BELUPO d.d. and its Subsidiaries,
Koprivnica

Annual report 31 December 2019

MANAGEMENT REPORT 2019

BELUPO

1. DESCRIPTION OF BUSINESS ACTIVITIES

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.

No treasury shares were repurchased by the Company.

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.
2019.	After extensive preparation and lengthy efforts on the project, a new phase in Belupo's life was successfully launched: the serialization of prescription drugs, by which the requirements of the EU Directive 2011/62 and the Delegated Commission Regulation EU 2016/161 related to the protection against counterfeit drugs, have been fulfilled. On 5 June 2019, as part of the 14th Convention of Croatian Exporters, held under the title "The Role of Exports in Modern Economic Policy", the Croatian Exporters' Association awarded Belupo the "Golden Key" for the best exporter to the Russian Federation in 2018. At its last session held in May, the Council of Members of the Croatian Employers' Association unanimously elected Hrvoje Kolarić, a member of Podravka's Management Board and President of the Belupo Board, as a member of the Executive Board - a collective body for managing the operations of the CEA. On 4 October, the Certification company UDEM Adriatic Ltd., awarded Belupo the ISO 13485: 2016 Certification, an internationally recognized standard for the quality management system in the pharmaceutical industry. The ISO 13485 certification includes certain specific requirements for medical products such as design, production, quality control, storage, sales and distribution.

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

Agency for Medicinal Products and Medical Devices of Croatia (HALMED) has checked that all systems are in accordance with EudraLex - Volume 4 - Good Manufacturing Practice (GMP) guidelines Part I, according to all chapters and annexes. The EU GMP Certificate is a document which confirms that Belupo fulfils the requirements of good manufacturing practice and can distribute its drugs to the European Union and other markets that recognize the EU GMP Certificate.

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

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 d.d., BiH **65% Belupo d.d.**
REPRESENTATIVE OFFICES of Belupo d.d.	**Moscow, Russia**
	Prague, Czech Republic
	Sarajevo, B&H
	Belgrade, Serbia
	Priština, Kosovo
	Skopje, Macedonia
	Warsaw, Poland
	Kiev, Ukraine
	Almaty, Kazakhstan

The company has no subsidiaries.

MARKETS OF THE BELUPO GROUP

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In 2019, 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, Botswana, Denmark and Germany through cooperation with other distributors who are not part of the Group.

The most important foreign markets are the Adria region, Central and Eastern Europe - the most significant part of the sales abroad was realized in the Russian market and the market of Bosnia and Herzegovina.

<u>Adria region</u>

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

<u>Eastern Europe</u>

Russia, Ukraine and Kazakhstan.

<u>Central Europe</u>

Czech Republic, Slovakia and Poland

<u>New markets</u>

Turkey, Iraq, Botswana

<u>Belupo – outlicensing</u>

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
    - Medical products

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

A preparations acting on the alimentary tract and metabolism
B preparations acting on blood and blood forming organs
C preparations acting on the cardiovascular system
D preparations for skin treatment - dermatologicals
G preparations acting on the genito-urinary system and sex hormones
J preparations for treating systemic infections
L preparations for treating malignant diseases and immunomodulating agents
M preparations acting on the musculo-skeletal system
N preparations acting on the nervous system
P preparations for treating infections caused by parasites
R preparations acting on the respiratory system
S preparations for sensory organs

These groups of drugs are produced in a variety of forms such as tablets, capsules, film-tablets, effervescent tablets, orally disintegrating tablets, solutions (and in spray form), 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 OF BELUPO GROUP IN 2019

Consolidated and unconsolidated statement of comprehensive income for the year ended 31 December 2019

(in thousands of HRK)	*Group* 2019	*Group* 2018	*Company* 2019	*Company* 2018
Revenue	957,448	898,775	700,897	654,289
Cost of goods sold	(470,034)	(430,844)	(319,627)	(287,236)
Gross profit from sales	**487,414**	**467,931** -	**381,270**	**367,053**
Non-production cost of the new factory	(14,492)	(20,254)	(14,492)	(20,254)
Gross profit	**472,922**	**447,677** -	**366,778**	**346,799**
Other income	17,591	1,853	17,440	870
General and administrative expenses	(124,932)	(112,191)	(100,047)	(91,045)
Selling and distribution expenses	(62,170)	(63,578)	(35,406)	(38,495)
Marketing expenses	(183,957)	(175,037)	(157,594)	(148,464)
Other expenses	(174)	(13,601)	(1)	(13,717)
Operating profit	**119,280**	**85,123**	**91,170**	**55,948**
Finance income	1,994	8,502	5,632	11,130
Finance costs	(9,553)	(10,354)	(8,340)	(8,652)
Profit before tax	**111,721**	**83,271**	**88,462**	**58,426**
Income tax	(21,952)	(16,986)	(18,360)	(13,309)
Profit for the year	**89,769**	**66,285**	**70,102**	**45,117**
Other comprehensive income:				
Actuarial gains	(234)	**299**	(155)	**236**
Foreign operations – foreign currency translation differences	405	(1,017)	-	-
Total comprehensive income for the year	**89,940**	**65,567**	**69,947**	**45,353**
Profit attributable to:				
The equity holders of the parent	83,650	60,662		
Non-controlling interests	6,119	5,623		
	89,769	**66,285**		
Total comprehensive income attributable to:				
The equity holders of the parent	83,689	60,287		
Non-controlling interests	6,251	5,280		
	89,940	**65,567**		

Consolidated statement of financial position as at 31 December 2019

	Group		Company	
(in thousands of HRK)	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
ASSETS				
Non-current assets				
Intangible assets	101,449	94,164	58,290	51,210
Property, plant and equipment	795,442	816,276	708,843	729,233
Right-of-use assets	17,153	-	8,779	-
Financial assets	295	277	20,631	29,010
Investments in subsidiaries	-	-	99,664	99,664
Deferred tax assets	95,034	113,397	99,242	117,417
	1,009,373	**1,024,114**	**995,449**	**1,026,534**
Current assets				
Inventories	209,830	211,575	155,318	166,440
Dugotrajna imovina namijenjena za prodaju	1,751	-	1,751	-
Trade and other receivables	335,866	287,882	274,094	221,035
Loan receivables	-	-	8,494	8,465
Income tax receivable	372	629	-	-
Cash and cash equivalents	20,092	55,486	14,651	44,954
	567,911	**555,572**	**454,308**	**440,894**
Total assets	**1,577,284**	**1,579,686**	**1,449,757**	**1,467,428**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	579,087	579,087	579,087	579,087
Reserves	113,507	108,126	112,800	107,613
Retained earnings*	367,145	288,837	338,869	274,109
Attributable to the equity holders of the parent	**1,059,739**	**976,050**	**1,030,756**	**960,809**
Non-controlling interests	46,738	40,487		
	1,106,477	**1,016,537**	**1,030,756**	**960,809**
Non-current liabilities				
Loans and borrowings	252,651	344,272	241,737	327,964
Liability for right-of-use assets	12,274	-	5,964	-
Provisions	8,387	7,763	7,456	6,828
Deferred tax liability	2,568	2,686	-	-
	275,880	**354,721**	**255,157**	**334,792**
Current liabilities				
Trade and other payables	87,276	107,104	70,177	83,006
Loans and borrowings	97,015	97,410	87,332	87,039
Liability for right-of-use assets	5,438	-	3,288	-
Income tax payable	346	753	-	-
Provisions	4,852	3,161	3,047	1,782
	194,927	**208,428**	**163,844**	**171,827**
	470,807	**563,149**	**419,001**	**506,619**
Total shareholders' equity and liabilities	**1,577,284**	**1,579,686**	**1,449,757**	**1,467,428**

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

Hrvoje Kolarić has been elected as a member of the CEA (Croatian Employers' Association) Executive Board

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

"Golden Keys" for Belupo and Podravka

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

7. SIGNIFICANT EVENTS

JANUARY

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

FEBRUARY

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

Lider invest 2019
The topic of the panel discussion at Leader invest, held on 28 February in Koprivnica and attended by managers and owners of the most successful companies in North-western Croatia, was creating a positive investment environment in this part of Croatia. Board member, Ms Ksenija Punčikar attended the panel and pointed out that Belupo had the largest investment in North-western Croatia, having invested HRK 1 billion since 2000, of which more than HRK 500 million was invested in the new drug factory put into operation in 2017.

MARCH

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

APRIL

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

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

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

MAY

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

JUNE

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

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

SEPTEMBER

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

OCTOBER

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

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

26th traditional Days of Belupo
Like the past 25, Belupo organized the Days of Belupo again this year and hosted more than 320 pharmacists. The participants also discussed a number of current topics and challenges facing pharmacy, as well as the pharmaceutical industry - a strategic branch of the Croatian economy.

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

NOVEMBER

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

DECEMBER

Completion of the 1st wave of Lean Six Sigma transformation projects of Belupo

The Lean Six Sigma (LSS) method is the right way to seek and find better business solutions. The LSS monitors all the steps of the process and in each step involves the people who participate in the process as well as those to whom the result of that process is to serve - either as end users or in the further steps of production. The application of solutions that emerged from the first wave of Belupo's transformation projects started. All the applied procedures will continue to be monitored, evaluated and improved. This is one of the ways in which our transformation continues. The effect of LSS transformation is becoming more and more visible every day - the thinking process in every pore of the company is changing and the application of transformation approaches and procedures is increasing.

GMP Inspection of the Russian Regulatory Authority

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

8. PORTFOLIO TEAM

During 2019, Belupo's portfolio increased by 18 new products in the Croatian market and 58 products in foreign markets (in ATC drug groups A, B, C, D, G, M, N, R and cosmetics). In 2019, the following new products were released in the Croatian market: Rosix Combi (rosuvastatin + ezetimibe) 5 mg/10 mg, 10 mg/10 mg and 20 mg/10 mg tablets, Ginko forte 120 mg film-coated tablets. Q-PIN SR (quetiapine) 50 mg, 100 mg, 150 mg, 200 mg and 400 mg prolonged-release tablets, Abuxar (febuxostat) 80 mg and 120 mg film-coated tablets, Neofen Rapid (ibuprofen lysine) 200 and 400 mg film-coated tablets, Beloflux (solifenacin) 5 and 10 mg film-coated tablets, Zynol (benzidamine) 1.5 mg/ml and 3 mg/ml oral mucosa spray and Zynol (benzidamine) 1.5 mg/ml mouthwash /gargling solution, Agnis Combi (vildagliptin + metformin) 50 mg/1000 and 50/850 mg film-coated tablets and Belodex (dexpantenol) foam. A novelty in the expanded enteral food portfolio is the formulation Nutribel diabet that comes in two flavours.

The newly registered products from Belupo's portfolio marketed in other EU markets are as follows: Benzidamine 1.5 mg/ml and 3 mg/ml oral mucosa spray and Benzidamine 1.5 mg/ml mouthwash / gargling solution called Rubisept in Slovenia that is, Belozyme in the Czech Republic. Ibubel Combo (ibuprofen + levomenthol) gel, Razagilin 1 mg tablets, Ibubel lin (ibuprofen lysine) 200 mg and 400 mg film-coated tablets were also released in Slovenia as well as Belodex (dexpanthenol) foam in the status of cosmetics that was also marketed in the Czech market, respectively. In Slovakia, the portfolio expanded with Beloretin (isotretinoin) 10 mg and 20 mg capsules, and Abuxar (febuxostat) 80 mg film-coated tablets. In Poland, Beloflow (solifenacin) 5 mg and 10 mg film-coated tablets and Beloderm ointment 30g were released.

Belupo's SEE markets expanded the portfolio with the following products: Abuxar (febuxostat) 80 mg and 120 mg film-coated tablets, Neofen Rapid (ibuprofen lysine) 200 mg film-coated tablets, Bezidine (benzidamine) 1.5 mg/ml and 3 mg/ml oral mucosa spray, Beleptic (lacosamide) 50 mg film-coated tablets, Agnis Combi (vildagliptin + metformin) 50 mg/1000 and 50/850 mg film-coated tablets, Medazol (metronidazole) 400 mg tablets and Belodex (dexpantenol) foam in Bosnia and Herzegovina, Agnis (vildagliptin) 50 mg tablets in Montenegro, Zaracet (tramadol + paracetamol) 75 mg/650 mg film-coated tablets, Abuxar (febuxostat) 80 mg and 120 mg film-coated tablets, Azolar (aripiprazole) 10 mg and 15 mg tablets, Lordiar (loperamide) 2 mg capsules, Irumed (lisinopril) 10 mg tablets and Mukobel (acetylcysteine) 600 mg effervescent tablets in Serbia, Iruzid (lisinopril + hydrochlorothiazide) 20/25 mg tablets, Abuxar (febuxostat) 80 mg and 120 mg film coated tablets, Potassium chloride 500 mg tablets, Razagilin 1 mg tablets and Urutal (betahistin) 24 mg tablets in Macedonia and Sona cream in Kosovo.

The Russian market expanded its portfolio with Brudol (ibuprofen) 60 mg and 125 mg suppositories, while Neofen (ibuprofen) 60 mg suppositories and Generolone (minoxidil) 2% and 5% solutions were released in Kazakhstan.

