

Nonfinancial Report

of Fortenova Group for the year 2019

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Introduction

This nonfinancial report contains nonfinancial information related to the operations of the parent company Fortenova grupa d.d. and its subsidiary and affiliated companies (jointly: Fortenova Group or the Group). According to paragraph 9 of Directive 2014/95/EU, the company has applied national and internationally recognised frameworks and standards for preparing this nonfinancial report.

Due to the fact that Fortenova Group was established on 1st April 2019 by way of transfer of the business unit of Agrokor under Extraordinary Administration, which was a direct result of the implementation of the Settlement Plan of Agrokor's creditors, the report does not include information on the operations of Fortenova Group's key companies for the entire year 2019.

The settlement of Agrokor's creditors and the implementation of the Settlement Plan were preceded by the Extraordinary Administration Procedure at Agrokor, which started on 10th April 2017 pursuant to the Act on Extraordinary Administration Proceedings in Companies of Systemic Importance for the Republic of Croatia and comprised a total of 77 of Agrokor's companies in Croatia.

The Settlement Plan was adopted by 80.2 per cent of creditors on 4th July 2018 at the settlement plan voting hearing, and the Commercial Court of Zagreb confirmed the Settlement Plan on 6th July 2018. It became final and non-appealable on 18th October 2018 by decision of the High Commercial Court.

With the Settlement Plan having become final and non-appealable, the most important condition precedent for the commencement of the implementation of the Settlement Plan as a process in which the creditors' agreement was operationalized, creating the prerequisites for the new future of Fortenova Group and all its companies, was met.

Out of the total of 159 companies that had operated within the Agrokor Group, 77 companies under Extraordinary Administration in the Republic of Croatia underwent the Settlement Plan implementation. Out of those, 45 insolvent companies were mirrored, with the new „plus“ companies having started operations within Fortenova Group. At the same time, the old, non-viable companies underwent a process of merging with Agrokor d.d.

Shares of the 32 solvent companies in Croatia were transferred to Fortenova Group and once the shares were transferred, the companies exited from the Extraordinary Administration Procedure.

The assets and shares of 82 companies that are located outside Croatia and had not been under extraordinary administration, were transferred to Fortenova Group pursuant to the laws of the relevant jurisdictions.

With regards to the transfer of assets from Agrokor to Fortenova Group abroad, all assets other than the assets of the company Mercator d.d. were transferred upon Settlement, while the registration of the transfer has not yet been carried out for all companies.

In August 2019 Fortenova Group started the process of filing concentration for Mercator at EU level (for Slovenia and Croatia) before the European Commission as the market competition regulator on EU level. In February 2020 the European Commission notified Fortenova Group that the filing was complete and hence the deadlines for making a decision regarding that concentration formally started to run. Requests were also submitted to review the concentration in Bosnia and Herzegovina, Serbia, Montenegro and Macedonia, with approvals obtained in Macedonia and Montenegro.

The Serbian Competition Commission initiated an investigation on whether it would have been necessary to obtain a concentration approval prior to the transfer of assets in Serbia. In addition, the President of the Competition Commission issued a decision to suspend the concentration approval procedure for Mercator pending the outcome of that investigation. The deadline therefore has not been determined.

Key features of Fortenova Group's nonfinancial operations in 2019

Following the transfer of Agrokor's business unit, Fortenova Group commenced operations as of 1st April 2019 and at the same time all Group companies continued to smoothly run their operations under new names, as part of and owned by Fortenova Group. The new parent company was introduced to the market featuring a new visual identity.

With the Settlement Plan implementation the system's capital structure and corporate governance were redesigned and a different governance model set up. In particular, (on 1st April) the Assembly of Holders of Depositary Receipts issued by Fortenova Group STAK Stichting (rg) was held in Amsterdam, the Netherlands. All decision proposals were adopted by the majority of votes cast, among others the decision on appointing Members of the Board of Directors of Fortenova grupa d.d.

The Board of Directors consists of nine members, eight of whom are Non-executive Members and one is Executive Member of the Board of Directors. The Board of Directors runs the Company, sets the strategy for the Company's operations and supervises the way the Company's operations are run, while Executive Directors represent the Company and run the Group's operations.

Fabris Peruško is Chief Executive Officer of Fortenova Group, Vladimir Bošnjak is Executive Director for Finance, Vlado Čondić-Galinčić Executive Director for

Agriculture, Siegfried Ganshorn Executive Director for Retail and Sotiris Yannopoulos Executive Director for Food.

In parallel to the preparation and realization of the implementation and upon successful completion of the financial restructuring, the Fortenova Group management initiated activities regarding the refinancing of the SPFA, made an assessment of the potential synergies among Fortenova Group companies, started key projects in operational restructuring within the system and initiated the implementation of an improved corporate governance model.

The refinancing was successfully completed in September 2019 by issuing a EUR 1.157bn 8.3 per cent corporate bond. Thus the SPFA has been refinanced with a significantly more favorable bond, with the agreement envisaging even lower interest going forward, subject to the Group's operating results.

The new company has therewith realized the largest corporate debt in Croatia and accomplished another important task set before the Extraordinary Administration by the Settlement Plan of Agrokor's creditors. The new arrangement represents a significant relaxation in the operations of one of the region's most important companies, with a positive effect on the economies of all countries where Fortenova Group operates.

Due to many internal transformation processes and the improvement of operating and corporate performances, the Group's operating profit increased and along with the company's redesigned organisational and governance structure, the executive management has been strengthened by experienced international workforce.

Besides that, Fortenova Group initiated the process of divesting its non-core property portfolio, to which end the company set up a special website in Croatian and English <http://nekretnine.fortenovagrupa.hr>. More than 150 properties have been offered for sale on that website.

At the same time, in accordance with its strategy of focusing on the development of operations in its core businesses and the planned exit from non-core businesses, by distributing materials intended for potential investors Fortenova Group started the process of divesting companies from its non-core operations. Offered for sale were the leading travel service providers in Southeast Europe Atlas and Kompas with their affiliated companies, Projektgradnja, a construction company based in the town of Slavonski Brod that generates strong results in the public and private sector as well as Sojara, a port terminal for loading, unloading and storing cereal crops located in Zadar.

It is the objective of Fortenova Group to find strategic or financial investors for those non-core subsidiaries, who will be able to realize the great potential of each of those

companies to the benefit of their employees, partners and other stakeholders. Over the course of 2019 the processes reached the phase where interested investors expressed their interest and NDA's were signed.

In the reporting period Fortenova Group defined the strategic plans for its core businesses and for most companies their successful operations, due to brands that are their key competitive advantage, enabled them to keep their leading positions on the market. Continued quality, investments in products and the market, following of trends and innovations resulted in high brand recognition among consumers, as well as in numerous prestigious awards won by Fortenova Group wines, waters, cheeses, ice creams, meat products, mayonnaise, margarine etc. at renowned international quality competitions in 2019.

The backbone in maintaining the high quality of products and services was the professional and dedicated staff. Over the course of 2019 Fortenova Group employed around 29,000 people and the Group continued to improve the work environment by combining various models of employee benefits – from improved financial conditions and incentives to investments in employees' education and motivation and providing scholarships for students of vocational schools. All obligations from collective agreements have been met, with systematic efforts made in increasing employees' salaries, particularly for those with lowest income, and with an increased share of permanent employment contracts that improve job security.

In 2019 the first corporate culture and climate survey was conducted across the Group and the Fortenova Group Code of Ethics was adopted, which contains ethics guidelines for employees to apply in daily business activities at Fortenova Group and its companies. Along with adopting the basic ethical principles, Fortenova Group's core values were defined and adopted as well.

Besides on sustainable growth, which primarily entails the reasonable exploitation of existing brands and strong development of new, innovative products in accordance with new trends in agriculture, food and retail, Fortenova Group decided to build its corporate culture on the values of excellence, responsibility, integrity and cooperation.

Thus the company operates sustainably and profitably at the same time, which increases its value not only for its shareholders and employees, but for all other stakeholders as well.

Operational risks

There are several risks that Fortenova Group will be facing in the forthcoming period. First of all, the expected recession in Croatia and in all of Croatia's major foreign trade partner countries as well as its implications on the global and national

economies are a challenge. At the time of this report the commercial life has, with the exception of essential supply chains, come to a complete halt due to the (COVID-19) pandemic and it is impossible to assess the strength of that impact on the operations of companies and the economy as a whole. Although companies in Fortenova Group's core businesses are the backbone of strategic supply chains, the crisis that has hit the economy will have a strong impact on Fortenova Group's operations as well, particularly when it comes to costs of alimending debt levels.

An ever increasing problem for employers in Croatia is the drop in population all across Southeast Europe, as this not only reduces the pool of available workforce, but also the number of customers buying their products. In daily operations each employer copes with it in their own way, but addressing that challenge does not only rest on one segment of the society, it requires a systemic approach, as confirmed by the European Commission through its Demography Portfolio in the competence of Dubravka Šuica, the Croatian Commissioner.

One of Fortenova Group's challenges in the forthcoming period will also be the Agricultural Land Act in the Republic of Croatia, which jeopardizes institutionalized agricultural production, brings insecurity and affects the planning of operations. In that context it is an important fact that Fortenova Group currently holds 2.9 per cent of the total arable agricultural land in Croatia under concession and if the entire Croatian agriculture were as productive as Fortenova Group's, Croatia's GDP would increase by almost a billion euros.

That proves that institutionalized agricultural production is key for the contribution of agriculture to the total domestic product and that it should be encouraged, while enabling the development and growth for small and medium enterprises as well.

Group organization

Fortenova Group has organized its operations through four major Business Areas – Retail and Wholesale, Food, Agriculture and Non-Core Operations.

The Group operates in compliance with the laws and regulations of the European Union, the Republic of Croatia and other countries of its operations.

On the five markets where it operates, Fortenova Group employs over 29 thousand people in total, and its numerous companies are leaders in their respective market segments.

The nonfinancial information on the Group's operations in the period from 1st April to 31st December 2019 pertain to Fortenova Group's key operating companies.

The Retail and Wholesale segment includes the companies Konzum Croatia, Tisak, Konzum B&H and Velpro centar.

The Food segment includes the companies Jamnica, Roto dinamic, Sarajevski kiseljak, Ledo, Frikom, Ledo Čitluk, Zvijezda, Dijamant and PIK Vrbovec.

The Agriculture segment includes Belje, PIK Vinkovci, Vupik, Vinka.

Key performance indicators

Key 17 companies in core segments achieved net sales revenues in line with the budget. Operating result (normalised EBITDA) EBITDA was slightly below than budget.

Overall, Retail & wholesale segment achieved significant EBITDA growth compared to the budget with gross margin as main driver. Konzum had highest contribution and together with Konzum BiH performing significantly better than this time last year. Velpro was still EBITDA negative and had required business model restructuring which was achieved by merging with Konzum as of 1 January 2020.

Food segment net sales revenues was in the line with the budget. Operating result Food segment was slightly below than budget.

