BELUPO d.d. and its Subsidiaries, Koprivnica

Annual report 31 December 2018

MANAGEMENT REPORT 2018

BELUPO

1. DESCRIPTION OF BUSINESS ACTIVITIES

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Belupo Pharmaceuticals and Cosmetics Inc. Koprivnica (hereinafter referred to as: Belupo) is a joint stock company whose core business is the production and distribution of drugs, pharmaceuticals, ancillary medicinal substances and other chemical products.

The company number of Belupo is 010006854, PIN 74181493335, and its registered headquarters is at the address: Ulica Danica 5, 48000 Koprivnica.

The share capital of the Company amounts to HRK 579,087,600.00 and is divided into 5,790,876 ordinary registered shares with a nominal value of HRK 100.00 each.

2. HISTORICAL DEVELOPMENT

AN OVERVIEW OF SOME OF THE MOST SIGNIFICANT EVENTS IN THE HISTORY OF THE BELUPO GROUP :

YEAR	EVENT
1970	Podravka began preparations for manufacturing pharmaceutical and chemical products, thus creating conditions to enter into a new strategic business area.
1971	Project for the construction of a drug factory completed.
1972	The first factory opened in Ludbreg.
1981	The New drug factory constructed with central warehouse, tower, dispatch facility, energy plant and administration building.
1999	Construction of a new factory for solid form medicines (drugs).
2000	Opening of representative offices in Moscow, Prague and Belgrade Belupo - member of the European association of manufacturers of generic drugs Golden plaque for the most successful company in the county in the category of large trade companies.
2002	Daughter company established in Slovenia with headquarters in Ljubljana Plaque “Zlatna kuna” for the most successful company in the county in the category of large trade companies. .
2003	Crystal Bowl for the Event Project of the Year, FESTO 2001, Opatija, Croatia; OTC NEWS Marketing & Creative Award 2002, Copenhagen, Denmark Grand Global The Best In Healthcare Communications Worldwide in 2002, The New York Festivals, New York, USA. **GRAND GLOBAL – SOCIAL COMMITMENT** Gold plaque for business excellence of the County Chamber Koprivnica Daughter company established in Slovakia with headquarters in Bratislava.

2004	Construction of a factory for semi-solid and liquid drugs completed.
2005	A new microbiological lab and a new facility for control and quality assurance built Daughter company established in Macedonia, with headquarters in Skopje.
2006	Plaque “Zlatna kuna” for the most successful large company in the Koprivnica – Križevci County. Ginko – Croatian Quality symbol
2007	Chain of pharmacies - Pharmacies Deltis Pharm established, which today has 9 pharmacies.
2008	Acquisition of majority share in Farmavita - pharmaceutical company in Bosnia and Herzegovina Employer Partner Certificate.
2009	“Zlatni ključ” for the best Croatian exporters to Bosnia and Herzegovina in 2008. Superbrand for Belupo and Lupocet.
2010	Farmavita – Manufacturing licence.
2011	Neofen – Trusted Brand 2011. A new blister line in the amount of HRK 13 million.
2012	Start of construction of new modern storage facilities. Plaque «Zlatna kuna» for the most successful company in the county in the category of large trade companies.
2013	Representative offices established in Poland, the Ukraine and Kazakhstan. Start of a new investment cycle of Belupo - construction of two new factories. A new warehouse for finished goods for domestic market opened and put into operation.
2014	Decision and Licence for the wholesale of pharmaceutical products issued to Belupo Lupocet Best Buy Award Health 2014/2015. Farmavita, the most desirable employer in the pharmaceutical industry in Bosnia and Herzegovina for 2014. Farmavita established a representative office in Priština, Kosovo.
2015	Contract on the first phase of construction of the new factory signed. The start of the construction of the main building of the new Belupo factories of the future. Plaque "Zlatna kuna" for business excellence in 2014, in the category of large Croatian companies.

	The Faculty of Pharmacy and Biochemistry, University of Zagreb and Belupo signed a Cooperation Agreement and Letter of Support. Farmavita – opening of a new business – storage facility.
2016	Belupo's factories of the future received an occupancy permit. Belupo was presented a Certificate of Appreciation for supporting the scientific work of the Croatian Academy of Medical Sciences.
2017	Belupo received the “Lider Invest” award for continuous investment in the competition for the best large, medium-sized and small production investments. Belupo's factory for solid, semi-liquid and liquid medicines covering 20.608 m² was completed after four years of construction. Belupo obtained a manufacturing license for the New solid, semi-solid and liquid medicines factory.
2018	Belupo and the Ruđer Bošković Institute have signed an Agreement on Scientific and Professional Cooperation . Belupo was awarded the Golden Key for the best exporter to the Russian Federation in 2017. Lider Invest 2018 – Belupo was awarded for the best production investment in the Republic of Croatia in 2017.

DESCRIPTION OF THE BELUPO GROUP – ORGANISATIONAL STRUCTURE OF THE GROUP

COMPANIES WITHIN THE GROUP	Belupo d.o.o., Slovenia **100% Belupo d.d.**
	Belupo s.r.o., Slovakia **100% Belupo d.d.**
	Belupo d.o.o.el, Macedonia **100% Belupo d.d.**
	Ljekarne Deltis Pharm, Croatia **100% Belupo d.d.**
	Farmavita Inc., BiH **65% Belupo d.d.**
REPRESENTATIVE OFFICES of Belupo Inc.	**Moscow, Russia**
	Prague, Czech Republic
	Sarajevo, B&H
	Belgrade, Serbia
	Priština, Kosovo
	Skopje, Macedonia
	Warsaw, Poland
	Kiev, the Ukraine
	Almaty, Kazakhstan

MARKETS OF THE BELUPO GROUP

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In 2018, the Belupo Group realised sales of its products in the Croatian market and in foreign markets.

Through its organisational units, the Group is present in the following foreign markets: Russia, Ukraine, Kazakhstan, Slovakia, Slovenia, Czech Republic, Poland, Bosnia and Herzegovina, Serbia, Montenegro, Kosovo and Macedonia. Sales have also been achieved in Albania, Turkey, Iraq, Libya Denmark and Germany through cooperation with other distributors who are not part of the Group.

The most significant foreign markets are South-Eastern, Central and Eastern Europe - the most significant part of foreign sales was achieved in the markets of Bosnia and Herzegovina and Russia.

<u>South-Eastern Europe</u>

Bosnia and Herzegovina, Macedonia, Serbia, Montenegro, Albania and Kosovo.

<u>Eastern Europe</u>

Russia, The Ukraine and Kazakhstan.

<u>Central Europe</u>

Czech Republic, Slovakia, Slovenia and Poland

<u>New markets</u>

Turkey, Iraq, Libya

Belupo – outlicensing

Denmark and Germany

PRODUCTION PROGRAMME

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Belupo manufactures the following products:

- Prescription drugs
  - Food for special medical purposes
- Non-prescription drugs and medicinal products
  - Herbal medicines
  - Food supplements
  - Cosmetics
  - Non-prescription drugs
  - Auxiliary substances

Belupo has products in its production programme that belong to the following anatomical therapeutic chemical classifications:

preparations acting on the alimentary tract and metabolism
preparations acting on blood and blood forming organs
preparations acting on the cardiovascular system
preparations for skin treatment - dermatologicals
preparations acting on the genito-urinary system and sex hormones
preparations for treating systemic infections
preparations for treating malignant diseases and immunomodulating agents
preparations acting on the musculo-skeletal system
preparations acting on the nervous system
preparations for treating infections caused by parasites
preparations acting on the respiratory system
preparations for sensory organs

These groups of drugs are produced in a variety of forms such as tablets, capsules, film-tablets, solutions, lotions (in spray form), creams, ointments, gels, syrups, suspensions, pessaries, suppositories, powders and vials.

3. THE ASSEMBLY, SUPERVISORY BOARD, MANAGEMENT BOARD, AUDIT COMMITTEE

COMPANY ASSEMBLY

The Company Assembly consists of the Management Board of Podravka d.d.

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SUPERVISORY BOARD

President	Marin Pucar
Vice-President	Davor Doko
Member	Petar Miladin
Member	Branka Perković
Member	Željko Dragec

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MANAGMENT BOARD

President	Hrvoje Kolarić
Member	Ksenija Punčikar

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AUDIT COMMITTEE

President	Davor Doko
Member	Marin Pucar
Member	Branka Perković

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4. BUSINESS ACTIVITIES THE BELUPO GROUP IN 2018

Consolidated and unconsolidated statement of comprehensive income for the year ended 31 December 2018

	Group		Company	
(in thousands of HRK)	2018	2017	2018	2017
Revenue	898,775	869,303	654,289	641,826
Cost of goods sold	(430,844)	(399,164)	(287,236)	(271,551)
Gross profit from sales	**467,931**	**470,139** -	**367,053**	**370,275**
Non-production cost of the new factory	(20,254)	(25,376)	(20,254)	(25,376)
Gross profit	**447,677**	**444,763** -	**346,799**	**344,899**
Other income	1,853	503	870	499
General and administrative expenses	(112,191)	(115,904)	(91,045)	(94,974)
Selling and distribution expenses	(63,578)	(59,228)	(38,495)	(31,661)
Marketing expenses	(175,037)	(178,295)	(148,464)	(155,110)
Other expenses	(13,601)	(9,084)	(13,717)	(8,877)
Operating profit	**85,123**	**82,755**	**55,948**	**54,776**
Finance income	8,502	4,573	11,130	36,953
Finance costs	(10,354)	(11,270)	(8,652)	(9,171)
Profit before tax	**83,271**	**76,058**	**58,426**	**82,558**
Income tax	(16,986)	(21,456)	(13,309)	(18,159)
Profit for the year	**66,285**	**54,602**	**45,117**	**64,399**
Other comprehensive income:				
Actuarial gains	299	**104**	236	**78**
Foreign operations – foreign currency translation differences	(1,017)	(1,468)	-	-
Total comprehensive income for the year	**65,567**	**53,238**	**45,353**	**64,477**
Profit attributable to:				
The equity holders of the parent	60,662	47,870		
Non-controlling interests	5,623	6,732		
	66,285	**54,602**		
Total comprehensive income attributable to:				
The equity holders of the parent	60,287	47,013		
Non-controlling interests	5,280	6,225		
	65,567	**53,238**		

Consolidated statement of financial position as at 31 December 2018

	Group		Company	
(in thousands of HRK)	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
ASSETS				
Non-current assets				
Intangible assets	94,164	91,835	51,210	48,201
Property, plant and equipment	816,276	835,859	729,233	743,983
Financial assets	277	292	29,010	37,971
Investments in subsidiaries	-	-	99,664	99,664
Deferred tax assets	113,397	127,038	117,417	130,778
	1,024,114	**1,055,024**	**1,026,534**	**1,060,597**
Current assets				
Inventories	211,575	182,785	166,440	138,292
Trade and other receivables	287,882	299,837	221,035	237,768
Loan receivables	-	-	8,465	4,305
Income tax receivable	629	277	-	17
Cash and cash equivalents	55,486	89,162	44,954	77,630
	555,572	**572,061**	**440,894**	**458,012**
Total assets	**1,579,686**	**1,627,085**	**1,467,428**	**1,518,609**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	579,087	579,087	579,087	579,087
Reserves	108,126	102,161	107,613	101,037
Retained earnings	288,837	235,286	274,109	236,103
Attributable to the equity holders of the parent	**976,050**	**916,534**	**960,809**	**916,227**
Non-controlling interests	40,487	35,207		
	1,016,537	**951,741**	**960,809**	**916,227**
Non-current liabilities				
Loans and borrowings	344,272	442,139	327,964	420,378
Provisions	7,763	6,617	6,828	5,624
Deferred tax liability	2,686	2,907	-	-
	354,721	**451,663**	**334,792**	**426,002**
Current liabilities				
Trade and other payables	107,104	107,659	83,006	85,496
Loans and borrowings	97,410	110,818	87,039	88,166
Income tax payable	753	302	-	-
Provisions	3,161	4,902	1,782	2,718
	208,428	**223,681**	**171,827**	**176,380**
	563,149	**675,344**	**506,619**	**602,382**
Total shareholders' equity and liabilities	**1,579,686**	**1,627,085**	**1,467,428**	**1,518,609**

5. EVENTS AFTER THE BUSINESS YEAR END

No significant business events occurred after the balance sheet date at the Company or the Group that would require corrections or disclosure in the reports.

6. AWARDS AND RECOGNITION

JUNE - Belupo was awarded the Golden Key for the best exporter to the Russian Federation

The Association of Croatian Exporters within the 13th Convention of Croatian Exporters held under the title of "Export as the generator of growth and development in the Republic of Croatia", awarded Belupo Inc. the Golden Key for the best exporter to the Russian Federation in 2017.

OCTOBER - Lider Invest 2018 – Belupo was awarded for the biggest production investment in the Republic of Croatia

Belupo was awarded for the biggest production investment in the Republic of Croatia in 2017 by the business journal "Lider".

7. SIGNIFICANT EVENTS

JANUARY / Key role of green belts in the transformation of Belupo

The steering committee selected ten green belts to manage projects in cooperation with other participants. The business process transformation places emphasis on simpler and faster business processes, recognising value for the end user of both external and internal processes.

FEBRUARY / Lean Six Sigma transformation in Belupo continues

The steering committee allocated projects to green belts who are in charge of their effective implementation. In addition, an internal competition among Belupo employees was conducted in February, whereby the best slogan for the LSS transformation programme was chosen - Be lean, be more efficient!

MARCH/ The Define phase of Belupo transformation process began

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

APRIL/ Belupo and the Ruđer Bošković Institute signed a Cooperation Agreement

David Matthew Smith, director of the Ruđer Bošković Institute, and Hrvoje Kolarić, president of the Management Board of Belupo signed the Agreement on Scientific and Professional Cooperation. This document implies cooperation in the fields of food, nutrition, health, innovative processing technologies, quality control, drugs and food packing and environmental protection.

SEPTEMBER / All 10 projects have completed the Measure phase of the transformation process of Belupo

Diligent and hardworking members of the transformation team completed one more phase of the DMAIC cycle for the projects they were assigned to. The project managers presented the results of the Measure phase for 10 projects to the steering committee of Belupo's transformation process.

8. PORTFOLIO TEAM

During 2018, Belupo's portfolio expanded with 16 new products on the Croatian market (in groups A, C, N and enteral nutrition) and 47 products on foreign markets (in groups N, R, D, M, A, G and cosmetics)

New products introduced to the Croatian market are Agnis 50 mg tablets, Amora 2.5 / 5 mg, 5 mg / 5 mg, 5 mg / 10 mg, 10 mg / 5 mg, 10 mg / 10 mg capsules, Zaracet 75 mg / 650 mg film-coated tablets, Pregabalin Belupo 75 mg capsules, Razagilin Belupo 1 mg tablets, Glika 60 mg modified-release tablets, Midza 50 mg, 100 mg, 150 mg and 200 mg film-coated tablets in the prescription drug segment that belong to the group of drugs for the treatment of diabetes, hypertension, moderate and neuropathic pain, epilepsy and Parkinson's disease.

New expansions to the enteral nutrition portfolio are two new flavours of Nutribel complex, cappuccino and orange-cookie.

Belupo's newly-registered and marketed products on other markets of the European Union are Midza 100 mg, 150 mg and 200 mg film-coated tablets. In Slovenia, Alopurinol Belupo 200 mg tablets and Tadalafil Belupo 20 mg film-coated tablets were also released. The Czech market released Isotretinoin 10 mg and 20 mg capsules and Razagilin Belupo 1 mg tablets. In Slovakia, the portfolio was extended with Belopera 2 mg capsules, Spirabel 2.5 mg and 5 mg tablets and oral solution. In the Czech Republic, Baza Plus Cream and Baza light creams were released within the cosmetics range.

Belupo's Southeast European markets expanded their portfolio with the following products: Nibel 5 mg tablets, Terbinax 250 mg tablets, Belobaza light cream and Belobaza plus cream in Macedonia, Nibel 5 mg tablets in Albania, Zaracet 75 mg / 650 mg film-coated tablets, Agnis 50 mg tablets, Agillas 1 mg tablets and Beleptic 100 mg, 150 mg and 200 mg film-coated tablets in Bosnia and Herzegovina, and Medazol 500 mg vaginaletas in Montenegro.

Russia's market expanded its portfolio with Monler 4 mg chewable tablets and Belobaza zinc cream. The other markets include Kazakhstan which released Vivaira 50 mg and 100 mg chewable tablets, Kurdistan which released Misar 0.5 mg tablets, Beloderm cream, Azithromycin 500 mg film-coated tablets, Beloderm ointment and Belogent ointment, and Bocvana Ibuprofen Belupo 400 mg film-coated tablets and oral suspension and Tramadol / paracatemaol 37.5mg / 325 mg film-coated tablets.

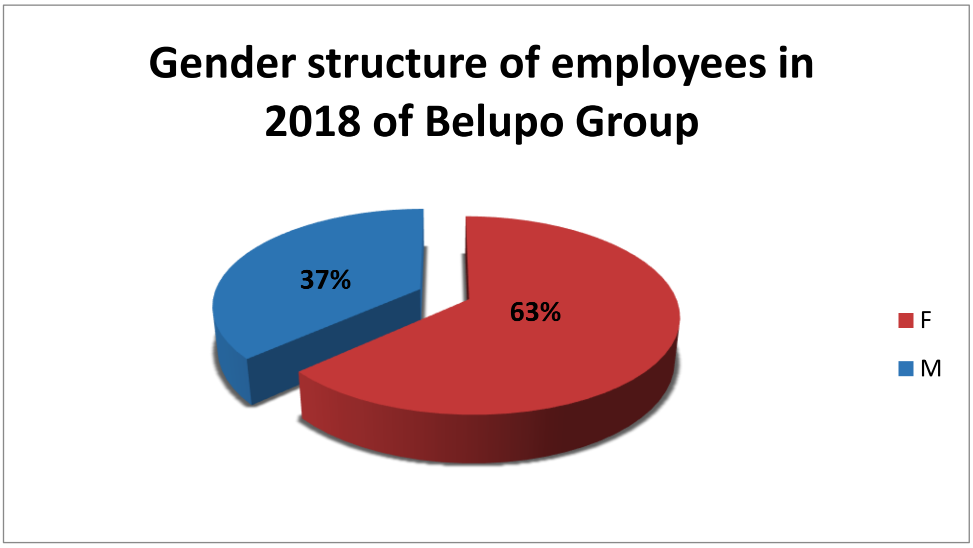
9. EMPLOYEES

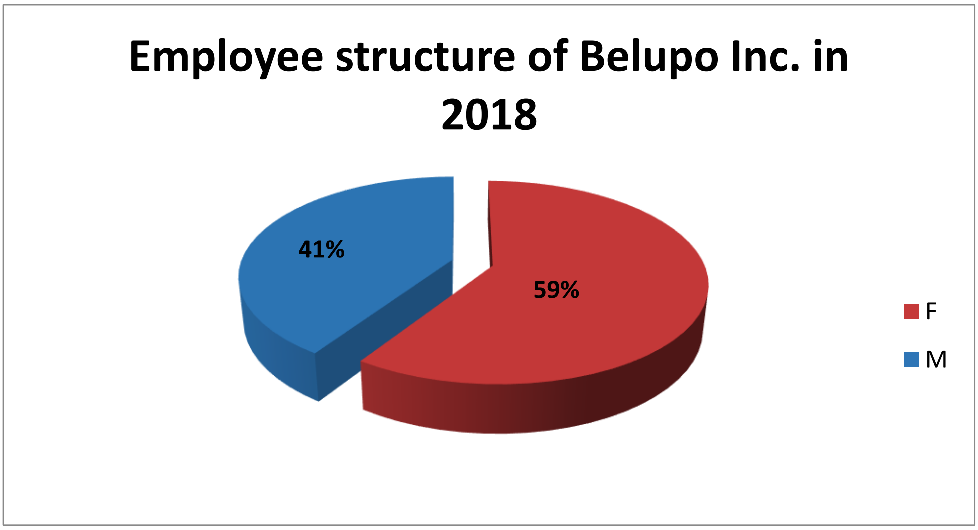
Belupo is a modern and efficient company whose success is based on high quality standards, and this high quality standards are also reflected in our human resource management. Belupo is a pharmaceutical company that cares for people and appreciates their importance, because they are the holders of all the activities and the main factor that gives the company its competitive advantage in the highly demanding market.