9. REGISTRATION SOLUTIONS

In 2019, Belupo registered a total of 76 drugs (prescription and non-prescription) and 6 products in the category of Foods for Special Medical Purposes and Cosmetics. The products are registered in 11 Belupo markets (Croatia, Czech Republic, Slovakia, Poland, Slovenia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Kazakhstan and the Ukraine). Most of them are registered in the group of drugs with effects on: the digestive system and metabolism (18), the musculoskeletal system (14), the blood and blood-forming organs (13), the urogenital system (8), the nervous system (7), the skin - dermatics (7), the respiratory system (6) and the cardiovascular system (3).

In the Croatian market 18 new drugs were registered, of which 11 are in the prescription drug status and 7 in the non-prescription (OTC) status. The products Nutrixa (reissued authorisation, formulation in 4 flavours), Nutribel complex (reissued authorisation, formulation in 3 flavours) and Nutribel diabet (formulation in 2 flavours) were approved in the category of Foods for Special Medical Purposes in Croatia.

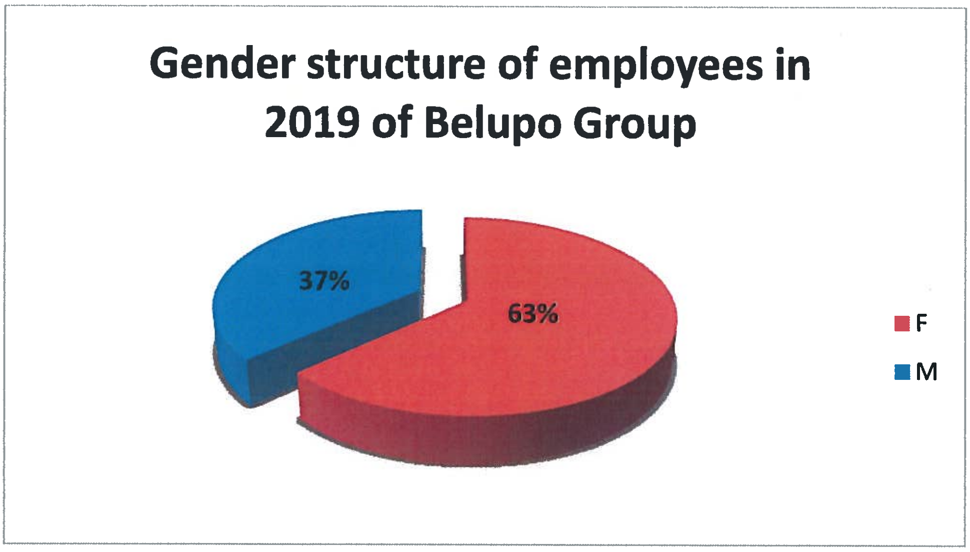
10. EMPLOYEES

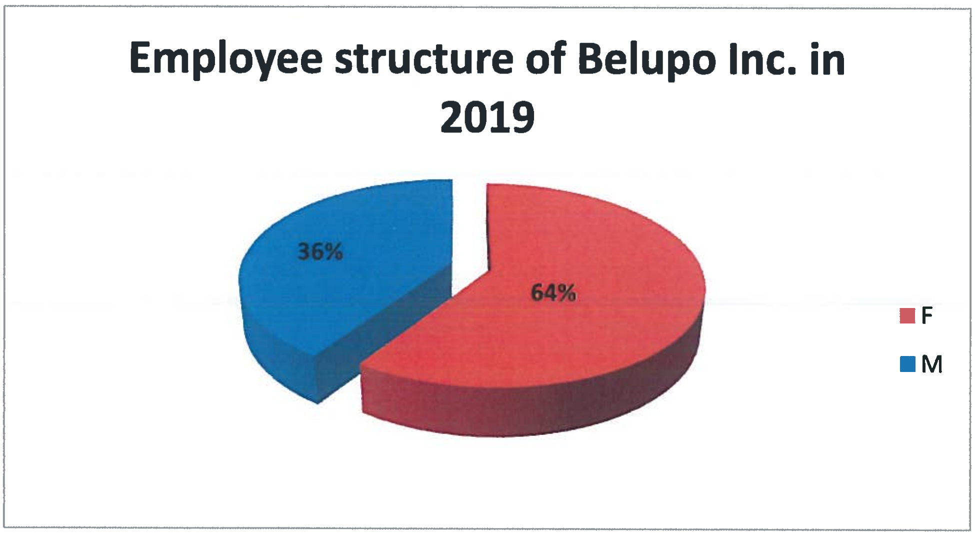
Belupo is a modern and efficient company whose success is based on high quality standards, and this high quality standards are also reflected in our human resource management. Belupo is a pharmaceutical company that cares for people and appreciates their importance, because they are the holders of all 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.

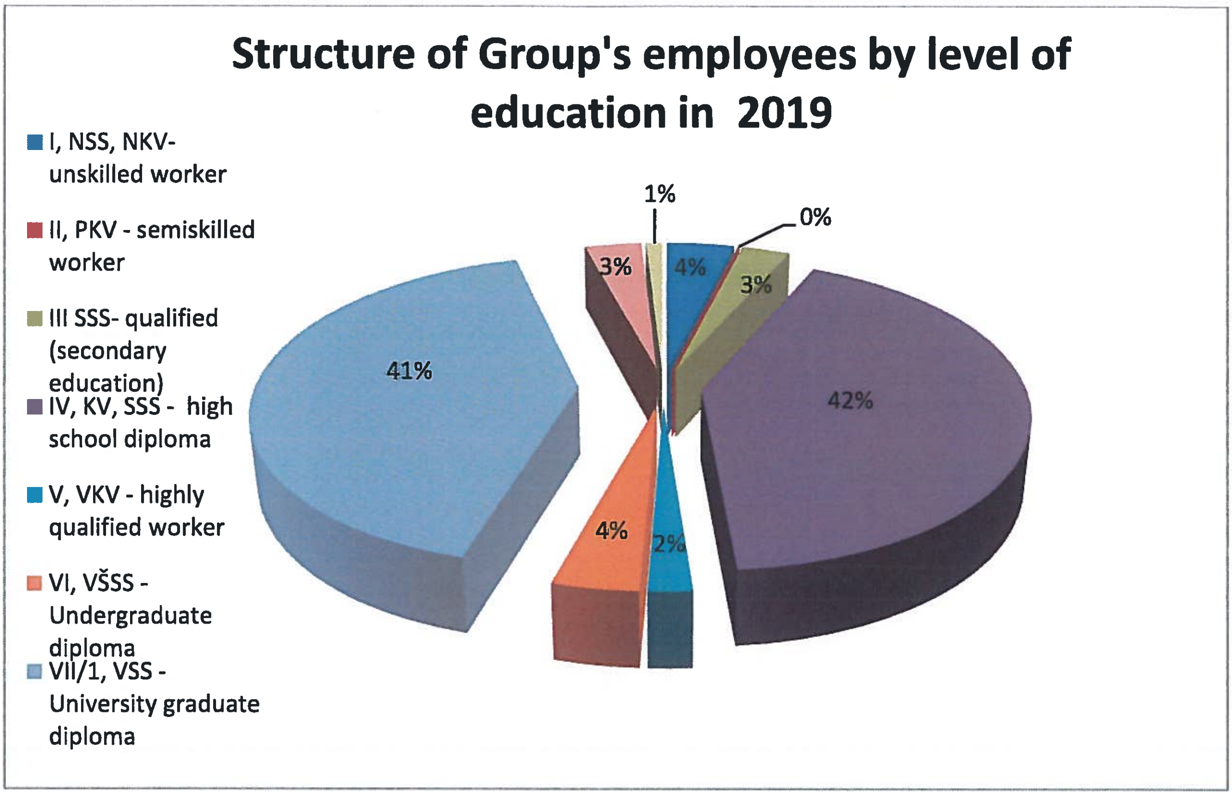
Knowledge is the power with which Belupo successfully faces all challenges of the business environment and we consider investment in knowledge as an investment in business development with manifold returns. We are a team of educated and dedicated professionals who with our enthusiasm, desire for quality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

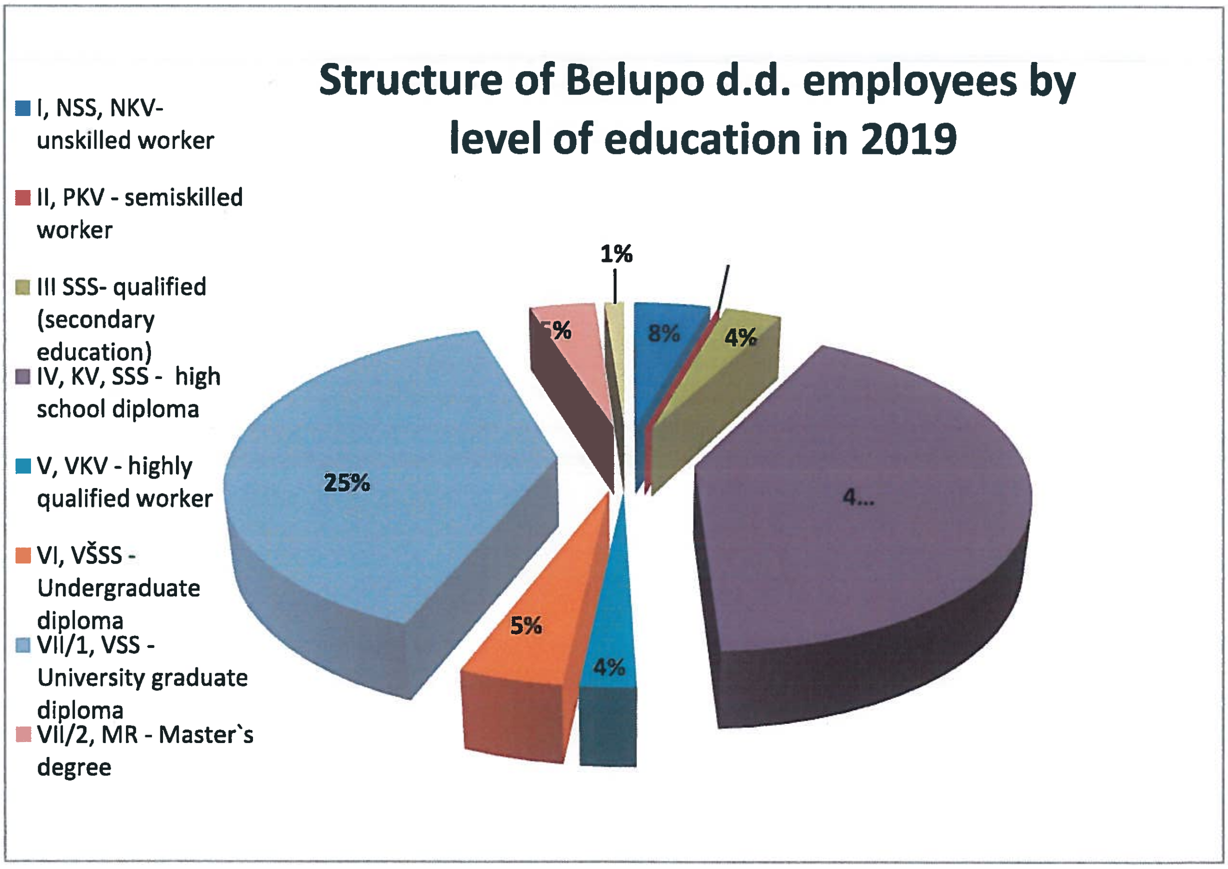
On December 31 2019, Belupo Group had 1,496 employees . On December 31 2019 Belupo d.d. had 1.233 workers. The structure of employees by gender and level of education in Belupo Group and Belupo d.d. respectively, is shown below:





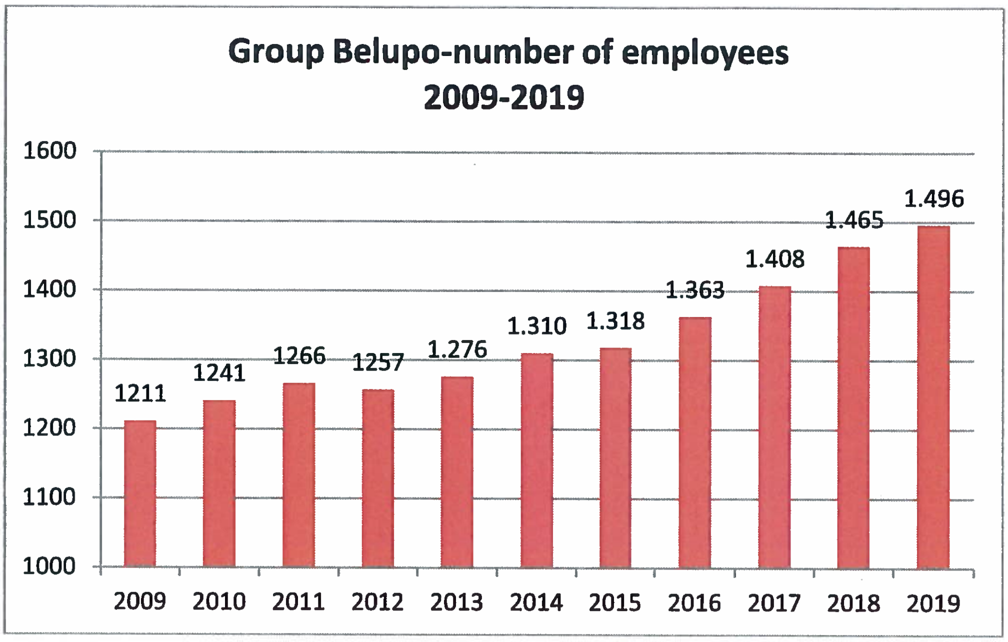
The gender structure of Belupo Group employees constitutes 63% women and 37% men and of Belupo d.d. 64% women and 36% men. Due to such a high proportion of women in the structure of employees, the understanding of sociological, economic and psychological aspects and consequences is extremely important. Belupo encourages motherhood with high maternity incentives and thus maximally supports pregnancy of its employees and emphasises the social importance of the family. Belupo continuously invests in the education of its employees, which is best illustrated by 54,190 hours of training provided in 2019. There was a total of 47,808 hours of internal training performed, of which 23,798 hours for women and 24,010 hours for men. As for external training, the number of hours is 6,205, namely 3,224 hours for women and 2,981 hours for men. For the second year in a row, a prize training was awarded to the best in-house eductor in order to encourage further sharing and transfer of knowledge.