In Beverage division year was mostly influenced by competitors entering the market with complementary portfolio and stronger market investments, and lower performance in pre-season, which was partially offset with the best season ever.

Within Frozen division both Frikom and Ledo's performance was under the influence of lower pre-season performance (April in Serbia, and May in Ledo), and was partially offset with great high-season results in all three markets.

Edible Oil division delivered significantly higher net revenue and operating result due to higher sales results of added value products and positive impact of raw material prices.

Meat division had slightly lower volumes sold than budget while net sales revenues were higher due to increased prices as a result of permanent price increase of market pork price being as COGS. All this resulted in lower gross profit and operating result compared to budget.

Within Agri segment Belje and Vupik performed above the budget mostly as a result of pig price recovery, while PIK Vinkovci and Agrolaguna were below budget.

Retail and Wholesale Business Area

Through 2,500 locations and with over 16,600 employees the Retail and Wholesale Business Area covers a market with a population of almost 17.5 million. Viewed individually, Croatia accounts for the largest number of stores and employees and along with Croatia, operations within this Area take place on the territories of Slovenia, Serbia, Bosnia and Herzegovina and Montenegro, through well-known retail and wholesale chains – Konzum, Tisak, Velpro, Idea and Roda.

Although the operations take place on various markets with differentiated retail development levels, purchasing power, market shares and competition, when it comes to their main features in 2019, all markets have recorded growth, with continued consolidation processes in place.

The Retail and Wholesale Business Area at Fortenova Group, excluding the results of Mercator whose operations have not been transferred, recorded an increase in revenue in 2019 against the year before and, even more importantly, doubled its operating profits. The main driver of the increase was the improved gross profit, mainly resulting from better conditions in commercial agreements that, in addition, secured competitive prices for consumers. Besides that, a strong incentive for the growth of key indicators were the two most important periods of the year when it comes to retail and wholesale – the tourist season and the Christmas and New Year's season, which fully achieved the objectives set. This was particularly reflected in the operating results of Konzum, which, viewed individually, has the greatest impact on the positive trends of the entire segment due to its excellent results.

Cost management on Area level was better than last year and in accordance with the budget. At the same time, at all companies in the Business Area, projects intended to improve efficiency have continued – from reduced costs of utilities and the IT segment, through rearranged processes in logistics to refurbishment of existing stores and opening of new ones, while following the latest trends in store design in line with consumer needs, shopping habits and customer satisfaction and focusing on quality local products.

For example, in 2019 only Konzum B&H opened 15 new and over 40 refurbished stores across the entire territory of Bosnia and Herzegovina, while Konzum Croatia opened two new facilities and refurbished 10 stores in 2019.

In 2019 new retail areas were also opened by Tisak, through two models – classic newsstands and the newly devised Tisak plus concept. Similar to Konzum B&H, which had struggled with negative effects on its operations in previous years, only to turn the trend completely around in 2019, Croatia's largest newsstand retail chain also

experienced a turnaround in operations in 2019 due to the changes introduced by the management team.

The year 2019 saw the preparations and at year end also the realization of the project of merging Velpro centar with Konzum, with a view to additionally strengthening Fortenova Group's wholesale segment and realizing significant synergies and increased operational efficiency.

With the intention of utilizing synergy potentials to the highest possible extent, the entire Retail and Wholesale Business Area underwent continued projects of unifying group policies over the course of 2019.

KONZUM plus d.d.

The retail sector in Croatia was relatively stable and consolidated in 2019 and the top ten retailers held a market share of more than 70 per cent. Under such conditions Konzum plus d.o.o. retained its market leader role. Konzum's results were a true generator of healthy growth in Fortenova Group's retail operations, with all indicators important for the retail business having grown in 2019, in spite of the pressure from increasing labor costs, given the fact that Konzum is one of Croatia's largest employers with more than 10,000 employees.

Under the favorable macroeconomic conditions in 2019 most retailers continued to expand their retail networks. Thus Konzum, along with other novelties introduced in its operations, opened two new stores in 2019, in Lovran and on the island of Korčula, while 10 stores were refurbished according to the latest retail standards, including extended self-service departments, corrections in ratios among various product groups and installation of more energy-efficient cooling equipment, thus accomplishing the goal of extended sustainability, reduced operating costs and improved operating processes.

In terms of other novelties, Konzum continued the process of installing self-service cash desks and self-service bakeries across its network, with six additional stores equipped with self-service cash desks and self-service bakeries introduced in 103 stores. This has made it possible to reduce the complexity of in-store processes and provided for better availability of fresh bakery products to customers.

In response to the ever more present trend of growing demand for fast consumption of fresh products, in June Konzum introduced the TO GO assortment in more than 300 stores.

Furthermore, over the course of 2019 Konzum plus d.o.o. introduced its new website www.konzum.hr as a unique platform with integrated webshop. With the transition to sending and receiving e-Invoices and the new mProcess document management system a significant improvement has been accomplished in digital transformation. It should be noted here that within the scope of the „Zdravoljupci 2“ (Health Lovers 2) action a mobile app for the collection of points was implemented for the first time and was very well accepted among customers.

In the supply chain a new system of planning and managing goods acceptance at the warehouse has been introduced, which enabled significant shifts in resource management and additional shortening of the average unloading time (truck turnaround time), with the positive effects of the new system spilling over to the entire chain, including suppliers and carriers.

Konzum's operations are imbued with principles of the importance of giving back to the community where it operates and hence Konzum is one of Croatia's most active companies in the segment of social responsibility. As a socially responsible company it makes its contribution in environment protection, energy efficiency, food safety, employee health and safety, helping the most deprived segments of the society and partnering with local communities.

For example, with its project of donating food to various institutions across Croatia, Konzum has for two years in a row been declared Croatia's Best Donor in the retailer category, and given that in 2019 the quantity of donated products has again been increased, the company will once again be eligible for that valuable acknowledgment.

The end of the year 2019 at Konzum was marked with two major projects intended to help the Association „Children First“, a non-government organisation taking care of poor families with pre-school and school children. In the first project, in cooperation with Mastercard, HRK 170,000 were collected and in the second one, organized by Konzum itself, an additional HRK 105,500 were collected to help the Association.

Also, through the second season of *Zdravoljupci* (Health Lovers), the very successful project of making children and adults aware of the importance of consuming fruit and vegetables continued, followed by a double-digit growth in fruit and vegetable purchases at Konzum stores.

Over the course of 2019 Konzum plus d.o.o. continued to operate according to the principles of sustainable development. Following global trends and complying with statutory provisions, Konzum has strived to promote the circular economy approach where advantage is given to sustainable, non-toxic products that can be reused over

products that are disposable, primarily with a view to reducing the quantity of waste produced. Guided by those requirements, Konzum has encouraged the rational use of light plastic bags and customers have been offered multi-use, biodegradable alternatives. Konzum's best selling bag is made of recycled material (min. 80 per cent) and bears the stamp „*Blauer Engel*“ (Blue Angel). Furthermore, in agreement with its private label product suppliers, Konzum has started to develop products with reduced environmental footprint (eg. cotton bud sticks, straws).

Also, in 2019 Konzum continued to sustain its certifications that have been in place since more than 10 years. It confirmed the efficient environment protection and energy management by recertifying management systems according to the ISO 14001:2015 and ISO 50001:2018 norms. Its intention to offer customers quality and safe products from proven manufacturers in a safe chain has been additionally verified by recertifying the food safety management system according to the requirements of ISO 22000:2005.

Finally, Konzum currently employs over 10,000 workers and unlike the previous period, which was characterized by a high workforce fluctuation, the year 2019 saw a stabilization and significantly lower fluctuation, primarily in warehouse and retail operations. At the same time, the engagement of occasional and temporary workers (students and pensioners) has grown noticeably.

KONZUM SARAJEVO d.o.o., Bosnia and Herzegovina

Given the negative operating trends that Konzum d.o.o. Sarajevo had recorded in previous years, the objective of the company's management in 2019 primarily was to change that trend by renewing and stabilizing supplier relations, closing down unprofitable and opening new stores, reducing lease prices through negotiations with lessors and a number of other activities used to achieve the goals set. Moreover, in 2019 Konzum B&H not only generated positive operating profits but also recorded net profits which, in view of the fact that the company had made losses in 2018, was an exceptionally remarkable change.

At the same time, in spite of the fact that the market grew and the company closed down a number of unprofitable stores, Konzum Sarajevo was able to keep its market share. Over the course of 2019 the company expanded its store network to the areas of Goražde, Čajniče, Ustikolina, Nevesinje and Knešpolje, where it had not operated before and where it took over a small retail chain. Thus the plan to open 15 new retail facilities was met, while also having renovated and refurbished more than 40 stores. The further expansion of the retail network is planned in 2020 as well.

As a socially responsible company, Konzum Sarajevo realized a number of sponsorships and donations in 2019, where the donation to foster homes within the

scope of the „Zdravoljupci“ project and the donation of New Year's packages for children without parental care all across Bosnia and Herzegovina within the scope of the humanitarian project „Podijelimo radost zajedno“ (Let's Share Joy Together) stand out in particular.

Processes at the company Konzum d.o.o. Sarajevo take place according to obligations and principles of best practice based on the requirements of environment protection management as well as food and non-food safety management. In 2019 the company had almost 2,200 employees and compared to previous periods, recorded an increase in employment.

TISAK plus d.o.o

The full effect of restructuring measures taken in Tisak over the course of 2019 will only be seen in 2020, but in 2019 Tisak's management was able to turn the trend around and generate positive operating profits.

At the same time, the market shares of major operating categories mostly grew against the year before, despite the fact that the company is market leader with a large part of operations accounted for by categories in decline (sales of press, mobile operator coupons and cigarettes). Unlike those, some categories – like sales of transportation tickets and parking coupons – have seen a double-digit growth against the year 2018.

It was mentioned above that in 2019 Tisak opened 16 new points of sale. Out of those, 15 are newsstands and one store in Rijeka is from the new Tisak plus format, devised during the year 2019.

The concept is designed as a newsstand and Tisakmedia hybrid, which along with an assortment of books, toys, gaming consoles, technical and multimedia products, paperware and gift program as well as food and all services otherwise offered by Tisak (payment of utility bills, games of chance, coupons, money exchange, Tisak package and other), also offers standard newsstand categories such as cigarettes, press and mobile operator coupons. In 2020 Tisak plans to open more stores of that concept.

Along with developing points of sale that follow customers' needs, in 2019 the company continued with the implementation of new services. Thus, for instance, Tisak provides its users with money transfer services, enabling them to simply transfer money between users, without any complication, bank accounts or Internet banking. In order to perform the transaction, one only needs to visit a point of sale and show a barcode (in the **Aircash mobile app**) to the salesperson, who scans it and carries out the payment or disbursement transaction.