A lot of effort and resources are invested in working conditions, motivation systems, competence development, promotion and remuneration systems, increase of efficiency as well as a host of other programmes that contribute to Belupo's excellence in human resource management.

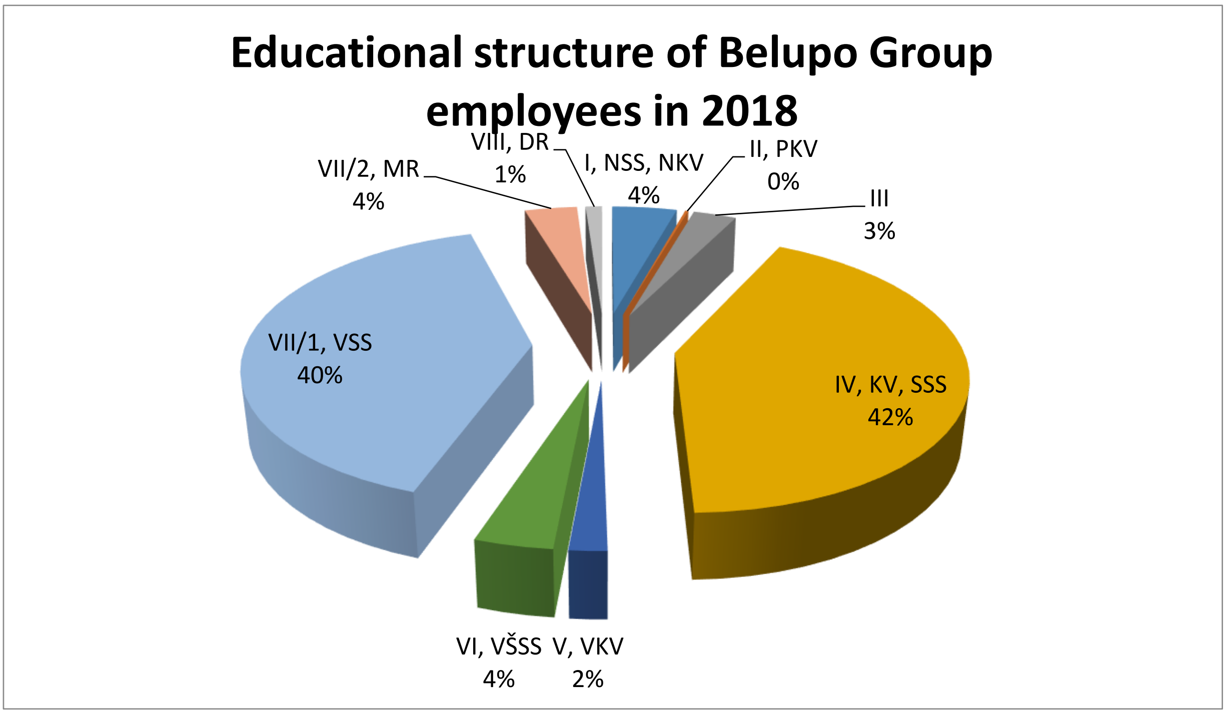
Knowledge is the power with which Belupo successfully faces all challenges of the business environment and we consider investment in knowledge as an investment in business development with manifold returns. We are a team of educated and dedicated professionals who with our enthusiasm, desire for quality and excellence have contributed to the growth of Belupo during all these years.

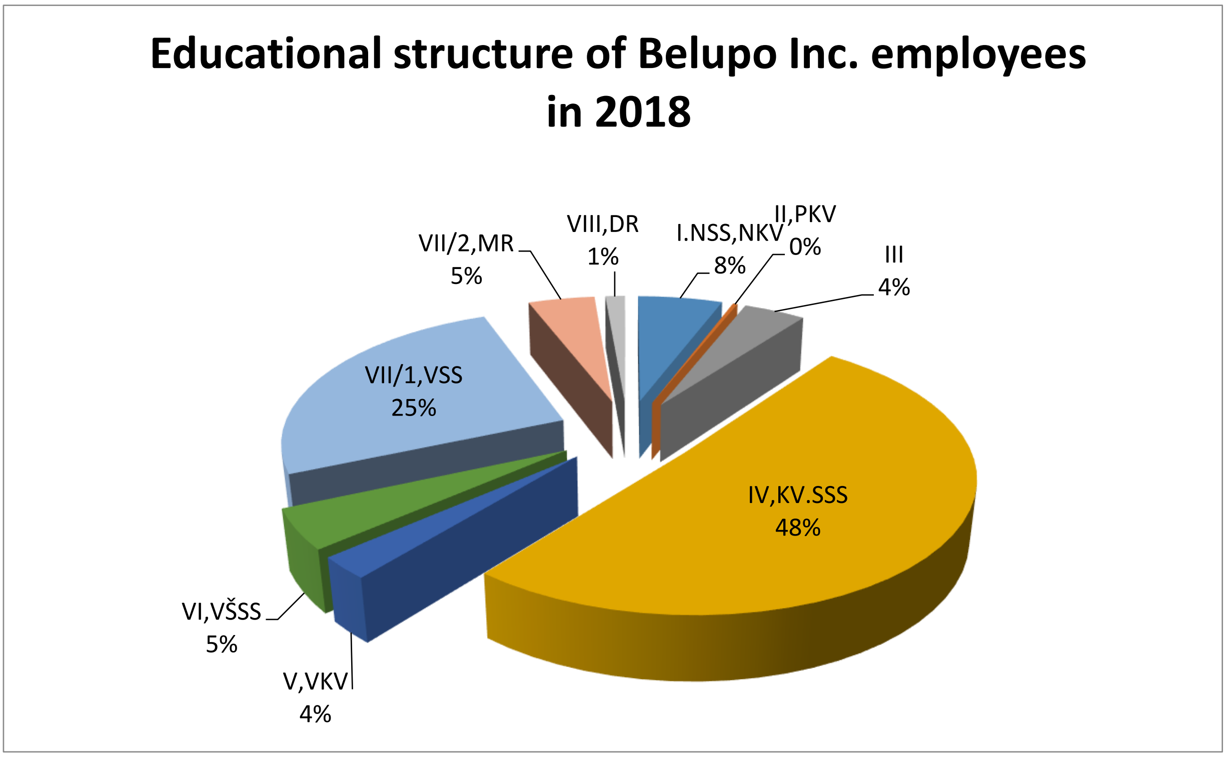
In 2018, the Belupo Group had 1,465 employees and Belupo d.d. had 1,210 employees. The structure of employees by gender and level of education in the Belupo Group and Belupo d.d. respectively, is shown below:





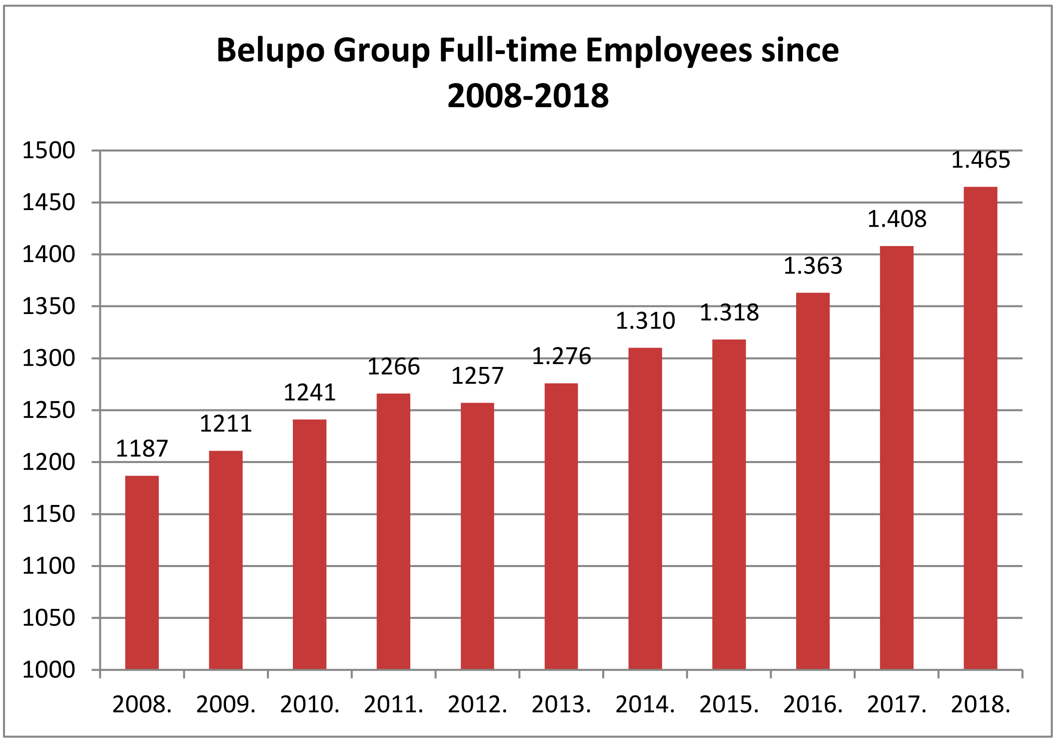
The gender structure of Belupo Group employees constitutes 63% women and 37% men and of Belupo d.d. 59% women and 41% men. Due to such a high proportion of women in the structure of employees, the understanding of sociological, economic and psychological aspects and consequences is extremely important. Belupo encourages motherhood with high maternity incentives and thus maximally supports pregnancy of its employees and emphasises the social importance of the family. The number of hours of education and training, which in 2018 amounted to 52,400 hours, clearly indicates that Belupo d.d. continues to invest in the professional development and training of its employees.





During 2018, Belupo employed 30 trainees with secondary school and 6 with university qualifications through the trainee programme of the Human Resources Development section. Other newly recruited employees passed the personnel introduction programme. The rate of fluctuation in Belupo in 2018 was 4.11%, which is a low index, considering all the changes in the labour market occurred during 2018.

Belupo Group employment trends 2008-2018



In the context of continuous work on the promotion of Belupo's key values in 2018, employees who best reflect the company's values; excellence, passion, trust, satisfaction and creativity / innovation, were selected through an internal competition.

In mid-2018, an internal competition for formal training and education of employees at graduate and postgraduate studies was announced, making the selection transparent and providing equal opportunities for all employees with more than 3 years of service in the company to apply. The best internal educator was identified, thus encouraging the sharing and transfer of knowledge and providing beneficial effect on the organizational culture and advancement of skills and abilities.

The Human Resources Development sector in cooperation with other Belupo entities continued in 2018 to actively participate in specialized Career and knowledge fairs organized by faculties that are of interest to the Company and thus building the Company’s desirable employer brand.

During 2018, the Human Resources Development sector was actively involved in the transformation process of Belupo using the Lean Six Sigma methodology in the form of accepting advice from key members of the transformation team; the steering committee, the transformation programme managers and ten green belt members, and in terms of training employee in units that were not directly involved in the transformation process.

An interdisciplinary team of experts for absenteeism has been set up and has launched a series of measures and policies related to the management of employee absenteeism and the causes and consequences it has on employee motivation and fluctuation.

10. SAFETY AT WORK

Belupo invests great energy, knowledge and significant resources in activities that promote a health keeping culture.

The Safety at Work Service is in charge of the prevention of accidents at work, the emergence of occupational diseases and other illnesses related to work as well as for the protection of the working environment. Continued implementation of planned activities is aimed at improving the working conditions and controlling the implementation of legal provisions related to safety at work.

Throughout the entire year of 2018, activities of the Safety at Work Service were directed to improving and controlling working conditions in all sectors of Belupo, as well as the education and training of employees. Under the new Regulations on Risk Assessment (Official Gazette NN 71/14), estimates of job risks in 2 sectors and audits of risk assessments for jobs with computers in 14 sectors were carried out.

Compliance with the basic rules of safety at work was checked through periodic tests of the following:

- machinery and equipment,
- electrical installations,
- testing of the working environment (noise, vibration, lighting, microclimate, chemical hazards of dust and organic solvent vapours).

The testing of working equipment in 6 sectors, working environment in 5 sectors and chemicals in 2 sectors was carried out in accordance with the plan for 2018.
Practical evacuation and rescue exercises were carried out at Danica 5 in the Tower, Administrative building, Advertising material storage, Health and safety equipment and office supplies storage, Laundry, Energy plant and boiler room, Office building, Pilot plant and laboratories, Quality control and EPE (Existing Production Extension). The exercise was also organised at Savica in Zagreb**.**

Ten internal controls were performed at the Production of Semi-solid and Liquid Drugs, Solid Drugs Production, Logistics and EPE (Existing Production Extension). No weaknesses were detected.
Care for the health of employees is demonstrated through various types of medical examinations. The monitoring of the health of employees working in special conditions is carried out regularly by the contracted healthcare physician. Healthcare physician is also responsible for controlling the health of employees working at computers for more than 4 hours a day, as well as for exceptional examinations every 36 months for employees not working in special working conditions, but in the course of work are in contact with raw materials. In accordance with the GMP norms, the employer has the obligation to send all the employees who perform visual inspection work to specialist ophthalmologists for regular check-ups. During 2018, 79 employees had carried out eye and colour recognition tests and a total of 223 employees went through medical examinations.

Particular attention is paid to timely training and education for safety at work and in 2018 total of 90 employees were trained. In addition to the training of new employees, their safety at work and fire protection skills are also tested. The Safety at Work Service independently performs training of general safety at work, safety at work in laboratories, offices and for working with computers according to the programme approved by the Ministry of the Economy, Labour and Entrepreneurship (present Ministry of Economy, Entrepreneurship and Crafts).

The Occupational Safety and Health Service organized evacuation and rescue training for 49 employees and first aid training for 12 employees.
In 2018, 14 employees were injured, of which 3 injuries were not acknowledged.

- place of work – 10 injuries

There was a total of 143 days of sick-leave at a cost of HRK 28,304.16.

11. ENVIRONMENTAL PROTECTION

ENVIRONMENTAL PROTECTION ACTIVITIES

In 2018, the training of new employees and revision of all operating instructions describing preparation procedures for all types of waste disposal, continued to be performed regularly.

WASTE MANAGEMENT

The environment is most often polluted by waste, therefore, proper waste disposal continues to be systematically implemented. Waste is recorded according to working units, separated for recycling and waste designated for thermal processing is properly stored. Preparations for the supervision by authorities in charge of drug manufacturing as well as testing of machines for new production has increased the quantities of technological waste at the location. Efficient waste management enables all the generated waste to be disposed of, recycled or thermally processed in a safe and environmentally responsible manner.
In 2018, Belupo recorded 34 types of waste in a total amount of approx. 312 tons.

Treatment / on total amount	Recycling	Thermal processing	Landfill
Quantity of waste %	57.4	36.7	5.9

Most of the waste has with adequate management become a secondary raw material, thus supporting the aim to preserve natural resources and reduce the cost of waste disposal at landfills. Technological waste is thermally processed.
Quantities of packaging waste generated from the sales of drugs is regularly reported to the Fund for Environmental Protection and Energy Efficiency and a corresponding fee is paid, accordingly.
For imported electrical and electronic waste, records on imported quantities are kept on a monthly basis and reported to the Environmental Protection and Energy Efficiency Fund. An appropriate fee is paid in accordance with the Regulations.

AIR PROTECTION

Great attention is given to air emissions by monitoring the emissions of dust and organic solvents from technological discharges and emissions of $NO2$, CO, $SO2$ and $CO2$ from energy discharges.
Pursuant to statutory regulations, an authorized institution regularly measures air emissions from immovable sources of technological facilities and from immovable energy sources.
During 2018, air emissions from the gas fuelled boiler room were measured at two old energy discharges and three new ones. The emission limit values are within the allowed boundaries of which records are kept and the measured results reported to the Croatian Environment and Nature Agency.
All built-in dust reduction filters are controlled regularly, as well as the devices using activated carbon for solvent-absorbing. Plant operation is automated and the regeneration of activated carbon is performed upon saturation, and computerized records of plant operation monitoring also ensure monitoring of emissions into the atmosphere. Plants using organic solvents are registered in the Register at the Ministry of Environmental Protection and Nature and by keeping mandatory logbooks on the consumption of organic solvents the amount of solvent consumption is regulated.
For the purpose of protecting the air from fluorinated greenhouse gases, records of all refrigeration devices using controlled or substitute ozone depleting agents and servicing and controlling permeation through authorized service providers are regularly updated. During 2018, permeability of controlled substances from refrigeration units was regularly examined.

WATER PROTECTION

Water protection is carried out in accordance with the Water Permit for wastewater discharge for the location of Podravka's factories at Danica. Technological and sanitary waters are drained from the Belupo location by a separate sewage where they are mixed with wastewater from other factories and transported to the mechanical and biological treatment plant. Wastewater is regularly analysed at certified laboratories in accordance with legal provisions and the Water Permit. Due to proper handling of hazardous substances and waste not being released into the drainage system, waste waters meet the legal limit values. Storm water does not burden the treatment plant, but is transported by separate sewage into a natural recipient.

All disinfection agents are properly recorded. Maintenance and cleaning of the wastewater drainage system is regularly performed. In case of accidental pollution of premises and the internal drainage system, procedures according to the Water Protection Emergency Response Plan, with which all employees are familiar, are followed reducing the risks of water pollution to the lowest possible level.

RISK SUPERVISION

In order to avoid the possibility of an incident with hazardous substances the Risk Assessment and Operational Plan for Protection and Rescue has been prepared elaborating potential effects on material goods and the possible harm to both employees and the environment resulting from the use of hazardous substance, thus reducing the risk of incident to a minimum. The quantities of hazardous substances are regularly updated in accordance with new regulations and reported to the Environmental Protection Agency and the State Directorate for Protection and Rescue, accordingly. Proper handling of hazardous substances and chemicals is an integral part of employee training that reduces the possibility of an incident to a minimum.

POLLUTANT EMISSION REGISTER

All pollution and emissions into the environment are separately reported for all types of waste with the ultimate mode, place of disposal and the calculation of the amount of discharge of emissions into the air and water through the Environmental Pollution Register of the Croatian Environment Agency.

SUPERVISIONS OVER THE IMPELMENTATION OF ENVIRONMENTAL PROTECTION LEGISLATION

In 2018, the inspection of the Ministry of Environment and Nature Protection checked the implementation of the environmental protection legislation. Belupo Inc. fully meets all regulations on environmental protection and no certificate of violation was issued.