During 2019, Belupo employed 26 trainees with secondary school and 15 with university qualifications through the trainee programme of the Human Resources Development section. Other newly recruited employees passed the personnel introduction programme.

Belupo Group – Employee Movement 2009-2019



The Human Resources Development sector in cooperation with other Belupo entities continued in 2019 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 2019, the Human Resources Development has been actively involved in the process of transformation of Belupo in terms of education of employees of those units not directly involved in the transformation process and in the selection of a new generation Green Belt and project leaders of the second wave of Belupo transformation processes.

Employee ralations

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

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

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

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

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

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

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

11. SOCIAL RESPONSIBILITY

Corporate social responsibility for Belupo is a voluntary way of company management and acting in general. Every business decision takes into account the broader perspectives of social, environmental and economic governance for the benefit of employees, satisfaction of partners, consumers and customers, sustainable financial results and responsible and sustainable investment in the local community.
By constantly adapting to new conditions and challenges, Belupo maintains its leading position in the pharmaceutical industry. Belupo has a clear long-term goal: success in highly demanding social, economic and environmental circumstances. This success is based on key company values: trust, passion, innovation and creativity, excellence, and partnership with associates, customers and consumers. Responsibility to all business segments and responsibility to everyone with whom Belupo operates provides high market competitiveness. Investments in the real economy (industry, innovation and infrastructure) and job creation enable decent work and sustainable economic growth. In addition, sustainable economic growth and jobs create the sustainability of Europe's social model, pension and health systems.
It is these positive drivers of change that Belupo wants for others. Locally, it is investment in the community in which it acts and operates. The hiring of new employees, investing in their knowledge and skills, and in their well-being, health and safety at work, is what empowers the community of people, employees, who are the drivers of change in the business itself, but also of the community in which Belupo operates.
Specifically, the care of all 1,500 employees - their well-being, safety at work, health and education, is certainly one of the most important business segments that contributes to the company's sustainability. Belupo pays jubilee awards for years of service at Belupo, salary bonuses for Christmas and Easter, long-term sickness benefits, cash support for the death of a close family member and supplementary health insurance. These are just some of the benefits and allowances on a yearly basis by which Belupo shows social sensitivity to its employees. In addition, amendments to the Collective Labour Agreement were adopted this year, which had the effect of increasing the substantive rights of each employee. That is why Belupo's employees remain loyal to the company, as evidenced by their expressed attitudes, which have earned the company the Best Employer Award several times.

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

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

12. 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 2019, 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 8 sectors, working environment in 6 sectors and chemicals in 2 sectors was carried out in accordance with the plan for 2019.
Practical evacuation and rescue exercises were carried out at Danica 5 in the Supervision and Energy Center, Logistics (medicines warehouse for the domestic market, storage for medicines for export and storage of raw materials and packaging) and at Ljekarne Deltis Pharm.

Connection eight internal control in the production of liquid and semi-solid drugs, the production of solid medicaments, or maintenance and energy. Defects were not observed.
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 2019, 222 employees had carried out eye and colour recognition tests and a total of 714 employees went through medical examinations.

Particular attention is paid to timely training and education for safety at work and in 2019 total of 64 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 Health and Safety at Work Service organized professional training for 114 employees working with hazardous chemicals and training for 40 employees with direct authorisation.

In 2019, 12 employees were injured, of which 3 injuries were not eligible.
There were 5 injuries reported at the workplace.

13. ENVIRONMENTAL PROTECTION

ENVIRONMENTAL PROTECTION ACTIVITIES

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

WASTE MANAGEMENT

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

Processing method / per total quantity	Recycling	Thermal processing	Landfill
Waste amount %	58.5	36.8	4.7

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.

AIR PROTECTION

Great attention is given to air emissions by monitoring the emissions of dust and organic solvents from technological discharges and emissions of NO_2, CO, SO_2 and CO_2 from energy discharges.
During 2019, 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 2019, permeability of controlled substances from refrigeration units was regularly examined.

WATER PROTECTION

Water protection is performed in compliance with the Water License for waste water discharge for Belupo's factories at the Danica site. Technological and sanitary waters are drained from the Belupo site through a separate sewage system, they are mixed with wastewater from other factories and drained to the device for mechanical and biological treatment. Waste water analyses are regularly performed by authorized laboratories, according to regulations and the Water License. Due to the correct treatment of hazardous substances and waste that is not drained in the sewage system, waste waters satisfy border values prescribed by the Law. Precipitation waters are drained through a separate sewage into the natural recipient.
Records are kept of all the agents used for water disinfection. Maintenance and cleaning of the waste water drainage system is regularly performed.
In the case of sudden pollution of facilities and the internal drainage system, employees are obliged to act in line with the Operation Plan for Intervention Measures and Water Protection, with which they are familiar and according to the plan, attempt to reduce the risks of water pollution as much as possible.

RISK SUPERVISION

In order to avoid the possibility of an incident with hazardous substances, the Threat Assessment and Protection and Rescue Operation Plan were prepared, detailing potential effects on tangible assets, possible danger for the employees and the environment as a result of using hazardous substances, thus minimising the risk of any incident to the smallest possible level.
Amounts of hazardous substances have been updated, compliant with the Regulation and reported to the Ministry of Environmental Protection and Energy and the National Protection and Rescue Directorate.
Proper handling of hazardous substances and chemicals is an integral part of employee training, whereby the possibility of an incident is minimized.

POLLUTANT EMISSION REGISTER

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

SUPERVISIONS OVER THE IMPELMENTATION OF ENVIRONMENTAL PROTECTION LEGISLATION

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

14. 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.

15. NEW PRODUCTS IN THE YEAR 2019

CROATIAN MARKET

New Products in the Croatian Market - PRESCRIPTION DRUGS

Q-PIN SR 50 mg, 150 mg, 200 mg, 300 mg, 400 mg prolonged-release tablets

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

ROSIX COMBI 20 mg / 10 mg, 10 mg / 10 mg tablets, 5 mg / 10 mg tablets

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

ROSIX-AM 10 mg / 5 mg, 10 mg / 10 mg, 20 mg / 5 mg, 20 mg / 10 mg hard capsules

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

ABUXAR 80 mg, 120 mg film-coated tablets

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

NUTRIBEL DIABET - 200 ml

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

BELOFLUX 5 mg, 10 mg film-coated tablets

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

New Products in the Croatian Market - OTC PRODUCTS

NEOFEN Rapid 200 mg, 400 mg film-coated tablets

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

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

ZYNOL 1.5mg / ml, oral mucosa spray, 30 ml solution; ZYNOL 3 mg / ml, oral mucosa spray, 15 ml solution; ZYNOL 1.5mg / ml gargling / mouthwash solution 120 ml

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

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

NEW PRODUCTS - INTERNATIONAL MARKETS IN 2019

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New products in 2019

RUSSIA

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

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

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

POLAND

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

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

CZECH REPUBLIC

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

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

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

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

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

Belodex foam is indicated in infants, children and adults.

SLOVAKIA

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

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

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

SLOVENIA

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

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

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

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

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

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

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

BOSNIA AND HERZEGOVINA

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

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

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

SERBIA AND MONTENEGRO

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

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

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

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

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

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

MACEDONIA

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

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

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

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

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

16. EXPOSURE AND RISK MANAGMENT

In 2019, 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.

CURRENCY 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.
Information on financial instruments and credit risk is explained in Note 35 Financial Instruments within the Notes to the financial statements.

17 VISION, MISSION, KEY VALUES AND STRATEGY

VISION

Belupo's vision is to become the leading pharmaceutical company in Central and Eastern Europe.

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.

The strategy for organic growth is focused on 3 ATC groups - cardiovascular system (C), dermatologicals (D) and drugs affecting the nervous system (N).

In the OTC segment, Belupo continues to diversify its portfolio of new products.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

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

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

The consolidated and separate financial statements were authorised by the Management Board on 27 March 2020 for issue to the Supervisory Board and are signed below to signify this:

Hrvoje Kolarić
President of the Management Board

Ksenija Punčikar
Member of the Management Board

BELUPO
lijekovi i kozmetika, d.d.
KOPRIVNICA 19

Belupo d.d.
Ulica Danica 5
48 000 Koprivnica
Republic of Croatia
27 March 2020

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Building a better working world

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Independent auditor's report

Report on the audit of the separate and consolidated financial statements

To the Shareholder of Belupo Pharmaceuticals & Cosmetics and Belupo Group

Opinion

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

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Compay and Group as at 31 December 2019 and of its separate and consolidated financial performance and its separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU (IFRS as adopted by EU).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the separate and the consolidated financial statements section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The separate and consolidated financial statements for the year ended 31 December 2018 were audited by another auditor who issued an unmodified opinion on 15 April 2019.

Other information included in the Annual Report for year 2019

Management is responsible for the other information. Other information consists of the information included in the Annual Report which includes the Management report, other than the separated and consolidated financial statements and our auditor's report thereon. Our opinion on the separate and consolidated financial statements does not cover the Other information including the Management report. In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated 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. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act. Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. The information given in the enclosed Management report for the 2019 financial year are consistent, in all material respects, with the enclosed separate and consolidated financial statements;
2. The enclosed Management report for 2019 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

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

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Independent auditor's report (continued)

Responsibilities of management and Audit Committee for the separate and consolidated financial statements

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

In preparing the separate and consolidated 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 and the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

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Independent auditor's report (continued)

Auditor's responsibilities for the audit of the separate and the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Hitrec

Filip Hitrec
Associate partner and certified auditor

27 March 2020

Ernst & Young d.o.o.
Radnička cesta 50
10000 Zagreb, Republic of Croatia

STATEMENT OF COMPREMENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of HRK)	Notes	Group 2019	Group 2018	Company 2019	Company 2018
Revenue	7	957,448	898,775	700,897	654,289
Cost of goods sold	9a	(470,034)	(430,844)	(319,627)	(287,236)
Gross profit from sales		**487,414**	**467,931**	**381,270**	**367,053**
Non-production cost of the new factory	9b	(14,492)	(20,254)	(14,492)	(20,254)
Gross profit		**472,922**	**447,677**	**366,778**	**346,799**
Other income	8	17,591	1,853	17,440	870
General and administrative expenses	9b	(124,932)	(112,191)	(100,047)	(91,045)
Selling and distribution expenses	9c	(62,170)	(63,578)	(35,406)	(38,495)
Marketing expenses	9d	(183,957)	(175,037)	(157,594)	(148,464)
Other expenses	11	(174)	(13,601)	(1)	(13,717)
Operating profit		**119,280**	**85,123**	**91,170**	**55,948**
Finance income	13	1,994	8,502	5,632	11,130
Finance costs	14	(9,553)	(10,354)	(8,340)	(8,652)
Profit before tax		**111,721**	**83,271**	**88,462**	**58,426**
Income tax	15	(21,952)	(16,986)	(18,360)	(13,309)
Profit for the year		**89,769**	**66,285**	**70,102**	**45,117**
Other comprehensive income:					
Items that will not be reclassified to profit or loss					
Actuarial gains (net of tax)		(234)	299	(155)	236
Items that may be subsequently reclassified to profit of loss					
Foreign operations – foreign currency translation differences		405	(1,017)	-	-
Total comprehensive income for the year		**89,940**	**65,567**	**69,947**	**45,353**
Profit attributable to:					
The equity holders of the parent		83,650	60,662		
Non-controlling interests		6,119	5,623		
		89,769	**66,285**		
Total comprehensive income attributable to:					
The equity holders of the parent		83,689	60,287		
Non-controlling interests	30	6,251	5,280		
		89,940	**65,567**		