Tisak has more than 3,000 employees, mostly in the retail sector, and one of them is Mira Logarušić, Croatia's best worker in 2019. As Tisak employee working at a newsstand in Zagreb, she won the competition 'Little Lighthouse for Big People' organized by the Partner Association, seeking an individual who contributes to their surroundings by complying with the principles of work and integrity, spreading positive energy and caring for their colleagues – superiors and subordinates, where she collected the most telephone and text message votes. Best worker candidates were proposed by their superiors, colleagues, friends, families or customers who believed that they were like a „lighthouse in the dark“, a role model of collegiality, ethical conduct and integrity. There were 250 applications taking part in the competition and the professional jury selected 15 finalists to be voted for. In the same competition in 2018 Mira Logarušić had ranked third.

VELPRO – CENTAR plus d.o.o.

As mentioned above, within the Retail and Wholesale Business Area the project of merging VELPRO centar with Konzum, within which the wholesale business had already operated until 2016, was elaborated in detail in 2019 and at the end of the year the merger was realized.

VELPRO - Centar plus has been in business since 19 years and was the largest wholesale company on the Croatian market. The merger is intended to additionally strengthen operations, with particular emphasis on their further development and long-term viability. The ultimate goals are assortment optimization to meet customers' needs in all sales channels, stable coverage of the national market with a high level of supply and distribution service, particularly during the tourist season. At the same time, through a more efficient management of assortment, supply chain and overall operations, the merger will result in significant synergies.

The backbone of improving overall services and strengthening distribution to end customers are the company's around 850 employees with long-standing experience, a distribution fleet of more than 150 delivery trucks and 16 cash&carry and distribution centers with over 10,000 SKU's, where further modernisation of sales premises and processes is planned.

The merger with Konzum was realized in such way that all Velpro Center's business partners have continued to be an important part of the integrated chain's operations, particularly Plus market stores and other small storeholders to whom VELPRO-Centar has been a strategic partner of many years in developing independent retail in Croatia. Namely, VELPRO-Centar plus does business with more than 5000 legal entities, whereof 450 operate under the small store brand Plus Market, and has a strategic cooperation with all small independent storeholder associations across

Croatia. In 2019 Velpro Centar received a special acknowledgement and a letter of appreciation for that cooperation on the occasion of the 10th anniversary of the Union of Small Storeholder Associations.

The new company has assumed the obligations from all existing contracts and agreed distribution conditions, including public procurement contracts. VELPRO Centar plus will continue to be present in all sales channels (Horeca and Retail).

Food Business Area

The Fortenova Group Food portfolio comprises Southeast Europe's best known brands of mineral water, ice cream, edible oil, margarine and mayonnaise of internationally recognized quality and very high consumer perception.

It includes Croatia's largest producers of mineral water – Jamnica; ice cream – Ledo; edible oil, margarine and mayonnaise – Zvijezda, the largest Croatian meat industry – PIK Vrbovec and in regional terms also Sarajevski kiseljak, Frikom and Dijamant. Given the width of the product portfolio and the number of brands, the companies within the Business Area are grouped into four segments:

- drinks,
- frozen,
- meat,
- edible oil, margarine and mayonnaise.

The composition of key categories within the Food Area is the reason why the tourist season has a significant impact on performance indicators, particularly in the drinks and frozen food (ice cream) segments, with sales characterized by a marked seasonality and results also affected by weather conditions during the pre-season and season. It was the unfavorable weather conditions in the first half of 2019, particularly in Q2 (April and May), that adversely affected the key companies' operations. Nevertheless, the results generated by the companies by year-end, particularly during the peak summer tourist season, were exceptionally good, bridging the gap in the result of the first part of the year and hence on annual level the Food Business Area recorded revenue growth. The operations of the entire Food group in 2019 were marked by the pressure of increased costs, mainly due to salary increases at all operating companies and higher cost of raw materials, mainly in the meat industry. However, good operating cost management on the level of the entire

Business Area resulted in higher operating profits across the segment at year end. Operations featured a number of initiatives and projects aimed at increasing cost efficiency and productivity and utilizing synergic effects.

All segments of the Food Business Area experienced a high market competitiveness, where some of them, like drinks, were characterized by a consolidation process on key markets (Croatia and Serbia) in 2019. That required intensified efforts from all companies in defending their leading positions, which they succeeded to do in most categories. In consumer preference researches many Fortenova Group brands were able to confirm their „first choice“ position among consumers.

In 2019 the companies continued to intensify exports and open new export markets. According to value indicators, Fortenova Group's strongest exporter in 2019 was PIK Vrbovec, while Zvijezda and Dijamant were among those companies whose exports had the highest growth in value in the Group against the previous year. Due to the premium product quality and their extensive and well organized own distribution network, besides Croatia, B&H, Serbia, Macedonia, Montenegro, Hungary, Slovakia, Czechia and Slovenia, the companies are also present with their brands on around twenty international markets and hence a stronger export orientation is one of the cornerstones of their long-term operating strategies.

Fortenova Group's strategic determination of sustainable growth based on a combination of exploitation and innovation is particularly evident in food. In 2019 all food companies launched new or innovated products on the market, many of which were awarded with global quality acknowledgments (Linolada Ledo ice cream, Mivela and Jana waters....), and at the same time all companies have developed innovation projects to base their future growth upon.

Drinks segment

The Drinks segment within the Food Business Area comprises the companies Jamnica, Sarajevski kiseljak, Nova sloga and the Fonyodi bottling plant, which place their products on the markets of Bosnia and Herzegovina, Serbia, Macedonia, Montenegro, Slovenia, Hungary, Slovakia and Czechia and another twenty international markets. Given that it is the only national drinks distributor in Croatia, Roto dinamic also counts as part of the segment.

The total size of all soft drinks markets where those companies had their bottling plants in 2019 is estimated to almost 4.5 billion litres. Due to the strong market positions in their respective categories, with portfolios of high-quality, tasty and healthy products and strong market values of their brands, along with efficient and integrated

distribution and sales covering the entire Adria region and all major sales channels, as well as their state-of-the-art production facilities with significant purchasing and bottling capacities, those companies continued to generate good operating results on the markets in 2019. When it comes to new markets, the German market has reopened. On the level of the entire segment, efficiency improvement projects have been strongly implemented and consequently, operating costs have been reduced.

The Drinks product range comprises carbonated and non-carbonated waters as well as carbonated and non-carbonated beverages sold under the brands of Jamnica, Jana, Sarajevski kiseljak, Sara, Mivela, Sky, Fonyodi... Those are products that have mostly been present on the markets since decades, with consumers traditionally loyal to them and due to their quality and exceptional features, but also due to well thought-through investments in modernisation, development and new technologies, they are the consumers' first choice.

The market positions have been maintained through the continuous development of new products in accordance with new health recommendations and consumer preferences, while permanent innovations and quality improvements based on scientific research are used on a daily basis in striving to improve consumers' quality of life. All companies enhance their operating, production and product control systems in order to meet all requirements put in front of manufacturers with a view to raising quality criteria and establishing new trends in the ways they operate and produce.

A high level of responsibility when it comes to health, quality of life of the community in which they operate and sustainable development is also displayed through the environment protection and energy management policies in place. Alignment with the requirements according to the ISO 14001 norm has resulted in efficient use of resources, systematic waste management, tracking of emissions and compliance with all statutory and other requirements with a view to gaining the confidence of all stakeholders and improving success in the environment management system.

In accordance with their social responsibility policies, all of the companies have participated in various projects, whether it be educational projects, scientific gatherings, training workshops, sports competitions or cultural events.

In Croatia, Jamnica plus d.o.o. has provided support to local sports associations of the Town of Jastrebarsko and the Municipality of Pisarovina and over the course of the year they were involved as sponsors in more than 75 projects. In Serbia, Mg Mivela supported the work of the Volleyball Association of Serbia through a product donation and similar support and help were provided to the local community of the Municipality of Trstenik. The Primary School of Trstenik received support to buy heating equipment, and in the Teleton humanitarian drive the company donated funds to buy an MRI scanner for the Radiology and Magnetic Resonance Imaging Center.

In 2019, Sarajevski kiseljak donated products for more than 150 humanitarian and other organisations on the entire territory of Bosnia and Herzegovina.

JAMNICA plus d.o.o.

As the largest company in the Drinks segment of the Food Business Area, Jamnica plus d.o.o. also has the strongest impact on the results and trends in that segment. When it comes to the operations of Jamnica plus in 2019, the company has maintained a stable sales level with reduced total revenue and higher operating profits than the year before.

On the market in Croatia, the size whereof is estimated to amount to 870 million litres and where consumption grew by slightly less than two per cent, in 2019 Jamnica defended its leading position in most of the key categories, and in the category of natural carbonated mineral water as well as in the category of still waters it is still the market reference and the leading brand, with slightly lower market shares than the year before.

A similar trend has been recorded in the ice tea category, while vitamin waters are the fastest growing category on the Croatian market, with Jana Vitamin having seen a strong double-digit volume growth rate, continuing to establish itself as one of the strategic categories for further development and investments, both on the domestic and on key export markets.

In that category the year 2019 saw the launching of a new Jana vitamin refresh flavor enriched with the vitamins C, B3, B6 and B12, which communicates an approved health claim and contributes to a normal energy metabolism and has been developed in two volumes – 0.5 L sleeve and 1.5 L family packaging.

Following trends and taking active part in the campaign of the Ministry of Health to combat the public health problem of obesity, in 2019 Jamnica started to reduce the sugar content in ice tea. The reformulation has not impacted its flavor and in early October 2019 nutritionally improved products were offered to the market.

In the segment of Sensation products, the new product pear – quince was developed.

In terms of research, in cooperation with the School of Dental Medicine in Zagreb Jamnica conducted a pilot study under the title „Evaluation of the effectiveness of natural mineral water Jamnica on changes of saliva acidity depending on the meal consumed: nutritional and oral hygiene recommendations“, and the results have shown that the mineral composition of Jamnica helps maintain oral hygiene after meals.

When it comes to developments on the Croatian market, sales of all brands grew in volume, and the most significant growth in the own product category was achieved in the categories of Jana vitamin, Jana flavor and ice tea. As expected, record sales in 2019 were achieved on the Croatian market during the tourist season (June, July, August).

SARAJEVSKI KISELJAK, Bosna i Hercegovina

Sarajevski kiseljak is the largest mineral water producer in Bosnia and Herzegovina, with a production plant in Kiseljak in 2019 (the plant in Kreševo was opened in January 2020), and its products sold on the market under the brands of Sarajevski kiseljak, SARA, Sensation, Sky and SKI represent the consumers' first choice and are among the most sought-after products in their respective categories.

In 2019 the company's revenue improved in comparison to the year before, primarily due to better realisation in sales and the efficient pricing policy. At the same time, higher prices of key raw materials, transportation, as well as higher employee costs resulted in increased expenses.

In spite of the strong presence of competitors, companies from the Fortenova Group Drinks segment in Bosnia and Herzegovina have maintained their strong market positions, with Sarajevski kiseljak among the leading companies both in the category of carbonated waters and in the category of carbonated soft drinks.

Over the course of 2019 Sarajevski kiseljak exported its products to 11 foreign markets, with Libya as newly opened market.

Following the most recent global trends and consumer needs, Sarajevski kiseljak launches new products on the market every year. In the category of flavored carbonated waters, the new Sensation flavour quince – pear played an important role in the assortment structure.