12. DEVELOPMENT PLAN

Belupo's prime goal is to strengthen its current market position in both Croatian and foreign markets (focus on the markets of Eastern and South-Eastern Europe, export of OTC preparations). We continue the expansion of the product range of drugs within the group of drugs for the treatment of cardiovascular diseases, the dermatological range of products and drugs with effect on the central nervous system, and also plan portfolio diversification of Rx drugs (groups A, R) and increased development of synthetic OTC drugs.

The designing and construction of new production capacities in solid, semi-solid and liquid forms will introduce new technological processes and new forms in modern packaging, which will further provide options for better monitoring of changes in focused markets with increased competitive advantage. This will result in even a greater need of staffing development teams, with the ultimate goal of optimizing the time for generic drug release.

13. NEW PRODUCTS IN THE YEAR 2018

MARKET RH

In 2018, Belupo's prescription drug portfolio was enriched with several new brands and extensions.

AGNIS 50 mg tablets

A new drug in Belupo's oral antidiabetic palette whose active substance is vildagliptin, a strong and selective dipeptidyl peptidase-4 inhibitor (DPP-4). The use of vildagliptin leads to increased fasting endogenous levels and postprandial incretin GLP-1 (glucagon-like peptide 1) and GIP (glucose-dependent insulinotropic peptide) hormones. By increasing the endogenous levels of these incretin hormones, vildagliptin increases the susceptibility of the β-cells of the islets of Langerhans in the pancreas to glucose, resulting in improved glucose-dependent insulin secretion. Vildagliptin is indicated in the treatment of type 2 diabetes mellitus in adults as monotherapy; as dual oral therapy in combination with metformin, sulphonylurea or thiazolidinedione; as triple oral therapy in combination with sulphonylurea and metformin; in combination with insulin (with or without metformin).

AMORA 2,5 mg/5 mg; 5 mg/5 mg; 5 mg/10 mg; 10 mg/5 mg; 10 mg/10 mg hard capsules

AMORA is a combined drug for the treatment of hypertension. It contains preparations that act on the renin-angiotensin system: ramipril, which belongs to the group of ACE inhibitors and amlodipine, a calcium channel blocker. It is indicated as substitution therapy in adult patients in whom disease control is achieved simultaneously with the use of individual preparations with the same doses in combination but in separate tablets. The combined preparation contributes to better compliance of hypertensive patients. Individual preparations are already listed in Belupo's cardiologic palette under the trade names RAMED (ramipril) and AMONEX (amlodipine).

GLIKA 60 mg modified-release tablets

GLIKA in the form of modified-release tablets in a 60 mg dose is a new registered dose of oral antidiabetics whose active substance is gliclazide, which is already present in Belupo's palette at a dose of 30 mg. Glyclazide is a hypoglycemic in the group of sulphonylureas that stimulates insulin secretion from the β-cells of the islets of Langerhans in the pancreas. Apart from metabolic, glyclazide also has hemovascular properties. GLIKA is used for the treatment of adult noninsulin-dependent diabetes mellitus (type 2) in which blood glucose levels cannot be satisfactorily regulated by diet, exercise or weight loss.

PREGABALIN Belupo 75 mg hard capsules

PREGABALIN Belupo 75 mg hard capsules are an additional dose to Belupo's antiepileptics that are already present on the market under the generic name PREGABALIN in doses of 150 mg and 300 mg. The active substance pregabalin (gamma-aminoasilic acid analog) effects the central nervous system. PREGABALIN Belupo is indicated for the treatment of peripheral and central neuropathic pain in adults; as an adjunct therapy for epilepsy in adults with partial seizures, with or without secondary generalization and for treating generalized anxiety disorder (GAD) in adults.

MIDZA 50 mg; 100 mg; 150 mg; 200 mg film-coated tablets

MIDZA is a new antiepileptic in Belupo's antiepileptic palette. The active substance lacosamide (R-2-acetamido-N-benzyl-3-methoxypropionamide) is a functional amino acid. The precise mechanism of lacosamide's antiepileptic effect in humans is still not fully understood. Non-clinical experiments have shown that lacosamide in combination with levetiracetam, carbamazepine, phenytoin, valproate, lamotrigine, topiramate or gabapentin has synergistic or additive anticonvulsant effects. MIDZA is indicated as monotherapy and adjunctive therapy for epilepsy in the treatment of partial seizures with or without secondary generalization in adults, adolescents and children from 4 years of age with epilepsy.

RAZAGILIN Belupo 1 mg tablets

RAZAGILIN is a new Belup antiparkinsonic drug, a member of the monoamine oxidase B inhibitor group. Razagline has shown to be a potent, irreversible MAO-B selective inhibitor that can cause an extracellular dopamine increase in the striatum. The elevated dopamine levels and the consequent increased dopaminergic activity are likely to mediate the beneficial effects of razagline seen in dopaminergic motor dysfunction models. It is indicated for the treatment of idiopathic Parkinson's disease (PB) as monotherapy (without levodopa) or as adjunctive therapy (with levodopa) in patients with end of dose fluctuations.

ZARACET 75 mg/650 mg film-coated tablets

ZARACET 75 mg/650 mg film-coated tablets are extensions under the umbrella brand Zaracet in a new, stronger dose. The drug contains a combination of two analgesics, tramadol and paracetamol, which act as pain relief. It is used in the treatment of moderate to severe pain following professional medical assessment. ZARACET film-coated tablets should only be taken by adults and children older than 12 years of age.

NUTRIBEL COMPLEX

In addition to the current chocolate flavour, there are two new flavours, cappuccino and orange-cookie, in Belupo's Food for special medical purposes group. NUTRIBEL COMPLEX is a preparation for the dietary nutrition of oncological patients in an individual 200 ml container. It is a high-calorie, high-protein, nutritionally complete liquid-added food with EPA (eicosapentaenoic acid, omega-3 fatty acid from fish oil), fibre and medium triglycerides (MCTs) for oral administration. The preparation is provided only under strict medical supervision in the recommended dose of 2 containers per day.

NEW PRODUCTS - INTERNATIONAL MARKETS IN 2018

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SLOVAKIA

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

Spirabel orodispersible tablets and oral solution contain anti-allergic medicine that does not induce drowsiness. It helps control allergic reactions and accompanying symptoms, alleviates allergic rhinitis and urticaria symptoms (skin changes caused by allergies).

Belopera capsules contain loperamide which helps relieve diarrhoea. Loperamide slows the excessive bowel activity and thus helps to absorb more water and salts from the intestine.

Belokrem with zinc is applied for gentle and irritated skin regeneration and clarity. It also helps alleviate the feeling of itching. Zinc oxide and bisabolol have protective, regenerative and soothing properties and are suitable for maintaining healthy skin.

CZECH REPUBLIC

Four new products were released on the Czech market: Isotretinoin Belupo 10 mg and 20 mg capsules, Midza (Lacosamide) 50 mg, 100 mg, 150 mg and 200 mg film-coated tablets, and Baza light and Baza plus creams as cosmetic products.

Isotretinoin Belupo 10 mg and 20 mg is used for the treatment of severe acne (such as nodular or acne conglobates and acne that can leave permanent scars) resistant to other forms of standard treatment with the help of systemic antibacterial drugs and local therapy.

Midza (Lakosamide) is indicated as monotherapy and adjunctive therapy for epilepsy in the treatment of partial seizures with or without secondary generalization in adults, adolescents and children from 4 years of age.

Baza light cream is intended for the regeneration of sensitive and irritated skin, especially if the skin was subject to various procedures that damage its natural lipid barrier. Zinc gluconate and bisabolol have a protective and soothing effect suitable for maintaining healthy skin and strengthening its natural protection properties. It is also recommended for adolescents with oily skin prone to irregularities as it reduces the appearance of enlarged pores and keeps the skin clean, creating a matte effect and reducing redness and discoloration.

SLOVENIA

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

In June 2018, Alopurinol Belupo 200 mg tablets were released that are used for the treatment of gout and the prevention of other conditions followed by increased uric acid formation, such as kidney stones and other renal function disorders, certain enzyme disorders and during the treatment of some malignant diseases (cancer).

In July 2018, Belupo released Tadalafil 20 mg film-coated tablets on the Slovenian market. It is a product intended for the treatment of erectile dysfunction, which for the other Belupo markets - Croatian, Czech and Slovak - is under patent protection until 2020. This is the first time that Belupo launches a product on the foreign market before the patent has expired on the domestic market. The possibility of earlier product launch in the Slovenian market, with respect to all other Belupo's markets including the domestic, has been recognized by colleagues from the Business Development and Registration Sector, International Markets and colleagues from the Slovenian market.

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

BOSNIA AND HERZEGOVINA

In the first half of the year, products from the Nutrix enteral nutrition category and herbal medicine from own development, Silymarin Forte film tablets, were released on the market of Bosnia and Herzegovina, while the prescriptions drugs Gabina (pregabalin) cps, 56x75mg, 56x150mg, 56x300mg and Agnis (vildagliptin) tbl, 30x50mg and 60x50mg were released at the end of the year.

The herbal medicine Silymarin Forte is used to alleviate liver dysfunction.

Gabina is indicated for the treatment of peripheral and central neuropathic pain in adults, generalized anxiety disorder (GAD) in adults and as adjunctive therapy for adults with partial epileptic seizures with or without secondary generalization.

Agnis is indicated for the treatment of type 2 diabetes mellitus in adults as monotherapy in patients whose disease cannot be controlled only by diet and exercise and where metformin is unsuitable due to contraindications or intolerance.

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

Citram contains escitalopram used for the treatment of depression and anxiety disorders such as panic disorder with or without agoraphobia - fear of open and public spaces, social anxiety disorder, generalized anxiety disorder and obsessive-compulsive disorder. Nibel is used for the treatment of high blood pressure (hypertension), prevents increased heart rate, controls the heart’s pumping strength and spreads blood vessels that also contributes to lowering the blood pressure.

MACEDONIA

In the market of Macedonia during the year 2018, a total of 3 new products were launched: Sona gel, Belobaza light and Belobaza plus creams.

Sona gel is used for the treatment of mild to moderately acute facial, chest or back acne and pimples. The main active ingredient of Sona Gel is adapalene that has anti-inflammatory effect and thus reduces the feeling of pain and irritation.

RUSSIA

Russia's market introduced a new product Belobaza zinc that is applied for regeneration and clarity of gentle and irritated skin. It is also effective to alleviate the feeling of itching. Zinc oxide and bisabolol have protective, regenerative and soothing properties suitable for maintaining healthy skin. Belobaza zinc also contains vaseline as an emollient that prevents moisture loss and rejuvenates skin flexibility. Intended for infants, children and adults.

KAZAKHSTAN

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

Blogir-3 is an anti-allergic drug that does not induce drowsiness and helps control allergic reactions and its symptoms. It is used to alleviate the symptoms of allergic rhinitis and to relieve urticaria (skin changes caused by allergies).

Monler is used for the treatment of asthma and also helps control asthma and alleviates seasonal allergy symptoms (known as hay fever or seasonal allergic rhinitis).

Vivaira chewable tablets are used for the treatment of erectile dysfunction..

Neofen 60 mg suppositories are intended for the reduction of elevated body temperature, including colds and influenza symptoms, as well as vaccine reactions and alleviating mild to moderate pain, such as teething pain, toothache, nausea, earache, headache, sore throat, pain caused by strains and sprains and pain accompanying colds and influenza. Neofen 60 mg suppositories are intended for the treatment of children weighing between 6 and 12 kg (approximate ages of 3 months to 2 years).

REGISTRATION SOLUTIONS

In 2018, Belupo registered a total of 75 drugs (both prescription and non-prescription) and 10 products in the category of dietary supplements, cosmetic products, medicinal products and food for special medical purposes on 14 markets (Croatia, the Czech Republic, Slovakia, Poland, Slovenia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Kosovo, Albania, Russia, Kazakhstan and the Netherlands). The majority of registered drugs belong to the groups with effect on the central nervous system (37 drugs), digestive system (16), cardiovascular system (10), musculoskeletal system (6), respiratory system (4) and 2 dermatics. Out of these, 19 drugs were registered on the Croatian market, of which 15 were prescription drugs and 4 non-prescription drugs. Most prescription drugs belong to the group of drugs with effect on the cardiovascular system (7), nervous system (7), and digestive system (5). Of the drugs registered in 2018, Midza 50 mg, 100 mg, 150 mg and 200 mg film-coated tablets (lakosamide) were released on the Croatian market. Products in the category of dietary supplements, cosmetic products, medicinal products and food for special medical purposes were approved in 8 markets (Croatia, Slovenia, Czech Republic, Slovakia, Bosnia and Herzegovina, Serbia, Macedonia and Russia). Belodex foam was approved in the category of cosmetic products in 2018 for the Croatian market.

14. EXPOSURE AND RISK MANAGMENT

In 2018, the Group's business operations were marked by a number of factors that influenced the level of risk exposure to unforeseen and negative changes which may have effect on the achievement of Company goals. Therefore, price movements of raw materials and energy on the world market, changes in exchange rates of currencies of countries where we operate, the price movement of capital, the state of the economy in the country and the degree of liquidity, etc. should all be mentioned.

The Group aims to manage the potential risks in a way that they are continuously monitored, promptly defined and their intensity recognised in order to find the best response strategy whilst minimising their negative impact on the Group. Communication between the Board and the management, their understanding of risks from their own field of responsibility and adoption of concrete measures are key elements for protection from unforeseen losses.

The following is an overview of the major risks and activities performed as the Group's response for effective risk management.

MARKET RISK

The fact that most of the raw material for the pharmaceutical industry is purchased on the international market increases the risk of price changes. Contracts are concluded with fixed prices in the longer term, and the prices of raw material for the Company's strategic products are continuously negotiated. The Group does not use forward contracts to manage price risks of pharmaceutical raw material. The Group's sales take place in the domestic and foreign markets, of which each has its own specific pricing regulations on which the Group has no influence. This represents a market risk sought to be avoided by continuous monitoring of changes and business conditions, as well as prompt response to each individual market.

CURENCY RISK

The exposure to foreign currency risk arises from transactions taking place in foreign currencies and are subject to exchange rate fluctuations. The outflows in foreign currencies are mainly denominated in EUR and USD, whilst foreign currency inflows are largely denominated in RUB and EUR. The most significant foreign exchange risk for the Group in 2018 was represented by the large exchange rate volatility of the RUB.

As protection against the currency risk of the RUB the Group used spot and forward foreign exchange transactions (spot and forward contracts), and part of the inflow was used to cover expenses for the Representative Office in Moscow. The Company's Treasury continuously, on a daily basis, monitors the movement of foreign exchange rates and takes appropriate action in agreement with the Management Board.

INTEREST RATE RISK

Due to the fact that the Group uses loans with fixed and variable interest rates, the Group is exposed to interest rate risk.

CREDIT RISK

The Group is exposed to the risk of inability to collect its receivables, both at home and abroad. Collection of receivables from customers at home depends on the dynamics of payment of the Croatian Institute for Healthcare Insurance (CIHI). The balance of trade receivables is continuously monitored and actions implemented as protection from settlement risk. A part of the trade receivables abroad is secured by insurance policies of the Croatian Credit Insurance, Zagreb.

LIQUIDITY RISK

The Group faces liquidity risk due to uncertainty of collection, which depends on the dynamics of payment of the CIHI in the domestic market and the situation of individual economies in foreign markets. The Group manages this risk by continuously monitoring cash flow and planning of its activities and in case of unforeseen circumstances has agreed credit lines and reserved funds.

15. VISION, MISSION, KEY VALUES AND STRATEGY

VISION

BELUPO is a pharmaceutical company that achieves more by its distinctive partnership approach. In Central and Eastern Europe we have ensured growth and long-term value for employees, consumers and society as a whole with our selected therapeutic groups.

MISSION

Let's nurture health together.

KEY VALUES

Trust, passion, pleasure, creativity and innovation, excellence.

With quality as our imperative, we create a desirable working place in a modern organisation with open communication that encourages creativity in everything we do.

COMPANY STRATEGY

The development of new products and increase of sales, both in Croatia and in 16 European export markets is the strategic objective for all Belupo's employees. The strategy of company growth is achieved through a synergy of both organic and inorganic growth – with strong focus on business internationalisation and strengthening of our market position in Croatia.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

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

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

The Annual report that includes the Management report and Financial statements is authorised by the Management Board and signed below to signify this.

Signed on behalf of the Management Board:

Hrvoje Kolarić
President of the Management Board

Ksenija Punčikar
Member of the Management Board

BELUPO
lijekovi i kozmetika, d.d.
KOPRIVNICA 4

Belupo d.d.
Ulica Danica 5
48 000 Koprivnica
Republic of Croatia
15 April 2019

KPMG

Independent Auditors' Report to the shareholders of Belupo d.d.

Opinion

We have audited the separate financial statements of Belupo d.d. ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the separate and consolidated statements of financial position of the Company and the Group respectively as at 31 December 2018, and their respective separate and consolidated statements of comprehensive income, cash flows and changes in equity of the Company and the Group for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2018 and of their respective unconsolidated and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

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

Other information

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

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

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

With respect to the Management Report, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act.

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

- the information given in the Management Report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Articles 21and 24 of the Accounting Act.