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

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of HRK)	Notes	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
ASSETS					
Non-current assets					
Intangible assets	17	101,449	94,164	58,290	51,210
Property, plant and equipment	18	795,442	816,276	708,843	729,233
Right-of-use assets	19	17,153	-	8,779	-
Financial assets	21.25	295	277	20,631	29,010
Investments in subsidiaries	20	-	-	99,664	99,664
Deferred tax assets	16	95,034	113,397	99,242	117,417
		1,009,373	**1,024,114**	**995,449**	**1,026,534**
Current assets					
Inventories	22	209,830	211,575	155,318	166,440
Dugotrajna imovina namijenjena za prodaju	23	1,751	-	1,751	-
Trade and other receivables	24	335,866	287,882	274,094	221,035
Loan receivables	25	-	-	8,494	8,465
Income tax receivable		372	629	-	-
Cash and cash equivalents	26	20,092	55,486	14,651	44,954
		567,911	**555,572**	**454,308**	**440,894**
Total assets		**1,577,284**	**1,579,686**	**1,449,757**	**1,467,428**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	27	579,087	579,087	579,087	579,087
Reserves	28	113,507	108,126	112,800	107,613
Retained earnings*	29	367,145	288,837	338,869	274,109
Attributable to the equity holders of the parent		**1,059,739**	**976,050**	**1,030,756**	**960,809**
Non-controlling interests	30	46,738	40,487		
		1,106,477	**1,016,537**	**1,030,756**	**960,809**
Non-current liabilities					
Loans and borrowings	31	252,651	344,272	241,737	327,964
Liability for right-of-use assets	19	12,274	-	5,964	-
Provisions	32	8,387	7,763	7,456	6,828
Deferred tax liability	16	2,568	2,686	-	-
		275,880	**354,721**	**255,157**	**334,792**
Current liabilities					
Trade and other payables	33	87,276	107,104	70,177	83,006
Loans and borrowings	31	97,015	97,410	87,332	87,039
Liability for right-of-use assets	19	5,438	-	3,288	-
Income tax payable		346	753	-	-
Provisions	32	4,852	3,161	3,047	1,782
		194,927	**208,428**	**163,844**	**171,827**
		470,807	**563,149**	**419,001**	**506,619**
Total shareholders' equity and liabilities		**1,577,284**	**1,579,686**	**1,449,757**	**1,467,428**

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 2019

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 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	28	-	7,111	(7,111)	-	-	-
Capital premium		-	(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**
Balance at 1 January 2019.		**579,087**	**108,126**	**288,837**	**976,050**	**40,487**	**1,016,537**
Profit for the year		-	-	83,650	83,650	6,119	89,769
Other comprehensive income		-	39	-	39	132	171
Total comprehensive income		**-**	**39**	**83,650**	**83,689**	**6,251**	**89,940**
Transactions with owners recognized directly in capital							
Transfer to other reserves	28	-	5,342	(5,342)	-	-	-
Total Transactions with owners recognized directly in capital		-	5,342	(5,342)	-	-	-
Balance at 31 December 2019.		**579,087**	**113,507**	**367,145**	**1,059,739**	**46,738**	**1,106,477**

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

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

Company (in thousands of HRK)	Notes	Share capital	Other reserves	Retained earnings	Total
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	28	-	7,111	(7,111)	-
Capital premium	28	-	(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**
Balance at 1 January 2019.		**579,087**	**107,613**	**274,109**	**960,809**
Profit for the year		-	-	70,102	70,102
Other comprehensive income		-	(155)	-	(155)
Total comprehensive income		**-**	**(155)**	**70,102**	**69,947**
Transactions with owners recognized directly in capital					
Transfer to other reserves	28	-	5,342	(5,342)	-
Total Transactions with owners recognized directly in capital		**-**	**5,342**	**(5,342)**	**-**
Balance at 31 December 2019.		**579,087**	**112,800**	**338,869**	**1,030,756**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of HRK)	*Group* 2019	2018	*Company* 2019	2018
Profit for the year	**89,769**	**66,285**	**70,102**	**45,117**
Depreciation of property, plant and equipment	46,929	45,902	40,887	39,545
Depreciation of intangible assets	8,960	9,775	7,646	7,620
Depreciation of property with right of use	7,409	-	5,281	-
Loss/(Gain)on sale of property, plant and equipment	(783)	658	(627)	714
Interest and other financial income	(1,995)	(3,263)	(5,632)	(5,125)
Interest expense and Other financial expenses	10,158	10,354	8,974	8,652
Foreign exchange difference	1,946	(7,230)	1,532	(6,010)
Tax expense	21,952	16,986	18,360	13,309
	184,345	**139,467**	**146,523**	**103,822**
Increase/ (Decrease)of provisions	2,040	(236)	1,705	556
Change in inventories	1,745	(36,158)	11,122	(30,017)
Change in trade and other receivables	(48,942)	19,280	(52,021)	18,395
Change in trade and other payables	(20,261)	912	(13,280)	(1,041)
Cash generated from Operations	**118,927**	**123,265**	**94,049**	**91,715**
Interest paid	(7,438)	(9,855)	(6,241)	(8,136)
Income tax paid	(3,827)	(3,535)	(152)	17
Net cash generated from Operations	**107,662**	**109,875**	**87,656**	**83,596**
Cash flow from investing activities				
Acquisition of property, plant and equipment	(28,380)	(26,517)	(23,186)	(25,073)
Proceeds from the sale of property, plant and equipment	2,780	796	2,461	401
Acquisition of intangible assets	(17,246)	(13,086)	(15,696)	(11,466)
Proceeds from sales of pharmacy rights	500	438	-	-
Proceeds from sale of financial assets	-	40,008	-	40,008
Acquisition of financial assets	-	(40,008)	-	(40,008)
Loans and deposits given	(40)	(28)	(40)	(53)
Loans received	42	26	8,499	4,299
Interest received	170	131	170	1,747
Dividend received	-	-	2,142	849
Net cash generated used in investing activities	**(42,174)**	**(38,240)**	**(25,650)**	**(29,296)**
Cash flow from financing activities				
Proceeds from borrowings	114,382	33,880	103,000	-
Repayment of borrowings	(207,841)	(139,191)	(189,947)	(86,976)
Repayment of rent	(7,423)	-	(5,362)	-
Net cash generated from financing activities	**(100,882)**	**(105,311)**	**(92,309)**	**(86,976)**
Net increase in cash and cash equivalents	**(35,394)**	**(33,676)**	**(30,303)**	**(32,676)**
Cash and cash equivalents at beginning of the year	55,486	89,162	44,954	77,630
Cash and cash equivalents at end of the year	**20,092**	**55,486**	**14,651**	**44,954**

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

NOTE 1 – GENERAL INFORMATION

Belupo Pharmaceuticals and Cosmetics Inc., 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 Ulica 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 27 March 2020.

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 Group's first financial statements which include the adoption of IFRS 16 Leases. The changes in accounting policies are explained in note 4.1.

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 2019 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 related companies over which the Company has control over its financial and business policies, which by rule includes more than 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, the difference is recognised directly in the statement of comprehensive income.

Non-controlling interests

Non-controlling interests are initially measured by their proportionate share of recognised net assets of the acquiree at the acquisition date. Changes in the Group's share in the subsidiary that do not result in loss of control are accounted for as transactions with owners.

Loss of control over subsidiaries

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

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2. Non-current assets held for sale

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

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

3.3. 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 (Carriage and Insurance Paid to), 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 (Ex Works), 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. Revenue recognition (continued)

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 Croatian Institute for Health Insurance (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 consists of interest income on funds invested, income from guarantee fees, changes in the fair value of financial assets carried at fair value through profit and loss, and exchange rate gains on loans and financial assets. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised when the right to receive payment is established.

3.4. Leases

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

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

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value in the amount up to HRK 35 thousand (low-value assets). Assessment of asset of a low value starts from the assessment of new assets, regardless of the age of that asset at the time of assessment. If a lessee subleases an asset, the head lease does not qualify as a lease of a low value asset. In short-term leases and leases of a low value asset, lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term. At the commencement date of the lease Group recognize right-of-use assets at cost. The cost of right-of-use assets comprise of amount of the initial measurement of the lease liability, all lease payments plus all direct costs and less any lease incentives received. The asset is activated when it is put into use.

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Leases (continued)

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

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

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

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

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

The statement of comprehensive income includes the cost of amortization of the right-of-use assets and interest expenses on lease liabilities (see note 19).

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

Sale and leaseback

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. 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 2019 the official exchange rate for EUR 1 and USD 1 was HRK 7.442580 and HRK 6.649911 respectively (31 December 2018: HRK 7.417575 and HRK 6.469192, 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 are translated into the Company's and Group's presentation currency at rates approximating the foreign exchange rates ruling at the dates of transactions and their assets and liabilities are translated at the exchange rates ruling at the year end.

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

3.6. 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. 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.

3.8. 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.

3.9. 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.

3.10. 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Taxation (continued)

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.

3.11. 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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Property, plant and equipment (continued)

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.

3.12. Intangible assets

Distribution rights, registration files and registration

Distribution rights, rights of registration files use and registration have a definite 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.

Software i licence	2 do 15 godina
Prava korištenja registracijskih dosjea, prava distribucije i registracija	5 do 15 godina
Troškovi razvoja	10 godina

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12. Intangible assets (continued)

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.

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.

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

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (apart from inventories and deferred taxes) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company and 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, Company and Group 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 are tested for impairment annually, as well as other intangible assets whenever there is an indication that the asset may be impaired.
Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. Impairment of property, plant and equipment and intangible (continued)

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.

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.

3.14. Trade receivables

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

3.15. Inventories

Inventories of raw materials, packaging, spare parts and technical materials 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.

3.16. 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.

3.17. Share capital

Share capital consists of ordinary shares.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. 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 corporate 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 corporate 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)

3.19. 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.

3.20. Financial instruments

A. Financial assets

(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
- FVTPL (fair value through profit or loss).

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

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

- it is held within a business model whose objective is to 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)

3.20. Financial instruments (continued)

A. Financial assets (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)

3.20. Financial instruments (continued)

A. Financial assets (continued)

(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)

3.20. 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20. Financial instruments (continued)

E. Impairment of non-derivative financial assets

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)

3.20. Financial instruments (continued)

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

Credit-impaired financial assets

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

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

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

Presentation of allowance for 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.

3.21. Comparison with previous periods

Since 2019, the Group (Company) has, based on IFRS 15 Revenue from Contracts with Customers which is effective as of 1 January 2018, reclassified certain considerations for various promotional and marketing activities which were disclosed within marketing expenses, as sales deduction. The change in the presentation, has no effect on the net result of the Group (the Company).

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

4.1 Adoption of new standards - changes in accounting policies and disclosure

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2019:

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

The Group and Company have been applying IFRS 16 Leases since 1 January 2019.

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

		Group	
	31 December 2019	**1 January 2019**	**31 December 2018**
		(in thousands of HRK)	
Right-of-use assets	**17,153**	**21,003**	-
Lease liabilities	**17,712**	**21,003**	-
Current portion of long term liability for right-of-use assets	12,274	21,003	-
Long term liabilty for right-of-use assets	5,438	-	-
Equity			
Retained earnings	8,394	-	-

		Company	
	31 December 2019	**1 January 2019**	**31 December 2018**
		(in thousands of HRK)	
Right-of-use assets	**8,779**	**12,383**	-
Lease liabilities	**9,252**	**12,383**	-
Current portion of long term liability for right-of-use assets	5,964	12,383	-
Long term liabilty for right-of-use assets	3,288	-	-
Equity			
Retained earnings	5,978	-	-

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

Reconciliation of lease liability at 1 January 2019 with future operating lease payments at 31 December 2018:

(in thousands of HRK)	*Group*	*Company*
Operating lease commitments as at 31 December 2018	**23,639**	**14,403**
Weighted average incremental borrowing rate as at 1 January 2019	2.39	2.28
Discounted operating lease commitments as at 1 January 2019	22,709	13,968
Less:		
Commitments relating to short-term leases and low-value assets	(1,706)	(1,585)
Commitments relating to short-term leases and low-value assets	**21,003**	**12,383**

- **IFRS 9: Prepayment features with negative compensation (Amendment)**

  The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income.
- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**

  The Amendments relate to whether the measurement, in particular impairment requirements, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the Group does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28.
- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**

  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances.
- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**

  The Amendments require the Group to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements.
- **The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle,** which is a collection of amendments to IFRSs.

  - ***IFRS 3: Business Combinations and IFRS 11: Joint Arrangements:*** The amendments to IFRS 3 clarify that when the Group obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when the Group obtains joint control of a business that is a joint operation, the Group does not remeasure previously held interests in that business.
  - ***IAS 12 Income Taxes:*** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

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

- ***IAS 23: Borrowing Costs:*** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that the Group borrows generally.

4.2. Standards issued but not yet in force and not previously adopted

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2019 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. It is not expected that these standards will have a significant effect on the consolidated financial statements of the Group and the Company. Their overview is set out below:

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

- **Conceptual Framework in IFRS standards**

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- **IFRS 3: Business Combinations (Amendments)**

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU.

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

4.2. Standards issued but not yet in force and not previously adopted (continued)

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards.

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

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR).

The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Judgments made by management in the application of EU IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed more detail below.

(i) 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 2019, 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 (in 2018 there was no need to increase or decrease the useful life of property, plant or equipment).