At the same time, in accordance with the global trend of reduced sugar content, in the CSD segment the product Sky Cola Zero was launched, a sugar free and calorie free product, and after the limited edition of DC superheroes on Sky Cola labels, 2019 saw the launching of a Sky Cola edition with the best known superhero of all times, Batman.

Sarajevski kiseljak has built its environment management policy on the organized and professional management of systems according to sustainable development principles, and in order to provide products that meet health safety requirements and

to secure conscientious environment management, the company is certified according to the ISO 22000:2005 and ISO 14001:2015 norms.

A total of 15 internal integrated operating system audits and two certified external audits took place in 2019, and standards have also been implemented in the new bottling plant in Kreševo, scheduled to open in January 2020.

Human resources are one of the company's most important resources and the key to success at Sarajevski kiseljak. The company has an increasing trend in the number of employees.

ROTO DINAMIC d.o.o.

The unfavorable weather conditions in the first half of 2019, particularly in the first part of the season, resulted in a somewhat lower annual realisation at Roto dinamic, as HoReCa is one of its most important market channels. Namely, the fact that seasonal HoReCa facilities opened later and closed earlier and the lower consumption of beer as the most important drink category in Roto dinamic's sales, resulted in lower revenue for the company in 2019.

That, however, as well as the cost increase due to labour market corrections, in particular when it comes to bottleneck vacancies such as truck driver and warehouse worker, had no impact on the operating profits, which were higher than the year before.

For the only national drinks distributor in Croatia, which performs its operations through 15 wholesale and 20 retail centers and provides the widest assortment of drinks, beer is the most important category in the revenue structure, followed by juices, spirits, water, wines and other. Among sales channels, cafe bars hold the highest share and the rest is accounted for by restaurants, retail, supermarket chains and so on.

Over the course of 2019 the company confirmed its leading position in drinks distribution, primarily to the HoReCa channel and according to its long-term development strategy, the Satisfied Customer mission has been continued, striving to provide the clients with best service and secure product quality and availability. In order to adjust to the market in 2019 in the best possible way, a new commercial policy was applied and sales were reorganized, with emphasis on the regional approach. Activities in extending the assortment in the wine and craft product segment (strong

alcoholic drinks and beer) were intensified, with a view to being more actively present in that growing segment.

The ever more demanding market drives the company to actively pursue its further development and apply software solutions. Over the last few years an important stride has been made in applying state-of-the-art IT solutions intended to provide additional benefits to customers and to increase the company's own efficiency. Environmental care is reflected in daily operations and the company implements a systematic waste management tracking system and properly sorts and collects waste in an environmentally acceptable way.

The company's main objective is to secure a long-term business viability, with profitable and stable growth.

The risk that the company faces in its operations are bottleneck occupations, where there is a particular lack of drivers with C category licence, and that risk is minimized with numerous activities, like continuing to encourage vocational retraining among employees, education programs and connecting with vocational school programs.

Frozen food segment

In the Food Business Area, ice cream and frozen food comprise the production and processing of ice cream, frozen fruit and vegetables, frozen fish, frozen pastry and other frozen food items, including ready-to-serve meals and frozen meat. Production plants are located in Croatia, Serbia and Bosnia and Herzegovina, with key companies in the segment being Ledo plus in Zagreb, Frikom in Belgrade and Ledo Čitluk, where Ledo also has its companies on the markets of Slovenia, Montenegro, Kosovo and Hungary, while Frikom has a company in Northern Macedonia.

When it comes to general market features, the ice cream market recorded growth in 2019 and has become more and more price sensitive, with an increasing role of private label products. Their influence is particularly strong in the family ice cream segment. The frozen food market accelerated its growth in 2019, where the companies retained their dominant leading positions in all key categories, in spite of the pressure from private label products among key accounts.

As already stated above, the drinks and frozen food segment within the Food Business Area are also affected by weather conditions, as the majority of their business is tied to products (eg. waters and ice cream) the consumption whereof considerably increases with increasing outside temperatures. Therefore the summer months and the tourist season are the key drivers of turnover growth. Nevertheless, in the second half of the year the companies from the segment set off the drop in demand for ice cream from

the first half of the season and by year end increased their turnover and mainly retained their market shares in the most important categories.

Besides that, all companies continued to invest in product development in all categories which, for example, resulted in Ledo's new ice cream product *Linolada* having been declared the best ice cream in the world by the International Ice Cream Consortium (IICC), while Frikom's launch of the Plazma Sandwich ice cream doubled the growth of that brand. The companies also actively pursued the policy of socially responsible operations and are aligned with the requirements of all norms and standards related to environment management policies.

LEDO plus d.o.o.

In 2019 Ledo recorded a slight growth of sales revenues generated by the growth on the domestic market, as well as in exports, mainly through the increased realization in the frozen food segment, primarily fish, fruit and vegetables and pastry. In the ice cream segment the realization was slightly lower. Due to higher production costs resulting from increased workers' salaries, gross profits were lower compared to the year before, but thanks to cost control, there was a growth in operating profits.

Along with the significance of the domestic market where Ledo is leader in all categories, it also holds important market positions on the markets of the Adria region (Slovenia, Bosnia and Herzegovina, Montenegro and Kosovo), which still represent a great potential for the growth of exports given the still relatively low per capita consumption of ice cream and frozen food compared to the EU average. Over the course of 2019 significant focus was placed on the development of the Albanian market, which represents a remarkable potential for further growth of exports given the increasing tourist capacities and traffic. Along with the markets of the region, in 2019 Ledo exported its products to around twenty countries across the EU, but also outside the borders of the European continent (USA, Israel, Azerbaijan). The greatest export potential for Ledo is in the Central European market (Czechia, Slovakia, Hungary), as well as the broader EU and Mediterranean market and hence stronger export activities will take place on those markets in the upcoming period. By assortment groups, the greatest export potential is in ice cream and frozen pastry.

Ledo's marketing activities in 2019 in the ice cream segment were strongly directed to better positioning the most profitable product groups and activities in new sales channels, with a view to maintaining and reinforcing the leading market position, while in the assortment structure an important role was played by new launches in both impulse and family assortments. Thus the assortment of the impulse brand King was extended with the new product King Temptation, and investments in the King brand

continued through the new communication platform „*Pleasure awaits you right around the corner*“.

Key seasonal sales channels were supported with strong BTL activities, with a view to strengthening the brand in consumer perception. It was already mentioned that one of the greatest successes in 2019 was the new *Linolada* ice cream on a stick. Both industry and consumers were delighted with the unique form of the ice cream and the innovative soft double dressing, conveying the experience of the *Linolada Duo* cream spread. New launches were complemented by the *Loptica (Little Ball)* ice cream, while the cone assortment was extended with *Cone Punch* and for the youngest consumers a special ice cream with popping candies was prepared, called *Magic Pop*. In the family ice cream assortment the most important brand *Quattro* was extended with new flavors *Quattro Americano* and *Mini Quattro Rhapsody*. *Mini Quattro Rhapsody* is an extension of the successful innovation of soft ice recipes, which makes sure that the ice cream stays soft at -18°C, enabling consumers to enjoy the *Quattro* flavor combinations without having to wait, while the second most important family ice cream brand – *Twice* – was redesigned, to provide the product with a fresh and modern look.

In the frozen food assortment, after its successfully implemented optimization, a new, integrated communication platform was launched – „*This is why I choose Ledo*“ – intended to remind consumers of fun and interesting situations around the table that they can identify with and where *Ledo* products are in the starring role.

At the same time, the award that *Ledo* won for its *Dumplings* with two flavors from the international consultancy firm *Nielsen* for the Top 25 innovations in Europe, was the perfect introduction to new product launches in September – *raspberry / white chocolate dumpling* and *coconut / chocolate dumpling with chocolate pastry*.

In 2019 *Ledo* successfully completed demanding external audits and thus confirmed its compliance with the requirements of eight internationally recognized norms. It is a verified bearer of the following certificates: ISO 9001:2015, ISO 14001:2015, ISO 50001:2011, HACCP, IFS ver. 6.1., BRC ver. 8, Halal and UTZ. Particularly worth pointing out are the results achieved in certifying the food safety management systems *IFS* and *BRC*, where the highest compliance categories were awarded (Higher Level and Grade AA). The excellent external audit results confirm the stability of the system and prove its readiness for change and continuous improvement orientation.

FRIKOM a.d.

In 2019 *Frikom* had slightly lower total revenues than planned, primarily due to weaker agricultural production, which resulted in lower vegetable exports. However, in spite of the somewhat lower revenue and profits realized, the company has retained an exceptionally high value market share which has additionally grown in some operating

segments like private label (family ice cream category) or frozen food. For example, in frozen food the categories of frozen vegetables and frozen fish were the main drivers of category growth.

The ice cream category, which accounts for the major part of sales in Q2, experienced a drop in impulse ice cream, but it was set off by higher sales in Q3 and the growth in the family ice cream segment.

When it comes to brands, due to the intensive marketing campaign in all media channels as well as at points of sale, for King as the most important brand in the impulse ice cream category sales and all brand parameters have grown significantly.

One of Frikom's significant summer launches was Plazma Sandwich, which led to doubling the growth of the Sandwich segment due to the strong synergic co-branding effect. The category saw a successful co-branding launch of Plazma cups – a soft ice winter dessert which has with its off-season sales results earned the epithet of Frikom's most successful winter launch ever.

As a socially responsible company, in 2019 Frikom paid particular attention to cooperating with the community. It supported many events and the most important cooperations to be singled out are the sponsorship of the Serbian Olympic team to take part at the 2020 Olympics and the „Belgrade Winter“.

The company complies with all laws and regulations, standards and good practice principles in force, striving to provide the customers and consumers with quality and safe products, without breaching the principles of environment protection, while securing healthy and safe jobs.

Frikom employs more than 1,000 people and has marked seasonal employments at the peak of the ice cream season in the period from May to September and in the period from July to September, when the processing of food and vegetables is intensified.

LEDO d.o.o., Čitluk

The 2019 reporting year was the most successful in the history of the company's operations. All planned objectives were met, sales grew in all categories and even more importantly, the company increased its market share in ice cream, which is a remarkable success given that Ledo d.o.o. Čitluk is the dominant leader in the ice cream, fruit and vegetables and fish categories. Record sales were achieved on 11 June.

Over the entire course of the year the company intensively invested in product development, customers and the market. Through marketing activities the preconditions were met for a successful ice cream season, marked by numerous novelties again, which is a traditional feature for the ice cream group. All newly launched products on the B&H market were accompanied by specific marketing communication towards consumers and besides the world's best ice cream in 2019, Linolada, other novelties among ice creams as well as in other categories, such as Dumplings with double filling in the Pastry category, met with market acknowledgement.

