BELUPO Inc. and its Subsidiaries,
Koprivnica

Annual report 31 December 2020

MANAGEMENT REPORT 2020

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.

Company does not have any branch offices and did not purchase it own shares.

DESCRIPTION OF THE BELUPO GROUP – ORGANISATIONAL STRUCTURE OF THE GROUP

COMPANIES WITHIN THE GROUP	Belupo d.o.o., Slovenia **100% Belupo Inc.**
	Belupo s.r.o., Slovakia **100% Belupo Inc.**
	Belupo d.o.o.e.l, North Macedonia **100% Belupo Inc.**
	Ljekarne Deltis Pharm, Croatia **100% Belupo Inc.**
	Farmavita d.o.o., BiH **65% Belupo Inc.**
REPRESENTATIVE OFFICES of Belupo Inc.	**Moscow, Russian Federation**
	Prague, Czech Republic
	Sarajevo, Bosnia and Herzegovina
	Belgrade, Serbia
	Pristina, Kosovo
	Skopje, North Macedonia
	Kiev, Ukraine
	Almaty, Kazakhstan

PRODUCTION PROGRAM

Belupo manufactures the following products:

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

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 (and in spray form), creams, ointments, gels, syrups, suspensions, vagitoria, suppositories, powders and ampoules.

2. BUSSINES ACTIVITIES OF BELUPO GROUP IN 2020

Consolidated and separate statement of comprehensive income for the year ended 31 December 2020

	Group		*Company*	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
Revenues	978,400	957,448	702,187	700,897
Cost of goods sold	(510,118)	(484,526)	(342,750)	(334,119)
Gross profit from sales	**468,282**	**472,922**	**359,437**	**366,778**
Other income	7,352	17,591	7,346	17,440
General and administrative expenses	(120,629)	(124,932)	(95,883)	(100,047)
Selling and distribution expenses	(61,553)	(62,170)	(33,745)	(35,406)
Marketing expenses	(156,535)	(183,957)	(133,057)	(157,594)
Other expenses	(37,235)	(174)	(36,532)	(1)
Operating profit	**99,682**	**119,280**	**67,566**	**91,170**
Finance income	1,334	1,994	6,564	5,632
Finance expenses	(9,635)	(9,553)	(8,755)	(8,340)
Profit before tax	**91,381**	**111,721**	**65,375**	**88,462**
Income tax	(16,987)	(21,952)	(12,955)	(18,360)
Profit for the year	**74,394**	**89,769**	**52,420**	**70,102**
Other comprehensive income:				
Actuarial gains/(losses) - net from tax	(385)	**(234)**	(366)	**(155)**
Foreign operations – foreign currency translation differences	1,532	405	-	-
Total comprehensive income for the year	**75,541**	**89,940**	**52,054**	**69,947**
Profit attributable to:				
The equity holders of the parent	67,108	83,650		
Non-controlling interests	7,286	6,119		
	74,394	**89,769**		
Total comprehensive income attributable to:				
The equity holders of the parent	67,739	83,689		
Non-controlling interests	7,802	6,251		
	75,541	**89,940**		

Consolidated and separate statement of financial position as at 31 December 2020

(in thousands of HRK)	Group 31 December 2020	Group 31 December 2019	Company 31 December 2020	Company 31 December 2019
ASSETS				
Non-current assets				
Intangible assets	110,531	101,449	64,116	58,290
Property, plant and equipment	795,664	795,442	701,477	708,843
Right-of-use assets	20,193	17,153	12,099	8,779
Non-current financial assets	256	295	19,032	20,631
Investments in subsidiaries	-	-	103,701	99,664
Deferred tax assets	82,796	95,034	86,587	99,242
	1,009,440	**1,009,373**	**987,012**	**995,449**
Current assets				
Inventories	241,461	209,830	184,060	155,318
Non-current assets held for sale	1,751	1,751	1,751	1,751
Trade and other receivables	380,104	335,866	313,480	274,094
Loan receivables	-	-	8,765	8,494
Income tax receivable	-	372	-	-
Cash and cash equivalents	20,129	20,092	2,024	14,651
	643,445	**567,911**	**510,080**	**454,308**
Total assets	**1,652,885**	**1,577,284**	**1,497,092**	**1,449,757**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	579,087	579,087	579,087	579,087
Reserves	125,085	113,507	123,376	112,800
Retained earnings	395,306	367,145	352,347	338,869
Attributable to the equity holders of the parent	**1,099,478**	**1,059,739**	**1,054,810**	**1,030,756**
Non-controlling interests	54,540	46,738	-	-
	1,154,018	**1,106,477**	**1,054,810**	**1,030,756**
Non-current liabilities				
Loans and borrowings	181,573	252,651	174,947	241,737
Liability for right-of-use assets	12,763	12,274	6,991	5,964
Provisions	9,982	8,387	9,177	7,456
Deferred tax liability	2,510	2,568	61	-
	206,828	**275,880**	**191,176**	**255,157**
Current liabilities				
Trade and other payables	115,237	87,276	84,406	70,177
Loans and borrowings	163,127	97,015	158,537	87,332
Liability for right-of-use assets	7,277	5,438	4,830	3,288
Income tax payable	1,119	346	-	-
Provisions	5,279	4,852	3,333	3,047
	292,039	**194,927**	**251,106**	**163,844**
Total liabilities	**498,867**	**470,807**	**442,282**	**419,001**
Total shareholders' equity and liabilities	**1,652,885**	**1,577,284**	**1,497,092**	**1,449,757**

3. EVENTS AFTER THE REPORTING PERIOD

Company and Group did not have any significant events after the reporting period which would require correction or reporting in the financial statements.

4. 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 we act and operate. 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 1,496 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, we believe that all together we 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.