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

Independent Auditors' Report to the shareholders of Belupo d.d. *(continued)*

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

KPMG

Izvješće neovisnog revizora dioničarima društva Belupo d.d. *(nastavak)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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15 April 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

		Group		*Company*	
(in thousands of HRK)	**Notes**	**2018**	**2017**	**2018**	**2017**
Revenue	7	898,775	869,303	654,289	641,826
Cost of goods sold	9a	(430,844)	(399,164)	(287,236)	(271,551)
Gross profit from sales		**467,931**	**470,139**	**367,053**	**370,275**
Non-production cost of the new factory	9b	(20,254)	(25,376)	(20,254)	(25,376)
Gross profit		**447,677**	**444,763**	**346,799**	**344,899**
Other income	8	1,853	503	870	499
General and administrative expenses	9b	(112,191)	(115,904)	(91,045)	(94,974)
Selling and distribution expenses	9c	(63,578)	(59,228)	(38,495)	(31,661)
Marketing expenses	9d	(175,037)	(178,295)	(148,464)	(155,110)
Other expenses	11	(13,601)	(9,084)	(13,717)	(8,877)
Operating profit		**85,123**	**82,755**	**55,948**	**54,776**
Finance income	13	8,502	4,573	11,130	36,953
Finance costs	14	(10,354)	(11,270)	(8,652)	(9,171)
Profit before tax		**83,271**	**76,058**	**58,426**	**82,558**
Income tax	15	(16,986)	(21,456)	(13,309)	(18,159)
Profit for the year		**66,285**	**54,602**	**45,117**	**64,399**
Other comprehensive income:					
Items that will not be reclassified to profit or loss					
Actuarial gains (net of tax)		299	**104**	236	**78**
Items that may be subsequently reclassified to profit of loss					
Foreign operations – foreign currency translation differences		(1,017)	(1,468)	-	-
Total comprehensive income for the year		**65,567**	**53,238**	**45,353**	**64,477**
Profit attributable to:					
The equity holders of the parent		60,662	47,870		
Non-controlling interests		5,623	6,732		
		66,285	**54,602**		
Total comprehensive income attributable to:					
The equity holders of the parent		60,287	47,013		
Non-controlling interests	28	5,280	6,225		
		65,567	**53,238**		

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of HRK)	Notes	*Group* 31 December 2018	*Group* 31 December 2017	*Company* 31 December 2018	*Company* 31 December 2017
ASSETS					
Non-current assets					
Intangible assets	17	94,164	91,835	51,210	48,201
Property, plant and equipment	18	816,276	835,859	729,233	743,983
Financial assets	20.23	277	292	29,010	37,971
Investments in subsidiaries	19	-	-	99,664	99,664
Deferred tax assets	16	113,397	127,038	117,417	130,778
		1,024,114	**1,055,024**	**1,026,534**	**1,060,597**
Current assets					
Inventories	21	211,575	182,785	166,440	138,292
Trade and other receivables	22	287,882	299,837	221,035	237,768
Loan receivables	23	-	-	8,465	4,305
Income tax receivable		629	277	-	17
Cash and cash equivalents	24	55,486	89,162	44,954	77,630
		555,572	**572,061**	**440,894**	**458,012**
Total assets		**1,579,686**	**1,627,085**	**1,467,428**	**1,518,609**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	25	579,087	579,087	579,087	579,087
Reserves	26	108,126	102,161	107,613	101,037
Retained earnings*	27	288,837	235,286	274,109	236,103
Attributable to the equity holders of the parent		**976,050**	**916,534**	**960,809**	**916,227**
Non-controlling interests	28	40,487	35,207		
		1,016,537	**951,741**	**960,809**	**916,227**
Non-current liabilities					
Loans and borrowings	29	344,272	442,139	327,964	420,378
Provisions	30	7,763	6,617	6,828	5,624
Deferred tax liability	16	2,686	2,907	-	-
		354,721	**451,663**	**334,792**	**426,002**
Current liabilities					
Trade and other payables	31	107,104	107,659	83,006	85,496
Loans and borrowings	29	97,410	110,818	87,039	88,166
Income tax payable		753	302	-	-
Provisions	30	3,161	4,902	1,782	2,718
		208,428	**223,681**	**171,827**	**176,380**
		563,149	**675,344**	**506,619**	**602,382**
Total shareholders' equity and liabilities		**1,579,686**	**1,627,085**	**1,467,428**	**1,518,609**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

Group (in thousands of HRK)	Notes	Share capital	Other reserves	Retained earnings	Attributable to the equity holders of the parent	Non-controlling interests	Total
Balance at 1 January 2017		**410,087**	**152,401**	**257,511**	**819,999**	**44,757**	**864,756**
Profit for the year		-	-	47,870	47,870	6,732	54,602
Other comprehensive income		-	(857)	-	(857)	(507)	(1,364)
Total comprehensive income		**-**	**(857)**	**47,870**	**47,013**	**6,225**	**53,238**
Transactions with owners recognized directly in capital							
Transfer to other reserves	26	-	20,095	(20,095)	-	-	-
Increase of share capital	25	169,000	(69,000)	-	100,000	-	100,000
Dividend declared	27	-	-	(50,000)	(50,000)	(15,775)	(65,775)
Capital premium		-	(478)	-	(478)	-	(478)
Total Transactions with owners recognized directly in capital		169,000	(49,383)	(70,095)	49,522	(15,775)	33,747
Balance at 31 December 2017		**579,087**	**102,161**	**235,286**	**916,534**	**35,207**	**951,741**
Balance at 1 January 2018		**579,087**	**102,161**	**235,286**	**916,534**	**35,207**	**951,741**
Profit for the year		-	-	60,662	60,662	5,623	66,285
Other comprehensive income		-	(375)	-	(375)	(343)	(718)
Total comprehensive income		**-**	**(375)**	**60,662**	**60,287**	**5,280**	**65,567**
Transactions with owners recognized directly in capital							
Transfer to other reserves	26	-	7,111	(7,111)	-	-	-
Capital premium	26	-	(771)	-	(771)	-	(771)
Total Transactions with owners recognized directly in capital		-	6,340	(7,111)	(771)	-	(771)
Balance at 31 December 2018		**579,087**	**108,126**	**288,837**	**976,050**	**40,487**	**1,016,537**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

Company (in thousands of HRK)	Notes	Share capital	Other reserves	Retained earnings	Total
Balance at 1 January 2017		**410,087**	**150,342**	**241,799**	**802,228**
Profit for the year		-	-	64,399	64,399
Other comprehensive income		-	78	-	78
Total comprehensive income		-	78	64,399	64,477
Transactions with owners recognized directly in capital					
Transfer to other reserves	26	-	20,095	(20,095)	-
Dividend declared	27	-	-	(50,000)	(50,000)
Increase of share capital	25	169,000	(69,000)	-	100,000
Capital premium	26	-	(478)	-	(478)
Total Transactions with owners recognized directly in capital		169,000	(49,383)	(70,095)	49,522
Balance at 31 December 2017		**579,087**	**101,037**	**236,103**	**916,227**
Balance at 1 January 2018		**579,087**	**101,037**	**236,103**	**916,227**
Profit for the year		-	-	45,117	45,117
Other comprehensive income		-	236	-	236
Total comprehensive income		**-**	**236**	**45,117**	**45,353**
Transactions with owners recognized directly in capital					
Transfer to other reserves	26	-	7,111	(7,111)	-
Capital premium	26	-	(771)	-	(771)
Total Transactions with owners recognized directly in capital		**-**	**6,340**	**(7,111)**	**(771)**
Balance at 31 December 2018		**579,087**	**107,613**	**274,109**	**960,809**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of HRK)	*Group* 2018	2017	*Company* 2018	2017
Profit for the year	**66,285**	**54,602**	**45,117**	**64,399**
Depreciation of property, plant and equipment	45,902	35,981	39,545	29,751
Depreciation of intangible assets	9,775	12,059	7,620	8,027
Loss/(Gain)on sale of property, plant and equipment	658	1,795	714	1,746
Interest and other financial income	(3,263)	(4,227)	(5,125)	(36,371)
Interest expense and Other financial expenses	10,354	11,943	8,652	9,443
Foreign exchange difference	(7,230)	(3,318)	(6,010)	(1,840)
Tax expense	16,986	21,456	13,309	18,159
	139,467	**130,291**	**103,822**	**93,314**
Increase/ (Decrease)of provisions	(236)	(1,685)	556	(1,675)
Change in inventories	(36,158)	(3,075)	(30,017)	(3,111)
Change in trade and other receivables	19,280	65,264	18,395	66,921
Change in trade and other payables	912	(83,114)	(1,041)	(78,235)
Cash generated from Operations	**123,265**	**107,681**	**91,715**	**77,214**
Interest paid	(9,855)	(14,613)	(8,136)	(12,745)
Income tax paid	(3,535)	(1,076)	17	3,901
Net cash generated from Operations	**109,875**	**91,992**	**83,596**	**68,370**
Cash flow from investing activities				
Acquisition of property, plant and equipment	(26,517)	(63,652)	(25,073)	(61,883)
Proceeds from the sale of property, plant and equipment	796	637	401	528
Acquisition of intangible assets	(13,086)	(9,824)	(11,466)	(8,232)
Proceeds from sales of pharmacy rights	438	-	-	-
Proceeds from sale of financial assets	40,008	209,506	40,008	209,506
Acquisition of financial assets	(40,008)	(210,178)	(40,008)	(210,178)
Loans and deposits given	(28)	(45)	(53)	(28,641)
Naplata danih zajmova	26	25	4,299	2,882
Interest received	131	2,701	1,747	3,128
Dividend received	-	-	849	32,043
Incentives received	-	3,774	-	3,774
Net cash generated used in investing activities	**(38,240)**	**(67,056)**	**(29,296)**	**(57,073)**
Cash flow from financing activities				
Proceeds from borrowings	33,880	141,881	-	93,344
Repayment of borrowings	(139,191)	(108,999)	(86,976)	(47,886)
Dividends paid	-	(50,000)	-	(50,000)
Net cash generated from financing activities	**(105,311)**	**(17,118)**	**(86,976)**	**(4,542)**
Net increase in cash and cash equivalents	**(33,676)**	**7,818**	**(32,676)**	**6,755**
Cash and cash equivalents at beginning of the year	89,162	81,344	77,630	70,875
Cash and cash equivalents at end of the year	**55,486**	**89,162**	**44,954**	**77,630**

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

NOTE 1 – GENERAL INFORMATION

Belupo lijekovi i kozmetika d.d., Koprivnica ("the Company") is a joint stock company incorporated in Croatia. The principal activity of the Company and its subsidiaries ("the Group") is manufacture and distribution of drugs, pharmaceutical products, cosmetics, auxiliary medical preparations and other chemicals.

The Group is headquartered in Koprivnica, at the address Danica 5, Republic of Croatia.

Corporate governance and management

General Assembly

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

Supervisory Board

President	Marin Pucar
Vice President	Davor Doko
Member	Branka Perković
Member	Željko Dragec
Member	Petar Miladin

Management Board

President	Hrvoje Kolarić
Member	Ksenija Punčikar

NOTE 2 – BASIS OF PREPARATION

Statement of compliance

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

The financial statements were approved by the Managent Board on 15 April 2019.

Basis of measurement

The consolidated financial statements and unconsolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values.

These are the first financial statements of the Group that include the first application of IFRS 15 Revenues under Customer Contracts and IFRS 9 Financial Assets. Changes in accounting policies are explained in Note 4.2.

Functional and presentation currency

The Group maintains its accounting records in the Croatian language, in Croatian kuna and in accordance with Croatian law and the accounting principles and practices observed by enterprises in Croatia. The accounting records of the Croatian and foreign subsidiaries are maintained in accordance with regulations effective in those jurisdictions.

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

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 5.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Basis of consolidation

The consolidated financial statements incorporate the financial statements of Belupo d.d. ("the Company") and entities controlled by the Company (its subsidiaries) as at and for the year ended 31 December 2018 Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

Subsidiaries

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

Business combinations

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

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

Transactions eliminated on consolidation

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

Investments in subsidiaries

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

Investments in subsidiaries are recognized at cost and subsequently at cost less impairment losses. Testing of investments in subsidiaries for impairment is conducted on an annual basis.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts, returns, costs of listing and various promotional and marketing activities that form an integral part of purchase contracts.

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

Revenue from products and trade goods – wholesale

Group manufactures and sells its own products and trade goods (where the Group acts as a distributor) in the wholesale market. Sales of goods are recognised when Group has delivered the products to the wholesaler, the wholesaler has full control over the goods, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

Delivery does not occur until the products have been shipped to the specified location, the control has been transferred to the wholesaler and either of the following has occurred: the wholesaler has accepted the products in accordance with the contract, the acceptance provisions have lapsed or Group has objective evidence that all criteria for acceptance has been satisfied. The most common parities are CIP, where control passes to the customer at the time of delivery of the goods and the receipt of the delivery note when the goods are delivered and EXW, where the Group places the goods at the disposal of the customer at their premises or in another designated place and then the cost and risk are transferred to the customer.

Products are sold with discounts and customers with whom is contracted have a right to return faulty products in the wholesale market. Sales are recorded based on the price specific in the sales contracts, net of estimated discounts at the time of sale. The discounts are assessed based on anticipated annual purchases. The sale does not have elements of financing.

Revenue from products and goods – retail

Sales of goods sold in retail stores are recognised when the Group sells a product to the customer. Retail sales are usually in cash or by credit card or by collection from HZZO. The recorded revenue includes credit card fees payable for the transaction. The Group does not operate any customer loyalty programmes.

Revenue from services

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

Finance income

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. Leases

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

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

3.4. Foreign currencies

Transactions and balances in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and items that are measured based on historical cost in a foreign currency are not translated using new exchange rates.
Non-monetary assets and liabilities that are measured based on a histroical cost in a foreign currency are translated using the exchange rate at the date of transaction.
As at 31 December 2018 the official exchange rate for EUR 1 and USD 1 was HRK 7.417575 and HRK 6.469192 respectively (31 December 2017: HRK 7.513648 and HRK 6.269733, respectively).

(i) Companies within the Group

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Croatian kuna ("HRK"), which is also the Company's functional currency.

Income and expense items and cash flows of foreign operations that have a functional currency different from the presentation currency are translated into the Company's presentation currency at rates approximating the foreign exchange rates ruling at the dates of transactions (average exchange rates for the month) and their assets and liabilities are translated at the exchange rates ruling at the year end.

All resulting exchange differences are recognised in a separate component of equity.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. Borrowing costs

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

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

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

All other borrowing costs are charged to the statement of income in the period incurred.

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

3.6. Share-based payments

Share-based payments refer to equity instruments of the owner, Podravka d.d., provided by the Group to its employees. The Group accounts for the transaction with its employees as cash-settled, irrespective of how the subsidiary obtains the equity instruments to satisfy its obligations to its employees.
For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in the statement of comprehensive income for the period.

3.7. Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Dividends

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

3.9. Taxation

(i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax assets and liabilities

Deferred tax is recognised using the balance sheet liability method, and to account for temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of an asset or liability in a transaction other than a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled companies it is probable that the situation will not change in the near future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws in effect at the reporting date.
Deferred tax assets are recognized for unused tax losses, unused tax credits and temporary tax differences in the extent that it is probable that future taxable profits will be available to neutralize them. Deferred tax assets are reduced to the extent that it is no longer likely to be available as tax relief.
Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax liabilities and assets, and if they relate to taxes that accounted for the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities are realized simultaneously.

(iii) Tax exposure

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

(iv) Value added tax (VAT)

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Property, plant and equipment

Property, plant and equipment is included in the statement of financial position at historical cost less accumulated depreciation and provision for impairment, where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

Buildings	10 to 50 years
Equipment	2 to 40 years

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

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

Gains and losses on disposals are determined by comparing the proceeds with carrying amount, and are recognised within line item 'other gains – net in the statement of comprehensive income.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Intangible assets

Distribution rights, registration files and registration

Distribution rights, rights of registration files use and registration have a finite useful life and are carried at cost less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method to allocate the cost of distribution rights, rights to use registration files and registrations over their estimated useful lives.

Pharma rights

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

Software and licences

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

Computer software and licences	2 to 10 years
Rights of registration files use, distribution rights and registration	5 to 15 years
Development costs	10 years

Internally-generated intangible assets - research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Intangible assets (continued)

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

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

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

3.12. Impairment of property, plant and equipment and intangible assets

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease in accordance with the relevant Standard containing requirements for revaluation of the underlying asset(s).

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately as income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase in accordance with the relevant Standard containing requirements for revaluation of the underlying asset(s).

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. Inventories

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

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

Trade goods are carried at the weighted average price less applicable taxes and margins.

Low valued inventory and tools are expensed when put into use.

3.14. Cash and cash equivalents

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

3.15. Share capital

Share capital consists of ordinary shares.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16. Employee benefits

(i) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Group makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred In addition, the Group is not obliged to provide any other post-employment benefits.

(ii) Termination benefits

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

(iii) Regular retirement benefits

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

(iv) Long- term employee benefits

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

(v) Short- term employee benefits

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

(vi) Share-based compensation

The Group operates a cash-settled share-based compensation plan for shares of the owner, Podravka d.d. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest (become exercisable). At each reporting date, the estimates of the number of options that are expected to become exercisable are revised as well as the estimation of the fair value of the liability since these are cash-settled share based payments. The impact of the revision to original estimates, if any, is recognised in the statement of comprehensive income over the remaining vesting period, with a corresponding adjustment to liabilities.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17. Provisions

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

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

3.18. Financial instruments

A. Financial assets

Policy applicable from 1 January 2018

(i) Recognition and initial measurement

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

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

(ii) Classification and subsequent measurement

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

- amortised cost;
- FVOCI (fair value through other comprehensive income) – debt investment;
- FVOCI – equity investment; or
- FVOCI (fair value through other comprehensive income) – debt investment).

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Financial instruments (continued)

A. Financial assets (continued)

Policy applicable from 1 January 2018 (continued)

(ii) Classification and subsequent measurement (continued)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably select to present subsequent changes in the investment's fair value through other comprehensive income. This selection is made on an investment-by-investment basis.

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

Business model assessment

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

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

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

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Financial instruments (continued)

A. Financial assets (continued)

<u>Policy applicable from 1 January 2018 (continued)</u>

(ii) Classification and subsequent measurement (continued)

Subsequent measurement and recognition of gains and losses

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

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

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Group enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Financial instruments (continued)

A. Financial assets (continued)

Policy applicable from 1 January 2018

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Financial instruments (continued)

B. Financial liabilities

(i) Recognition and initial measurement

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

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

(ii) Classification and subsequent measurement

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

(iii) Derecognition

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

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

C. Offsetting

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

D. Derivative financial instruments

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Financial instruments (continued)

E. Impairment of non-derivative financial assets

Policy applicable from 1 January 2018

Recognition of impairment losses

The Group recognises loss allowances for expected credit loss (ECL) on:

- financial assets measured at amortised cost;
- debt investments measured at fair value through other comprehensive income; and
- contract assets.

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

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

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

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

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

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

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

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

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

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

Measurement of ECLs

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Financial instruments (continued)

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

<u>Policy applicable from 1 January 2018 (continued)</u>

Credit-impaired financial assets

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

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

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

Presentation of allowance for expected credit loss in the statement of financial position

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

Write-off of financial assets

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

<u>Policy applicable before 1 January 2018</u>

Non-derivative financial assets

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Financial instruments (continued)

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

Policy applicable before 1 January 2018

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

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

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED ("IFRS")

4.1 Issued and not yet adopted standards and interpretations

Certain standards, amendments and interpretations of existing standards are issued that are applicable but not mandatory for the period ending 31 December 2018 and/or have not been adopted by the European Union and as such have not been applied in the preparation of these financial statements. These standards are not expected to have any significant impact on the financial statements of the Group and the Company. An overview follows:

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.
The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply *IFRS 15 Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.
The Group estimated that by applying IFRS 16 as at 1 January 2019 it will recognise new assets and liabilities under operating leases for vehicles, property and equipment in the amount of HRK 20,871 thousand (for the company in the amount of 12,260 thousand) applying the retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as matching the initial balance of retained earnings as at 1 January 2019 without adjusting comparative information.

4.2 Adoption of new standards – changes in significant accounting policies

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

IFRS 15 Revenue from Contracts with Customers

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

The Group has adopted IFRS 15 using the cumulative effect method, with the beginning of the application of the standard as at 1 January 2018. Accordingly, the information presented for 2017 has not been restated, i.e. it is presented as described previously, in accordance with IAS 18 and IFRS 8 and the related interpretations.

Given the nature of the Group's business and the level of disclosure in the previous financial statements, management believes that upon the introduction of a new standard the accounting policy for revenue recognition has not changed significantly and no additional significant disclosures are necessary.

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

For additional information on the Group's accounting policies related to revenue recognition, see note 3.2.

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED ("IFRS") (continued)

4.2 Adoption of new standards – changes in significant accounting policies (continued)

IFRS 9 Financial instruments

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

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

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

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

Additional information about how the Group measures impairment is described in notes 3.18 and 22.

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

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

In line with the new standard, in 2018 the Group recognised the expected credit losses (expected uncollected trade receivables) in the amount of HRK 779 thousand (Company in the amount of HRK 31 thousand).