The good results of Ledo Čitluk are borne by its around 350 employees, in whose education and profesional development the company has continuously been investing. The operations are in full compliance with the requirements of the norms ISO 9001:2015; ISO 14001:2015, as well as with the guidelines of Codex Alimentarius, while quality, environment and food safety management are integrated within a unique system – the Integrated Processes Management System. In 2019 the HALAL system was successfully recertified according to the BA 1049: 2010 norm for the entire fish and ice cream assortment produced and packed at Ledo doo Čitluk, and the first supervisory audit of the ISO 9001:2015; ISO 14001:2015 and HACCP systems was successfully carried out.

Edible oil, margarine and mayonnaise segment

This business segment comprises some of Fortenova Group's strongest brands, which represent the consumers' first choice. For example, according to relevant market research, Zvijezda sunflower oil is Croatia's strongest brand, while Dijamant's „*Dobro jutro*“ (Good morning) margarine is the second strongest brand on a list of 50 local and international products in Serbia. Zvijezda and Dijamant carry the edible oil segment and although both companies are strong market leaders in most categories, in 2019 they both generated record sales in some products and growth in their key categories, irrespective of the very strong competition, particularly in the pricing segment. Despite the strong price pressure of the significantly cheaper competition, during 2019 the companies were able to hold their pricing positions which, together with increased quantities, led to the favorable financial result.

As companies that are connected production- and organisation-wise, in 2019 Zvijezda and Dijamant pursued the earlier initiated processes aimed at increasing production efficiency, continued cost efficiency and reducing general and administrative costs. The companies saw a growth of revenue and although larger quantities were sold, the cost increase was controlled, contributing to a double-digit growth of operating profits.

Also, in 2019 the companies strengthened their export positions and due to the constant investments in development, both Zvijezda and Dijamant in 2019 presented new products to the market in most of their categories.

During 2019, as socially responsible companies they strived to invest in the community through donations in cash and in food, primarily into the health system and sports. Furthermore, they have continuously been displaying their social responsibility through the environment management system and through the product quality control system in place. The system is based on analysing risks and measures for securing the main objective – a high quality, healthy and safe product meeting the requirements and needs of consumers and customers, all verified by the industry's most important standards and certificates.

ZVIJEZDA plus d.o.o.

Over the course of 2019, with the quality of its products, the power of its brand, efficient sales and marketing support for the products, Zvijezda retained its leading position on the domestic market in all of its groups, as witnessed by market share researches made by specialized market research companies and the company had a double-digit growth of revenue, gross margin and operating profits. The categories of edible oil, mayonnaise and ketchup recorded growth both in quantity and value, particularly in mayonnaise, which had a record growth of quantity and value in 2019. At the same time, the margarine market has seen an overall drop. The local market still features a large number of competitive products and their presence on the shelves of local retailers is high, with significant differences in prices.

It was already mentioned above that Zvijezda sunflower oil was Croatia's strongest brand and ranked first on the consumer preferences list, with Zvijezda itself as the strongest brand in Croatia with as many as five brands present in the BRANDpuls TOP 12 research conducted by Ipsos. Zvijezda mayonnaise ranks third, Zvijezda table margarine sixth, while Zvijezda ketchup jumped from No. 11 to No. 8 and Margo margarine from No. 14 to No. 12.

Over the course of 2019 particular attention was still paid to export markets. Exports recorded excellent results, with significant growth against the previous year. More than 15,000 tons of products were exported overall, mostly accounted for by edible oil exports, which were doubled.

When it comes to new products, a new product was introduced in the edible oils category, Zvijezda 5+ sunflower oil, additionally enriched with A and D vitamins and naturally rich in vitamin E, unsaturated fatty acids and multiply unsaturated fatty acids.

In the category of spreadable margarines the new Omegol spread with pumpkin oil was introduced, while in the sauces category Zvijezda launched 5 new sauces.

Among its activities in the local community, Zvijezda takes particular pride in the long-standing cooperation with the Down Syndrom Association of Zagreb, which started in 2016. In 2019, by opting for Zvijezda oil, customers took part in the big humanitarian drive *#budiZvijezdapomoziDown* („beaStarhelpDown“), with HRK 100,000 raised and donated. Furthermore, the donation of edible oil at the production plant of the company Sfera Visia in Zagreb in July 2019 initiated the cooperation with the Zagreb Association of Blind Persons. They use Zvijezda olive and sunflower oil and coconut fat for the manual production of soap within the project „Soaps with dots“. Thus Zvijezda supports the self-employment of blind and visually impaired persons. Throughout the year the company also continued its cooperation of many years with the Tourist Management and Hospitality School of Zagreb, to whom Zvijezda has donated products necessary for the training of future chefs and confectioners.

The integrated management systems of Zvijezda plus d.o.o. are part of good manufacturing practice in trying to reduce operating risks to the lowest possible level, with a view to continuously improving business processes and as a continued support to the management in making strategic decisions.

DIJAMANT a.d.

Dijamant is the largest producer of edible oils and the leading manufacturer of margarine, vegetable fats, mayonnaise and mayonnaise-based delicacies in Serbia. Besides FMCG products, Dijamant also produces raw materials for other food industries, primarily for the confectionary and bakery industries. Through its affiliated company Kikindski mlin, it also participates in the milling product market, in the storing, keeping and processing of wheat and, by way of service, of other merchantable goods as well (sunflower, soybeans, maize).

In 2019 Dijamant realized a double-digit growth of sales against the previous year, as well as a growth of all key performance indicators – gross margin and operating profits. Through its strong distribution network, it sells its own brands and merchandise on the local market with the majority of placement – one third – accounted for by the oils category, while record sales were realized in 2019 on the local market in the mayonnaise category.

Dijamant is one of Fortenova Group's strongest exporters. Sales on export markets are organized through distributors and among export markets Bosnia and Herzegovina and Italy, where sales of packaged oil have seen exceptional growth, account for the majority of sales. That oil holds the highest share in export revenue, followed by margarines.

As leader in the category of oils, mayonnaise and margarine, Dijamant has been following market trends and launching new products and redesigning existing ones accordingly. Also, as a good business partner, Dijamant follows the operations of its principals and strengthens their position based on partner relations. The product quality has continuously been confirmed with numerous industry acknowledgements and selections by consumers. Thus in 2019, in the competition of 930 local products and brands selected only by consumers, Dijamant won the acknowledgment „My Choice“ for the ninth year in a row, while at the Agricultural Fair in Zrenjanin it was presented with plenty of awards, amongst other the Absolute Quality Leader award.

At Dijamant they consider investing in the health system and in sports to be the best investment in the common future. Hence the company has invested funds in the Olympic Committee of Serbia, the *Proleter* basketball club, the Clinical Center of Serbia in Belgrade, the „Đorđe Jovanović“ General Hospital as well as in many other organisations and projects.

The company's basic mission is to fully meet the requirements, needs and expectations of existing and potential customers and users of products and services. Dijamant has adopted an approach to business and management as a unique system of mutually connected processes, where it meets all objectives set, with all employees striving to improve quality from the beginning to the end of the work process, subject to meeting all health and nutritional trends in the production plant, complying with the legal regulations and applying modern technologies. The same approach is taken in caring about the preservation of the environment – minding the consumption of natural resources (water, electricity, natural gas and fuel), hazardous waste generation, pollution of air and water and protection from noise.

In view of the fact that it is a manufacturing company, the majority of employees at Dijamant are men. Nevertheless, the percentage of women in management positions is high and hence the company has demonstrated its attitude to gender equality in practice. Dijamant has created a work environment free of discrimination of any kind – by gender, ethnicity, age, religion or on political grounds, with equal chances for employment, promotion and earning income and other benefits.

Employees are provided with the possibility to work in a safe and healthy environment, with a special „Dijamant Fit“ program introduced, intended to help employees to get more involved in sports activities and acquire healthy habits, while health care is also

pursued preventively – through providing additional health insurance for all employees. Furthermore, the company has continuously been investing in employee development and working on the improvement of their skills, knowledge and competences. Individual development plans are used to establish annual development needs of employees, realized through education, training and mentorship and besides external trainings, internal educations take place as well.

Meat segment

This Fortenova Group business segment is based on PIK Vrbovec, Croatia's and the region's leading meat industry meeting over 40 per cent of market needs for fresh and processed red meat. The key market feature in 2019 was the abrupt growth of raw material prices (live pigs and pork) that followed after a period of extremely low raw material prices. Such unprecedented abrupt price increase was caused by the outbreak of African swine fever in China. For that reason China destroyed half of its total production, which accounts for one quarter of global production and is equivalent to the total production of pork on EU level. Consequently, exports to China increased and prices of pork started to grow dramatically.

PIK VRBOVEC plus d.o.o.

The company has been in the production, sales and distribution of fresh and processed red meat since more than 80 years, it is the leader and trendsetter on the market, particularly in terms of development strides.

With the price of raw materials on the EU pork exchange being the basis according to which PIK Vrbovec purchases raw material, the above situation affected PIK as well. Given that the price increase happened from week to week, it was not possible to correct/change the prices for customers at the same time and hence the cost of raw material grew faster compared to the growth of revenue and resulted in a slightly weaker financial result of the company in 2019.

Irrespective of that, in 2019 PIK retained its market shares in the main groups with the quantity share in fresh packaged red meat having grown by three per cent and the share in value by two per cent.

Viewed overall, PIK generated increased revenue from selling fresh meat, whereof pork sales account for the largest growth. In the fresh meat group, packaged meat as a focus category generated a double-digit financial growth.

Revenue from processed meat has grown as well, particularly in the cold cuts group which is in the company's focus, while the group of durable sausages and durable cured meat has also grown significantly.

In 2019 PIK Vrbovec justified its position as market leader and innovative company that continuously works on introducing new products and improving existing ones, by launching 18 new products, whereof one third were in the fresh meat group and the

rest in processed meat. The majority of the company's investments in 2019 were related to the purchase of machines and equipment for production maintenance and improvement of certain lines that enable further growth and capacity increase in key product groups.

The products that generated highest growth of sales compared to the year before belong to the key group of cold cuts and those are also among the top 10 products on the cold cut market: Piko Bologna Sausage, Mortadella, Cooked Ham, Fina Ham, Ham in Casing and Winter Salami.

In 2019 this major exporter opened a new export market in Spain and currently exports its products to 21 markets in total. Exports in 2019 grew against the year before, with the most significant export markets being Slovenia, Italy and Bosnia & Herzegovina.

Consistent quality and product safety are the most important elements in building a reliable brand. Besides in the products and their quality, PIK has continuously invested in the quality systems HACCP, ISO 9001, ISO 14001, ISO 50001, OHSAS 18001, but also in building a product traceability chain as an indispensable factor for any leading company today.

Guided by socially responsible operating policies, PIK Vrbovec has placed particular emphasis on educational projects for the broader public, proactive development of human resources, environment protection, continued cooperation with the local community and encouraging local production. The company is actively involved in preserving the Croatian culture and tradition and has since more than thirty years been supporting the event called „*Kaj su jeli naši stari*“ (The meals our elders used to eat), traditionally providing it with a humanitarian character as well by raising funds for non-profit organisations. Apart from helping various associations and individuals, with numerous donations PIK Vrbovec also wants to encourage other companies to provide humanitarian aid to those who really need it.