5. 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 2020, 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. Given that during 2020, due to epidemiological measures caused by COVID 19, we were not able to perform part of the audits of hazard assessments for workplaces with a computer, as well as part of the risk assessments, these tasks are postponed to 2021.

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

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

According to the plan for 2020, tests of work equipment were performed in 6 sectors, the working environment in 1 sector and chemical hazards in 2 sectors.

Practical evacuation and rescue exercises were held at the location Ulica Danica 5 in the Administration Building, Energy Center 1, Tower, Warehouse and Expedition (advertising warehouse, storage of HTZ equipment and office supplies, laundry and waste storage), Office building, Pilot plant and laboratories and Quality control.

Eighteen internal inspections were carried out in the Production of Semi-solid and Liquid Medicines, Production of Solid Medicines, Maintenance and Energy, Logistics, Quality Control, Research and Development and in the offices at Opatička 5 and Vargovićeva 4/1. The observed shortcomings were eliminated as soon as possible.

During all surveillance since the beginning of the COVID-19 virus pandemic, the control of prescribed prevention measures is carried out on a weekly basis.

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 with 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 2020, 154 employees had carried out eye and colour recognition tests and a total of 618 employees went through medical examinations.

Particular attention is paid to timely training and education for safety at work and in 2020 total of 46 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 Safety at Work Service organized professional training for 17 employees working with hazardous chemicals and training for 4 employees with direct authorisation.

6. ENVIRONMENTAL PROTECTION

ENVIRONMENTAL PROTECTION ACTIVITIES

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.

Efficient waste management enables all the generated waste to be disposed of, recycled or thermally processed in a safe and environmentally responsible manner.

In 2020, 31 different types of waste were recorded at Belupo in the total amount of approximately 288 tonnes.

Processing method / per total quantity	Recycling	Thermal processing	Landfill
Waste amount %	59.6	34.7	5.7

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 2020, emissions were measured at energy discharges. The emission limit values were within the allowed boundaries of which records are kept and the measured results reported to the Ministry of Economy and Sustainable Development.

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 Economy and Sustainable Development. 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 2020, 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 Podravka's factories at the Danica site. Technological and sanitary waters are drained from the Belupo site through a separate sewage system, they are mixed with wastewater from other factories and drained to the device for mechanical and biological treatment. Waste water analyses are regularly performed by authorized laboratories, according to regulations and the Water License. Due to the correct treatment of hazardous substances and waste that is not drained in the sewage system, waste waters satisfy border values prescribed by the Law. Precipitation waters are drained through a separate sewage into the natural recipient.

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

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

Risk 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 Economy and Sustainable Development 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 Economy and Sustainable Development, 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 2020.

In 2020, the Ministry of the Economy and Sustainable Development inspected the implementation of regulations in the environmental protection segment. Belupo fully complies with all environmental regulations and no decision on violation of regulations has been issued.

7. 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 to expand the range of drugs in traditionally strong ATK groups, and we also plan to diversify the portfolio of Rx drugs and stronger development of synthetic OTC drugs.

The designing and construction of new production capacities in solid, semi-solid and liquid forms has 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.

8. NEW PRODUCTS IN THE YEAR 2020

8.1. Croatian market

- TAMOSIN 0,4 mg prolonged-release capsules 100 x 0,4 mg
- KLLOTAS 0,5 mg/ 0,4 mg hard capsules
- ROSIX DUO 10 mg/100 mg i 20 mg/100 mg hard capsules
- RUDAKOL 200 mg hard prolonged-release capsules
- LUPOCET 1000 mg suppositories
- NEOFEN COMBO 200 mg/500 mg film-coated tablets

- BELAABO hand sanitizer spray 100 ml
- NEOFEN neo-forte 400 mg film-coated tablets
- KNAVON AKUT 50 mg hard capsules

8.2. International markets

RUSSIAN FEDERATION

- Konvilept 250 mg, 500 mg i 1000 mg film-coated tablets
- Panthenol foam 150 ml

POLAND

- Tadalafil Belupo 20 mg film-coated tablets

CZECH REPUBLIC

- Dubelotam (dutasterid 0,5 mg + tamsulosin 0,4 mg) capsules
- Tadalafil Belupo 20 mg film-coated tablets
- Beldimet (dimetinden) gel 30 g

SLOVAKIA

- Belodut (dutasterid 0,5 mg + tamsulosin 0,4 mg) capsules
- Tadalafil Belupo 20 mg film-coated tablets

SLOVENIA

- Abuxar (febuxostat) 80 mg i 120 mg film-coated tablets
- Careza (dutasterid 0,5 mg + tamsulosin 0,4 mg) capsules
- Rudakol (mebeverin) 200 mg SR capsules
- Zaracet (tramadol 75 mg + paracetamol 650 mg) tablets
- Rojazol gel 40 g
- Rojazol crema 30 g
- Acibel (acetilcistein) effervescent tablets 600 mg i 200 mg
- Ibubel Lin 200 mg (ibuprofen lizin 342 mg)
- Ibubel Lin 400 mg (Ibuprofen lizin 684 mg)
- Iburofen/Paracetamol Belupo 200 mg + 500 mg film-coated tablets
- Metida (dimetinden) gel 30 g

BOSNIA AND HERZEGOVINA

- Neofen Combo (ibuprofen 200 mg + paracetamol 500 mg) film-coated tablets
- Neofen rapid 200 mg (ibuprofen lizin 342 mg)
- Neofen rapid 400 mg (ibuprofen lizin 684 mg) film-coated tablets

SERBIA

- Mukobel effervescent tablets 200 mg
- Mukobel effervescent tablets 600 mg

MONTENEGRO

- Agnis film-coated tablets 50 mg

MAKEDONIJA

- Abuxar (febuoxostat) 80 mg i 120 mg film-coated tablets
- Agnis (vildagliptin) 50 mg
- Glika (gliklazid) 60 mg

9. EXPOSURE AND RISK MANAGEMENT

In 2020, 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 2020 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. In 2020, a loan related to a currency clause in EUR was refinanced with two HRK loans from commercial banks in equal amounts, thus reducing currency risk.