(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.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

The key assumptions underlying the projections of future cash flows:

- revenue average growth rate in the period from 2020-2024 of 2.0%
- savings and optimize consumption, reduce the cost of central services
- improve the conditions of purchase with suppliers

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 8.34% after tax (for assets which generate the majority of revenue on the Croatian market).

In 2019, the Group had no costs for impairment of the value of intangible assets – pharma rights (in 2018 the Group 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 Group 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 liabilities
- 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 2019	Group 2018	Company 2019	Company 2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Revenue from sales of products - domestic	384,676	380,271	335,002	331,612
Revenue from sales of products abroad	560,478	506,626	362,400	319,603
Revenue from sales of services - domestic	9,055	8,430	2,668	2,324
Revenue from sales of services abroad	3,239	3,448	827	750
	957,448	**898,775**	**700,897**	**654,289**

NOTE 7a – SALES REVENUE BY TERRITORIAL REGION

	Group 2019	Group 2018	Company 2019	Company 2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Adria region	663,570	637,490	418,814	404,190
Western Europe and Overseas region	797	1,675	797	1,675
Central Europe region	60,509	57,112	48,714	45,926
Eastern Europe region	231,647	189,301	231,647	189,301
New markets region	925	13,197	925	13,197
	957,448	**898,775**	**700,897**	**654,289**

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

BILJEŠKA 7b – REVENUES FROM SALES BY SEGMENTS

	Group 2019	Group 2018	Company 2019	Company 2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Ethical drugs	664,653	638,703	587,722	550,744
Non-prescription drugs and medicinal products	113,382	103,537	104,704	95,671
Enteral nutrition	5,261	4,881	4,976	4,786
Services	12,294	11,878	3,495	3,074
Trade goods	161,857	139,759	-	-
Other	1	17	-	14
	957,448	**898,775**	**700,897**	**654,289**

NOTE 8 – OTHER INCOME

	Group 2019	Group 2018	Company 2019	Company 2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Income from liabilities write off	-	300	-	-
Gain / (loss) on sale of property, plant and equipment - net	710	-	552	67
Government grants	292	292	292	292
Gains / (losses) on the sale and expense of eligible assets - net	74	-	74	-
Foreign exchange gains on receivables and payables	13,830	-	13,837	-
Other income	2,685	1,261	2,685	511
	17,591	1,853	17,440	870

NOTE 8 – OTHER INCOME (continued)

Other revenue of the Group in the amount of HRK 2,685 thousand in 2019 includes revenue from royalties and revenue from the sales of dossiers and rights to use (2018: revenue from the sales of dossiers and rights to use and revenue from the sales of pharmacy rights).

Other revenue of the Company in the amount of HRK 2,685 thousand in 2019 includes revenue from royalties and revenue from the sales of dossiers and rights to use (2018: revenue from the sales of dossiers and rights to use).

NOTE 9a – COST OF GOODS SOLD

	Group		*Company*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Material and and cost of goods sold	337,730	309,543	200,673	180,771
Staff costs	74,975	69,294	69,462	64,130
Depreciation and amortisation	28,513	25,169	26,329	22,774
Energy	14,595	15,490	13,485	14,458
Other	14,221	11,348	9,678	5,103
	470,034	**430,844**	**319,627**	**287,236**

NOTE 9b – GENERAL AND ADMINISTRATIVE EXPENSES

	Group		*Company*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Staff costs	72,379	63,561	60,142	52,888
Services	24,981	23,478	19,385	18,571
Depreciation and amortisation	11,333	8,933	8,624	6,922
Other	16,239	16,219	11,896	12,664
Total	**124,932**	**112,191**	**100,047**	**91,045**
Non-production cost of the new factory	14,492	20,254	14,492	20,254

Within the general and administrative costs of the Group in 2019, HRK 42,176 thousand was recognized as research and development expenses (2018: HRK 39,942 thousand).
Within the general and administrative costs of the Company in 2019, HRK 39,568 thousand was recognized as research and development expenses (2018: HRK 39,942 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 2017. Within cost of production in 2019 there is HRK 14,492 thousand (2018: 20,254 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 2019	Group 2018	Company 2019	Company 2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Includes:				
Staff costs	36,269	34,944	19,045	18,208
Depreciation and amortisation	5,516	4,756	2,297	1,724
Provision for trade receivables, net	318	833	(54)	(474)
Energy	2,971	2,662	2,118	1,879

NOTE 9d – MARKETING EXPENSES

	Group 2019	Group 2018	Company 2019	Company 2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Includes:				
Staff costs	68,242	62,387	60,401	55,013
Depreciation and amortisation	8,951	5,960	7,579	4,886
Raw materials and supplies and spare parts	4,473	3,930	3,729	3,213

NOTE 10 – EXPENSES BY NATURE

	Group 2019	Group 2018	Company 2019	Company 2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Raw materials and supplies and cost of goods sold	378.776	353,600	231,146	218,408
Staff costs	252.392	232,289	209,576	192,342
Advertising and promotion	54,310	55,736	43,621	45,015
Depreciation and amortisation	63,298	55,677	53,814	47,165
Services	51,103	47,786	43,206	39,458
Entertainment	21,379	21,548	15,458	16,914
Rental costs	2,106	8,911	1,760	6,274
Transport	9,727	9,512	9,415	9,169
Telecommunication	2,220	2,165	1,610	1,526
Other taxes and contributions	4,030	4,082	3,308	3,444
Provisions for trade receivables, net	317	834	(54)	(474)
Insurance premiums	4,320	3,232	3,881	2,850
Per diems and travelling expenses	8,828	7,253	6,854	5,040
Other expenses	2,779	(721)	3,571	(1,637)
	855,585	**801,904**	**627,166**	**585,494**

NOTE 11 – OTHER EXPENSES

	Group 2019	Group 2018	Company 2019	Company 2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Interest expense on trade payables	1	2	1	2
Interest - Other	173	-	-	-
Loss on disposal of property, plant, equipment	-	656	-	780
Foreign exchange gains on receivables and payables	-	12,943	-	12,935
	174	**13,601**	**1**	**13,717**

NOTE 12 – STAFF COSTS

	Group 2019	2018	*Company* 2019	2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Salaries	236,914	222,564	196,652	184,806
Transportation	4,348	2,784	3,923	2,368
Unused vacation and jubilee awards	888	924	1,187	911
Termination benefits	90	884	16	884
Other	10,152	5,133	7,798	3,373
	252,392	232,289	209,576	192,342

As at 31 December 2019, the number of staff employed by the Group was 1,496 (2018: 1,465 employees).

In 2019, the Group accrued and paid HRK 90 thousand of severance payments for 5 employees (2018: HRK 8 thousand for 1 employee). There were no accrued or paid incentive severance payments (2018: HRK 876 thousand for 6 employees).

As of 31 December 2019, the Company had 1,233 employees, of whom 241 were employed in representative offices (2018: 1,210 employees, of whom 235 were employed in representative offices).

In 2019, the Company accrued and paid HRK 16 thousand of regular severance payments for 2 employees (2018: HRK 8 thousand for 1 employee). There were no accrued or paid incentive severance payments (2018: HRK 876 thousand for 6 employees).

NOTE 13 – FINANCE INCOME

	Group 2019	2018	*Company* 2019	2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Interest on related party loans	-	-	1,496	1,763
Interest on deposits, receivables and other finance income	170	132	170	132
Guarantee fee	1,824	2,381	1,824	2,381
Dividends	-	-	2,142	849
Exchange rate differences on loans and financial assets	-	5,989	-	6,005
	1,994	8,502	5,632	11,130

NOTE 14 – FINANCE COSTS

	Group 2019	2018	*Company* 2019	2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Interest expense on borrowings and finance lease	7,152	9,387	5,985	7,808
Other financial expenses	504	967	486	844
Exchange rate differences on loans and financial assets	1,897	-	1,869	-
	9,553	10,354	8,340	8,652

In 2019 and 2018. the Group and the Company did not have any investments that would capitalize interest costs on objects and equipment.
In 2019, other finance costs refer to the cost of banking fees and guarantee fees on received loans (2018: the cost of banking fees and guarantee fees on received loans and the cost of options granted in the Employee share ownership scheme in the process of recapitalization of the parent company by public offering of new ordinary shares).

NOTE 15 – INCOME TAX EXPENSE

Income tax expense comprises the following :

	Group		*Company*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Current tax	3,665	3,635	152	-
Deferred tax	18,287	13,351	18,208	13,309
Tax expense	**21,952**	**16,986**	**18,360**	**13,309**

	Group		*Company*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Profit before taxation	111,721	83,271	88,462	58,426
Income tax 18%	20,110	14,989	15,923	10,517
Effects of non-deductible expenses	3,641	3,723	2,908	3,018
Effects of non-taxable income and other incentives	(277)	(347)	(474)	(233)
Effect of different tax rates	(1,525)	(1,379)	-	-
Tax from previous years	3	-	3	7
Tax expense	**21,952**	**16,986**	**18,360**	**13,309**
Effective tax rate	*20%*	*20%*	*21%*	*23%*

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.
On the grounds of the assessment of tax credit utilization made by the Company's Management Board, the Company and the Group initially recognized the entire approved tax credit as deferred tax asset and tax revenue in the financial statements for 2015. The tax credit was used in 2019 for accrued current income tax in the amount of HRK 17,211 thousand (in 2018 for accrued current income tax in the amount of 14,926 thousand). In the following years deferred tax assets related to tax relief in the amount of 83,773 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

2019	Opening balance	Recognized in statement of comprehensive income	Recognised in equity	Translation reserves	Closing balance
Trade and other payables	3,999	(1,362)	41	1	2,679
Inventories	3,586	424	-	-	4,010
Intangible assets	4,147	-	-	-	4,147
Trade and other receivables	681	(256)	-	-	425
Tax incentives for capital investment	100,984	(17,211)	-	-	83,773
	113,397	**(18,405)**	**41**	**1**	**95,034**

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**

NOTE 16 – DEFERRED TAX ASSETS AND LIABILITIES (continued)

Deferred tax liability-Group

2019	Opening balance	Recognized in statement of comprehensive income	Closing balance
Intangible assets	-	-	-
Property, plant and equipment	2,686	(118)	2,568
	2,686	**(118)**	**2,568**

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**

Deferred tax assets-Company

2019	Opening balance	Recognized in statement of comprehensive income	Recognised in equity	Closing balance
Trade and other payables	2,051	311	33	2,395
Inventories	4,672	(1,335)	-	3,337
Investment in subsidiaries	9,675	-	-	9,675
Trade and other receivables	35	27	-	62
Tax incentives for capital investment	100,984	(17,211)	-	83,773
	117,417	**(18,208)**	**33**	**99,242**

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
Investments 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**

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 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**
Cost						
At 1 January 2019	**24,803**	**126,658**	**59,065**	**19,654**	**26,646**	**256,826**
Effects of movements in exchange rates	4	37	-	-	3	44
Additions	-	-	-	-	17,246	17,246
Transfers	1,664	5,610	-	3,251	(10,525)	-
Disposals and write offs	(359)	(1,079)	-	-	(811)	(2,249)
At 31 December 2019	**26,112**	**131,226**	**59,065**	**22,905**	**32,559**	**271,867**
Accumulated amortisation						
At 1 January 2019	**(21,956)**	**(107,208)**	**(23,040)**	**(10,458)**	**-**	**(162,662)**
Effects of movements in exchange rates	(2)	(23)	-	-	-	(25)
Charge for the year	(838)	(6,058)	-	(2,064)	-	(8,960)
Disposals and write offs	359	870	-	-	-	1,229
At 31 December 2019	**(22,437)**	**(112,419)**	**(23,040)**	**(12,522)**	**-**	**(170,418)**
Carrying amount at 31 December 2019	**3,675**	**18,807**	**36,025**	**10,383**	**32,559**	**101,449**

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 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**
Cost					
At 1 January 2019	**21,783**	**69,533**	**19,654**	**25,956**	**136,926**
Additions	-	-	-	15,696	**15,696**
Transfers	889	4,810	3,251	(8,950)	**-**
Disposals and write offs	(42)	(1,079)	-	(761)	**(1,882)**
At 31 December 2019	**22,630**	**73,264**	**22,905**	**31,941**	**150,740**
Accumulated amortisation					
At 1 January 2019	**(19,591)**	**(55,667)**	**(10,458)**	**-**	**(85,716)**
Charge for the year	(601)	(4,981)	(2,064)	-	**(7,646)**
Disposals and write offs	42	870	-	-	**912**
At 31 December 2019	**(20,150)**	**(59,778)**	**(12,522)**	**-**	**(92,450)**
Carrying amount at 31 December 2019	**2,480**	**13,486**	**10,383**	**31,941**	**58,290**

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 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**
Cost				
At 1 January 2019	**645,465**	**931,710**	**20,164**	**1,597,339**
Effects of movements in exchange rates	210	121	1	332
Additions	-	39	28,699	28,738
Transfers	55	25,562	(25,617)	-
Disposals and write offs	(1,234)	(15,118)	(104)	(16,456)
Transfer from assets held for sale	(19,773)	(676)	-	(20,449)
At 31 December 2019	**624,723**	**941,638**	**23,143**	**1,589,504**
Accumulated amortisation				
At 1 January 2019	**(304,347)**	**(476,716)**	**-**	**(781,063)**
Effects of movements in exchange rates	(59)	(91)	-	(150)
Charge for the year	(14,142)	(32,787)	-	(46,929)
Disposals and write offs	470	14,912	-	15,382
Transfer from assets held for sale	18,022	676	-	18,698
At 31 December 2019	**(300,056)**	**(494,006)**	**-**	**(812,760)**
Carrying amount at 31 December 2019	**324,667**	**447,632**	**23,143**	**795,442**

Land and buildings of the Group in the amount of 414,592 thousand HRK (2018: 428,883 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 of 31 December 2019, the assets under construction are mostly related to the aggregation and serialization equipment required to satisfy the Federal Law of the Russian Federation on Amendments to the Federal Law on the Marketing of Medicinal Products of 28 December 2017; N 425-FZ and the provisions on the System for the Control of Circulation of Medicinal Products for Human Use approved by Decree of the Government of the Russian Federation of 14 December 2018, No. 1556 (31 December 2018: serialization equipment required to meet the regulatory requirements laid down in the Delegated Regulation of the European Commission 2016/161.).