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

			GRUPA		Društvo	
(in thousands of HRK)	**Original classification according to IAS 39**	**New classification according to IFRS 9**	**Original carrying amount according to IAS 39**	**New carrying amount according to IFRS 9**	**Original carrying amount according to IAS 39**	**New carrying amount according to IFRS 9**
Financial assets						
Trade and other receivables	Loans and receivables	Amortized cost	292,298	291,519	230,685	230,654
Cash and cash equivalents	Loans and receivables	Amortized cost	89,162	89,162	77,630	77,630
Other financial assets	Loans and receivables	Amortized cost	125	125	42,276	42,276
Total financial assets			**381,585**	**380,806**	**350,591**	**350,560**
Financial liabilities						
Loans	Other financial liabilities	Other financial liabilities	551,641	551,641	508,544	508,544
Trade and other payables	Other financial liabilities	Ostale financijske obveze	99,370	99,370	78,008	78,008
Liabilities for financial leasing	Other financial liabilities	Ostale financijske obveze	1,316	1,316	-	-
Total financial liabilities			**652,327**	**652,327**	**586,552**	**586,552**

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements in applying accounting policies

The preparation of financial statements in accordinance with IFRS required to make judgements, estimates and assumptions about the carrying amounts of assets, liabilities, revenues and costs. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(i) Recognition of deferred tax assets

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances.

(ii) Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

During 2018, based on a review of the useful life of long-term assets, the Management Board has estimated that a particular long-term asset - property, plant and equipment increases or decreases its useful life. The total effect of the change of useful life on the accrued depreciation in 2017 is HRK 120 thousand positive on the result.

(iii) Actuarial Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty.

(iv) Impairment test for investments in subsidiaries and pharma rights

The Group and Company tests rights for impairment on an annual basis in accordance with accounting policy. For the purposes of impairment testing rights with indefinite useful lives have been allocated to cash generating units within reportable segments at their carrying amount at the reporting date as follows:

	Pharma rights (in HRK thousand)
Total	36,025

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

The key assumptions underlying the projections of future cash flows:

- revenue average growth rate in the period from 2019-2023 of 2.0%
- savings and optimize consumption, reduce the cost of central services
- improve the conditions of purchase with suppliers

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(iv) Impairment test for investments in subsidiaries and pharma rights(continued)

In cash flows beyond the five year period have been extrapolated with a terminal growth rate of 2% while the net present value of future cash flows was calculated using discount rates based on the weighted average cost of capital of 8.64% after tax (for assets which generate the majority of revenue on the Croatian market).

In 2018, the Group had no costs for impairment of the value of intangible assets – pharma rights.

(In 2017. the Group had no costs for impairment of the value of intangible assets – pharma rights)

In 2018, the Company had no costs for impairment of the value of intangible assets - pharma rights.

(In 2017. the Company had no costs for impairment of the value of intangible assets - pharma rights).

(v) Impairment of trade receivables

The Group regulary checks the collectability of each of the receivable separately and if there are indicators that the receivable is not collectable, the Group records impairment allowance no matter of the past due period.

NOTE 6 – DETERMINATION OF FAIR VALUES

The Company has a system of controls in the context of a fair value measurement, which includes the overall responsibility of the Management Board and Finance functions related to the monitoring of all significant fair value measurement, consultation with outside experts and, in the context of the above, reporting on the same bodies in charge of corporate management.

The fair values are measured in relation to the information collected from third parties, in which case Management Board and Finance function assessed the extent to which evidence gathered from third parties provided that the above estimates of fair value meet the requirements of IFRSs, including the level of the fair value hierarchy in which to these estimates should be classified.

All significant issues related to the assessment of fair value reporting to the Supervisory and Audit Committee.

The fair values are categorized into different levels in the fair value hierarchy based on the input variables used in the valuation techniques as follows:

• Level 1 - quoted prices (unadjusted) in active markets for identical assets or commitments.

• Level 2 - inputs that are not quoted prices included within Level 1 that are the input variables for assets or liabilities that are visible either directly (eg., as prices) or indirectly (eg, derived from prices)

• Level 3 - inputs for the asset or liability that are not based on observable market data (input variables that are not visible).

NOTE 6 – DETERMINATION OF FAIR VALUES (continued)

The Company has made the following significant estimates of fair value in the context of preparing the financial statements, which are further explained in the notes:

(i) Share- based payments

The fair value of the employee share purchase plan is measured using Black-Scholes model. Measurment inputs include the share price on the measurment date, expected volatility (based on an evaluation of the histroical volatility of the parent company's share price, particulary over the histroical period commensurate with the expected term) expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non- market performance conditions attached to the transaction are not takne into account in determining fair value.

(ii) Trade and other receivables

The fair values of trade receivables and otehr receivables are setimated at the present value of future cash flows, discounted at the market rate of interest at the measurmetn date. Short-term receivables with no stated interest rate are mesured at the orginal inovice amount if effect of dicounting is immaterial. Fair value is determned at inital recognition and, for disclosure purposes, at each annual reporting date.

(iii) Non- derivative financial liabilities

Fair value, at intial recognition and for diclosure purposes, is calculated based on the present value of future principal and intereswt cash flows, discounted at the market rate of interest at the measurment date.

NOTE 7 – REVENUE

	Group 2018	Group 2017	Company 2018	Company 2017
	(in thousands of HRK)		*(in thousands of HRK)*	
Revenue from sales of products - domestic	380,271	382,062	331,612	333,205
Revenue from sales of products abroad	506,626	477,043	319,603	305,595
Revenue from sales of services - domestic	8,430	7,450	2,324	2,231
Revenue from sales of services abroad	3,448	2,748	750	795
	898,775	**869,303**	**654,289**	**641,826**

NITE 7a – SALES REVENUE BY TERRITORIAL REGION

	Group 2018	Group 2017	Company 2018	Company 2017
	(in thousands of HRK)		*(in thousands of HRK)*	
Adria region	637,490	625,154	404,190	405,986
Western Europe and Overseas region	1,675	2,420	1,675	2,420
Central Europe region	57,112	51,454	45,926	43,145
Eastern Europe region	189,301	178,169	189,301	178,169
New markets region	13,197	12,106	13,197	12,106
	898,775	**869,303**	**654,289**	**641,826**

The Adria region covers the territory of Albania, Bosnia and Herzegovina, Montenegro, Croatia, Kosovo, Macedonia, Slovenia and Serbia. The region of Western Europe and Overseas Countries includes the area of Denmark, Italy, Germany and Switzerland. The Central Europe region covers Bulgaria, the Czech Republic, Poland and Slovakia. The Eastern Europe region includes Kazakhstan, the Russian Federation and the Ukraine, while the New Markets region includes the markets of Botswana, Iraq, Libya and Turkey.

BILJEŠKA 7b – REVENUES FROM SALES BY SEGMENTS

	Group 2018	Group 2017	Company 2018	Company 2017
	(in thousands of HRK)		*(in thousands of HRK)*	
Ethical drugs	638,703	627,793	550,744	542,848
Non-prescription drugs and medicinal products	103,537	98,250	95,671	93,150
Enteral nutrition	4,881	2,833	4,786	2,801
Services	11,878	10,198	3,074	3,026
Trade goods	139,759	130,227	-	-
Other	17	2	14	1
	898,775	**869,303**	**654,289**	**641,826**

NOTE 8 – OTHER INCOME

	Group 2018	Group 2017	Company 2018	Company 2017
	(in thousands of HRK)		*(in thousands of HRK)*	
Income from liabilities write off	300	4	-	-
Gain / (loss) on sale of property, plant and equipment - net	-	-	67	-
Government grants	292	230	292	230
Other income	1,261	269	511	269
	1,853	**503**	**870**	**499**

NOTE 9a – COST OF GOODS SOLD

	Group		Company	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Material and and cost of goods sold	309,543	291,384	180,771	177,795
Staff costs	69,294	64,750	64,130	60,505
Depreciation and amortisation	25,169	18,900	22,774	16,508
Energy	15,490	8,089	14,458	7,242
Other	11,348	16,041	5,103	9,501
	430,844	**399,164**	**287,236**	**271,551**

NOTE 9b – GENERAL AND ADMINISTRATIVE EXPENSES

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Staff costs	63,561	68,523	52,888	57,281
Services	23,478	20,343	18,571	16,214
Depreciation and amortisation	8,933	8,786	6,922	7,099
Other	16,219	18,252	12,664	14,380
Total	**112,191**	**115,904**	**91,045**	**94,974**
Non-production cost of the new factory	**20,254**	**25,376**	**20,254**	**25,376**

Within the general and administrative costs of the Group in 2018, HRK 39,942 thousand was recognized as research and development expenses (2017: HRK 41,527 thousand).

Within the general and administrative costs of the Company in 2018, HRK 39,942 thousand was recognized as research and development expenses (2017: HRK 38,233 thousand).

In 2017, Belupo's new production factory, the largest greenfield investment in the company's history was completed, with manufacturing regulatory requirements fulfilled at the end of 2018. Within cost of production in 2018 there is HRK 20,254 thousand (2017: 25,376 thousand) which relates to fixed costs of the new factory which do not relate to products sold and are related to obtaining the regulatory permits required for products to be on the market.

NOTE 9c - SELLING AND DISTRIBUTION EXPENSES

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Includes:				
Staff costs	34,944	33,993	18,208	18,206
Depreciation and amortisation	4,756	6,923	1,724	1,738
Provision for trade receivables, net	833	(6,603)	(474)	(7,560)
Energy	2,662	2,096	1,879	1,412

NOTE 9d – MARKETING EXPENSES

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Includes:				
Staff costs	62,387	63,216	55,013	56,867
Depreciation and amortisation	5,960	6,054	4,886	5,056
Raw materials and supplies and spare parts	3,930	4,011	3,213	3,431

NOTE 10 – EXPENSES BY NATURE

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Raw materials and supplies and cost of goods sold	353,600	336,210	218,408	205,519
Staff costs	232,289	235,588	192,342	197,965
Advertising and promotion	55,736	57,225	45,015	48,388
Depreciation and amortisation	55,677	48,040	47,165	37,778
Services	47,786	41,406	39,458	34,080
Entertainment	21,548	20,430	16,914	16,238
Rental costs	8,911	8,650	6,274	6,267
Transport	9,512	9,194	9,169	8,901
Telecommunication	2,165	2,316	1,526	1,736
Other taxes and contributions	4,082	4,407	3,444	3,883
Provisions for trade receivables, net	834	1,034	(474)	77
Insurance premiums	3,232	3,349	2,850	2,889
Per diems and travelling expenses	7,253	6,305	5,040	4,866
Other expenses	(721)	3,812	(1,637)	10,085
	801,904	**777,966**	**585,494**	**578,672**

NOTE 11 – OTHER EXPENSES

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Interest expense on trade payables	2	4	2	4
Impairment loss on investments in subsidiaries	-	58	-	-
Loss on disposal of property, plant, equipment	656	1,735	780	1,746
Foreign exchange gains on receivables and payables	12,943	7,287	12,935	7,127
	13,601	**9,084**	**13,717**	**8,877**

NOTE 12 – STAFF COSTS

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Salaries	222,564	216,959	184,806	182,549
Transportation	2,784	2,808	2,368	2,386
Unused vacation and jubilee awards	924	872	911	673
Termination benefits	884	8,534	884	8,355
Other	5,133	6,415	3,373	4,002
	232,289	**235,588**	**192,342**	**197,965**

NOTE 12 – STAFF COSTS (continued)

As at 31 December 2018, the number of staff employed by the Group was 1,465 (2017: 1,408 employees).

In 2018, the Group accrued and paid HRK 876 thousand of incentive severance payments for 6 employees (2017: 8,355 thousand for 52 employees), and HRK 8 thousand of regular severance payments was accrued and paid for 1 employee (2017: 179 thousand for 1 employee).

As at 31 December 2018, the number of staff employed by the Company was 1,210, of which 235 were employed in representative offices (2017: 1,169 employees, of which 237 were employed in representative offices).

In 2018, the Company accrued and paid HRK 876 thousand of incentive severance payments for 6 employees (2017: HRK 8,355 thousand for 52 employees), and HRK 8 thousand of regular severance payments was accrued and paid for 1 employee.

NOTE 13 – FINANCE INCOME

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Interest on related party loans	-	-	1,763	502
Interest on deposits, receivables and other finance income	132	355	132	354
Guarantee fee	2,381	2,958	2,381	2,958
Dividends	-	-	849	32,043
Exchange rate differences on loans and financial assets	5,989	1,260	6,005	1,096
	8,502	**4,573**	**11,130**	**36,953**

NOTE 14 – FINANCE COSTS

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Interest expense on borrowings and finance lease	9,387	9,862	7,808	7,945
Other financial expenses	967	1,408	844	1,226
	10,354	**11,270**	**8,652**	**9,171**

In 2018, the Group and the Company did not have any investments that would capitalize interest costs on objects and equipment (2017: HRK 3,044 thousand; estimated capitalization rate of 2,20%).

Other financing costs relate to the costs of allocated options in the employee stock ownership program in the capital increase of the parent company by a public offering of new ordinary shares (for details, see Note 26), and the cost of bank charges and fees for guarantees on received loans.

NOTE 15 – INCOME TAX EXPENSE

Income tax expense comprises the following :

	Group		Company	
	2018	2017	2018	2017
	(in thousands of HRK)		(in thousands of HRK)	
Current tax	3,635	3,540	-	-
Deferred tax	13,351	17,916	13,309	18,159
Tax expense	**16,986**	**21,456**	**13,309**	**18,159**

	Group		Company	
	2018	2017	2018	2017
	(in thousands of HRK)		(in thousands of HRK)	
Profit before taxation	83,271	76,058	58,426	82,558
Income tax 18%	14,989	13,690	10,517	14,860
Effects of non-deductible expenses	3,723	4,421	3,018	3,533
Tax incentive adjustment for capital investment	-	5,613	-	5,613
Effects of non-taxable income and other incentives	(347)	(532)	(233)	(5,847)
Effect of different tax rates	(1,379)	(1,736)	-	-
Tax from previous years	-	-	7	-
Tax expense	**16,986**	**21,456**	**13,309**	**18,159**
Effective tax rate	*20%*	*28%*	*23%*	*22%*

NOTE 16 – DEFERRED TAX ASSETS AND LIABILITIES

Tax incentives for capital investment

Tax breaks for investment are considered incentives resulting from government incentives that the Company and the Group provide tax relief income tax or other taxes specified in future periods, and are linked to the construction or acquisition of certain assets and / or implementation of certain activities and / or satisfaction certain specific conditions stipulated by relevant regulations for investment incentives by the competent authorities. Tax incentives for investments are initially recognized as deferred tax assets and income tax in the amount lower than the maximum authorized height exemptions and deductions for the amount that it is estimated that it will be able to achieve the Group during the term of the incentive measures. Deferred tax assets recognized as a result of tax credits for investments reversed during the period of the incentive measures, that is, until the expiration of benefits (if the same specified) subject to the availability of tax obligations in the coming years as a result of the use of incentives may reduce.

Based on the Act to the encouraging investment and improving the investment environment, in March 2015, the Company obtained the status of the incentive measure. By confirming the Ministry of Economy, the Company approved the use of tax incentives in support of the eligible costs of new employment linked to investment projects and incentives for capital investment costs of the project within the permitted amount of tax relief for investments of 163,717 thousand HRK for which the Company will have the ability to reduce future tax obligations arising from income tax and / or receiving cash amount as a stimulus for employment in the framework of the investment project. The Company stated tax relief for investments has the right to use in the next 10 years from the date of approval by the relevant authorities. For investments in the amount of HRK equivalent of over 3 million EUR, the recipient of incentive measures tax liability is reduced as a whole, provided that a minimum of 15 new jobs linked to the investment. The investments are subject to the supervision of the competent institutions and the Company may not reduce the number of new jobs (related to the conditions of incentives) in addition to other conditions, in the period of using the incentive measures, with a minimum period of 5 years.

NOTE 16 – DEFERRED TAX ASSETS AND LIABILITIES (continued)

If the terms of the tax incentives do not realize, the Company will, for the entire period for which it has approved funds, have an obligation to return the funds obtained from the use of the tax advantage increased by statutory interest on arrears. Internal projections of the Company for the next period indicate the realization of taxable profits and satisfaction of the criteria for the realization of support for the eligible costs of new employments associated with the investment in accordance with the decision of the Ministry of Economy. The projections indicate that future taxable profit will be sufficient for the use of tax incentives in its entirety.
Based on the assessment tax credits utilization by the Board, in the financial statements for 2015, the Company and the Group have initially recognized the entire amount of the approved tax relief as deferred tax assets and tax credit. In 2018, tax relief was used in the value of calculated current income tax in the amount of HRK 14,926 thousand (in 2017, in the value of calculated current income tax in the amount of HRK 12,383 thousand and in the amount of HRK 5,613 thousand as subsidies received for 2014 and 2017). In the following years deferred tax assets related to tax relief in the amount of 100,984 thousand HRK will be used in accordance with the availability of the tax liability that the Company will be able to reduce on the basis of incentives and / or the extent to which the Company will receive cash incentives for employment within investment project.

Deferred tax assets-Group

2018	Opening balance	Recognized in statement of comprehensive income	Recognised in equity	Translation reserves	Closing balance
Trade and other payables	3,622	439	(60)	(2)	3,999
Inventories	2,648	939	-	(1)	3,586
Intangible assets	4,147	-	-	-	4,147
Trade and other receivables	472	215	-	(6)	681
Unutilised tax losses carried forward	239	(239)	-	-	-
Tax incentives for capital investment	115,910	(14,926)	-	-	100,984
	127,038	**(13,572)**	**(60)**	**(9)**	**113,397**

2017	Opening balance	Recognized in statement of comprehensive income	Recognised in equity	Translation reserves	Closing balance
Trade and other payables	3,969	(332)	(13)	(2)	3,622
Inventories	2,623	25	-	-	2,648
Intangible assets	4,147	-	-	-	4,147
Trade and other receivables	224	250	-	(2)	472
Unutilised tax losses carried forward	527	(288)	-	-	239
Tax incentives for capital investment	133,906	(17,996)	-	-	115,910
	145,396	**(18,341)**	**(13)**	**(4)**	**127,038**

NOTE 16 – DEFERRED TAX ASSETS AND LIABILITIES (continued)

Deferred tax liability-Group

2018	**Opening balance**	**Recognized in statement of comprehensive income**	**Closing balance**
Intangible assets	479	(479)	-
Property, plant and equipment	2,428	258	2,686
	2,907	**(221)**	**2,686**

2017	**Opening balance**	**Recognized in statement of comprehensive income**	**Closing balance**
Intangible assets	597	(118)	479
Property, plant and equipment	2,735	(307)	2,428
	3,332	**(425)**	**2,907**

Deferred tax assets-Company

2018	**Opening balance**	**Recognized in statement of comprehensive income**	**Recognised in equity**	**Closing balance**
Trade and other payables	2,504	(401)	(52)	2,051
Inventories	2,667	2,005	-	4,672
Investment in subsidiaries	9,675	-	-	9,675
Trade and other receivables	22	13	-	35
Tax incentives for capital investment	115,910	(14,926)	-	100,984
	130,778	**(13,309)**	**(52)**	**117,417**

2017	**Opening balance**	**Recognized in statement of comprehensive income**	**Recognised in equity**	**Closing balance**
Trade and other payables	3,380	(858)	(18)	2,504
Inventories	1,957	710	-	2,667
Investments in subsidiaries	9,675	-	-	9,675
Trade and other receivables	37	(15)	-	22
Tax incentives for capital investment	133,906	(17,996)	-	115,910
	148,955	**(18,159)**	**(18)**	**130,778**

NOTE 17 –INTANGIBLE ASSETS

GROUP

(in thousands of HRK)	Software and licences	Distribution rights, right of registration file use and registration	Pharma rights	Development costs	Assets under construction	Total
Cost						
At 1 January 2017	**24,546**	**122,029**	**59,065**	**15,680**	**18,261**	**239,581**
Effects of movements in exchange rates	(8)	(51)	-	-	(2)	(61)
Additions	-	-	-	-	9,824	9,824
Transfers	398	2,183	-	2,027	(4,608)	-
Disposals and write offs	-	(1,538)	-	-	(1,943)	(3,481)
At 31 December 2017	**24,936**	**122,623**	**59,065**	**17,707**	**21,532**	**245,863**
Accumulated amortisation						
At 1 January 2017	**(20,316)**	**(92,878)**	**(23,040)**	**(7,073)**	**-**	**(143,307)**
Effects of movements in exchange rates	4	18	-	-	-	22
Charge for the year	(1,273)	(9,172)	-	(1,614)	-	(12,059)
Disposals and write offs	-	1,316	-	-	-	1,316
At 31 December 2017	**(21,585)**	**(100,716)**	**(23,040)**	**(8,687)**	**-**	**(154,028)**
Carrying amount at 31 December 2017	**3,351**	**21,907**	**36,025**	**9,020**	**21,532**	**91,835**
Cost						
At 1 January 2018	**24,936**	**122,623**	**59,065**	**17,707**	**21,532**	**245,863**
Effects of movements in exchange rates	(20)	(125)	-	-	(7)	(152)
Additions	-	-	-	-	13,086	13,086
Transfers	667	4,483	-	1,947	(7,097)	-
Disposals and write offs	(780)	(323)	-	-	(868)	(1,971)
At 31 December 2018	**24,803**	**126,658**	**59,065**	**19,654**	**26,646**	**256,826**
Accumulated amortisation						
At 1 January 2018	**(21,585)**	**(100,716)**	**(23,040)**	**(8,687)**	**-**	**(154,028)**
Effects of movements in exchange rates	14	58	-	-	-	72
Charge for the year	(1,157)	(6,847)	-	(1,771)	-	(9,775)
Disposals and write offs	772	297	-	-	-	1,069
At 31 December 2018	**(21,956)**	**(107,208)**	**(23,040)**	**(10,458)**	**-**	**(162,662)**
Carrying amount at 31 December 2018	**2,847**	**19,450**	**36,025**	**9,196**	**26,646**	**94,164**

Intangible assets under construction relates to the capitalized costs of drug development and acquired registration dossiers for which the approval of the Agency for Health Care is in progress.