INTEREST RATE RISK

The Group proactively manages this risk, taking actions to minimize it. Thus, in 2020, the existing loan (with a variable interest rate) was refinanced, with two new loans from commercial banks in equal amounts, of which one loan was realized with a fixed interest rate, and the other with a variable interest rate.

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 Health Insurance Found (CHIF), that is, the liquidity of the entire health system. 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 and Group has further expande the scope of insurance of receivables after the balance sheet date.

LIQUIDITY RISK

The Group faces liquidity risk due to uncertainty of collection, which depends on the dynamics of payment of the CHIF 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.

10. VISIONA, 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 domestic 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.

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 Management report in accordance with the Croatian Accounting Act. The Management report is authorised and signed by the Management Board. The Management Board is responsible for the submission to the Supervisory Board of its 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 13 April 2021 for issue to the Supervisory Board and are signed below to signify this:

Hrvoje Kolarić
President of the Management Board

Tihomir Hedever
Member of the Management Board

Belupo d.d.

Ulica Danica 5
48 000 Koprivnica
Republic of Croatia
13 April 2021

BELUPO
lijekovi i kozmetika d.d.
KOPRIVNICA

Building a better
working world

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

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

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Belupo Pharmaceuticals & Cosmetics d.d. and Belupo Group

Report on the audit of the separate and consolidated financial statements

Opinion

We have audited the separate financial statements of Belupo Pharmaceuticals & Cosmetics d.d. (the Company) and consolidated financial statements of Belupo Pharmaceuticals & Cosmetics d.d. and its subsidiaries (together - the Group), which comprise the separated and consolidated statement of financial position as at 31 December 2020, 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 2020 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 the EU (IFRS as adopted by the 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 of Accountants' (IESBA) International Code of Ethics for Professional Accountants, including International Independence Standards (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 information included in the Annual Report for year 2020

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 2020 financial year are consistent, in all material respects, with the enclosed separate and consolidated financial statements;
2. The enclosed Management report for 2020 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.

Building a better working world

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.

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

Ernst & Young d.o.o.
Radnička cesta 50
10000 Zagreb, Republic of Croatia
13 April 2021

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

(in thousands of HRK)	Notes	*Group* 2020	*Group* 2019	*Company* 2020	*Company* 2019
Revenue	7, 7a, 7b	978,400	957,448	702,187	700,897
Cost of goods sold	9a	(510,118)	(484,526)	(342,750)	(334,119)
Gross profit from sales		**468,282**	**472,922**	**359,437**	**366,778**
Other income	8	7,352	17,591	7,346	17,440
General and administrative expenses	9b	(120,629)	(124,932)	(95,883)	(100,047)
Selling and distribution expenses	9c	(61,553)	(62,170)	(33,745)	(35,406)
Marketing expenses	9d	(156,535)	(183,957)	(133,057)	(157,594)
Other expenses	11	(37,235)	(174)	(36,532)	(1)
Operating profit		**99,682**	**119,280**	**67,566**	**91,170**
Finance income	13	1,334	1,994	6,564	5,632
Finance expenses	14	(9,635)	(9,553)	(8,755)	(8,340)
Profit before tax		**91,381**	**111,721**	**65,375**	**88,462**
Income tax	15	(16,987)	(21,952)	(12,955)	(18,360)
Profit for the year		**74,394**	**89,769**	**52,420**	**70,102**
Other comprehensive income:					
Items that will not be reclassified to profit or loss					
Actuarial gains/(losses) - net from tax	28	(385)	(234)	(366)	(155)
Items that may be subsequently reclassified to profit of loss					
Foreign operations – foreign currency translation differences	28, 30	1,532	405	-	-
Total comprehensive income for the year		**75,541**	**89,940**	**52,054**	**69,947**
Profit attributable to:					
The equity holders of the parent		67,108	83,650		
Non-controlling interests		7,286	6,119		
		74,394	**89,769**		
Total comprehensive income attributable to:					
The equity holders of the parent		67,739	83,689		
Non-controlling interests	30	7,802	6,251		
		75,541	**89,940**		

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

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2020

(in thousands of HRK)	Notes	*Group* 31 December 2020	*Group* 31 December 2019	*Company* 31 December 2020	*Company* 31 December 2019
ASSETS					
Non-current assets					
Intangible assets	17	110,531	101,449	64,116	58,290
Property, plant and equipment	18	795,664	795,442	701,477	708,843
Right-of-use assets	19	20,193	17,153	12,099	8,779
Non-current financial assets	21, 25	256	295	19,032	20,631
Investments in subsidiaries	20	-	-	103,701	99,664
Deferred tax assets	16	82,796	95,034	86,587	99,242
		1,009,440	**1,009,373**	**987,012**	**995,449**
Current assets					
Inventories	22	241,461	209,830	184,060	155,318
Non-current assets held for sale	23	1,751	1,751	1,751	1,751
Trade and other receivables	24	380,104	335,866	313,480	274,094
Loan receivables	25	-	-	8,765	8,494
Income tax receivable		-	372	-	-
Cash and cash equivalents	26	20,129	20,092	2,024	14,651
		643,445	**567,911**	**510,080**	**454,308**
Total assets		**1,652,885**	**1,577,284**	**1,497,092**	**1,449,757**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	27	579,087	579,087	579,087	579,087
Reserves	28	125,085	113,507	123,376	112,800
Retained earnings	29	395,306	367,145	352,347	338,869
Attributable to the equity holders of the parent		**1,099,478**	**1,059,739**	**1,054,810**	**1,030,756**
Non-controlling interests	30	54,540	46,738	-	-
		1,154,018	**1,106,477**	**1,054,810**	**1,030,756**
Non-current liabilities					
Loans and borrowings	31	181,573	252,651	174,947	241,737
Liability for right-of-use assets	19	12,763	12,274	6,991	5,964
Provisions	32	9,982	8,387	9,177	7,456
Deferred tax liability	16	2,510	2,568	61	-
		206,828	**275,880**	**191,176**	**255,157**
Current liabilities					
Trade and other payables	33	115,237	87,276	84,406	70,177
Loans and borrowings	31	163,127	97,015	158,537	87,332
Liability for right-of-use assets	19	7,277	5,438	4,830	3,288
Income tax payable		1,119	346	-	-
Provisions	32	5,279	4,852	3,333	3,047
		292,039	**194,927**	**251,106**	**163,844**
Total liabilities		**498,867**	**470,807**	**442,282**	**419,001**
Total shareholders' equity and liabilities		**1,652,885**	**1,577,284**	**1,497,092**	**1,449,757**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