Agriculture Business Area

In 2019 Fortenova Group's Agriculture generated better-than-planned results, with the best results achieved in pork production and vegetable growing. Viewed overall, 2019 was a challenging year primarily due to poor weather conditions, a dry fall and winter and a cold and rainy spring, which had a crucial impact on the poorer yield of fruit and vegetables as well as some crops like wheat and sunflower. On the other hand, maize, soybean and sugar beet had above-average results, which together with the pork price made the agricultural year 2019 a very good one.

Unlike in pig breeding, in late 2019 the production of beef saw a drop in meat prices and crop husbandry was at the level of the results recorded in 2018. Wine and olive growing had poorer-than-average yields across the entire Croatian territory in 2019, which directly resulted in lower quantities of wine and oil produced. At the same time, the ABC cheese factory, Fortenova group's strongest regional brand given that in 2019 Croatia's leading cheese spread generated record sales on the markets of Croatia and Slovenia, with equally significant growth rates in Bosnia and Herzegovina where it is market leader as well, generated excellent results.

In terms of organization of agricultural production, Fortenova Group continued to pursue the project of management centralization with a view to building a more efficient agricultural production system that will be fully competitive on the international market and at the same time investments in the development of digital agricultural production continued, making it part of the circle of the best developed agricultural producers in its surroundings.

Fortenova Group manages 32,500 hectares of agricultural area in Croatia and features differentiated production including cereal and oil crops, livestock farms and cheese production, as well as production of fresh fruit and vegetables, with the backbone of the production being Belje plus – Croatia's largest agricultural and industrial capacity, Vupik plus, PIK Vinkovci plus and Agrolaguna Poreč.

BELJE plus d.o.o.

The Belje plus production facilities are located across the territory of Baranya and all along the continental part of Croatia and comprise almost 20,000 ha of arable area, 25 farms, whereof 11 pig breeding farms, 7 cattle fattening farms and 7 dairy cow and milk production farms. Belje plus also features 570 hectares of vineyards, two animal feed factories, a dairy product factory, a winery and wine cellars and production of traditional cured meat products. In 2019 the company generated excellent results,

particularly through the operating profit growth against the year before and the reduction of operating costs.

Pig production at Belje accounts for one third of Croatia's overall pig production, which makes Belje the largest producer in Croatia, with well organized and comprehensive contract farming and due to the increase in pork prices on the global market the financial value of finisher sales grew by more than 30 per cent. As stated above, the pricing trend in pig production was particularly favorable, which is reflected in the results.

Furthermore, Belje also accounts for more than one third of the total Croatian production of animal feed, with almost 20,000 tons produced in 2019. High yields that significantly exceed the Croatian average and the premium quality of crops form the basis for animal feed production at Belje. In 2019 the production of pig breeding mixtures was slightly lower, but the production of cattle breeding mixtures exceeded that from the year before by one third. In 2019 Belje also had a significant increase in sales of brewers' grits resulting from the partnership with Croatia's largest beer producers.

Together with its contract farmers Belje plus produced 15,200 pieces of cattle, accounting for more than 13 per cent of the Croatian production in 2019.

Belje annually produces around 10,300 litres of milk per cow and the majority thereof is used for the production of ABC fresh cream cheese, which has a special position in Belje's food product assortment. ABC fresh cream cheese is exported to 20 countries on four continents and thus exports outperform the realisation on the local market. In 2019 Croatia's leading cheese spread generated record sales on the markets of Croatia and Slovenia, and equally significant growth rates were achieved in Bosnia and Herzegovina, where it is also market leader. On the Slovenian market it is the bestselling brand after discounters' private labels and on the Serbian market it is the second brand by sales result. Czechia and the UK are new markets, where ABC cheese was first launched in 2019, with great potential for further expansion. In the 2019 Brand Score research ABC cheese ranked six among the top brands in the Adria region and for the second year in a row it earned the designation „Chosen by mums“, as selected by Croatian mums. ABC cheese is an excellent addition to a number of meals and hence Belje plus launched a new, 500 g packaging of ABC cheese in 2019, intended for the preparation of culinary delicacies.

The unbreakable bond with tradition is presented in the new packaging of all of Belje's cured meat products, launched in 2019 and intended to highlight their hand-made premium quality. Baranya *kulen*, smoked bacon, *kulenova seka* (*kulen's* little sister) and Baranya sausage are made in the old-fashioned way typical of Baranya and they

are in increasing demand among consumers, with an average sales growth of 27% in 2019 compared to the year before. Exports of cured meat products to Sweden and Germany have grown.

Baranya kulen is an original Croatian product with geographical indication of the European Union, which guarantees its high quality.

Around 2.7 million litres of wine are produced annually at Belje's vineyards. In accordance with the planned rebranding and changes in part of the assortment, the classic line realization was reduced in 2019, while sales of the selected line of quality wine bottles, which will be the main packaging type of Vina Belje wines in future, have increased. Vina Belje wines are the global benchmark for Graševina wine and Vina Belje's Graševina is Croatia's most awarded Graševina wine. In 2019 a large project was initiated to export Graševina to the Russian market.

Belje plus has continuously been investing in new productions, such as the growing of hydroponic tomatoes in a 4.5 hectare greenhouse, where 2,600 tons of tomatoes are picked a year. In 2019 Belje plus initiated the project of Black Slavonian pig breeding on the pastures of the Kopački rit Nature Park to secure sufficient quantities of premium quality pork from this indigenous breed for the new superior line of cured meat products under the name of Black Slavonian.

The connection between all productions and the mutual integration of business processes provide for the Integrated Management System at Belje plus, comprising the systems ISO 9001, ISO 14001, OHSAS 18001, ISO 50001, GLOBAL G.A.P. for growing crops and IFS in the production of dairy and cured meat products. In accordance with customer requirements, individual productions are certified as ISCC red, Donau soja, Kosher and Halal.

Belje's socially responsible projects are intended to support local cultural, traditional, sports and tourist events, with a view to preserving and promoting such recognizable events typical of Baranya.

VUPIK plus d.o.o.

The core business of Vupik, one of Croatia's largest agricultural producers, includes crop husbandry, vegetable growing, pig breeding, dairy cow breeding, cattle fattening, winegrowing and winemaking as well as reloading to ships and storing.

Crop husbandry and vegetable production take place on an area of almost 7,000 hectares, with the major crops being wheat, sunflower, soybean, maize and sugar

beet. Vegetable production is based on growing onions, peas and carrots on 10 circular irrigation systems covering a total of 545 ha. Winegrowing covers more than 115 ha of area. Livestock production includes reproductive farms (capacity of 2,300 pieces), pig breeding farms (capacity of 39,000 pieces), cattle fattening farms (capacity of 1,900 pieces) and dairy cow farms (capacity of 2,500 pieces). Annually 20 per cent of the total crop production is directed into the company's livestock production, while part of the production of onions, carrots and peas is contractually tied to PIK Vinkovci.

The very unfavorable weather conditions in 2019, ie. the hail that mostly hit the crops of merchantable (ware) maize and sugar beet, significantly reduced the quantity and quality of crops, with the estimated damage amounting to more than one tenth of the total value that could have been realized in 2019.

The good sales result in 2019 as well as revenues and EBITDA exceeding those from 2018 are primarily due to the increased market value of finishers. Namely, pig breeding accounts for half of the company's total revenue and increased production quantities, sales revenue growth and prices higher than the year before provided for better annual profit realization. In 2019 pig breeding delivered 10,533 tons of pigs. Pig breeding production is based on PIC (Pig Improvement Company) genetics, the world's largest corporation when it comes to pig genetics, and takes place on four production units (farms), one reproductive farm with the capacity of 2,300 pieces and a fattening-oriented pig breeding farm (capacity of 39,000 pieces). The application of state-of-the-art technologies and methods with high security standards, professional leadership and highly trained and educated employees provide for a high health status at all stages of the production cycle. Animal feed used in feeding the pigs is prepared of raw materials from own production, in compliance with the principle of controlled traceability.

Due to the detailed reconstruction of the Dubrava dairy farm into a fattening farm, Vupik's cattle breeding had declining indicators in production and sales of milk in 2019, following also the drop of milk prices on the market. However, with the reconstruction of the Dubrava farm and its resumption of full capacity, the production and sales of milk and meat are expected to normalize and increase.

Due to the hail in 2019, production and purchase of grapes at Vupik were reduced and hence also the overall realization in the production and sales of wine dropped in comparison to the year 2018.

The Vupik reloading port operates on two locations: Danube Vukovar silo and Bobota silo. In 2019 the Danube silo storage received a total of 145,888 tons of goods, with higher turnover coefficient than the year before due to exceptionally good crop yields. However, due to the extremely low Danube water level during summer and autumn months and the outbreak of a wheat disease due to rainfall at the time of wheat

ripening, goods receipt was lower than the year before. Part of the reloading capacity are the river terminal for cereal crop reloading with the capacity of cereal crop reloading of 200 t/h and the modern direct LAW grain dryer with warm air aspiration and recirculation, using gas as energy.

PIK VINKOVCI plus d.o.o.

PIK Vinkovci plus d.o.o. started to gain experience in vegetable, crop, livestock and seed production and purchasing back in 1962 and today, according to its storage capacities of 86,800 tons in total and capacities for silo reception and drying of grain, the company is among the largest in the Republic of Croatia. It is also one of the leading companies on the territory of the County of Vukovar – Srijem, tilling more than 5000 ha of land, employing over 500 people and investing in development and new technologies. In purchasing fruit and vegetables it cooperates with more than 500 contract farmers.

Livestock production comprises the production of piglets (farms Andrijaševci 1, Andrijaševci 2 and Čeretinci) and cattle fattening (farm Zvirinac)

In 2019 the company saw a marked growth of operating profits against the year before, due to increased sales, better sales prices of individual articles and partly due to reduced costs and increased efficiency. The most important event at the company in 2019 was the putting into operation of the farm Andrijaševci 2, which was reconstructed following the disastrous fire that had happened on the farm in June 2018, with the investment amounting to almost HRK 30 million. The farm was completely renovated and put into operation in July 2019.

Investments were also made in other business segments – investments in primary agricultural production included new agricultural machinery, irrigation systems and the preparation of digitalization projects in agriculture, intended to lead to quality improvements and higher efficiency in primary production.

Significant funds were also invested in replacing equipment in silos, seed processing and fruit and vegetable storing facilities, intended to accelerate processes, reduce stoppages and increase service quality.

Two thirds of sales revenue at PIK Vinkovci are generated in Croatia and the rest in exports. Namely, PIK Vinkovci plus are Fortenova Group's second largest exporter and one of the most significant exporters in agriculture in the Republic of Croatia, recording increase in quantities and double-digit financial growth of exports compared to the year before. The products are primarily sold to EU member states, mostly Italy,

Slovenia, Germany and Hungary, where the number of partners working with the company is growing and with the Italian and German markets showing significant potential for growth. The export markets are primarily supplied with maize, edible oil, soya grain, soya meal, wheat, sunflower and rape.