NOTE 17 –INTANGIBLE ASSETS (continued)

Company

(in thousands of HRK)	Software and licences	Rights of registration file use and registration	Development costs	Assets under construction	Total
Cost					
At 1 January 2017	**21,706**	**67,412**	**15,680**	**17,786**	**122,584**
Additions	-	-	-	8,232	**8,232**
Transfers	276	874	2,027	(3,177)	-
Disposals and write offs	-	(1,538)	-	(1,943)	**(3,481)**
At 31 December 2017	**21,982**	**66,748**	**17,707**	**20,898**	**127,335**
Accumulated amortisation					
At 1 January 2017	**(18,341)**	**(47,009)**	**(7,073)**	**-**	**(72,423)**
Charge for the year	(1,027)	(5,386)	(1,614)	-	**(8,027)**
Disposals and write offs	-	1,316	-	-	**1,316**
At 31 December 2017	**(19,368)**	**(51,079)**	**(8,687)**	**-**	**(79,134)**
Carrying amount at 31 December 2017	**2,614**	**15,669**	**9,020**	**20,898**	**48,201**
Cost					
At 1 January 2018	**21,982**	**66,748**	**17,707**	**20,898**	**127,335**
Additions	-	-	-	11,466	**11,466**
Transfers	542	3,108	1,947	(5,597)	-
Disposals and write offs	(741)	(323)	-	(811)	**(1,875)**
At 31 December 2018	**21,783**	**69,533**	**19,654**	**25,956**	**136,926**
Accumulated amortisation					
At 1 January 2018	**(19,368)**	**(51,079)**	**(8,687)**	**-**	**(79,134)**
Charge for the year	(964)	(4,885)	(1,771)	-	**(7,620)**
Disposals and write offs	741	297	-	-	**1,038**
At 31 December 2018	**(19,591)**	**(55,667)**	**(10,458)**	**-**	**(85,716)**
Carrying amount at 31 December 2018	**2,192**	**13,866**	**9,196**	**25,956**	**51,210**

Intangible assets under construction relates to the capitalized costs of drug development and acquired registration dossiers for which the approval of the Agency for Health Care is in progress.

NOTE 18 – PROPERTY, PLANT AND EQUIPMENT

GROUP

(in thousands of HRK)	Land and buildings	Equipment	Assets under construction	Total
Cost				
At 1 January 2017	**463,504**	**541,007**	**511,905**	**1,516,416**
Effects of movements in exchange rates	(371)	(197)	(5)	(573)
Additions	-	42	64,166	64,208
Transfers	182,174	357,575	(539,749)	-
Disposals and write offs	-	(4,741)	(2)	(4,743)
At 31 December 2017	**645,307**	**893,686**	**36,315**	**1,575,308**
Accumulated amortisation				
At 1 January 2017	**(278,018)**	**(430,133)**	**-**	**(708,151)**
Effects of movements in exchange rates	61	88	-	149
Charge for the year	(12,224)	(23,757)	-	(35,981)
Disposals and write offs	-	4,534	-	4,534
At 31 December 2017	**(290,181)**	**(449,268)**	**-**	**(739,449)**
Carrying amount at 31 December 2017	**355,126**	**444,418**	**36,315**	**835,859**
Cost				
At 1 January 2018	**645,307**	**893,686**	**36,315**	**1,575,308**
Effects of movements in exchange rates	(805)	(458)	(6)	(1,269)
Additions	-	10	27,675	27,685
Transfers	963	42,852	(43,815)	-
Disposals and write offs	-	(4,380)	(5)	(4,385)
At 31 December 2018	**645,465**	**931,710**	**20,164**	**1,597,339**
Accumulated amortisation				
At 1 January 2018	**(290,181)**	**(449,268)**	**-**	**(739,449)**
Effects of movements in exchange rates	182	273	-	455
Charge for the year	(14,348)	(31,554)	-	(45,902)
Disposals and write offs	-	3,833	-	3,833
At 31 December 2018	**(304,347)**	**(476,716)**	**-**	**(781,063)**
Carrying amount at 31 December 2018	**341,118**	**454,994**	**20,164**	**816,276**

Land and buildings of the Group in the amount of 428,883 thousand HRK (2017.: 431,118 thousand HRK) have been pledged as collateral for loan liabilities of Belupo Group and as a guarantee for the loan liabilities of the parent company Podravka d.d.

As at 31 December 2018, the assets under construction mainly relate to equipment for serialization required to meet the regulatory requirements prescribed by the Delegated Regulation of the European Commission 2016/161. (31 December 2017: investment in new production capacities).

Of the total increase in property, plant and equipment in the amount of HRK 27,685 thousand, 1,342 thousand relates to equipment acquired through a financial lease agreement.

NOTE 18 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company

(in thousands of HRK)	Land and buildings	Equipment	Assets under construction	Total
Cost				
At 1 January 2017	**360,595**	**504,355**	**511,154**	**1,376,104**
Additions	-	8	61,875	61,883
Transfers	182,174	355,177	(537,351)	-
Disposals and write offs	-	(4,004)	(2)	(4,006)
At 31 December 2017	**542,769**	**855,536**	**35,676**	**1,433,981**
Accumulated amortisation				
At 1 January 2017	**(255,205)**	**(408,939)**	**-**	**(664,144)**
Charge for the year	(9,223)	(20,528)	-	(29,751)
Disposals and write offs	-	3,897	-	3,897
At 31 December 2017	**(264,428)**	**(425,570)**	**-**	**(689,998)**
Carrying amount at 31 December 2017	**278,341**	**429,966**	**35,676**	**743,983**
Cost				
At 1 January 2018	**542,769**	**855,536**	**35,676**	**1,433,981**
Additions	-	-	25,073	25,073
Transfers	538	40,758	(41,296)	-
Disposals and write offs	-	(3,094)	(5)	(3,099)
At 31 December 2018	**543,307**	**893,200**	**19,448**	**1,455,955**
Accumulated amortisation				
At 1 January 2018	**(264,428)**	**(425,570)**	**-**	**(689,998)**
Charge for the year	(11,353)	(28,192)	-	(39,545)
Disposals and write offs	-	2,821	-	2,821
At 31 December 2018	**(275,781)**	**(450,941)**	**-**	**(726,722)**
Carrying amount at 31 December 2018	**267,526**	**442,259**	**19,448**	**729,233**

As of 31 December 2018, the assets under construction mainly relate to equipment for serialization required to meet the regulatory requirements prescribed by the Delegated Regulation of the European Commission 2016/161. (31 December 2017: investment in new production capacities).

On 31 December 2018, buildings and land of the Company with a net book value of 384,876 thousand HRK have been pledged as collateral for credit liabilities and credit obligations of the parent company Podravka d.d. (2017: 399,805 thousand HRK).

NOTE 19 - INVESTMENTS IN SUBSIDIARIES

Name of subsidiary	Country	Ownership interest in % 2018	2017	
Farmavita d.o.o., Sarajevo	Bosnia and Herzegovina	65	65	Distribution of pharmaceuticals
Ljekarne Deltis Pharm, Koprivnica	Croatia	100	100	Drugstore
Belupo d.o.o., Ljubljana	Slovenia	100	100	Distribution of pharmaceuticals
Belupo s.r.o., Bratislava	Slovakia	100	100	Distribution of pharmaceuticals
Belupo d.o.o.el, Skopje	Macedonia	100	100	Distribution of pharmaceuticals
Carryng amount of the investment		**99,664**	**99,664**	

During 2018, the Company has not reduced the value of investment in subsidiary Ljekarne Deltis Pharm (2017: 0).

NOTE 20 – NON-CURRENT FINANCIAL ASSETS

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings	-	-	28,899	37,848
Deposits	113	125	111	123
Other	164	167	-	
	277	**292**	**29,010**	**37,971**

The fair value of non-current financial assets approximates the carrying amounts, as the contracted interest rates reflect market rates.

NOTE 21 – INVENTORIES

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Finished goods	142,290	126,980	99,286	87,689
Raw materials and supplies	64,376	50,662	62,245	45,460
Work in progress	4,909	5,143	4,909	5,143
	211,575	**182,785**	**166,440**	**138,292**

During the year 2018, the Group has recognized the impairment loss of HRK 13,051 thousand (2017: HRK 1,232 thousand), of which HRK 10,858 thousand relates to the impairment of inventories of finished products and raw materials which include the active substance valsartan. This impairment is presented in the Statement of comprehensive income under *"Costs contained in sold products"*.

During the year 2018, the Company has recognized the impairment loss of HRK 5,976 thousand (2017: HRK 909 thousand), out of which HRK 3,789 thousand relates to the impairment of inventories of finished products which include the active substance valsartan while the remainder relates to the result of the verification of the damaged and expired date of use inventories. This impairment is presented in the Statement of comprehensive income under *"Costs contained in sold products“*.

NOTE 22 – TRADE AND OTHER RECEIVABLES

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Trade receivables	289,745	312,814	190,582	207,495
Less: Provisions for impairment	(26,236)	(27,989)	(9,432)	(12,290)
Net trade receivables	***263,509***	***284,825***	***181,150***	***195,205***
Advances given to suppliers	6,106	5,589	6,015	5,564
Trade receivables from related parties	484	372	17,651	28,546
Prepaid expenses and other receivables from related parties	538	688	623	799
Other receivables	17,245	8,363	15,596	7,654
Total current receivables	**287,882**	**299,837**	**221,035**	**237,768**

Other receivables in the Group and the Company include receivables from suppliers on the basis of letters of complaint in the amount of HRK 7,368 thousand for the delivered goods of inadequate quality. The Management believes that the recoverable amount of the claim is not questionable.

Movements in the provision for impairment of trade receivables are as follows:

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	27,989	42,943	12,290	28,113
Collected	(637)	(10)	(3)	(3)
Impairment loss recognised	691	(6,680)	(502)	(7,557)
Effect of IFRS 9 application	779	-	31	-
Amounts written-off	(2,586)	(8,264)	(2,384)	(8,263)
At 31 December	**26,236**	**27,989**	**9,432**	**12,290**

Impairment loss on trade receivables and reversal of impairment loss on trade receivables is included within *'Selling and distribution costs'*.

Ageing analysis of trade receivables past due but not impaired:

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
	230,087	253,704	181,748	213,715
0-90 days	30,082	19,417	14,082	3,779
91-180 days	3,691	9,090	2,846	3,886
181-360 days	133	2,986	125	2,371
	263,993	**285,197**	**198,801**	**223,751**

NOTE 22 – TRADE AND OTHER RECEIVABLES (continued)

Other receivables consist of the following:

	Group		Company	
	2018	2017	2018	2017
	(in thousands of HRK)		(in thousands of HRK)	
Net VAT receivable	3,913	3,183	3,913	3,174
Prepaid expenses	12,521	4,165	10,927	3,551
Receivables from employes	634	525	611	495
Other receivables	177	490	145	434
	17,245	**8,363**	**15,596**	**7,654**

NOTE 23 – RECEIVABLES ON LOANS GRANTED

	Group		Company	
	2018	2017	2018	2017
	(in thousands of HRK)		(in thousands of HRK)	
Non-current borrowings				
Loans to related parties	-	-	28,899	37,848
Total non-current borrowings	**-**	**-**	**28,899**	**37,848**
Current borrowings				
Loans to related parties	-	-	8,465	4,305
Total current borrowings	**-**	**-**	**8,465**	**4,305**
Total loans	**-**	**-**	**37,364**	**42,153**

NOTE 24 – CASH AND CASH EQUIVALENTS

	Group		Company	
	2018	2017	2018	2017
	(in thousands of HRK)		(in thousands of HRK)	
Cash at bank	53,923	85,915	43,520	74,570
Cash in hand	204	216	75	28
Deposits	1,359	3,031	1,359	3,032
	55,486	**89,162**	**44,954**	**77,630**

Cash on bank accounts refers to transaction accounts at commercial banks with an average interest rate of 0.14%.

Deposits refer to deposits at commercial banks with maturity up to three months carrying a variable interest rate ranging from 4,14% to 5,03%.

Cash assets by currency were as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)			
BAM	17,240	8,290	17,240	8,290
EUR	14,201	30,431	9,660	27,945
USD	2,013	5,001	1	-
RUB	642	87	642	86
Other currencies	21,390	45,353	17,411	41,309
	55,486	**89,162**	**44,954**	**77,630**

NOTE 25 – SHARE CAPITAL

The share capital of the Company as at 31 December 2018 amounts to HRK 579,087,600.00 and is divided into 5,790,876 ordinary shares (2017: HRK 579,088,600.00 divided into 5,790,876 shares) with a nominal value of HRK 100, which are wholly owned by Podravka Inc., Koprivnica.

In 2017, the Company made an increase in share capital in the amount of HRK 100,000 thousand. Within the share capital, the amount of HRK 189,738 thousand is recognized for reinvested earnings from previous periods. If changes in this share capital occur in the coming periods, the tax relief could be withdrawn, which could potentially result in future tax expense and liability.

Dividend distribution

On 12 June 2018, the General Assembly decided that the Company's profit for 2017 in the amount of HRK 64,399 thousand be allocated to statutory reserves in the amount of HRK 3,220 thousand, to legal reserves in the amount of HRK 3,220 thousand, to other reserves in the amount of HRK 671 thousand, and the remainder in the amount of 57,288 to retained earnings.
The Company and the Group as at 31 December 2018 reported development costs in the total amount of HRK 18,582 thousand (2017: HRK 17,752 thousand).

NOTE 26 –RESERVES

GROUP

(in thousands of HRK)	**Legal reserves**	**Other reserves**	**Translation reserves**	**Total**
At 1 January 2017	20,711	129,775	1,915	152,401
Exchange differences	-	-	(961)	(961)
Aktuarski dobici	-	(48,905)	-	(48,905)
Actuarial gains	-	104	-	104
Capital profit	-	(478)	-	(478)
At 31 December 2017	**20,711**	**80,496**	**954**	**102,161**
At 1 January 2018	**20,711**	**80,496**	**954**	**102,161**
Exchange differences	-	-	(674)	(674)
Transfer to reserves	3,220	3,891	-	7,111
Actuarial gains	-	299	-	299
Capital profit	-	(771)	-	(771)
At 31 December 2018	**23,931**	**83,915**	**280**	**108,126**

NOTE 26 –RESERVES (continued)

Company

(in thousands of HRK)	Legal reserves	Other reserves	Translation reserves	Total
At 1 January 2017	20,505	129,837	-	150,342
Transfer to reserves	0	(48,905)	-	(48,905)
Actuarial gains	-	78	-	78
Capital profit	-	(478)	-	(478)
At 31 December 2017	**20,505**	**80,532**	-	**101,037**
At 1 January 2018	**20,505**	**80,532**	-	**101,037**
Transfer to reserves	3,220	3,891	-	7,111
Actuarial gains	-	236	-	236
Capital profit	-	(771)	-	(771)
At 31 December 2018	**23,725**	**83,888**	**-**	**107,613**

The legal reserve is required under Croatian Law according to which the Company is crequired to build up legal reserves to a minimum of twentieth part (5%) of the profit for the year until the total reserve reaches five precent (5%) of the share capital. Reserves are non-distributable.

Other reserves mainly comprise statutory reserves recorded in accordance with the Company's Articles of Association. Company Statute does not define distributivity of these reserves (Companies Act - Statutory reserves may be used only for the purposes prescribed by the Articles of Association). However, these reserves can be distributed based on the General assembly's decision for the purposes prescribed by the law. Capital gains within Other reserves from 2017 in the amount of 771 thousand HRK relates to the employee stock ownership program, explained below.

Translation reserve relates to foreign exchange differences on foreign operations.

Employee stock ownership program (ESOP program)

In accordance with the decision of the General Assembly of the parent company Podravka d.d. of 3 June 2015, a program of organized employee stock ownership (ESOP program) has been launched at the level of the Podravka Group which consists of Podravka dd, Danica doo, Belupo dd and Ljekarne Deltis Pharm. ESOP program includes giving rights to workers in the primary subscription and payment of shares in the share capital increase of the parent company Podravka dd public offering, conducted in June 2015. The program also includes a system of rewarding employees who have acquired shares in the first round of registration in such a way that if a worker-shareholder retains all such acquired shares for two years, he will receive one additional share for every ten acquired, or if they are retained for three years, awarded him two additional shares for each ten acquired.

As part of the ESOP there were 14,534 shares enrolled in 2015., relating to workers of Belupo Group. The fair value of the shares at the date of issue amounted to HRK 300 and exercise price of additional shares is also 300 HRK.

On 24 July 2018, pursuant to the Regulation on the exercise of right to transfer additional shares under the ESOP programme, a decision was made by the Management Board to allocate the remaining two additional shares to each ten acquired shares.