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 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	28, 30	-	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**
Balance at 1 January 2020		**579,087**	**113,507**	**367,145**	**1,059,739**	**46,738**	**1,106,477**
Profit for the year		-	-	67,108	67,108	7,286	74,394
Other comprehensive income	28, 30	-	631	-	631	516	1,147
Total comprehensive income		**-**	**631**	**67,108**	**67,739**	**7,802**	**75,541**
Transactions with owners recognized directly in capital							
Transfer to other reserves	28	-	10,947	(10,947)	-	-	-
Dividend declared	29	-	-	(28,000)	(28,000)	-	(28,000)
Total Transactions with owners recognized directly in capital		-	10,947	(38,947)	(28,000)	-	(28,000)
Balance at 31 December 2020		**579,087**	**125,085**	**395,306**	**1,099,478**	**54,540**	**1,154,018**

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

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

Company (in thousands of HRK)	**Notes**	**Share capital**	**Other reserves**	**Retained earnings**	**Total**
Balance at 1 January 2019		**579,087**	**107,613**	**274,109**	**960,809**
Profit for the year		-	-	70,102	70,102
Other comprehensive income	28	-	(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**
Balance at 1 January 2020		**579,087**	**112,800**	**338,869**	**1,030,756**
Profit for the year		-	-	52,420	52,420
Other comprehensive income	28	-	(366)	-	(366)
Total comprehensive income		**-**	**(366)**	**52,420**	**52,054**
Transactions with owners recognized directly in capital					
Transfer to other reserves	28	-	10,942	(10,942)	-
Dividend declared	29	-	-	(28,000)	(28,000)
Total Transactions with owners recognized directly in capital		**-**	**10,942**	**(38,942)**	**(28,000)**
Balance at 31 December 2020		**579,087**	**123,376**	**352,347**	**1,054,810**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

(in thousands of HRK)	*Group* 2020	2019	*Company* 2020	2019
Profit for the year	**74,394**	**89,769**	**52,420**	**70,102**
Depreciation of property, plant and equipment	46,646	46,929	40,916	40,887
Depreciation of intangible assets	9,022	8,960	7,513	7,646
Depreciation of right-of-use assets	7,217	7,409	4,874	5,281
Reversal of impairment of intangible assets	(4,000)	-	-	-
Reversal of impairment of investments in subsidiaries	-	-	(4,000)	-
Loss/(Gain) from sale of non-current assets	1,707	(783)	1,035	(627)
Interest and other financial income	(1,334)	(1,995)	(6,564)	(5,632)
Interest expense and other financial expenses	8,229	10,158	7,333	8,974
Effect of changes in foreign exchange rates	4,954	1,946	3,469	1,532
Income tax	16,987	21,952	12,955	18,360
	163,822	**184,345**	**119,951**	**146,523**
Increase/ (Decrease) of provisions	1,554	2,040	1,561	1,705
Change in inventories	(31,631)	1,745	(28,742)	11,122
Change in trade and other receivables	(45,479)	(48,942)	(39,291)	(52,021)
Change in trade and other payables	29,261	(20,261)	15,461	(13,280)
Cash generated from operations	**117,527**	**118,927**	**68,940**	**94,049**
Interest paid	(7,002)	(7,438)	(6,085)	(6,241)
Income tax paid	(3,575)	(3,827)	(159)	(152)
Net cash generated from Operations	**106,950**	**107,662**	**62,696**	**87,656**
Cash flow from investing activities				
Increase of investments in subsidiaries	-	-	(37)	-
Purchaes of property, plant and equipment	(47,260)	(28,380)	(33,716)	(23,186)
Proceeds from the sale of property, plant and equipment	893	2,780	409	2,461
Purchase of intangible assets	(15,305)	(17,246)	(14,620)	(15,696)
Proceeds from sales of pharmacy rights	-	500	-	-
Loans and deposits given	(9)	(40)	(11,931)	(40)
Loans received	30	42	13,742	8,499
Interest received	48	170	48	170
Dividend received	-	-	3,941	2,142
Net cash from investing activities	**(61,603)**	**(42,174)**	**(42,164)**	**(25,650)**
Cash flow from financing activities				
Proceeds from borrowings	162,950	114,382	155,243	103,000
Repayment of borrowings	(173,193)	(207,841)	(155,673)	(189,947)
Repayment of liabilities for right-of-use assets	(7,067)	(7,423)	(4,729)	(5,362)
Dividend paid	(28,000)	-	(28,000)	-
Net cash from financing activities	**(45,310)**	**(100,882)**	**(33,159)**	**(92,309)**
Net increase/(decrease) in cash and cash equivalents	**37**	**(35,394)**	**(12,627)**	**(30,303)**
Cash and cash equivalents at beginning of the year	20,092	55,486	14,651	44,954
Cash and cash equivalents at end of the year	**20,129**	**20,092**	**2,024**	**14,651**

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 Board of Podravka d.d.

