduced 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 Company's employees.

###### **Risks of dependency on management and key employees**

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

The labour market today is characterised by high mobility. 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 Company's operations.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 34 – RISK MANAGEMENT (CONTINUED)

##### Business risks management (continued)

##### Risks of dependency on management and key employees (continued)

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

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

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

#### NOTE 35 – SHARE-BASED PAYMENTS

##### (i) Employee share options

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

All the terms and conditions apply, unless circumstances arise as provided in each of the contracts applicable to the periods that implies an early termination of a mandate, breach of contractual provisions, leaving the company, relocation within the company, in which case such an option generally becomes exercisable within six months from the occurrence of any of the circumstances described above.

The following share-based payment options were effective as at 31 December 2019:

Date of issue	Number of options	Vesting terms	Contracted vesting period
<i>Options granted to key management</i>			
As at 31 December 2015	9,713	Employment until contracted vesting period	22.02.2020.
As at 15 February 2016	10,004	Employment until contracted vesting period	22.02.2020.
As at 1 June 2016	2,000	Employment until contracted vesting period	30.06.2023.
As at 12 December 2017	2,000	Employment until contracted vesting period	30.06.2023.
As at 12 December 2017	4,000	Employment until contracted vesting period	31.12.2022.
As at 12 December 2017	2,000	Employment until contracted vesting period	30.09.2021.
As at 17 March 2017	2,000	Employment until contracted vesting period	31.12.2022.
As at 17 May 2017	17,000	Employment until contracted vesting period	31.12.2022.
As at 21 July 2017	5,000	Employment until contracted vesting period	31.12.2022.
As at 1 May 2018	2,000	Employment until contracted vesting period	31.12.2022.
As at 31 July 2018	40,500	Employment until contracted vesting period	31.12.2023.
As at 31 July 2018	2,000	Employment until contracted vesting period	30.06.2023.
As at 10 December 2019	32,500	Employment until contracted vesting period	31.12.2024.
As at 28 May 2019	10,000	Employment until contracted vesting period	31.12.2024.
As at 28 May 2019	2,500	Employment until contracted vesting period	30.06.2023.
<b>Total</b>	<b>143,217</b>		



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2019

### NOTE 35 – SHARE-BASED PAYMENTS (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 (note 7). Service and non-market performance conditions are not taken into account in determining fair value.

Input variables for calculation of fair value:

<b>Share option programme for key management</b>	<b>2019</b>	<b>2018</b>
Fair value at grant date in kuna	99	90
Share price in kuna at grant date (weighted average)	381	342
Exercise price in kuna (weighted average)	362	332
Expected volatility (weighted average)	17%	20%
Expected life (weighted average in years)	2.8	2.9
Risk-free interest rate (based on government bonds)	4.50%	6.56%

<b>Expense recognised in profit or loss</b>	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Equity-settled share-based payment transactions	2,318	1,257

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

The exercise price of share options for key management falls within the range HRK 300 to HRK 429.

Movement in the number of share options and respective exercise prices in HRK is as follows:

	<b>2019</b>		<b>2018</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>
Outstanding at 1 January	130,160	332	100,967	332
Exercised	(31,943)	335	(7,000)	299
Expired	-	-	(8,307)	297
Granted	45,000	482	44,500	317
<b>At 31 December</b>	<b>143,217</b>	<b>362</b>	<b>130,160</b>	<b>332</b>

As at 31 December 2019, there are 143,217 of outstanding options (2018: 130,160 options). During 2019, 31,943 options were exercised (2018: 7,000 options).

The weighted average exercise price of outstanding options at the end of 2019 is HRK 362 (2018: HRK 332). 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 2.8 years at year end (2018: 2.9 years).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 35 – SHARE-BASED PAYMENTS (CONTINUED)

##### (ii) Employee Stock Ownership Program

In accordance with the decision of the General Assembly dated 3 June 2015, the Company launched Employee Stock Ownership Program (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 4,160 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, which was used in 2018.