On 2 August 2018, a total of 14,160 shares pertaining to Belupo Group's active and passive employees (2017: 13,186 shares) were registered as part of the ESOP Programme and the employees who retained shares from the first round of registration entered in June 2015 were allocated 2,832 bonus shares at a price of HRK 335.57 in the total value of HRK 950 thousand (2017: 1.406 shares at a price of HRK 311.77 totalling HRK 438 thousand). This allocation concluded the organized employee stock ownership plan (ESOP programme).

The cost of additional shares under the ESOP is recognized under financial costs.

NOTE 27– RETAINED EARNINGS

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	**235,286**	**257,511**	**236,103**	**241,799**
Transfer to other reserves	(7,111)	(20,095)	(7,111)	(20,095)
Profit for the year	60,662	47,870	45,117	64,399
Dividend declared	-	(50,000)	-	(50,000)
At 31 December	**288,837**	**235,286**	**274,109**	**236,103**

During 2018, there were no approved or paid dividends (2017: approved dividend in the amount of HRK 50,000 thousand, settled on 31 December 2017).

NOTE 28 – NON-CONTROLLING INTEREST

	2018	**2017**
	(in thousands of HRK)	
At 1 January	35,207	44,757
Share in profit / (loss) for the year	5,280	6,225
Dividend paid to minority shareholder	-	(15,775)
At 31 December	**40,487**	**35,207**

Non-controlling interest arose on the acquisition of a 65% equity share in Farmavita d.o.o. Sarajevo in 2008.

Short financial information for Farmavita d.o.o. Sarajevo are presented below.

Statement of financial position	**2018**	**2017**
Non-current assets	66,827	69,669
Current assets	113,943	119,933
Current liabilities	(41,181)	(52,682)
Non-current liabilities	(45,422)	(59,826)
Net assets	**94,167**	**77,094**
Statement of comprehensive income or loss for the year		
Revenue from sale	193,371	181,660
Profit or loss after tax	18,052	23,063
Other comprehensive income or loss	(343)	(507)
Total comprehensive income or loss for the year	**17,709**	**22,556**
Statement of cash flows		
Net increase / decrease in cash and cash equivalents	(2,546)	2,057

NOTE 29 - LOANS AND BORROWINGS

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings				
Borrowings from related parties	11,946	15,329	-	-
Foreign banks and banks in Croatia	331,779	426,174	327,964	420,378
Finance lease obligations	547	636	-	-
	344,272	**442,139**	**327,964**	**420,378**
Current borrowings				
Borrowings from related parties	3,186	806	-	-
Foreign banks and banks in Croatia	93,429	109,332	87,039	88,166
Finance lease obligations	795	680	-	-
	97,410	**110,818**	**87,039**	**88,166**
Total borrowings	**441,682**	**552,957**	**415,003**	**508,544**

Group::

Bank borrowings of HRK 426,550 thousand HRK (2017: HRK 536,792 thousand) are secured by mortgages over the land and buildings of the Group.

During 2018, the Group recorded a financial activity or payment and receipt of loans with and without the use of money. Total transactions on loans received amounted to HRK 33,880 thousand (2017: HRK 141,881 thousand), while the total cash loan repayment amounted to HRK 139,191 thousand (2017: HRK 108,999 thousand. Total non-cash transactions (excluding exchange rate differences on loans received amounted to HRK 1,168 thousand, while there were no non-cash transactions on loan repayment. These non-cash transactions are excluded from the Cash Flow Statement.

Company:

Bank borrowings of HRK 415,003 thousand HRK are secured by mortgages over the land and buildings of the Company (2017: bank borrowings of HRK 508,544 thousand are secured by mortgages over the land and buildings of the Company).
During 2018, the Company recorded financial activities, i.e. cash repayment of loans in the value of HRK 86,976 thousand (2017: HRK 47,886 thousand), while there were no cash transactions on the loans received in 2018 (2017: HRK 93,344 thousand). There were no non-cash transactions on loans received (excluding exchange rate differences) or repayment of loans.

Borrowing terms and conditions

During 2015, the Company and the co-debtor, Pharmacies Deltis Pharm, concluded a Loan Agreement with HBOR in the total amount of HRK 304,000 thousand for a term of 7 years, with a grace period of one year. The Company used EUR 37,164 thousand of the above mentioned amount (2017:37,164 thousand EUR).
According to the above-mentioned HBOR loan, the Company is obliged to meet the following borrowing terms and conditions statedin the Agreement:

a. Notify HBOR before paying loans within the Podravka Group, and in other cases a prior approval of HBOR is necessary for loan payments .
b. In the event of non-payment of a loan obligation or if the share of capital and reserves of the Company falls below 30.00% of the balance sheet value, the Company shall not pay the profits without prior consent of HBOR. If the Company acts contrary to this point, HBOR is entitled to terminate the Loan Agreement.

During 2016, the Company, Podravka d.d. and Žito d.d. have concluded a Loan Agreement with the EBRD in the total amount of EUR 123,000 thousand for a term of 7 years.

The Company used EUR 38,550 thousand of the above amount, of which EUR 36,249 thousand for refinancing all short and long-term loans, except HBOR's loans, and EUR 2,301 thousand for the approval of long-term loans to the associated company, Farmavita d.d. (2017.: 38.550 thousend EUR; 36,249 thousand for refinancing of loans, and EUR 2,301 thousand for the approval of long-term loans to the related company, Farmavita d.d.).

NOTE 29 - LOANS AND BORROWINGS (continued)

The Group's financial lease obligations are as follows :

	Minimum lease payments		Finance costs		Present value of minimum lease payments	
	2018	2017	2018	2017	2018	2017
	(in thousands of HRK)					
Up to one year	841	727	46	47	795	680
From one to five years	562	655	15	19	547	636
Less: future finance charges	**(61)**	**(66)**	**61**	**66**		
Present value of minimum lease payments	**1,342**	**1,316**			**1,342**	**1,316**
Included in financial statements in:						
Current borrowings					795	680
Non-current borrowings					547	636
					1,342	**1,316**

The exposure of the Group’s borrowings to interest rate changes based on the contractual repricing dates at the reporting dates are as follows:

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Up to 6 months	50,979	64,622	43,519	44,083
6 – 12 months	46,431	46,196	43,520	44,083
1 – 5 years	304,891	359,936	288,583	340,596
More than 5 years	39,381	82,203	39,381	79,782
	441,682	**552,957**	**415,003**	**508,544**

The repayment schedule of non-current borrowings is as follows:

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Between 1 and 2 years	92,620	93,845	87,039	88,166
Between 2 and 5 years	212,271	266,091	201,544	252,430
More than 5 years	39,381	82,203	39,381	79,782
	344,272	**442,139**	**327,964**	**420,378**

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

	2018			**2017**		
	HRK	**EUR**	**Other**	**HRK**	**EUR**	**Other**
	%	%	%	%	%	%
Non-current borrowings						
Banks in Croatia	-	2	-	0	3	-
Banks in foreign countries	-	1.14	4.68	-	1	4.62
Finance lease obligations	-	-	4.81	-	-	4.86
Current borrowings						
Banks	-	-	2.95	0	-	3.95

NOTE 29 - LOANS AND BORROWINGS (continued)

The carrying amounts of long-term borrowings with fixed interrest rate approximate their fair values. The carrying amounts of short-term borrowings approximate their fair values, and the discounting effect is not significant because of the short-term nature of the borrowings.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
BAM	26,679	44,412	-	-
EUR	415,003	508,545	415,003	508,544
	441,682	**552,957**	**415,003**	**508,544**

Many of the borrowings are denominated in HRK. Therefore, the effect of changes in the foreign exchange rates would not have a significant impact on the amount of the borrowings.
The Group has the following unused loan facilities:

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Variable rate facilities:				
Expiring within one year	224,486	117,842	207,694	94,991
	224,486	**117,842**	**207,694**	**94,991**

Group::
Total unused credit facilities of HRK 224,486 thousand refer to framework borrowings with banks and allowed overdrafts per transaction account.

Company:
Total unused credit facilities of HRK 207,694 thousand refer to framework borrowings at RBA d.d. Zagreb and Sberbank d.d. allowed overdrafts per transaction account at RBA d.d. Zagreb.

Reconciliation of changes in liabilities and cash flows from financial activities:

	Group		**Company**	
(in thousands of HRK)	**2018**	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January 2018	552,957	506,080	508,544	465,181
Browings received	33,880	141,881	-	93,344
Repayment of loans	(139,191)	(108,999)	(86,976)	(47,886)
Total change in financial activity	**(105,311)**	**32,882**	**(86,976)**	**45,458**
Effect of exchange rate changes	**(7,132)**	**(2,336)**	**(6,565)**	**(2,095)**
Changes related to capital (Non-controlling interests)	**-**	**15,775**	**-**	**-**
Changes related to liability	**1,168**	**556**	**-**	**-**
At 31 December 2018	**441,682**	**552,957**	**415,003**	**508,544**

NOTE 30 – PROVISIONS

GROUP

(in thousands of HRK)	Jubilee awards and retirement benefits	Unused holidays	Bonuses	Share based payments	Legal cases	Total
Non-current	6,264	-	-	353	-	6,617
Current	330	2,334	2,208	-	30	4,902
At 31 December 2017	**6,594**	**2,334**	**2,208**	**353**	**30**	**11,519**
Increase/decrease of provision	581	2,317	434	999	-	4,331
Utilised during the year	(354)	(2,334)	(2,208)	-	(30)	(4,926)
At 31 December 2018	**6,821**	**2,317**	**434**	**1,352**	**-**	**10,924**
Non-current	6,411	-	-	1,352	-	7,763
Current	410	2,317	434	-	-	3,161
	6,821	**2,317**	**434**	**1,352**	**-**	**10,924**

Company

(in thousands of HRK)	Jubilee awards and retirement benefits	Unused holidays	Bonuses	Share based payments	Legal cases	Total
Non-current	5,271	-	-	353	-	5,624
Current	302	1,369	1,017	-	**30**	2,718
At 31 December 2017	**5,573**	**1,369**	**1,017**	**353**	**30**	**8,342**
Increase of provision	605	1,400	-	999	-	3,004
Utilised / cancelled during the year	(320)	(1,369)	(1,017)	-	(30)	(2,736)
At 31 December 2018	**5,858**	**1,400**	**-**	**1,352**	**-**	**8,610**
Non-current	5,476	-	-	1,352	-	6,828
Current	382	1,400	-	-	-	1,782
	5,858	**1,400**	**-**	**1,352**	**-**	**8,610**

NOTE 31 – TRADE AND OTHER PAYABLES

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Trade payables	69,209	67,588	52,186	51,893
Trade payables due to related parties	5,909	4,246	5,978	4,252
Other payables	31,986	35,825	24,842	29,351
	107,104	**107,659**	**83,006**	**85,496**

At 31 December 2018, the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.

Other payables include the following:

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Salaries and other liabilities to employees	16,689	17,699	12,777	14,270
Interest on borrowings from banks	287	465	255	356
Interest liabilities for interest to related parties	23	69	-	-
Deferred income	6,469	7,457	6,469	7,457
Contributions and other taxes payable	1,811	1,744	3	17
Value Added Tax	1,242	801	-	-
Other	5,465	7,590	5,338	7,251
	31,986	**35,825**	**24,842**	**29,351**

NOTE 32 – RETIREMENT BENEFIT PLANS

Defined benefit plan

According to the Collective Agreement, the Group and the Company have an obligation to pay jubilee awards, retirement and other benefits to employees. The Group operates defined benefit schemes for qualifying employees.

The Group and the Company pays pension contributions on behalf of its employees in accordance with applicable legal regulations. These contributions form the basis of social benefits payable out of the Croatian national pension fund to Croatian employees upon their retirement.

The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the Projected Credit Unit Method.

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

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
Discount rate	2.96%	2.40%	2.96%	2.40%
Fluctuation rate	4.87%	4.81%	4.87%	4.81%
Average expected remaining working life (years)	22	22	22	22

The amounts recognised in the statement of comprehensive income in respect of the defined benefit plan:

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Current service cost	354	551	324	300
Past service cost	505	-	492	-
Interest expense	171	131	160	124
Other actuarial adjustments	(449)	-	(371)	24
Benefits paid	(354)	(431)	(320)	(252)
	227	**251**	**285**	**196**

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

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	6,594	6,343	5,573	5,377
Current service cost	354	551	324	300
Past service cost	505	-	492	-
Interest expense	171	131	160	124
Benefits paid	(354)	(431)	(320)	(252)
Other actuarial adjustments	(449)	-	(371)	24
At 31 December	**6,821**	**6,594**	**5,858**	**5,573**

NOTE 33 – FINANCIAL INSTRUMENTS

33.1. Capital risk management

Net debt to equity ratio (Gearing ratio)

Belupo Group reviews the capital structure on an semi-annual basis.
As part of this review, the Group considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the reporting date was as follows:

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Debt (long and short-term borrowings)	441,682	552,957	415,003	508,544
Cash and cash equivalents	(55,486)	(89,162)	(44,954)	(77,630)
Net debt	386,196	463,795	370,049	430,914
Equity	1,016,537	951,741	960,809	916,227
Net debt to equity ratio	*37.99%*	*49.12%*	*38.51%*	*49.15%*

Debt is defined as long and short-term borrowings. Equity includes all capital and reserves.

33.2. Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition. The basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed within notes.

33.3. Categories of financial instruments

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Financial assets at amortized cost				
Trade and other receivables	278,732	292,298	213,314	230,685
Cash and cash equivalents	55,486	89,162	44,954	77,630
Other financial assets	113	125	37,475	42,276
	334,331	**381,585**	**295,743**	**350,591**
Financial liabilities at amortized cost				
Borrowings	440,340	551,641	415,003	508,544
Trade and other payables	99,373	99,370	76,517	78,008
Liabilities for finance lease	1,342	1,316	-	-
	541,055	**652,327**	**491,520**	**586,552**

NOTE 33 – FINANCIAL INSTRUMENTS (continued)

33.4. Financial risk management objectives

The Group operates internationally and finances its operations using foreign currency denominated borrowings to a significant extent. As a result, the Group is exposed to the effect of changes in market prices of bulk raw pharmaceuticals and of exchange differences and changes in interest rates. In addition, due to credit terms extensions to its customers, the Group is exposed to the risk of default.

The Treasury function at the Company provides financial services and coordinates the financial operations of the Company on the domestic and international markets, and monitors and manages the financial risks relating to the operations of the Company. The principal risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The significant risks, together with the methods used to manage these risks, are described below. In 2018 the Group used derivatives in order to potentially manage exchange rate fluctuations of the Russian Ruble. The Group does not use any derivatives to manage its risks or for speculative purposes.

33.5. Market risk

Commodity risk management (price risk)

Volatility in the prices of bulk pharmaceuticals is a pervasive element of the Group's business environment. The Purchase function has been centralised, which in itself provides the Group the status of a reputable customer on the market, with a fine starting position to negotiate prices. Fixed rate, long-term framework agreements are entered into, with the terms and conditions defined in line with the market trends.

Market risk exists due to the fact that the sales prices are regulated by the State, and Belupo is not able to exercise any influence in forming the prices.

Sales function based risk

The Group does not use any forward agreements to manage its exposure to the risk of fluctuation in bulk pharmaceutical prices.

NOTE 33 – FINANCIAL INSTRUMENTS (continued)

33.6. Foreign exchange risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. During the year 2018 the Group used a forward contract with Raiffeisen Bank Zagreb in order to potentially manage exchange rate fluctuation of the Russian Ruble. As at 31 December 2018, the Group had no unrealized futures contracts.
Gains and losses arising from changes in market value of foreign currency forward contracts are recognized in the statement of comprehensive income under 'net financial income/costs'.

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

	Group				*Company*			
	Liabilities		**Assets**		**Liabilities**		**Assets**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	(in thousands of HRK)				*(in thousands of HRK)*			
BAM	36,848	55,205	72,282	78,781	83	-	27	-
EUR	206,090	254,834	42,317	56,721	197,322	249,974	80,088	110,010
USD	3,020	2,408	783	351	3,021	2,411	783	350
RUB	807	-	89,534	57,417	807	-	89,534	57,417
Other currencies	2,057	402	1,774	2,282	1,506	348	1,655	1,646

Foreign currency sensitivity analysis

The Group is mainly exposed to the fluctuations in the exchange rate of the Croatian Kuna to the Euro, the US dollar, the BAM and Russian ruble RUB, since the most of the trading in bulk pharmaceuticals on the international market is done in Euros, US dollars, BAMs and RUBs.

The following table details the Group's sensitivity to a 1.0 % decrease in 2018 in the Croatian HRK against the relevant foreign currencies (2017: 1.0% decrease). The sensitivity rates below are used when reporting foreign currency risk internally to key management personnel and represents management's assessment of a reasonably likely change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for percentage change in foreign currency rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where the Croatian HRK changes by above mentioned percentage against the relevant currency. For a reverse proportional change of the Croatian HRK against the relevant currency, there would be an equal and opposite impact on profit and other equity.

The exposure to the fluctuations in exchange rates is mainly attributable to the borrowings, trade payables and receivables and receivables from related companies denominated in EUR, BAM, USD and RUB.

NOTE 33 – FINANCIAL INSTRUMENTS (continued)

33.6. Foreign exchange risk management (continued)

	Group				*Company*			
	EUR impact		**USD impact**		**EUR impact**		**USD impact**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	(in thousands of HRK)				*(in thousands of HRK)*			
Profit	1,638	1,981	22	21	1,172	1,400	22	21
Loss	-	-	-	-	-	-	-	-

	BAM impact		**RUB impact**		**BAM impact**		**RUB impact**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	(in thousands of HRK)				*(in thousands of HRK)*			
Profit	-	-	-	-	1	-	-	-
Loss	(354)	(236)	(887)	(574)	-	-	(887)	(574)

33.7. Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. Part of the Group’s borrowings are at variable rates.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date For variable interest rates, the analysis was prepared in such a way as to calculate the effect of a reasonably possible increase in interest rates on borrowings with variable interest rates on the expected contractual cash flows of such borrowings in relation to those calculated using the interest rate applicable at the end of the current reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management’s assessment of a reasonably likely change in interest rates.

NOTE 33 – FINANCIAL INSTRUMENTS (continued)

33.7. Interest rate risk management (continued)

Interest rate sensitivity analysis (continued)

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

Group as at 31 December 2018	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
			(in thousands of HRK)		
At current interest rates	462,000	104,480	98,029	219,716	39,775
At current interest rates + 50 basis points	467,484	106,445	99,519	221,647	39,873
Effect of increase of interest rate by 50 bp	**(5,484)**	**(1,965)**	**(1,490)**	**(1,931)**	**(98)**

Group as at 31 December 2017	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
			(in thousands of HRK)		
At current interest rates	575,044	118,042	99,402	274,843	82,757
At current interest rates + 50 basis points	582,871	120,530	101,378	278,000	82,963
Effect of increase of interest rate by 50 bp	**(7,827)**	**(2,488)**	**(1,976)**	**(3,157)**	**(206)**

Company as at 31 December 2018	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
			(in thousands of HRK)		
At current interest rates	433,051	93,136	91,806	208,334	39,775
At current interest rates + 50 basis points	438,293	94,994	93,228	210,198	39,873
Effect of increase of interest rate by 50 bp	**(5,242)**	**(1,858)**	**(1,422)**	**(1,864)**	**(98)**

Company as at 31 December 2017	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
			(in thousands of HRK)		
At current interest rates	526,977	93,925	92,832	259,943	80,277
At current interest rates + 50 basis points	534,410	96,248	94,713	262,973	80,476
Effect of increase of interest rate by 50 bp	**(7,433)**	**(2,323)**	**(1,881)**	**(3,030)**	**(199)**

NOTE 34 – FINANCIAL INSTRUMENTS (continued)

33.8. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a „Credit Risk Management Procedure“, which it applies in dealing with customers, and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Customers are classified into risk groupings based on the financial performance indicators and own trading records, and appropriate credit risk mitigation measures are taken for each risk class.