Supervisory Board

President	Marin Pucar (passed away 6.1.2021.)
Vice President	Davor Doko
Member	Branka Perković
Member	Željko Dragec
Member	Petar Miladin

Management Board

President	Hrvoje Kolarić
Member	Ksenija Punčikar (till 3.5.2020.)
Member	Tihomir Heđever (from 4.5.2020.)

Audit Committee

President	Davor Doko
Member	Marin Pucar (passed away 6.1.2021.)
Member	Branka Perković

NOTE 2 – BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements and separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS"). The Group and the Company consistently apply the accounting policies set out below.

The financial statements were approved by the Managent Board on 13 April 2021.

Basis of measurement

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

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. Due to rounding to the nearest thousand, minor errors in the presented subtotals are possible.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires from Management Board 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 Board 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 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 Inc. ("the Company") and entities controlled by the Company (its subsidiaries) as at and for the year ended 31 December 2020. 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, 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 Health Insurance Fund (CHIF). 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, plant and equipment.

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 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 valid 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 valid at the reporting 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 2020 the official exchange rate for EUR 1 was HRK 7.536898 and for RUB 1 was HRK 0,082400 (31 December 2019: EUR 1 was HRK 7.442580 and RUB 1 was HRK 0.107431).

(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.

Exchange differences arising on the translation of net investments in foreign operations are recognized within 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 comprehensive 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 Inc., provided by the Group to its employees. The Group accounts for the transaction with its employees as cash-settled, irrespective of how the Group 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 as the difference between the income from the disposal and the asset's carrying amount, and are recognized within other income/expenses, 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 accumulated impairment losses, 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

Pharma 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 losses.

Software and licences

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

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

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 (cash-generating unit) is reduced to its recoverable amount. An impairment loss is expensed immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

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. The cost is determined by the weighted average price method. 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).

Merchandise is 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 payment, 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 in other comprehensive income.

(iv) Long- term employee benefits

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

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

4.1. Adoption of new standards - changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the amendments set out below as a result of the amendments to International Financial Reporting Standards (IFRS), which were adopted by the Group on 1 January 2020:

- **Conceptual framework of 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.

- **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)**

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. 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 provide 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.

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

4.1. Adoption of new standards - changes in accounting policies and disclosures (continued)

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

There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR).

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

4.2. Standards issued but not yet effective and not early adopted

Certain standards, amendments and interpretations of existing standards that may be applied but are not mandatory for the period ending 31 December 2020 and / or have not been adopted by the European Union and as such have not been applied in the preparation of these financial statements have been published. These standards are not expected to have a material impact on the financial statements of the Group and the Company. The following is an overview:

- **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.

- **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. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. 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.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

  - **IFRS 3 *Business Combinations* (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 *Property, Plant and Equipment* (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

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

4.2. Standards issued but not yet effective and not early adopted (continued)

- **IAS 37** ***Provisions, Contingent Liabilities and Contingent Assets*** **(Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

The amendments have not yet been endorsed by the EU.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)**

  The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:
  - The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
  - Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
  - There is no substantive change to other terms and conditions of the lease.

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**

  In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods

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 Board 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 2020, based on a review of the useful life of long-term assets, the Management Board has estimated that there is no need to increase or decrease the useful life time of any property, plant and equipment (in 2019 there was no need to increase or decrease the useful life of property, plant or equipment).

(iii) 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 business segments at their carrying amount at the reporting date is as follows:

	Group	
	31 December 2020	**31 December 2019**
	(in thousands of HRK)	
Pharmacy rights	40,025	36,025
	40,025	**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 Board and cover a period of five years.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

The key assumptions underlying the projections of future cash flows include:

- revenue average growth rate in the period from 2021-2025 of 1.9%
- normalization of currently reduced drug consumption, caused by the COVID-19 pandemic over the next two years

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 7.69% after tax (for assets which generate the majority of revenue on the Croatian market) (2019: 8.34% after tax).

During 2020, the Group reversed previously recognized impairment of pharmacy rights in the amount of HRK 8,200 thousand for one pharmacy unit, while for another pharmacy unit it recognized a impairment in the amount of HRK 4,200 thousand and considers this as a one-off item (2019: were no impairment costs of pharmacy rights). Following the impairment test, the Group further compared similar transactions in the domestic market which also indicate that the fair value of pharmacy rights is higher than the carrying amount and accordingly reversed previously recognized impairments in the amount of HRK 4,000 thousand. Management views the cash-generating unit as a single pharmacy unit in a particular geographical area.

Sensitivity analysis for the pharmacy unit, which is value adjusted by HRK 4,200 thousand, indicates that the decrease in value with a decrease in the terminal growth rate by 100 basis points (1%) (with unchanged weighted average cost of capital) would amount to HRK 5,474 thousand while with the increase of the weighted average cost of capital by 100 basis points (with unchanged terminal growth rate), the decrease in the pharmacy right value would amounted to HRK 5,870 thousand. Circumstances that indicated recognition of impairment are the appearance of a competing pharmacy in that geographical area, as a result of which lower sales results were achieved, ie the overall business result. The recoverable amount of this pharmacy unit is HRK 12,862 thousand.

Sensitivity analysis for the pharmacy unit whose value adjustment was reversed by HRK 8,200 thousand shows that even with a significant weakening of the terminal growth rate and weighted average cost of capital, there is still an indication of a significant reversal of value adjustment, ie the impairment test is not sensitive to key variables. Continuously increasing sales and achieving better results the last couple of years indicated the reversal. The recoverable amount of this pharmacy unit is HRK 19,350 thousand.