#### NOTE 36 – RELATED PARTY TRANSACTIONS

##### *Transactions with subsidiaries*

#### REVENUE

##### *Sales revenue*

	Revenue from sale of products and merchandise		Revenue from services	
	2019	2018	2019	2018
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Company:				
Podravka d.o.o., Sarajevo	158,445	143,350	800	1,431
Podravka d.o.o., Ljubljana	115,885	109,005	2,570	2,436
Podravka d.o.o., Beograd	80,096	71,616	917	1,031
Podravka-Int.Deutschland-"Konar" GmbH	64,859	30,770	296	338
Podravka d.o.o.e.l., Skopje	59,884	55,853	510	447
Podravka-International Pty. Ltd., Sydney	29,241	23,136	75	198
Podravka d.o.o., Podgorica	32,534	29,939	365	529
Podravka-International Inc. Wilmington	39,032	36,390	475	382
Podravka-Polska Sp.z o.o., Warszawa	93,695	87,216	829	454
Podravka-International Kft., Budapest	14,967	18,484	246	322
Podravka-International s r.o., Zvolen	13,677	16,247	260	303
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	11,683	11,476	675	760
Ljekarne Deltis Pharm	5	-	-	-
Belupo d.d., Koprivnica	86	77	20,311	20,433
Mirna d.d., Rovinj	45,099	39,117	2,537	2,253
Podravka Gulf Fze, Jebel Ali	-	67	6	14
Podravka d.o.o., Moskva	29,439	24,709	1	-
Žito d.o.o., Ljubljana	1,302	2,992	3,611	2,809
Šumi bomboni d.o.o. Ljubljana	-	-	11	-
Žito maloprodaja d.o.o. Ljubljana	-	-	4	-
Belupo doel Skopje	-	-	18	23
Belupo d.o.o. Ljubljana	-	-	29	26
Farmavita	-	-	355	285
<b>Total related party sales</b>	<b>789,929</b>	<b>700,444</b>	<b>34,901</b>	<b>34,474</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 36 – RELATED PARTY TRANSACTIONS (CONTINUED)

##### Investment revenue

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Interest income	4,739	6,408
Dividends from subsidiaries	45,857	21,630
	<b>50,596</b>	<b>28,038</b>

##### EXPENSES

##### *Remuneration to key management and Supervisory Board members*

Remuneration to the Management board and executives were as follows:

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Salaries	31,273	27,464
Termination benefits	-	799
Share-based payments (note 35)	2,318	1,257
Share-based payments (note 35)	<b>33,591</b>	<b>29,520</b>

Key management of the Company comprises the Management Board and executive directors and consists of 33 persons (2018: 36 persons).

During 2019, the Company paid HRK 1,720 thousand to the members of the Supervisory Board (2018: HRK 1,412 thousand).

##### LOANS RECEIVABLE

##### *Loans receivable*

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
At beginning of year	66,352	97,096
Increase during the year	2,446	9,412
Repayments received	(35,779)	(35,758)
Write-offs	(7,868)	(4,567)
Other changes	-	40
Foreign exchange difference	180	129
<b>At end of year</b>	<b>25,331</b>	<b>66,352</b>
Maturity: within one year	(25,331)	(61,069)
<b>Non-current loans receivable</b>	<b>-</b>	<b>5,283</b>

In 2019, the Company impaired loans given to companies Vegeta Podravka Limited, Tanzania, Vegeta Limited, Kenya and Podravka Gulf FZE, Dubai in the total amount of HRK 7,868 thousand, and in 2018 the Company impaired loans given to companies Vegeta Podravka Limited, Tanzania and Vegeta Limited, Kenya in the total amount of HRK 4,567 thousand.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 36 – RELATED PARTY TRANSACTIONS (CONTINUED)****LOANS RECEIVABLE (CONTINUED)***Loans receivable (continued)*

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

	<b>Interest rate</b>	<b>2019</b>	<b>2018</b>
<i>(in thousands of HRK)</i>			
Mirna d.d., Rovinj	3.96% p.a.	24,128	59,611
Podravka Gulf FZE, Dubai	3.96% p.a.	591	6,146
Podravka-International USA Inc., Wilmington	3.96% p.a.	612	595
Vegeta Podravka Limited, Tanzania	3.96% p.a.	-	-
Vegeta Limited, Kenya	3.96% p.a.	-	-
		<b>25,331</b>	<b>66,352</b>

The average interest rate is 3.96 % p.a.

The maturity of long-term loans is as follows:

	<b>2019</b>	<b>2018</b>
<i>(in thousands of HRK)</i>		
Between 1 and 2 years	-	1,887
Between 2 and 5 years	-	3,396
	-	<b>5,283</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2019