Of the total increase in property, plant and equipment in the amount of HRK 28,738 thousand, 459 thousand relate to equipment purchased through a finance lease contract (2018: total increase of HRK 27,685 thousand; HRK 1,342 thousand relate to equipment purchased through a finance lease contract).

NOTE 18 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company

(in thousands of HRK)	Land and buildings	Equipment	Assets under construction	Total
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**
Cost				
At 1 January 2019	**543,307**	**893,200**	**19,448**	**1,455,955**
Additions	-	-	23,186	23,186
Transfers	55	23,663	(23,718)	-
Disposals and write offs	(1,234)	(13,873)	(82)	(15,189)
Transfer from assets held for sale	(19,773)	(676)	-	(20,449)
At 31 December 2019	**522,355**	**902,314**	**18,834**	**1,443,503**
Accumulated amortisation				
At 1 January 2019	**(275,781)**	**(450,941)**	**-**	**(726,722)**
Charge for the year	(11,143)	(29,744)	-	(40,887)
Disposals and write offs	470	13,781	-	14,251
Transfer from assets held for sale	18,022	676	-	18,698
At 31 December 2019	**(268,432)**	**(466,228)**	**-**	**(734,660)**
Carrying amount at 31 December 2019	**253,923**	**436,086**	**18,834**	**708,843**

As of 31 December 2019, the assets under construction are mostly related to the aggregation and serialization equipment required to satisfy the Federal Law of the Russian Federation on Amendments to the Federal Law on the Marketing of Medicinal Products of 28 December 2017; N 425-FZ and the provisions on the System for the Control of Circulation of Medicinal Products for Human Use approved by Decree of the Government of the Russian Federation of 14 December 2018, No. 1556 (31 December 2018: serialization equipment required to meet the regulatory requirements laid down in the Delegated Regulation of the European Commission 2016/161.).

On 31 December 2019, buildings and land of the Company with a net book value of 369,063 thousand HRK have been pledged as collateral for credit liabilities and credit obligations of the parent company Podravka d.d. (2018: 384,876 thousand HRK).

NOTE 19 - RIGHT-OF-USE ASSETS

Movements in right-of-use assets

Group

(in thousands of HRK)	**Buildings**	**Plant and equipment**	**Total**
Cost			
At 1 January 2019	**15,188**	**5,815**	**21,003**
Exchange rate difference	1	-	1
Additions	2,696	1,688	4,384
Disposals and write offs	(1,062)	-	(1,062)
At 31 December 2019	**16,823**	**7,503**	**24,326**
Accumulated amortisation			
At 1 January 2019	**-**	**-**	**-**
Exchange rate difference	(1)	(5)	(6)
Charge for the year	(4,470)	(2,939)	(7,409)
Disposals and write offs	242	-	242
At 31 December 2019	**(4,229)**	**(2,944)**	**(7,173)**
Carrying amount at 31 December 2019	**12,594**	**4,559**	**17,153**

Company

(in thousands of HRK)	**Buildings**	**Plant and equipment**	**Total**
Cost			
At 1 January 2019	**8,164**	**4,219**	**12,383**
Additions	1,742	755	2,497
Disposals and write offs	(1,062)	-	(1,062)
At 31 December 2019	**8,844**	**4,974**	**13,818**
Accumulated amortisation			
At 1 January 2019	**-**	**-**	**-**
Charge for the year	(3,064)	(2,217)	(5,281)
Disposals and write offs	242	-	242
At 31 December 2019	**(2,822)**	**(2,217)**	**(5,039)**
Carrying amount at 31 December 2019	**6,022**	**2,757**	**8,779**

NOTE 19 - RIGHT-OF-USE ASSETS (continued)

Movements in lease liabilities for right-of-use assets

	Group		Company	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January 2019	**21,003**	**-**	**12,383**	**-**
Interest expense	453	-	243	-
Increase of lease liabilities during the year	4,385	-	2,497	-
Lease liabilities payments	(7,875)	-	(5,604)	-
Write-offs	(894)	-	(894)	-
Exchange rate differenece	640	-	627	-
At 31 December 2019	**17,712**	**-**	**9,252**	**-**
Current portion of long term liability for right-of-use assets	5,438	-	3,288	-
Long term liability for right-of-use assets	12,274	-	5,964	-

Amounts recognised in the statement of comprehensive income

	Group		*Company*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Depreciation expense of right-of-use asset	7,409	-	5,281	-
Interest expense of lease liabilities	453	-	243	-
Expenses related to short-term leases and leases of low-value assets etc.	2,106	-	1,760	-
Total amount recognised in profit /(loss)	**9,968**	**-**	**7,284**	**-**

NOTE 20 - INVESTMENTS IN SUBSIDIARIES

Name of subsidiary	**Country**	**Ownership interest in %**		**Principal business**
		2019	**2018**	
Farmavita d.o.o., Sarajevo	Bosnia and Herzegovina	65	65	Production and 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
Carrying amount of the investment		**99,664**	**99,664**	

During 2019, the Company has not reduced the value of investment in subsidiaries (2018: 0 HRK).

NOTE 21 – NON-CURRENT FINANCIAL ASSETS

	Group		*Company*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings	-	-	20,503	28,899
Deposits	130	113	128	111
Other	165	164	-	
	295	**277**	**20,631**	**29,010**

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

NOTE 22 – INVENTORIES

	Group		*Company*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Finished goods	149,997	142,290	98,839	99,286
Raw materials and supplies	57,598	64,376	54,244	62,245
Work in progress	2,235	4,909	2,235	4,909
	209,830	**211,575**	**155,318**	**166,440**

During the year 2018, the Group has recognized the impairment loss of HRK 4,981 thousand in favor of revenue (2018: HRK 13,051 thousand at expense, 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 2019, the Company has recognized the impairment loss of HRK 2,053 thousand (2018: HRK 5,979 thousand at expense, 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 23 – NON-CURRENT ASSETS HELD FOR SALE

In 2019, the Management Board passed the Decision to reclassify the property at the location Ludbreg, Koprivnička 7, as non-current assets intended for sale.

	Group		*Company*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Land	1,117	-	1,117	-
Buildings	634	-	634	-
	1,751	**-**	**1,751**	**-**

NOTE 24 – TRADE AND OTHER RECEIVABLES

	Group		*Company*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Trade receivables	338,547	289,745	239,930	190,582
Less: Provisions for impairment	(26,614)	(26,236)	(9,378)	(9,432)
Net trade receivables	***311,933***	***263,509***	***230,552***	***181,150***
Advances given to suppliers	5,305	6,106	5,272	6,015
Trade receivables from related parties	402	484	21,574	17,651
Prepaid expenses and other receivables from related parties	393	538	458	623
Other receivables	17,833	17,245	16,238	15,596
Total current receivables	**335,866**	**287,882**	**274,094**	**221,035**

Other receivables in the Group and the Company include receivables from suppliers on the basis of letters of complaint in the amount of HRK 7,425 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*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	26,236	27,989	9,432	12,290
Collected	(654)	(637)	(3)	(3)
Impairment loss recognised	1,297	691	(24)	(502)
Effect of IFRS 9 application	(265)	779	(27)	31
Amounts written-off	-	(2,586)	-	(2,384)
At 31 December	**26,614**	**26,236**	**9,378**	**9,432**

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*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Non due	276,919	230,087	237,913	181,748
0-90 days	27,742	30,082	13,169	14,082
91-180 days	5,124	3,691	609	2,846
181-360 days	2,550	133	435	125
	312,335	**263,993**	**252,126**	**198,801**

NOTE 24 – TRADE AND OTHER RECEIVABLES (continued)

Other receivables consist of the following:

	Group 2019	2018	*Company* 2019	2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Net VAT receivable	4,374	3,913	4,374	3,913
Prepaid expenses	12,503	12,521	11,026	10,927
Receivables from employes	688	634	654	611
Other receivables	268	177	184	145
	17,833	**17,245**	**16,238**	**15,596**

Movement of prepaid expenses and accrued income:

	Group *(in thousands of HRK)*	*Company* *(in thousands of HRK)*
At 31 December 2018	12,521	10,927
Additions	11,552	10,039
Decrease	(11,570)	(9,940)
At 31 December 2019	**12,503**	**11,026**

NOTE 25 – RECEIVABLES ON LOANS GRANTED

	Group 2019	2018	*Company* 2019	2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings				
Loans to related parties	-	-	20,503	28,899
Total non-current borrowings	**-**	**-**	**20,503**	**28,899**
Current borrowings				
Loans to related parties	-	-	8,494	8,465
Total current borrowings	**-**	**-**	**8,494**	**8,465**
Total loans	**-**	**-**	**28,997**	**37,364**

NOTE 26 – CASH AND CASH EQUIVALENTS

	Group 2019	2018	*Company* 2019	2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Cash at bank	18,455	53,923	13,120	43,520
Cash in hand	115	204	9	75
Deposits	1,522	1,359	1,522	1,359
	20,092	**55,486**	**14,651**	**44,954**

Cash on bank accounts refers to transaction accounts at commercial banks with an average interest rate of 0.31%.

Deposits refer to deposits at commercial banks with maturity up to three months carrying a variable interest rate ranging from 3.69%.

NOTE 26 – CASH AND CASH EQUIVALENTS (continued)

Cash assets by currency were as follows:

	Group		*Company*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
BAM	521	2,013	14	1
EUR	5,900	14,201	3,270	9,660
USD	2	642	2	642
RUB	4,624	17,240	4,624	17,240
Other currencies	9,045	21,390	6,741	17,411
	20,092	**55,486**	**14,651**	**44,954**

NOTE 27 – SHARE CAPITAL

The share capital of the Company as at 31 December 2019 amounts to HRK 579,087,600.00 and is divided into 5,790,876 ordinary shares (2018: HRK 579,088,600.00 divided into 5,790,876 shares) with a nominal value of HRK 100, which are wholly owned by Podravka d.d., Koprivnica.

Dividend distribution

On 18 June 2019, the General Assembly decided that the Company's profit for 2018 in the amount of HRK 45,117 thousand be allocated to statutory reserves in the amount of HRK 2,256 thousand, to legal reserves in the amount of HRK 2,255 thousand, to other reserves in the amount of HRK 831 thousand, and the remainder in the amount of 39.775 to retained earnings.
The Company and the Group as at 31 December 2019 reported development costs in the total amount of HRK 23,044 thousand (2018: HRK 18,582 thousand).

NOTE 28 –RESERVES

GROUP

(in thousands of HRK)	**Legal reserves**	**Other reserves**	**Translation reserves**	**Total**
At 1 January 2018	20,711	80,496	954	102,161
Exchange differences	-	-	(674)	(674)
Aktuarski dobici	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**
At 1 January 2019	**23,931**	**83,915**	**280**	**108,126**
Exchange differences	-	-	273	273
Transfer to reserves	2,255	3,087	-	5,342
Actuarial gains	-	(234)	-	(234)
At 31 December 2019	**26,186**	**86,768**	**553**	**113,507**

NOTE 28 –RESERVES (continued)

Company

(in thousands of HRK)	Legal reserves	Other reserves	Translation reserves	Total
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**
At 1 January 2019	**23,725**	**83,888**	-	**107,613**
Transfer to reserves	2,255	3,087	-	5,342
Actuarial gains	-	(155)	-	(155)
At 31 December 2019	**25,980**	**86,820**	-	**112,800**

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.

Translation reserve relates to foreign exchange differences on foreign operations.

NOTE 29 – RETAINED EARNINGS

	Group		*Company*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	**288,837**	**235,286**	**274,109**	**236,103**
Transfer to other reserves	(5,342)	(7,111)	(5,342)	(7,111)
Profit for the year	83,650	60,662	70,102	45,117
At 31 December	**367,145**	**288,837**	**338,869**	**274,109**

During 2019, no dividend was approved or paid (2018: no dividend was approved or paid).