Sensitivity analysis for investment in Deltis Pharm, in which the value adjustment was reversed by HRK 4,000 thousand, shows that even with a significant weakening of the terminal growth rate and weighted average cost of capital, there is still an indication of a significant reversal of the value adjustment, ie the impairment test is not sensitive to changing key variables.

NOTE 6 – DETERMINATION OF FAIR VALUES

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

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

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

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

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

The 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 and other receivables are estimated at the present value of future cash flows discounted at the market interest rate at the measurement date. Short-term receivables without the stated interest rate are measured according to the amount of the original invoice if the effect of discounting is not significant. Fair value is determined at initial recognition and for disclosure purposes at each 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 interest cash flows, discounted at the market rate of interest at the measurment date.

NOTE 7 – REVENUE

	Group		Company	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Revenue from sales of products - domestic	401,160	384,676	346,880	335,002
Revenue from sales of products - abroad	564,840	560,478	352,277	362,400
Revenue from sales of services - domestic	9,112	9,055	2,806	2,668
Revenue from sales of services - abroad	3,288	3,239	224	827
	978,400	**957,448**	**702,187**	**700,897**

NOTE 7a – SALES REVENUE BY TERRITORIAL REGION

	Group		Company	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Adria region	706,826	663,570	441,975	418,814
Western Europe and Overseas region	2,086	797	2,086	797
Central Europe region	60,280	60,509	48,918	48,714
Eastern Europe region	207,394	231,647	207,394	231,647
New markets region	1,814	925	1,814	925
	978,400	**957,448**	**702,187**	**700,897**

The Adria region covers the territory of Albania, Bosnia and Herzegovina, Montenegro, Croatia, Kosovo, North 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		Company	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Ethical drugs	660,379	664,653	581,770	587,722
Non-prescription drugs and medicinal products	119,840	113,382	112,118	104,704
Enteral nutrition	5,540	5,261	5,266	4,976
Services	12,400	12,294	3,030	3,495
Merchandise	180,238	161,857	-	-
Other	3	1	3	-
	978,400	**957,448**	**702,187**	**700,897**

NOTE 8 – OTHER INCOME

	Group		Company	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Gains/(losses) on sale of property, plant and equipment - net	-	710	-	552
Government grants	292	292	292	292
Gains/(losses) on the sale and expense of right-of-use assets - net	9	74	2	74
Foreign exchange gains on receivables and payables	-	13,830	-	13,837
Reversal of impairment of pharmacy rights	4,000	-	-	-
Reversal of impairment of investments in subsidiaries	-	-	4,000	-
Other income	3,051	2,685	3,052	2,685
	7,352	**17,591**	**7,346**	**17,440**

NOTE 8 – OTHER INCOME (continued)

Other revenue of the Group in the amount of HRK 3,051 thousand in 2020 includes revenue from royalties and revenue from the sales of dossiers and rights to use (2019: 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 3,052 thousand in 2020 includes revenue from royalties and revenue from the sales of dossiers and rights to use (2020: revenue from the sales of dossiers and rights to use).

NOTE 9a – COST OF GOODS SOLD

	Group		*Company*	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Material and cost of goods sold	355,584	337,730	204,194	200,673
Staff costs	77,126	75,501	71,252	69,988
Depreciation and amortisation	36,926	37,497	35,089	35,313
Energy	16,924	15,685	15,974	14,575
Other	23,558	18,113	16,241	13,570
	510,118	**484,526**	**342,750**	**334,119**

NOTE 9b – GENERAL AND ADMINISTRATIVE EXPENSES

	Group		*Company*	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Staff costs	67,569	72,379	54,886	60,142
Services	25,791	24,981	21,375	19,385
Depreciation and amortisation	11,854	11,333	8,852	8,624
Other	15,415	16,239	10,770	11,896
	120,629	**124,932**	**95,883**	**100,047**

Within the general and administrative costs of the Group in 2020, HRK 42,357 thousand was recognized as research and development expenses (2019: HRK 42,176 thousand).

Within the general and administrative costs of the Company in 2019, HRK 39,858 thousand was recognized as research and development expenses (2019: HRK 39,568 thousand).

NOTE 9c - SELLING AND DISTRIBUTION EXPENSES

	Group		*Company*	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Staff costs	36,911	36,269	18,513	19,045
Depreciation and amortisation	5,506	5,516	2,141	2,297
Provision for trade receivables, net	1,017	318	(155)	(54)
Energy	2,635	2,971	1,980	2,118
Other	15,484	17,096	11,266	12,000
	61,553	**62,170**	**33,745**	**35,406**

NOTE 9d – MARKETING EXPENSES

	Group		*Company*	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Staff costs	64,918	68,242	56,876	60,401
Depreciation and amortisation	8,599	8,951	7,221	7,579
Raw materials and supplies and spare parts	3,341	4,473	2,628	3,729
Other	79,677	102,291	66,332	85,885
	156,535	**183,957**	**133,057**	**157,594**

NOTE 10 – EXPENSES BY NATURE

	Group		*Company*	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Raw materials and supplies and cost of goods sold	400.408	378,776	234,915	231,146
Staff costs	246.524	252,392	201,527	209,576
Advertising and promotion	41,610	54,310	36,074	43,621
Depreciation and amortisation	62,885	63,298	53,303	53,814
Services	54,900	51,103	45,979	43,206
Entertainment	11,927	21,379	5,747	15,458
Rental costs	2,514	2,106	2,184	1,760
Transport	10,479	9,727	10,187	9,415
Telecommunication	2,168	2,220	1,505	1,610
Other taxes and contributions independent of operating results	3,895	4,030	3,247	3,308
Provisions for trade receivables, net	1,017	317	(155)	(54)
Insurance premiums	4,578	4,320	3,995	3,881
Per diems and travelling expenses	3,073	8,828	2,190	6,854
Other expenses	2,857	2,779	4,737	3,571
	848,835	**855,585**	**605,435**	**627,166**