The company has an integrated quality management system and an energy efficiency system in place. For example, in 2019 the fuel consumption was reduced compared to 2018 as a consequence of the absence of subsoiling (work of heavy duty tractors). Also, electricity consumption was lower than in the previous year as there was no need for intensified goods drying at the location of Lipovac and the Andrijaševci 2 pig breeding farm only started working in mid 2019. That was also the reason of reduced gas consumption as well as indirect emission. The fact that the year was rainy resulted in reduced irrigation needs and hence the water consumption was lower as well.

PIK Vinkovci plus support the local community with occasional donations to sports associations and folklore ensembles.

AGROLAGUNA d.d.

Following the period in which the operations were under the influence of Agram Group, as of 1st April 2019 Agrolaguna d.d. has resumed work within Fortenova Group and has been involved in all business activities that marked the Settlement Plan implementation.

In 2019 the company had a slightly lower sales revenue compared to the year before and in its sales structure wine accounts for two thirds of revenue, while the rest is almost equally divided into revenue from sales of cheese and curd and revenue from sales of olive oil.

Due to the poor production year and costs related thereto on the one hand and investments into the sales process (increased rebates, promotions, bonuses...) on the other, the company realized lower operating profits than planned, but kept its market shares by segments.

Namely, in the production segment Agrolaguna faced an extremely challenging year in terms of protection from significant oscillations in weather (in olive growing, there were large quantities of rain before the olive blossom and temperatures over 30°C during the blossom, which burnt the flowers, while winegrowing required a high amount of manual work). Those circumstances resulted in lower yields than planned and hence in higher production prices of both oil and wine. Wine production in 2019 was lower by one third, while oil production was halved compared to the year 2018, making 2019 the poorest in the last 15 years.

Nevertheless, in the wine segment, in spite of the lower production, the company secured sufficient quantities of assortment necessary to meet the sales plan in 2020. The focus in wine sales was on achieving volumes, which was accompanied by significantly higher investments through rebates and marketing and distribution and resulted in lower sales prices realized.

Olive oil sales are defined by the annual production and transitional stock and hence sales in 2019 were somewhat lower than in 2018, while cheese sales grew at a double-digit rate. A particularly significant growth of cheese sales was realized on the local market, which is very important for the further course of operations in the segment, which was subject to major oscillations over the last two years.

The company mostly exports wine, mainly to Poland, with the export value having grown by eight per cent compared to the year before.

Investments comprised essential investments in the renewal of tools, machinery, the cooling system in the Winery, vacuuming machines at the cheese factory,

maintenance of investment plantations, the purchase of 85 pieces of Lacaune sheep to improve milk yield and a necessary software investment.

The company continuously invests in environment protection and management systems and in addition to HACCP, ISO 14001 and FSSC it carried out all preparations to introduce IFS, which was realized in Q1 2020.

VINKA plus d.o.o.

Vinka plus d.o.o. is Croatia's only factory processing vegetables by freezing and generates the largest revenue from frozen fruit. Hence the main focus of the factory is to invest in the development of young orchard plantations, along with investments in production facilities with a view to maintaining and optimizing existing production capacities. In accordance with its possibilities, over the last years the company has intensively worked on promoting Croatian production and introducing novelties to keep pace with global trends. Thus in 2019 it launched frozen green asparagus from local production and frozen raspberries from its own raspberry orchard, for which the market share is expected to grow in the upcoming period.

The company still operates in the negative zone, but has recorded improvements against 2019. Vinka generates half of its revenue on the local market and 50 per cent from exports to EU markets.

In 2019 external audits were carried out (announced and unannounced) for all systems within the Integrated Management System.

Fortenova Group's non-core businesses

In accordance with the strategy of focusing on the development of operations in its core activities – retail and wholesale, food and agriculture – and the planned exit from non-core businesses, in 2019 Fortenova Group undertook comprehensive preparations to dispose of the companies from the non-core portfolio and together with its selected advisors started the divestment process in four companies – Atlas and Kompas, Projektgradnja and Sojara Zadar.

Fortenova Group's objective is to find strategic or financial investors for those non-core subsidiaries, who will be able to realize the great potential that each of those companies has, to the benefit of their employees, partners and other stakeholders.

Among significant companies which operate within the non-core portfolio is also the Aviva Polyclinic.

In July 2019 Fortenova Group also started disposals of non-core properties and to that end the company opened a special website - <http://nekretnine.fortenovagrupa.hr> in Croatian and English.

The properties in question are non-core properties located all across Croatia and include, besides numerous commercial properties and agricultural land, also residential properties, attractive building land and land for investment construction. For each property offered for sale the website provides a detailed description of its condition and terms of sale, together with the initial price as well as instructions on how to make an offer for a specific property. Additionally, for commercial facilities an open house date and time is defined upfront for potential buyers to tour and view the respective facility. Binding bids for buying properties were received until the end of December 2019.

AVIVA Polyclinic

Measured by revenue and adjusted profit, Aviva Polyclinic can look back at a record year that also saw the 40th anniversary of its operations celebrated. In 2019 the Polyclinic continued the positive trend of an increasing number of individual clients, as the strong marketing communication and continued work on service quality provided for the growth of the number of medical examinations and revenues in the segment of targeted individual health checks.

Improved macroeconomic indicators in Croatia positively affected the frequency of clients from insurance companies and firms that have direct contracts with Aviva Polyclinic and the positive trend recorded by insurance companies on the private insurance policy market is also visible in Aviva Polyclinic's revenues. Most of the clients sent by insurance companies come from firms that have contracts with those insurance companies and the increase in revenue was realized to a similar extent for general medical examinations and for targeted services.

Aviva Polyclinic also has direct contracts with companies where it managed to achieve better prices for general medical examination packages and hence the financial result improvement is better than the number of checks would indicate.

Aviva Polyclinic continuously works on quality improvements and hence in 2019 it continued with internal trainings for employees and internal process improvements intended to secure continued quality enhancement. It has also worked on increasing

awareness among its employees on environment protection and proper waste disposal and with its suppliers it has been taking small steps in introducing raw materials that are less harmful for the environment.

Aviva Polyclinic has since many years been partner to the Croatian Skiing and Basketball Associations and hence our top athletes from those sports underwent examinations at Aviva Polyclinic.

Environmental impact of the Group

Companies within the Group have opted for energy efficient technologies in their operations in order to make their environmental footprint as small as possible. Special emphasis is placed on waste disposal and waste water treatment, as well as the preservation and sustainable use of biodiversity in accordance with the practice of socially responsible operations, as stated above in the individual company reports.

Fortenova Group has based its policies on organized systems management, according to the principles of sustainable development and excellence. Environment protection represents a significant segment of integrated management systems and is part of all strategic decisions and business processes.

The environmental impact of activities, products and services is being recognized and systematically monitored. The economic development is inextricably linked to a professional and responsible attitude towards environment protection. The systematic environmental and energy efficiency management is focused on two main strategic determinants:

- permanent value improvement of environment and energy efficiency
- prevention and reduction of all types of pollution in the immediate, broader and global environment.

Environment, energy efficiency, occupational health and safety management systems

The basic environment protection operations at Fortenova Group are related to complying with legal and other requirements in environment and nature protection,

systematic non-hazardous and hazardous waste management, control of emissions into water, air and soil, monitoring the use of sources and energy, prevention of pollution and adequate response in case of extraordinary situations. The development and improvement of education and awareness in environment protection, as well as communication and exchange of knowledge in and outside the Group, are of particular importance. By developing professional internal and external system checks the cooperation with the best partner firms and suppliers in the field of environment protection develops as well. The personal responsibility, individual knowledge and experience of each employee are an indispensable link in preserving the firmness of the chain of success. Systematic care is taken of nature and environment, not only within the limits of Fortenova Group's organisational units, but rather by using positive examples in striving to exert influence on all customers, interested parties and beyond, all with a view to achieving the common goal of protecting and preserving nature and the environment.

Energy efficiency / performance improvement objectives and programs have been set and periodically monitored. Along with regular annual internal and external audits, the companies systematically work on safety improvements for each employee, product quality promotions, sustainable production, rational use of raw-materials and energy and care of sustainable waste management.

In order to meet the preconditions for sustainable development, specific goals are set each year and their realization largely contributes to mitigating the impact on all elements of the environment. By realizing the goals set in environment protection, further improvements are achieved that lead to the negative environmental effects being reduced.

Social impact of the Group

Socially responsible operations

As already stated above on several occasions, all companies, irrespective of their financial and organisational possibilities, have based their operations on the principles of social responsibility and in 2019 participated, in accordance with their possibilities, in projects important for the community in which they operate. At Group level, in 2019 significant funds were invested in sponsorships and donations and the companies have stated some of the key projects in which they had participated in their reports.

The Group's largest individual donor is the retail company Konzum and its project of donating food has globally been recognized as one of the most significant donor projects in Croatia. With Fortenova Group's operations being related to food, whether it be its production or retailing, the challenges related to wasted food and healthy nutrition have been intensively addressed. Thus over the course of 2019 the entire Fortenova Group donated food in the total value of HRK 3.5 million, which makes it Croatia's leading food donor. The largest donor is Konzum, having donated food worth HRK 2.8 million, while the rest of the amount was donated by companies from the Food and Agriculture business segments: Zvijezda, Jamnica, Ledo, Pik Vrbovec, Belje, PIK Vinkovci, VUPIK and Agrolaguna. Fortenova Group is also the largest strategic partner to various non-profit organizations in donating food in Croatia. Particularly worth mentioning is Fortenova Group's cooperation with Mreža hrane (The Food Network), the Red Cross and its social self-service stores, the SOS Children's Village, soup kitchens as well as numerous other national and local institutions and associations.

Fortenova Group and all its companies will continue their cooperation with local communities and associations across Croatia on food donation projects, because apart from showing care for those who need it most, this also improves internal processes and optimizes stock replenishment procedures with a view to reducing the total quantity of food with shelf life that is about to expire and then also to donating it to the greatest possible extent.

Furthermore, various other projects such as Konzum's *Zdravoljupci* (Health Lovers), which ran for two years in a row, raise the awareness of the importance of daily consumption of fruit and vegetables and a balanced and healthy diet. Strong focus is also placed on the importance of encouraging local production and consumption of local and seasonal products, supported through the cooperation between Fortenova

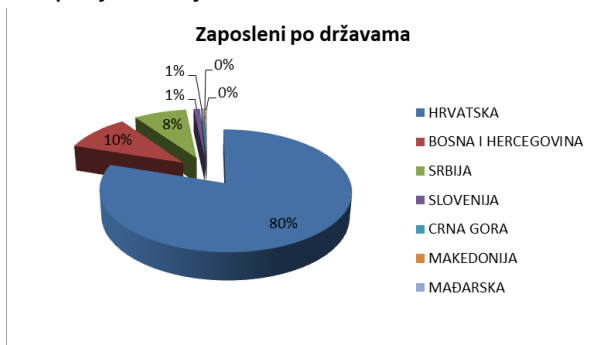
Group's retailers and purchasers with small agricultural producers and family farms (OPG's). That approach has been strengthened from year to year, with the network of partners and contract farmers systematically being extended to provide consumers with healthy and quality products of Croatian origin. For example, Konzum has more than 4000 of such suppliers and the cooperation of Pik Vrbovec with more than 100 farms across Croatia is also on track in that regard, with over 350,000 pigs of Croatian breeding processed at Pik Vrbovec per year. The company is also the largest supplier of beef with the designation Croatian beef.