NOTE 30 – NON-CONTROLLING INTEREST

	2019	**2018**
	(in thousands of HRK)	
At 1 January	40,487	35,207
Share in profit / (loss) for the year	6,251	5,280
At 31 December	**46,738**	**40,487**

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

NOTE 30 – NON-CONTROLLING INTEREST (continued)

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

Statement of financial position	**2019**	**2018**
Non-current assets	68,510	66,827
Current assets	122,022	113,943
Current liabilities	(45,140)	(41,181)
Non-current liabilities	(32,298)	(45,422)
Net assets	**113,094**	**94,167**
Statement of comprehensive income or loss for the year		
Revenue from sale	207,433	193,371
Profit or loss after tax	18,550	18,052
Other comprehensive income or loss	132	(343)
Total comprehensive income or loss for the year	**18,682**	**17,709**
Statement of cash flows		
Net increase / decrease in cash and cash equivalents	(2,147)	(2,546)

NOTE 31 - LOANS AND BORROWINGS

	Group		*Company*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings				
Borrowings from related parties	8,790	11,946	-	-
Foreign banks and banks in Croatia	243,651	331,779	241,737	327,964
Finance lease obligations	210	547	-	-
	252,651	**344,272**	**241,737**	**327,964**
Current borrowings				
Borrowings from related parties	3,196	3,186	-	-
Foreign banks and banks in Croatia	93,242	93,429	87,332	87,039
Finance lease obligations	577	795	-	-
	97,015	**97,410**	**87,332**	**87,039**
Total borrowings	**349,666**	**441,682**	**329,069**	**415,003**

Group::

Bank borrowings of HRK 337,680 thousand HRK (2018: HRK 426,550 thousand) are secured by mortgages over the land and buildings of the Group.

During 2019, 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 114,382 thousand (2018: HRK 33,880 thousand), while the total cash loan repayment amounted to HRK 207,841 thousand (2018: HRK 13,191 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 329,069 thousand HRK are secured by mortgages over the land and buildings of the Company (2018: bank borrowings of HRK 415,003 thousand are secured by mortgages over the land and buildings of the Company).
During 2019, the Company recorded financial activities and cash transactions on loans received, respectively, in the amount of HRK 103,000 thousand (2018: no cash receipts) and cash repayment of loans in the amount of HRK 189,947 thousand (2018: HRK 86,976 thousand). The Company had no non-cash transactions upon receipt and 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 (2018: 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. (2018: 38.550 thousend EUR; 36,249 thousand for refinancing of all short-term and long-term loans, except HBOR loans and EUR 2,301 thousand for the approval of long-term loans to the related company, Farmavita d.d.).

NOTE 31 - LOANS AND BORROWINGS (continued)

The Group's financial lease obligations are as follows :

	Minimum lease payments		Finance costs		Present value of minimum lease payments	
	2019	2018	2019	2018	2019	2018
	(in thousands of HRK)					
Up to one year	602	841	25	46	577	795
From one to five years	215	562	5	15	210	547
Less: future finance charges	(30)	(61)	30	61		
Present value of minimum lease payment	**787**	**1,342**			**787**	**1,342**
Included in financial statements in:						
Current borrowings					577	795
Non-current borrowings					210	547
					787	**1,342**

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*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Up to 6 months	50,507	50,979	43,666	43,519
6 – 12 months	46,508	46,431	43,666	43,520
1 – 5 years	252,651	304,891	241,737	288,583
More than 5 years	-	39,381	-	39,381
	349,666	**441,682**	**329,069**	**415,003**

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

	Group		*Company*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Between 1 and 2 years	92,618	92,620	87,332	87,039
Between 2 and 5 years	160,033	212,271	154,405	201,544
More than 5 years	-	39,381	-	39,381
	252,651	**344,272**	**241,737**	**327,964**

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

	2019			**2018**		
	HRK	**EUR**	**Other**	**HRK**	**EUR**	**Other**
	%	%	%	%	%	%
Non-current borrowings						
Banks in Croatia	-	1.50	-	-	2.00	-
Banks in foreign countries	-	0.94	3.85	-	1.14	4.68
Finance lease obligations	-	-	4.80	-	-	4.81
Current borrowings						
Banks	0.51	-	2.95	-	-	2.95

NOTE 31 - 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*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
BAM	20,594	26,679	-	-
EUR	329,072	415,003	329,069	415,003
	349,666	**441,682**	**329,069**	**415,003**

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*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Variable rate facilities:				
Expiring within one year	203,484	224,486	186,615	207,694
	203,484	**224,486**	**186,615**	**207,694**

Group::
Total unused credit facilities of HRK 203,484 thousand refer to framework borrowings with banks and allowed overdrafts per transaction account.

Company:
Total unused credit facilities of HRK 186,615 thousand refer to framework borrowings at RBA d.d. Zagreb, OTP d.d. Split 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:

(in thousands of HRK)	Group 2019	Group 2018	Company 2019	Company 2018
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	441,682	552,957	415,003	508,544
Income of browings	114,382	33,880	103,000	-
Repayment of loans	(207,841)	(139,191)	(189,947)	(86,976)
Total cange in financial activity	**(93,459)**	**(105,311)**	**(86,947)**	**(86,976)**
Effect of exchange rate changes	1,104	(7,132)	1,013	(6,565)
Changes related to liability	339	1,168	-	-
At 31 December	**349,666**	**441,682**	**329,069**	**415,003**

NOTE 32 – PROVISIONS

GROUP

(in thousands of HRK)	Jubilee awards and retirement benefits	Unused holidays	Bonuses	Share based payments	Total
Non-current	6,411	-	-	1,352	7,763
Current	410	2,317	434	-	3,161
At 31 December 2018	**6,821**	**2,317**	**434**	**1,352**	**10,924**
Increase/decrease of provision	1,189	2,400	2,010	1,072	6,671
Utilised during the year	(494)	(2,319)	(436)	(1,107)	(4,356)
At 31 December 2019	**7,516**	**2,398**	**2,008**	**1,317**	**13,239**
Non-current	7,070	-	-	1,317	8,387
Current	446	2,398	2,008	-	4,852
	7,516	**2,398**	**2,008**	**1,317**	**13,239**

Company

(in thousands of HRK)	Jubilee awards and retirement benefits	Unused holidays	Bonuses	Share based payments	Total
Non-current	5,476	-	-	1,352	6,828
Current	382	1,400	-	-	1,782
At 31 December 2018	**5,858**	**1,400**	**-**	**1,352**	**8,610**
Increase of provision	1,117	1,681	929	1,072	4,799
Utilised / cancelled during the year	(399)	(1,400)	-	(1,107)	(2,906)
At 31 December 2019	**6,576**	**1,681**	**929**	**1,317**	**10,503**
Non-current	6,139	-	-	1,317	7,456
Current	437	1,681	929	-	3,047
	6,576	**1,681**	**929**	**1,317**	**10,503**

NOTE 33 – TRADE AND OTHER PAYABLES

	Group 2019	Group 2018	Company 2019	Company 2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Trade payables	53,713	69,209	41,621	52,186
Trade payables due to related parties	2,435	5,909	4,400	5,978
Other payables	31,128	31,986	24,156	24,842
	87,276	**107,104**	**70,177**	**83,006**

At 31 December 2019, 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 2019	Group 2018	Company 2019	Company 2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Salaries and other liabilities to employees	15,501	16,689	11,936	12,777
Interest on borrowings from banks	171	287	149	255
Interest liabilities for interest to related parties	18	23	-	-
Deferred income	6,133	6,469	6,127	6,469
Contributions and other taxes payable	2,187	1,811	13	3
Value Added Tax	827	1,242	-	-
Other	6,291	5,465	5,931	5,338
	31,128	**31,986**	**24,156**	**24,842**

Movement of deferred income:

	GRUPA	*Društvo*
	(in thousands of HRK)	*(in thousands of HRK)*
At 31 December 2018	6,469	6,469
Additions	82	74
Decrease	(418)	(416)
At 31 December 2019	**6,133**	**6,127**

NOTE 34 – RETIREMENT BENEFIT PLANS

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*	
	2019	**2018**	**2019**	**2018**
Discount rate	1.80%	2.96%	1.80%	2.96%
Fluctuation rate	4.69%	4.87%	4.69%	4.87%
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*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Current service cost	332	354	375	324
Past service cost	51	505	51	492
Interest expense	121	171	110	160
Other actuarial adjustments	685	(449)	581	(371)
Benefits paid	(494)	(354)	(399)	(320)
	695	**227**	**718**	**285**

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

	Group		*Company*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	6,821	6,594	5,858	5,573
Current service cost	332	354	375	324
Past service cost	51	505	51	492
Interest expense	121	171	110	160
Benefits paid	(494)	(354)	(399)	(320)
Other actuarial adjustments	685	(449)	581	(371)
At 31 December	**7,516**	**6,821**	**6,576**	**5,858**

NOTE 35 – FINANCIAL INSTRUMENTS

35.1. 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*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Debt (long and short-term borrowings)	349,666	441,682	329,069	415,003
Cash and cash equivalents	(20,092)	(55,486)	(14,651)	(44,954)
Net debt	329,574	386,196	314,418	370,049
Equity	1,106,477	1,016,537	1,030,756	960,809
Net debt to equity ratio	*29.79%*	*37.99%*	*30.50%*	*38.51%*

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

35.2. 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.

35.3. Categories of financial instruments

	Group		*Company*	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Financial assets at amortized cost				
Trade and other receivables	319,859	278,732	258,490	213,314
Cash and cash equivalents	20,092	55,486	14,651	44,954
Other financial assets	130	113	29,125	37,475
	340,081	**334,331**	**302,266**	**295,743**
Financial liabilities at amortized cost				
Borrowings	366,591	440,340	338,321	415,003
Trade and other payables	80,316	99,373	64,050	76,517
Liabilities for finance lease	787	1,342	-	-
	447,694	**541,055**	**402,371**	**491,520**

NOTE 35 – FINANCIAL INSTRUMENTS (continued)

35.4. 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 2019 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.

35.5. 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 35 – FINANCIAL INSTRUMENTS (continued)

35.6. Foreign exchange risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. During the year 2019 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 2019, 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**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	(in thousands of HRK)				*(in thousands of HRK)*			
BAM	30,108	36,848	70,543	72,282	141	83	19	27
EUR	167,309	206,090	31,668	42,317	157,768	197,322	71,010	80,088
USD	1,510	3,020	1,017	783	1,510	3,021	1,011	783
RUB	5,042	807	136,911	89,534	5,042	807	136,911	89,534
Other currencies	2,609	2,057	2,995	1,774	2,224	1,506	2,805	1,655

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 2019 in the Croatian HRK against the relevant foreign currencies (2018: 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 35 – FINANCIAL INSTRUMENTS (continued)

35.6. Foreign exchange risk management (continued)

	Group				Company			
	EUR impact		USD impact		EUR impact		USD impact	
	2019	2018	2019	2018	2019	2018	2019	2018
	(in thousands of HRK)				(in thousands of HRK)			
Profit	1,356	1,638	5	22	868	1,172	5	22
Loss	-	-	-	-	-	-	-	-

	BAM impact		RUB impact		BAM impact		RUB impact	
	2019	2018	2019	2018	2019	2018	2019	2018
	(in thousands of HRK)				(in thousands of HRK)			
Profit	-	-	-	-	1	1	-	-
Loss	(404)	(354)	(1,319)	(887)	-	-	(1,319)	(887)

35.7. 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 35 – FINANCIAL INSTRUMENTS (continued)

35.7. 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 2019	Contractual cash flows	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
		(in thousands of HRK)			
At current interest rates	360,189	101,406	95,654	163,129	-
At current interest rates + 50 basis points	363,732	102,912	96,686	164,134	-
Effect of increase of interest rate by 50 bp	**(3,543)**	**(1,506)**	**(1,032)**	**(1,005)**	**-**

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)**

Company as at 31 December 2019	Contractual cash flows	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
		(in thousands of HRK)			
At current interest rates	338,220	91,011	89,968	157,241	-
At current interest rates + 50 basis points	341,616	92,438	90,959	158,219	-
Effect of increase of interest rate by 50 bp	**(3,396)**	**(1,427)**	**(991)**	**(978)**	**-**

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)**

NOTE 35 – FINANCIAL INSTRUMENTS (continued)

35.8. 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.

35.9. 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 35 – FINANCIAL INSTRUMENTS (continued)

35.9. Liquidity risk management (continued)

GROUP

Group as at 31 December 2019	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Trade and interest payables	**80,316**	80,316	80,316	-	-
	80,316	**80,316**	**80,316**	-	-
Interest bearing liabilities					
Financial lease liabilities	**787**	817	602	215	-
Liability for right-of-use assets	**17,712**	18,404	5,890	11,838	676
Borrowings	**348,879**	359,927	100,869	259,058	-
	367,378	**379,148**	**107,361**	**271,111**	**676**
	447,694	**459,464**	**187,677**	**271,111**	**676**
Non-interest bearing assets:					
Trade receivables (including bills of exchange) and other receivables	**319,859**	319,859	319,859	-	-
Cash and cash equivalents	**20,092**	-	-	-	-
	339,951	319,859	319,859	-	-
Interest bearing assets:					
Long-term deposits	**130**	130	-	130	-
	130	130	-	130	-
	340,081	**319,989**	**319,859**	**130**	-
Net liquidity	**(107,613)**	**(139,475)**	**132,182**	**(270,981)**	**(676)**

The Group's non-interest bearing liabilities up to one month comprise mainly of trade payables of HRK 29,259 thousand (2018: HRK 42,921 thousand) and amounts due to employees of HRK 15,501 thousand (2018: HRK 16,689 thousand).