NOTE 11 – OTHER EXPENSES

	Group		*Company*	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Interest expense on trade payables	4	1	4	1
Interest - Other	-	173	-	-
Loss on disposal of property, plant, equipment and intangibles	1,717	-	1,037	-
Foreign exchange losses on receivables and payables	35,514	-	35,491	-
	37,235	**174**	**36,532**	**1**

NOTE 12 – STAFF COSTS

	Group		*Company*	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Salaries	230,994	236,914	189,080	196,652
Transportation	4,320	4,348	3,882	3,923
Unused vacation and jubilee awards	363	888	502	1,187
Termination benefits	233	90	200	16
Other	10,614	10,152	7,863	7,798
	246,524	**252,392**	**201,527**	**209,576**

The position of salaries at the Group includes HRK 83,248 thousand of contributions and taxes and surcharges (2019: HRK 85,805 thousand), while the position of salaries at the Company includes HRK 66,333 thousand of contributions and taxes and surcharges (2019: HRK 69,909 thousand).

As at 31 December 2020, the Group had 1,496 employees (2019: 1,496 employees). The full time equivalent (FTE) for the Group for 2020 is 1,402 (2019: 1,406). FTE is the full-time equivalent, and is calculated based on the actual hours earned and paid by the employee.

As at 31 December 2020, the Company had 1,224 employees, of which 232 were employed in representative offices (2019: 1,233 employees, of which 241 were employed in representative offices). The full time equivalent (FTE) for the Company for 2020 is 1,152 (2019: 1,159). FTE is the full-time equivalent, and is calculated based on the actual hours earned and paid by the employee.

NOTE 13 – FINANCE INCOME

	Group		*Company*	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Interest on related party loans	-	-	1,289	1,496
Interest on deposits, receivables and other finance income	47	170	47	170
Guarantee fee with related parties	1,287	1,824	1,287	1,824
Dividends	-	-	3,941	2,142
	1,334	**1,994**	**6,564**	**5,632**

NOTE 14 – FINANCE EXPENSES

	Group		*Company*	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Interest expense on borrowings and finance leases	5,351	7,152	4,455	5,985
Other financial expenses	2,878	504	2,878	486
Exchange rate differences on loans and financial assets	1,406	1,897	1,422	1,869
	9,635	**9,553**	**8,755**	**8,340**

In 2020 and 2019 the Group and the Company did not have any investments that would capitalize interest costs on property, plant and equipment.

NOTE 15 – INCOME TAX EXPENSE

Income tax expense comprises the following :

	Group		*Company*	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Current tax	4,716	3,665	159	152
Deferred tax	12,271	18,287	12,796	18,208
Tax expense	**16,987**	**21,952**	**12,955**	**18,360**

	Group		*Company*	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Profit before taxation	91,381	111,721	65,375	88,462
Income tax 18%	16,448	20,110	11,767	15,923
Effects of non-deductible expenses	2,643	3,641	2,011	2,908
Effects of non-taxable income and other incentives	(291)	(277)	(849)	(474)
Effect of different tax rates	(1,836)	(1,525)	-	-
Tax from previous years	23	3	26	3
Tax expense	**16,987**	**21,952**	**12,955**	**18,360**
Effective tax rate	*19%*	*20%*	*20%*	*21%*

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)

The tax credit was used in 2020 for accrued current income tax in the amount of HRK 14,288 thousand (in 2019 for accrued current income tax in the amount of HRK 17,211 thousand). In the following years deferred tax assets related to tax relief in the amount of HRK 69,485 thousand 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

31 December 2020 *(in thousands of HRK)*	**Opening balance**	**Recognized in statement of comprehensive income**	**Recognised in equity**	**Foreign exchange differences**	**Closing balance**
Trade and other payables	2,679	579	83	3	3,344
Inventories	4,010	1,700	-	-	5,710
Intangible assets	4,147	(720)	-	-	3,427
Trade and other receivables	425	400	-	5	830
Tax incentives for capital investment	83,773	(14,288)	-	-	69,485
	95,034	**(12,329)**	**83**	**8**	**82,796**

31 December 2019 *(in thousands of HRK)*	**Opening balance**	**Recognized in statement of comprehensive income**	**Recognised in equity**	**Foreign exchange differences**	**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**

NOTE 16 – DEFERRED TAX ASSETS AND LIABILITIES (continued)

Deferred tax liability – Group

31 December 2020 *(in thousands of HRK)*	**Opening balance**	**Recognized in statement of comprehensive income**	**Closing balance**
Trade and other payables	-	61	61
Property, plant and equipment	2,568	(119)	2,449
	2,568	**(58)**	**2,510**

31 December 2019 *(in thousands of HRK)*	**Opening balance**	**Recognized in statement of comprehensive income**	**Closing balance**
Property, plant and equipment	2,686	(118)	2,568
	2,686	**(118)**	**2,568**

Deferred tax assets – Company

31 December 2020 *(in thousands of HRK)*	**Opening balance**	**Recognized in statement of comprehensive income**	**Recognised in equity**	**Closing balance**
Trade and other payables	2,395	530	80	3,005
Inventories	3,337	1,315	-	4,652
Investment in subsidiaries	9,675	(720)	-	8,955
Trade and other receivables	62	428	-	490
Tax incentives for capital investment	83,773	(14,288)	-	69,485
	99,242	**(12,735)**	**80**	**86,587**

31 December 2019 *(in thousands of HRK)*	**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
Investments 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**