Human Resources

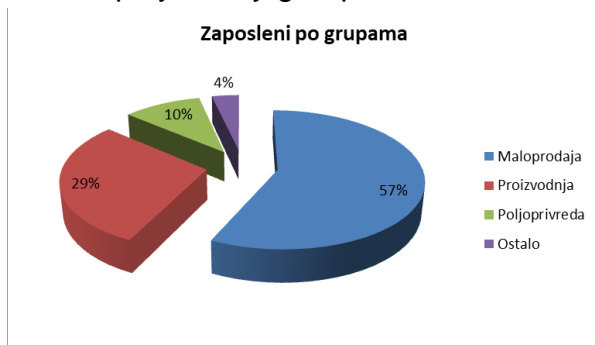
In a system that, like Fortenova Group, comprises more than 150 companies, different operations on numerous markets with various jurisdictions, including labor law regulations, the Human Resources function is extremely complex, particularly in the segment of building, maintaining and developing a common corporate culture and sharing common values.

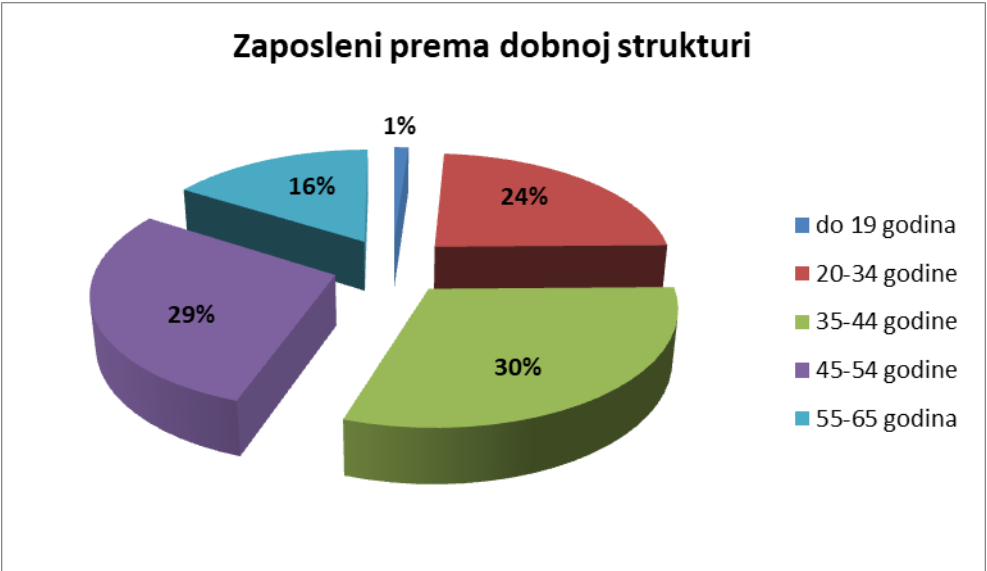
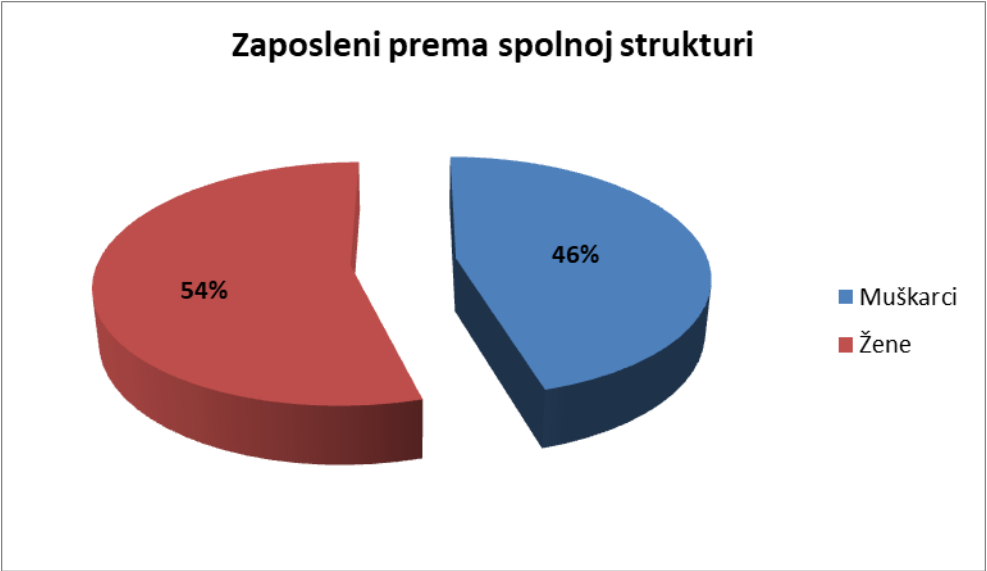
At the end of 2019 Fortenova Group employed more than 29 thousand people in three core businesses on five markets. The largest number of employees are in Croatia, Slovenia and Serbia and by type of operations, 57 per cent work in retail, also in Croatia. Viewed by gender structure, women prevail and by age structure the majority of employees – 30 per cent of them – are in the age group between 35 and 44 years.

Employees by state



Employees by group





Employees by gender structure
Employees by age structure

Over the course of 2019, with defining its key corporate values the Group also established the most important vertical line for a healthy business, particularly in the talent management segment. Measures are actively devised that would, on the one hand, additionally motivate existing employees, while also attracting new talent to the system that would provide fresh ideas and a new approach and thus contribute to the new development stage the Group is about to enter. The key objective of the human resources policy in the upcoming period will be to additionally develop, strengthen and reward employees, who are the heart of the Group.

Furthermore, the forthcoming period will see intensive work on additionally developing the Group's brand as desirable employer, providing for an even better recognition of the company on the labor market. In spring 2019 Fortenova Group initiated a HZZ (Croatian Employment Agency) event where representatives of six Group companies in four cities met with potential employees and presented the conditions and benefits offered in case of employment.

In 2019 the Code of Ethics was adopted on Group level as a document where Fortenova group prescribes acceptable conduct within the Group and all its operating companies. The Code represents ethical guidelines to which all Group employees have to adhere in their daily business activities at Fortenova Group and its companies. By establishing Fortenova Group's basic ethical principles and values the Code also helps in strengthening the company's corporate identity. Based on the Code, an Ethics Committee has also been established at Group level.

During the reporting period a survey was carried out to determine the corporate climate and culture in the wake of the Extraordinary Administration Procedure and following the successful commencement of the new companies' operations. The survey was intended to identify the current culture and climate and the development grade of Fortenova Group's common values.

More than 60 per cent of all employees at the companies where the survey was carried out responded to it and more than 8,000 employees provided their comments, proposals and suggestions in writing, which made it possible to better define the activities directed at Fortenova Group's further development and the alignment of key values with business objectives.

The average result across all dimensions of corporate culture and climate at Fortenova Group amounts to 3.322 (on a scale from 1-5), a good result given the extremely challenging period that the company faced over the last few years.

The survey analysed five key corporate culture and climate dimensions – work organisation, leadership, attitude to the employer, career development possibilities, level of satisfaction with working conditions, salaries and other benefits and balance between professional and private life. The results showed what direction to take going forward and which measures to introduce in order to improve employee satisfaction.

By filling out the survey, employees participated in raising funds for a donation to the SOS Children's Village, where for each filled out survey form received Fortenova Group set aside a specified sum, with a significant financial amount donated to the SOS Children's Village. The company has thus not only focused on improving its own work environment, but also on helping those in need within its community in a socially responsible way.

Activities within Human Resources in 2019 comprised the launching of employee education programs, talent management development processes at Group level as well as the program of involving employees into innovations at the workplace with incentive rewards.

In addition, in 2019 the company started a cooperation with the Rochester Institute of Technology (RIT), with one form of the cooperation being student traineeship. Each student of RIT Croatia is obliged to take part in a professional traineeship program formed according to the RIT Cooperative Education program. This is one of the oldest and most widely spread professional traineeship programs in the world.

It forms a constituent part of education at RIT Croatia and provides students with actual work experience in areas relevant for their field of studies. Student traineeship takes place during summer (May to September) for 10 weeks, 8 hours a day. The traineeship enables students not only to acquire professional knowledge and skills, but also to learn about corporate culture, while the company is provided with the possibility to get to know young talent during their studies, who can become its employees once they graduate. In 2019 the project was attended by 12 students who were at Konzum, Tisak, Jamnica, Ledo, Zvijezda, Roto, mStart and Fortenova grupa and the traineeships were run in the areas of HR, marketing, accounting and IT.

Union relations and employee benefits

A number of trade union organisations are active within Fortenova Group, and almost 18,000 employees are union members. All major companies have collective agreements in place. Over the course of 2019 the Group maintained a constructive relationship with the unions and workers' representatives (workers' councils, workers' occupational safety commissioners, workers' representatives in supervisory boards), particularly during the process of realization of the comprehensive project of transferring employment contracts and keeping all collective agreements in force at all companies during the Settlement Plan implementation, as that process was carried out impeccably.

Two plenary sessions were held with all trade union organisations active within the Group, where the Settlement Plan implementation models and the levels of protecting workers' rights as well as unions' rights under collective agreements were presented. Consultations took place with workers' councils and all workers were informed about their rights under the employment contract transfer.

All obligations under the collective agreements were met and in agreement with the unions, bonuses were paid to workers for the results achieved in contributing to preserving the companies and the stability of business.

Fortenova Group companies provide a number of benefits to their employees. For example, pursuant to the collective agreements workers have the possibility to undergo general medical examinations at the expense of the employer and workers and members of their families also receive benefits when closing supplementary health insurance policies.

For employed parents the companies strive to provide days off on their children's first day at school or kindergarten, companies care for the protection of sensitive worker groups, disabled, diseased or pregnant workers or parents with special needs children.

In the companies' tradition and within the scope of collective agreements workers are entitled to allowances such as Easter bonus, annual vacation bonus, Christmas bonus and gift for children, which we strive to increase each year.

In all countries where Fortenova Group operates, collective agreements were closed at most of the companies, with social dialogue and relations with unions and workers' representatives maintained in compliance with the domicile legislation in force.

Fortenova grupa d.d. pursues the following activities in order for all companies to have the same behavioral standards and labor relation practices:

- continuous communication
- replies to union complaints from individual companies
- mediation in case of dispute between the union and/or workers' representative at a specific company and the management board of the company
- participation in the work of bodies in charge of interpreting and applying collective agreements in order for the collective agreements and the legal institutes they contain to be applied in the same way across all Group companies
- collective agreement negotiations
- communication with unions and worker representatives on major structural changes and restructurings affecting workers and their rights.