NOTE 35 – FINANCIAL INSTRUMENTS (continued)

35.9. Liquidity risk management (continued)

Liquidity risk analysis tables (continued)

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)	**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)**

NOTE 35 – FINANCIAL INSTRUMENTS (continued)

35.9. Liquidity risk management (continued)

Liquidity risk analysis tables (continued)

Company

Company as at 31 December 2019	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Trade and interest payables	**64,050**	64,050	64,050	-	-
	64,050	**64,050**	**64,050**	-	-
Interest bearing liabilities					
Liability for right-of-use assets	**9,252**	9,520	3,569	5,951	-
Borrowings	**329,069**	338,688	91,050	247,638	-
	338,321	**348,208**	**94,619**	**253,589**	-
	402,371	**412,258**	**158,669**	**253,589**	-
Non-interest bearing assets:					
Trade receivables (including bills of exchange)	**258,490**	258,490	258,490	-	-
Cash and cash equivalents	**14,651**	-	-	-	-
	273,141	258,490	258,490	-	-
Interest bearing assets:					
Long-term loans	**28,997**	31,399	9,584	21,815	-
Long-term deposits	**128**	128	-	128	-
	29,125	31,527	9,584	21,943	-
	302,266	**290,017**	**268,074**	**21,943**	-
Net liquidity	**(100,105)**	**(122,241)**	**109,405**	**(231,646)**	-

The Company's non-interest bearing liabilities up to one month comprise mainly trade payables of HRK 28,952 thousand (2018: HRK 38,378 thousand) and amounts due to employees of HRK 11,936 thousand (2017: HRK 12,777 thousand).

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

NOTE 35 – FINANCIAL INSTRUMENTS (continued)

35.9. 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) and other receivables	**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)**

NOTE 35 – FINANCIAL INSTRUMENTS (continued)

35.10. 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 2019 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 2019**			
Financial liabilities at fair value through profit or loss				
Liabilities for share based payments (cash settled)	-	1,317	-	1,317

In 2019, 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 2019, 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 35 – FINANCIAL INSTRUMENTS (continued)

35.10. Fair value of financial instruments (continued)

35.10.1 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 2018**			
Financial liabilities at fair value through profit or loss				
Liabilities for share based payments (cash settled)	-	1,352	-	1,352

NOTE 36 – 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 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
31 Dec 2018	2,000	2019	in accordance with performance and labor contract	31 Dec 2023	316.52	375.00
31 Dec 2019	9,500	2019	in accordance with performance and labor contract	31 Dec 2024	429.13	482.11
	24,000					

NOTE 36 – 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 2019 Period less than 5 years	Series 31 Dec 2018 Period less than 5 years	Series 31 Dec 2017 Period less than 5 years
The fair value of options at the date of issue in HRK	142.75	125.21	36.25
Grant date share price (in HRK and lipas)	482.11	375.00	270.00
Exercise price (in HRK and lipas)	429.13	316.52	352.15
Expected volatitlity (%)	0.17	0.16	0.17
Option life (years)	5.00	5.00	5.00
Risk-free interest rate (%)	3.53%	4.06%	4.55%

Expense recognized in profit or loss	2019	2018
	(in thousands of HRK)	
Share based payment transactions	1,072	999
Utilised during the year	(1,107)	-
	(35)	999

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

	2019		2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at the beginning of the year	26,584	327.55	21,084	330.65
Granted during the year	11,500	409.55	7,500	316.52
Unused / transfered options	-	-	(2,000)	318.79
Exercised during the year	(14,084)	486.99	-	-
Balance at year end	**24,000**	-	**26,584**	-

As of 31 December 2019, a total of 9,500 options (2018: 7,500 options) were granted, with the vesting period beginning 1 January 2020. Also, as of 31 December 2019, a total of 2,000 options were granted whose vesting period begins 1 January 2019.

In 2019, a total of 14,084 Series 15 and 16 options were exercised (2018: no options were exercised, and 2,000 Series 2013 options expired).

NOTE 37 – RELATED PARTY TRANSACTIONS

Name of subsidiary	Country	Ownership interest in % 2019	2018	
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 2019 and 31 December 2018, are as follows:

REVENUE

Income from sales of goods and merchandise and services

	Group 2019	2018	*Company* 2019	2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Company outside the Belupo Group				
Income from sales of goods and merchandise:				
Podravka d.d., Koprivnica	26	24	-	-
	26	**24**	-	-
Revenue from services				
Podravka d.d., Koprivnica	2,045	1,871	2,045	1,871
	2,045	**1,871**	**2,045**	**1,871**
Company inside the Belupo Group				
Income from sales of goods and merchandise:				
Farmavita d.o.o, Sarajevo	-	-	26,218	23,570
Belupo d.o.o., Bratislava	-	-	29,439	26,920
Belupo d.o.o.el, Skopje	-	-	11,576	11,479
Belupo d.o.o., Ljubljana	-	-	11,601	10,196
Ljekarne Deltis Pharm, Koprivnica	-	-	1,122	1,151
	-	-	**79,956**	**73,316**
Revenue from services				
Farmavita d.o.o, Sarajevo	-	-	70	55
Belupo d.o.o., Bratislava	-	-	369	354
Belupo d.o.o., Ljubljana	-	-	168	170
Ljekarne Deltis Pharm, Koprivnica	-	-	406	221
	-	-	**1,013**	**800**
	2,071	**1,895**	**83,014**	**75,987**
Other income				
Farmavita d.o.o, Sarajevo	-	-	-	66
Ljekarne Deltis Pharm, Koprivnica	-	-	1	-
	-	-	**1**	**66**
Finance costs				
Podravka d.d., Koprivnica	1,824	2,381	1,824	2,381
Other related parties	-	-	3,638	2,612
	1,824	**2,381**	**5,462**	**4,993**
Total expenses	**3,895**	**4,276**	**88,477**	**81,046**

NOTE 37 – RELATED PARTY TRANSACTIONS (continued)

EXPENSES

Remuneration to key management	*Group* 2019	2018	*Company* 2019	2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Salaries	11,015	10,020	11,015	10,020
	11,015	**10,020**	**11,015**	**10,020**

Operating expenses outside Belupo Group:				
Podravka d.d., Koprivnica	20,843	21,869	20,421	21,534
Podravka d.o.o., Ljubljana	157	180	-	-
Podravka d.o.o.el., Skopje	45	44	-	-
Operating expenses inside Belupo Group:				
Ljekarne Deltis Pharm, Koprivnica	-	-	(131)	(134)
Farmavita d.o.o., Sarajevo	-	-	(2,342)	(2,224)
Belupo s.r.o., Bratislava	-	-	446	427
Belupo d.o.o.el., Skopje	-	-	-	-
	21,045	**22,093**	**18,394**	**19,603**
Finance costs				
Podravka d.d., Koprivnica	131	153	125	153
	131	**153**	**125**	**153**
Total expenses	**21,176**	**22,246**	**18,519**	**19,756**

NOTE 37 – 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	
	2019	2018	2019	2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Company inside the Belupo Group:				
Farmavita d.o.o., Sarajevo	-	-	14,079	5,880
Ljekarne Deltis Pharm, Koprivnica	-	-	2,230	5,061
Belupo d.o.o.el., Skopje	-	-	2,207	2,255
Belupo s.r.o., Bratislava	-	-	-	606
Belupo d.o.o., Ljubljana	-	-	2,664	3,478
Company outside the Belupo Group:				
Podravka d.d., Koprivnica	402	484	394	371
Total trade receivables – Group entities	**402**	**484**	**21,574**	**17,651**

PAYABLES FOR GOODS AND SERVICES

	Group Short-term trade payables for goods and services		*Company* Short-term trade payables for goods and services	
	2019	2018	2019	2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Company inside the Belupo Group:				
Farmavita d.o.o., Sarajevo	-	-	2,072	-
Ljekarne Deltis Pharm, Koprivnica	-	-	3	72
Belupo s.r.o., Bratislava	-	-	16	104
Company outside the Belupo Group:				
Podravka d.d., Koprivnica	2,438	5,911	2,309	5,802
Podravka Sarajevo	(3)	(2)	-	-
Total trade payables – Group entities	**2,435**	**5,909**	**4,400**	**5,978**

LIABILITY FOR RIGHT-OF-USE ASSETS

	Group Other receivables		*Company* Other receivables	
	2019	2018	2019	2018
	(in thousands of HRK)		*(in thousands of HRK)*	
Company inside the Belupo Group:				
Farmavita d.o.o., Sarajevo	-	-	88	-
Liability for right-of-use assets	-	-	88	-
Company outside the Belupo Group:				
Podravka Ljubljana	528	-	-	-
Liability for right-of-use assets	528	-	-	-

NOTE 37 – RELATED PARTY TRANSACTIONS (continued)

OTHER RECEIVABLES AND PREPAID EXPENSES OF THE FUTURE PERIOD

	Group		*Company*	
	Other receivables		**Other receivables**	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company inside the Belupo Group:				
Farmavita d.o.o., Sarajevo	-	-	65	85
Total other receivables from related parties	**-**	**-**	**65**	**85**

	Group		*Company*	
	Total prepaid expenses of the future period and outstanding revenue collection		**Total prepaid expenses of the future period and outstanding revenue collection**	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company outside the Belupo Group:				
Podravka d.d. , Koprivnica	393	538	393	538
Total prepaid expenses of the future period and outstanding revenue collection	**393**	**538**	**393**	**538**

As at 31 December 2019, the Company has a receivable for a loan granted to a subsidiary company within the Belupo Group in the amount of HRK 28,997 thousand (2018: 37,364 thousand).

OTHER LIABILITIES AND DEFERRED PAYMENTS

	Group		*Company*	
	Other paybels		**Other paybels**	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company outside the Belupo Group:				
Podravka d.d., Koprivnica	-	879	-	877
Total other payables to related parties	**-**	**879**	**-**	**877**

	Group		*Company*	
	Accured expenses		**Accured expenses**	
	2019	**2018**	**2019**	**2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company inside the Belupo Group:				
Farmavita d.o.o., Sarajevo	-	-	222	104
Company outside the Belupo Group:				
Podravka d.d. , Koprivnica	-	95	-	95
Total accrued expenses from related companies	**-**	**95**	**222**	**199**

As at 31 December 2019, the Group has a liability towards a minority shareholder in the amount of HRK 11,986 thousand (2018: 15,132 thousand).

NOTE 37 – RELATED PARTY TRANSACTIONS (continued)

GIVEN GUARANTEES AND WARRANTIES

	Group		Company	
	2019	2018	2019	2018
	(in thousands of HRK)		(in thousands of HRK)	
Podravka d.d., Koprivnica	448,619	589,278	448,619	589,278
Farmavita d.o.o., Sarajevo	-	29,382	18,541	29,382
Mirna d.d., Rovinj	2,000	2,000	2,000	2,000
Ljekarne Deltis Pharm, Koprivnica	-	-	121	-
	450,619	**620,660**	**469,281**	**620,660**

NOTE 38a – 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 2019 and 2018 no contingent liability will arise for the Group and the Company.

	Group		Company	
	2019	2018	2019	2018
	(in thousands of HRK)		(in thousands of HRK)	
Podravka d.d. - revolving loan guarantee	45,166	90,024	45,166	90,024
Podravka d.d. - corporate guarantees	206,346	280,436	206,346	280,436
Podravka d.d. - guarantee	197,107	218,818	197,107	218,818
Farmavita d.o.o. - corporate guarantee	-	29,382	18,541	29,382
Mirna d.d. - co-debtor on loans and frameworks	2,000	2,000	2,000	2,000
Ljekarne Deltis Pharm - bank guarantee	-	-	121	-
Bank guarantee	11,931	14,348	3,722	3,709
HOPAL-co-debtor on loans	-	697	-	697
	462,550	**635,705**	**473,003**	**625,066**

NOTE 38b – CAPITAL COMMITMENTS

Group:

As at 31 December 2019, the Group had contracted and unrealized liabilities in the amount of HRK 37,375 thousand, most of which are related to the construction of a new factory in Belupo d.d. (31 December 2018: HRK 20,315 thousand for investments in Belupo d.d.).

Company:

As at 31 December 2019 the Company had capital commitments in the amount of HRK 37,375 thousand for capital investments (31 December 2018: HRK 20,315 thousand for capital investments). Contracted payment of operating lease liabilities for the use of means of transport and Group sublease for the use vehicles and IT equipment are as follows:

	Group		Company	
	2019	2018	2019	2018
	(in thousands of HRK)		(in thousands of HRK)	
1 year or less	1,036	4,603	1,036	3,896
One to five years	882	4,969	882	3,646
	1,918	**9,572**	**1,918**	**7,542**