### NOTE 36 – RELATED PARTY TRANSACTIONS (CONTINUED)

#### TRADE RECEIVABLES AND PAYABLES

	Current trade receivables		Current trade payables	
	2019	2018	2019	2018
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Company:				
Podravka d.o.o., Sarajevo	29,152	34,075	347	361
Podravka d.o.o., Beograd	60,942	61,602	142	-
Podravka d.o.o., Ljubljana	15,480	33,319	-	1
Podravka d.o.o., Podgorica	14,731	13,179	-	45
Belupo d.d., Koprivnica	2,309	6,773	394	371
Podravka d.o.o.e.l., Skopje	4,435	2,770	22	-
Podravka-International Inc. Wilmington	10,408	11,129	-	-
Podravka-International Pty. Ltd., Sydney	15,299	9,923	-	-
Podravka-Polska Sp.z o.o., Warszawa	31,418	28,456	5,313	3,089
Podravka-Int.Deutschland-„Konar“ GmbH	7,845	1,130	-	38
Podravka-International Kft., Budapest	1,723	3,210	506	-
Podravka-International s r.o., Zvolen	1,668	1,992	-	-
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	2,647	2,544	573	1,886
Podravka d.o.o., Rusija	21,465	14,126	-	-
Mirna d.d., Rovinj	68,598	51,996	7,349	9,517
Vegeta Podravka Limited, Dar es Salaam	5	-	-	-
Podravka Gulf Fze, Jebel Ali	-	4	2,110	2,739
Žito d.o.o., Ljubljana	1,201	922	11,326	21,822
Žito maloprodaja d.o.o. Ljubljana	5	-	-	-
Belupo doel Skopje	1	2	-	-
Belupo d.o.o. Ljubljana	7	7	-	-
Ljekarne Deltis Pharm	3	7	8	113
Farmavita	119	95	-	-
Podravka International s. r. l., Bukurešt	-	-	-	15
<b>Total related party receivables and payables</b>	<b>289,461</b>	<b>277,261</b>	<b>28,090</b>	<b>39,997</b>

In 2018, the Company performed impairment of receivables for goods in the amount of HRK 5,263 thousand.

#### OTHER RECEIVABLES

##### Other interest receivables from related parties

	2019	2018
	<i>(in thousands of HRK)</i>	
Mirna d.d., Rovinj	763	2,959
Podravka International USA Inc., Wilmington	2	27
Vegeta Podravka Limited, Tanzania	6,992	4,940
Podravka Gulf FZE, Dubai	408	156
Vegeta Limited Kenia	106	17
Write-offs	(7,247)	(4,957)
	<b>1,024</b>	<b>3,142</b>

In 2019, the Company performed impairment of interest receivable on loans to companies Vegeta Podravka Limited, Tanzania, Vegeta Limited, Kenya and Podravka Gulf FZE in the total amount of HRK 2,151 thousand (Vegeta Podravka Limited, Tanzania: HRK 1,913 thousand, Vegeta Limited, Kenya: HRK 89 thousand, and Podravka Gulf FZE, Dubai: HRK 149 thousand), and in 2018, the Company performed impairment of interest receivable on loans to companies Vegeta Podravka Limited, Tanzania and Vegeta Limited, Kenya in the total amount of HRK 2,080 thousand (Vegeta Podravka Limited, Tanzania: HRK 2,063 thousand, Vegeta Limited, Kenya: HRK 17 thousand).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### NOTE 36 – RELATED PARTY TRANSACTIONS (CONTINUED)

##### GUARANTEES AND WARRANTIES

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Belupo d.d., Koprivnica	335,256	384,637
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	64,334	28,765
Podravka d.o.o., Beograd	1,329	1,806
Podravka-International S.R.L., Bukurešt	1,231	1,227
Podravka - International Kft, Budapest	744	742
Mirna d.d., Rovinj	65,262	76,536
Podravka d.o.o., Podgorica	-	1,113
Podravka Polska Sp. z o.o., Warszawa	298	-
	<b>468,454</b>	<b>494,826</b>

##### BORROWINGS

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Žito d.o.o., Ljubljana	9,462	29,670
	<b>9,462</b>	<b>29,670</b>

The borrowing received from Žito d.o.o. in 2018 was prolonged by the Company in 2019 with the new maturity until 26 April 2020.

##### INTEREST PAYABLE

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Žito d.o.o., Ljubljana	16	50
	<b>16</b>	<b>50</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### NOTE 37 – CONTINGENT LIABILITIES

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Guarantees – third parties	14,224	13,145
Guarantees – related parties	468,454	494,825
	<b>482,678</b>	<b>507,970</b>

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

With respect to guarantees and warranties granted, contingent liabilities have not been recognised in the separate statement of financial position as at 31 December, as management estimated that as at 31 December 2019 and 2018 it is not probable that they will result in liabilities for the Company.

#### NOTE 38 – COMMITMENTS

In 2019, the purchase costs of tangible fixed assets contracted with suppliers amounted to HRK 10,840 thousand (2018: HRK 10,672 thousand), which are not yet realised or recognised in the statement of financial position.

Contracted payments of liabilities under the contract on mutual guarantees concluded with Belupo d.d. and Žito d.o.o. amount to HRK 4,569 thousand (2018: HRK 8,482 thousand).

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:

	<b>2019</b>	<b>2018</b>
	<i>(in thousands of HRK)</i>	
Up to 1 year	3,062	12,769
From 1 to 5 years	2,416	16,212
	<b>5,478</b>	<b>28,981</b>

#### NOTE 39 – EVENTS AFTER THE REPORTING PERIOD

After the reporting period the Company had no significant events.