Customers are classified mainly on the basis of official financial statements of customers and credit ratings supplied by independent rating agencies, and the Group’s history of trading with each customer.

The Group’s exposure and the credit ratings of its counterparties are continuously monitored, and credit exposure is controlled by counterparty limits that are reviewed at least annually.

The Group transacts with pharmaceutical wholesellers and drugstores in Croatia and abroad.

The maximum concentration of credit risk is related to wholesalers. The Group has no significant credit exposures that would not be covered by collateral.

33.9. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors which has built an appropriate liquidity risk management framework for the management of the Group’s short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and credit lines, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity risk analysis tables

The following tables detail the Group’s remaining contractual maturity for its financial liabilities presented in the statement of financial position.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities on maturity. The table includes both interest and principal cash flows.

The liquidity risk analysis presented below does not indicate any likelihood of liquidity shortfall of the Group for a shorter period.

NOTE 33 – FINANCIAL INSTRUMENTS (continued)

33.9. Liquidity risk management (continued)

Liquidity risk analysis tables (continued)

The following tables detail the Group's remaining contractual maturity for its financial liabilities presented in the statement of financial position.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities on maturity. The table includes both interest and principal cash flows.

The liquidity risk analysis presented below does not indicate any likelihood of liquidity shortfall of the Group for a shorter period.

GROUP

Group as at 31 December 2018	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Trade and interest payables	**99,373**	99,373	99,373	-	-
	99,373	99,373	99,373	-	-
Interest bearing liabilities					
Financial lease liabilities	**1,342**	1,403	841	562	-
Borrowings	**440,340**	461,389	103,568	317,941	39,880
	441,682	462,792	104,409	318,503	39,880
	541,055	562,165	203,782	318,503	39,880
Non-interest bearing assets:					
Trade receivables (including bills of exchange) and other receivables	**278,732**	278,732	278,732	-	-
Cash and cash equivalents	**55,486**	-	-	-	-
	334,218	278,732	278,732	-	-
Interest bearing assets:					
Long-term deposits	**113**	113	-	113	-
	113	113	-	113	-
	334,331	278,845	278,732	113	-
Net liquidity	**(206,724)**	**(283,320)**	**74,950**	**(318,390)**	**(39,880)**

The Group's non-interest bearing liabilities up to one month comprise mainly trade payables of HRK 42,921 thousand (2017: HRK 42,246 thousand) and amounts due to employees of HRK 16,689 thousand (2017: HRK 17,699 thousand).

NOTE 33 – FINANCIAL INSTRUMENTS (continued)

33.9. Liquidity risk management (continued)

Liquidity risk analysis tables (continued)

GROUP

Group as at 31 December 2017	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Interest rate swap	-	-	-	-	-
Trade and interest payables	**99,370**	99,370	99,370	-	-
	99,370	99,370	99,370	-	-
Interest bearing liabilities					
Financial lease liabilities	**1,316**	1,382	727	655	-
Borrowings	**551,641**	593,800	122,583	386,226	84,991
	552,957	595,182	123,310	386,881	84,991
	652,327	694,552	222,680	386,881	84,991
Non-interest bearing assets:					
Trade receivables (including bills of exchange)	**292,298**	292,298	292,272	26	-
Forward contracts	-	-	-	-	-
Cash and cash equivalents	**89,162**	-	-	-	-
	381,460	292,298	292,272	26	-
Interest bearing assets:					
Long-term loans	-	-	-	-	-
Long-term deposits	**125**	125	-	125	-
Short-term loans	-	-	-	-	-
	125	125	-	125	-
	381,585	292,423	292,272	151	-
Net liquidity	**(270,742)**	**(402,129)**	**69,592**	**(386,730)**	**(84,991)**

NOTE 33 – FINANCIAL INSTRUMENTS (continued)

33.9. Liquidity risk management (continued)

Liquidity risk analysis tables (continued)

Company

Company as at 31 December 2018	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years	over 5 years
			(in thousands of HRK)		
Non-interest bearing liabilities:					
Trade and interest payables	**76,517**	76,517	76,517	-	-
	76,517	76,517	76,517	-	-
Interest bearing liabilities					
Borrowings	**415,003**	433,855	93,132	300,843	39,880
	415,003	433,855	93,132	300,843	39,880
	491,520	510,372	169,649	300,843	39,880
Non-interest bearing assets:					
Trade receivables (including bills of exchange)	**213,314**	213,314	213,314	-	-
Cash and cash equivalents	**44,954**	-	-	-	-
	258,268	213,314	213,314	-	-
Interest bearing assets:					
Long-term loans	**37,364**	41,255	9,897	31,358	-
Long-term deposits	**111**	111	-	111	-
	37,475	41,366	9,897	31,469	-
	295,743	254,680	223,211	31,469	-
Net liquidity	**(195,777)**	**(255,692)**	**53,562**	**(269,374)**	**(39,880)**

The Company's non-interest bearing liabilities up to one month comprise mainly trade payables of HRK 38,378 thousand (2017: HRK 38,320 thousand) and amounts due to employees of HRK 12,777 thousand (2017: HRK 14,270 thousand).

Interest bearing liabilities include short-term and long-term borrowings and finance lease obligations.

NOTE 33 – FINANCIAL INSTRUMENTS (continued)

33.9. Liquidity risk management (continued)

Liquidity risk analysis tables (continued)

Company

Company as at 31 December 2017	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Trade and interest payables	**78,008**	78,008	78,008	-	-
	78,008	78,008	78,008	-	-
Interest bearing liabilities					
Borrowings	**508,544**	546,185	98,500	365,175	82,510
	508,544	546,185	98,500	365,175	82,510
	586,552	624,193	176,508	365,175	82,510
Non-interest bearing assets:					
Trade receivables (including bills of exchange) and other receivables	**230,685**	230,685	230,685	-	-
Cash and cash equivalents	**77,630**	-	-	-	-
	308,315	230,685	230,685	-	-
Interest bearing assets:					
Long-term loans	**42,153**	47,881	6,005	37,499	4,377
Long-term deposits	**123**	123	-	123	-
	42,276	48,004	6,005	37,622	4,377
	350,591	278,689	236,690	37,622	4,377
Net liquidity	**(235,961)**	**(345,504)**	**60,182**	**(327,553)**	**(78,133)**

NOTE 33 – FINANCIAL INSTRUMENTS (continued)

33.10. Fair value of financial instruments

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

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

Financial instruments held to maturity in the normal course of operations are carried at the lower of cost and the net amount less portion repaid.

Fair value is determined as the amount at which a financial instrument can be exchanged between willing and knowledgeable parties in an arm's-length transaction, except in the event of forced sale or liquidation. The fair value of a financial instruments is the one quoted on the securities market or obtained using the discounted cash flow method.

At 31 December 2018 the carrying amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair market values due to the short-term nature of those assets and liabilities.

33.10.1 Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into 3 Levels depending on the fair value:

GROUP and Company

	Level 1	Level 2	Level 3	Total
	(in thousands of HRK) **31 December 2018**			
Financial liabilities at fair value through profit or loss				
Liabilities for share based payments (cash settled)	-	1,352	-	1,352

In 2018, the Company used forward contracts with commercial banks with the primary purpose of controlling the fluctuation of the Russian ruble exchange rate with respect to foreign currency sales and purchase in that currency. As at 31 December 2018, the Group had no unrealized futures contracts.

Gains and losses recognized as changes in the market value of currency forward contracts are recorded in the Statement of Comprehensive Income under “Financial income / net costs”.

Measurement of fair value

The fair value of the forward contract is based on the foreign exchange rate quotation. In accordance with the input variables used, the estimate is categorized in the fair value hierarchy as level 2 (see Note 6).

NOTE 33 – FINANCIAL INSTRUMENTS (continued)

33.10. Fair value of financial instruments (continued)

33.10.1 Fair value measurements recognised in the consolidated statement of financial position (continued)

	Level 1	Level 2	Level 3	Total
	(in thousands of HRK)			
	31 December 2017			
Financial liabilities at fair value through profit or loss				
Liabilities for share based payments (cash settled)	-	353	-	353

NOTE 34 – SHARE BASED PAYMENTS

Employee share options

Options for the purchase of Podravka d.d. shares are granted to key management of Belupo d.d. The exercise price of the granted option equals the weighted average share price of Podravka d.d. shares per the Zagreb Stock Exchange in the year for which the option is granted. The vesting period normally starts from 1 January for the year for which the option is granted. Options are acquired separately for each business year.

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

The following share-based payment arrangements were in existence in the current and comparative periods:

Option series	Number of options	Grant date	Vesting conditions	Expiry date	Exercise price	Fair value at the grant date
31 Dec 2015	6,938	2015	in accordance with performance and labor contract	31 Dec 2020	300.00	334.01
31 Dec 2016	7,146	2016	in accordance with performance and labor contract	31 Dec 2021	348.67	377.50
31 Dec 2017	5,000	2017	in accordance with performance and labor contract	31 Dec 2022	352.15	270.00
31 Dec 2018	7,500	2018	in accordance with performance and labor contract	31 Dec 2023	316.52	375.00
	26,584					

NOTE 34 – SHARE BASED PAYMENTS (continued)

Fair value measurement

The fair value of the employee share options and the share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Input variables for calculation of fair value :

	Series 31 Dec 2018 Period less than 5 years	**Series 31 Dec 2017 Period less than 5 years**	**Series 31 Dec 2016 Period less than 5 years**	**Series 31 Dec 2015 Period less than 5 years**
The fair value of options at the date of issue in HRK	125.21	36.25	119.20	122.77
Grant date share price (in HRK and lipas)	375.00	270.00	377.50	334.01
Exercise price (in HRK and lipas)	316.52	352.15	348.67	300.00
Expected volatitlity (%)	0.16	0.17	0.18	0.19
Option life (years)	5.00	5.00	5.00	5.00
Risk-free interest rate (%)	4.06%	4.55%	4.88%	6.13%

Expense recognized in profit or loss

	2018	**2017**
	(in thousands of HRK)	
Share based payment transactions	999	(415)
Utilised during the year	-	(552)
	999	**(967)**

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

	2018		**2017**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Balance at the beginning of the year	21,084	330.65	24,391	314.64
Granted during the year	7,500	316.52	5,000	352.15
Unused / transfered options	(2,000)	318.79	(2,000)	297
Exercised during the year	-	0.00	(6,307)	296.59
Balance at year end	**26,584**	**-**	**21,084**	**-**

As at 31 December 2018 there were 7,500 (2017: 5,000) options granted whose vesting period starts at 1 January 2019.

There were no options used in 2018, while the 2000 options for the 2013 series expired (2017: 6,307 options used, 2000 options expired).

NOTE 35 – RELATED PARTY TRANSACTIONS

Name of subsidiary	**Country**	**Ownership interest in %**		
		2018	**2017**	
Farmavita d.o.o., Sarajevo	Bosnia and Herzegovina	65	65	Distribution of pharmaceuticals
Ljekarne Deltis Pharm, Koprivnica	Croatia	100	100	Drugstore
Belupo d.o.o., Ljubljana	Slovenia	100	100	Distribution of pharmaceuticals
Belupo s.r.o., Bratislava	Slovakia	100	100	Distribution of pharmaceuticals
Belupo d.o.o.el, Skopje	Macedonia	100	100	Distribution of pharmaceuticals
Carryng amount of the investment		**99,664**	**99,664**	

Related party transactions include business transactions within the Podravka Group companies. Items resulting from these transactions included in the statement of comprehensive income and balances included in the statement of financial position as at 31 December 2018 and 31 December 2017, are as follows:

REVENUE

Income from sales of goods and merchandise and services

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company outside the Belupo Group				
Income from sales of goods and merchandise:				
Podravka d.d., Koprivnica	24	22	-	-
	24	**22**	-	-
Revenue from services				
Podravka d.d., Koprivnica	1,871	1,805	1,871	1,805
	1,871	**1,805**	**1,871**	**1,805**
Company inside the Belupo Group				
Income from sales of goods and merchandise:				
Farmavita d.o.o, Sarajevo	-	-	23,570	24,408
Belupo d.o.o., Bratislava	-	-	26,920	25,788
Belupo d.o.o.el, Skopje	-	-	11,479	10,133
Belupo d.o.o., Ljubljana	-	-	10,196	11,977
Ljekarne Deltis Pharm, Koprivnica	-	-	1,151	1,137
	-	-	**73,316**	**73,443**
Revenue from services				
Farmavita d.o.o, Sarajevo	-	-	55	46
Belupo d.o.o., Bratislava	-	-	354	333
Belupo d.o.o.el, Skopje	-	-	-	18
Belupo d.o.o., Ljubljana	-	-	170	171
Ljekarne Deltis Pharm, Koprivnica	-	-	221	231
	-	-	**800**	**799**
	1,895	**1,827**	**75,987**	**76,047**
Other income				
Farmavita d.o.o, Sarajevo	-	-	66	-
	-	-	**66**	-
Finance costs				
Podravka d.d., Koprivnica	2,381	2,958	2,381	2,958
Other related parties	-	-	2,612	32,545
	2,381	**2,958**	**4,993**	**35,503**
Total expenses	**4,276**	**4,785**	**81,046**	**111,550**

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

EXPENSES

	Group		*Company*	
Remuneration to key management	**2018**	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Salaries	10,020	8,405	10,020	8,405
	10,020	**8,405**	**10,020**	**8,405**

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Operating expenses outside Belupo Group:				
Podravka d.d., Koprivnica	21,869	19,564	21,534	19,212
Podravka d.o.o., Ljubljana	180	181	-	-
Podravka d.o.o.el., Skopje	44	45	-	-
Operating expenses inside Belupo Group:				
Ljekarne Deltis Pharm, Koprivnica	-	-	(134)	(137)
Farmavita d.o.o., Sarajevo	-	-	(2,224)	(5,275)
Belupo s.r.o., Bratislava	-	-	427	262
Belupo d.o.o.el., Skopje	-	-	-	80
	22,093	**19,790**	**19,603**	**14,142**
Finance costs				
Podravka d.d., Koprivnica	153	124	153	124
	153	**124**	**153**	**124**
Total expenses	**22,246**	**19,914**	**19,756**	**14,266**

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NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

RECEIVABLES FOR GOODS AND SERVICES

	Group Short-term trade receivables for goods and services		*Company* Short-term trade receivables for goods and services	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company inside the Belupo Group:				
Farmavita d.o.o., Sarajevo	-	-	5,880	12,071
Ljekarne Deltis Pharm, Koprivnica	-	-	5,061	8,494
Belupo d.o.o.el., Skopje	-	-	2,255	2,547
Belupo s.r.o., Bratislava	-	-	606	1,686
Belupo d.o.o., Ljubljana	-	-	3,478	3,399
Company outside the Belupo Group:				
Podravka d.d., Koprivnica	484	372	371	349
Total trade receivables – Group entities	**484**	**372**	**17,651**	**28,546**

PAYABLES FOR GOODS AND SERVICES

	Group Short-term trade payables for goods and services		*Company* Short-term trade payables for goods and services	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company inside the Belupo Group:				
Ljekarne Deltis Pharm, Koprivnica	-	-	72	21
Belupo s.r.o., Bratislava	-	-	104	97
Company outside the Belupo Group:				
Podravka d.d., Koprivnica	5,911	4,244	5,802	4,134
Podravka d.o.o.el., Skopje	-	4	-	-
Podravka Sarajevo	(2)	(2)	-	-
Total trade payables – Group entities	**5,909**	**4,246**	**5,978**	**4,252**

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

OTHER RECEIVABLES AND PREPAID EXPENSES OF THE FUTURE PERIOD

	Group		*Company*	
	Other receivables		**Other receivables**	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company inside the Belupo Group:				
Farmavita d.o.o., Sarajevo	-	-	85	111
Total other receivables from related parties	**-**	**-**	**85**	**111**

	Group		*Company*	
	Total prepaid expenses of the future period and outstanding revenue collection		**Total prepaid expenses of the future period and outstanding revenue collection**	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company outside the Belupo Group:				
Podravka d.d. , Koprivnica	538	688	538	688
Total prepaid expenses of the future period and outstanding revenue collection	**538**	**688**	**538**	**688**

As at 31 December 2018, the Company has a receivable for a loan granted to a subsidiary company within the Belupo Group in the amount of HRK 37,364 thousand (2017: 42.153 thousand).

OTHER LIABILITIES AND DEFERRED PAYMENTS

	Group		*Company*	
	Other paybels		**Other paybels**	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company outside the Belupo Group:				
Podravka d.d., Koprivnica	879	23	877	-
Total other payables to related parties	**879**	**23**	**877**	**-**

	Group		*Company*	
	Accured expenses		**Accured expenses**	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company inside the Belupo Group:				
Farmavita d.o.o., Sarajevo	-	-	104	-
Company outside the Belupo Group:				
Podravka d.d. , Koprivnica	95	-	95	-
Total accrued expenses from related companies	**95**	**-**	**199**	**-**

As at 31 December 2018, the Group has a liability towards a minority shareholder in the amount of HRK 15,132 thousand (2017: 16,135 thousand).

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

GIVEN GUARANTEES AND WARRANTIES

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Podravka d.d., Koprivnica	589,278	630,092	589,278	630,092
Farmavita d.o.o., Sarajevo	29,382	32,378	29,382	32,378
Mirna d.d., Rovinj	2,000	2,000	2,000	2,000
	620,660	**664,470**	**620,660**	**664,470**

NOTE 36a – CONTINGENT LIABILITIES

For guarantees and warranties contingent liabilities are not reported in the statement of financial position as at 31 December, as the discretion of the Board of the Group as at 31 December 2018 and 2017 no contingent liability will arise for the Group and the Company.

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Podravka d.d. - revolving loan guarantee	90,024	120,000	90,024	120,000
Podravka d.d. - corporate guarantees	280,436	359,819	280,436	359,819
Podravka d.d. - guarantee	218,818	150,273	218,818	150,273
Farmavita d.o.o. - corporate guarantee	29,382	32,378	29,382	32,378
Mirna d.d. - co-debtor on loans and frameworks	2,000	2,000	2,000	2,000
Bank guarantee	14,348	3,757	3,709	3,757
	697	-	697	
	635,705	**668,227**	**625,066**	**668,227**

NOTE 36b – CAPITAL COMMITMENTS

Group:
As at 31 December 2018, the Group had contracted and unrealized liabilities in the amount of HRK 20,315 thousand, most of which are related to the construction of a new factory in Belupo d.d. (31 December 2017: HRK 18,913 thousand for investments in Belupo d.d.).

Company:
As at 31 December 2018 the Company had capital commitments in the amount of HRK 20,315 thousand for capital investments (31 December 2017: HRK 18,913 thousand for capital investments). Contracted payment of operating lease liabilities for the use of means of transport and Group sublease for the use of IT equipment are as follows:

	Group		*Company*	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
1 year or less	4,603	3,056	3,896	2,760
One to five years	4,969	4,669	3,646	4,079
	9,572	**7,725**	**7,542**	**6,839**