Deferred tax liability – Company

31 December 2020 *(in thousands of HRK)*	**Opening balance**	**Recognized in statement of comprehensive income**	**Closing balance**
Trade and other payables	-	61	61
	-	61	61

NOTE 17 –INTANGIBLE ASSETS

GROUP

(in thousands of HRK)	Software and licences	Distribution rights, right of registration file use and registrations	Pharmacy rights	Development costs	Goodwill	Assets under construction	Total
Cost							
At 1 January 2019	**24,803**	**126,658**	**59,065**	**19,654**	**21,601**	**26,646**	**278,427**
Exchange rate effect	4	37	-	-	-	3	44
Additions	-	-	-	-	-	17,246	17,246
Transfers	1,664	5,610	-	3,251	-	(10,525)	-
Disposals and write off's	(359)	(1,079)	-	-	-	(811)	(2,249)
At 31 December 2019	**26,112**	**131,226**	**59,065**	**22,905**	**21,601**	**32,559**	**293,468**
Accumulated amortisation							
At 1 January 2019	**(21,956)**	**(107,208)**	**(23,040)**	**(10,458)**	**(21,601)**	**-**	**(184,263)**
Exchange rate effect	(2)	(23)	-	-	-	-	(25)
Charge for the year	(838)	(6,058)	-	(2,064)	-	-	(8,960)
Disposals and write off's	359	870	-	-	-	-	1,229
At 31 December 2019	**(22,437)**	**(112,419)**	**(23,040)**	**(12,522)**	**(21,601)**	**-**	**(192,019)**
Carrying amount at 31 December 2019	**3,675**	**18,807**	**36,025**	**10,383**	**-**	**32,559**	**101,449**
Cost							
At 1 January 2020	**26,112**	**131,226**	**59,065**	**22,905**	**21,601**	**32,559**	**293,468**
Exchange rate effect	21	150	-	-	-	8	179
Additions	-	-	-	-	-	15,305	15,305
Transfers	2,789	4,897	-	1,649	-	(9,335)	-
Disposals and write offs	-	(706)	-	(325)	-	(1,099)	(2,130)
At 31 December 2020	**28,922**	**135,567**	**59,065**	**24,229**	**21,601**	**37,438**	**306,822**
Accumulated amortisation							
At 1 January 2020	**(22,437)**	**(112,419)**	**(23,040)**	**(12,522)**	**(21,601)**	**-**	**(192,019)**
Exchange rate effect	(15)	(84)	-	-	-	-	(99)
Charge for the year	(1,115)	(5,842)	-	(2,065)	-	-	(9,022)
Disposals and write offs	-	524	-	325	-	-	849
Reversal of impairment losses	-	-	4,000	-	-	-	4,000
At 31 December 2020	**(23,567)**	**(117,821)**	**(19,040)**	**(14,262)**	**(21,601)**	**-**	**(196,291)**
Carrying amount at 31 December 2020	**5,355**	**17,746**	**40,025**	**9,967**	**-**	**37,438**	**110,531**

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.

During 2020, the Group reversed previously recognized impairments of pharmacy rights in the amount of HRK 4,000 thousand (Note 5).

NOTE 17 –INTANGIBLE ASSETS (continued)

Company

(in thousands of HRK)	Software and licences	Rights of registration file use and registrations	Development costs	Assets under construction	Total
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**
Cost					
At 1 January 2020	**22,630**	**73,264**	**22,905**	**31,941**	**150,740**
Additions	-	-	-	14,620	**14,620**
Transfers	2,535	4,657	1,649	(8,841)	-
Disposals and write offs	-	(706)	(325)	(1,099)	**(2,130)**
At 31 December 2020	**25,165**	**77,215**	**24,229**	**36,621**	**163,230**
Accumulated amortisation					
At 1 January 2020	**(20,150)**	**(59,778)**	**(12,522)**	**-**	**(92,450)**
Charge for the year	(797)	(4,651)	(2,065)	-	**(7,513)**
Disposals and write offs	-	524	325	-	**849**
At 31 December 2020	**(20,947)**	**(63,905)**	**(14,262)**	**-**	**(99,114)**
Carrying amount at 31 December 2020	**4,218**	**13,310**	**9,967**	**36,621**	**64,116**

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 2019	**645,465**	**931,710**	**20,164**	**1,597,339**
Exchange rate effect	210	121	1	332
Additions	-	39	28,699	28,738
Transfers	55	25,562	(25,617)	-
Disposals and write off's	(1,234)	(15,118)	(104)	(16,456)
Transfer to 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)**
Exchange rate effect	(59)	(91)	-	(150)
Charge for the year	(14,142)	(32,787)	-	(46,929)
Disposals and write off's	470	14,912	-	15,382
Transfer to assets held for sale	18,022	676	-	18,698
At 31 December 2019	**(300,056)**	**(494,006)**	**-**	**(794,062)**
Carrying amount at 31 December 2019	**324,667**	**447,632**	**23,143**	**795,442**
Cost				
At 1 January 2020	**624,723**	**941,638**	**23,143**	**1,589,504**
Exchange rate effect	797	463	54	1,314
Additions	-	49	47,381	47,430
Transfers	15	42,579	(42,594)	-
Disposals and write off's	(483)	(4,196)	(681)	(5,360)
At 31 December 2020	**625,052**	**980,533**	**27,303**	**1,632,888**
Accumulated amortisation				
At 1 January 2020	**(300,056)**	**(494,006)**	**-**	**(794,062)**
Exchange rate effect	(228)	(318)	-	(546)
Charge for the year	(13,822)	(32,824)	-	(46,646)
Disposals and write off's	-	4,030	-	4,030
At 31 December 2020	**(314,106)**	**(523,118)**	**-**	**(837,224)**
Carrying amount at 31 December 2020	**310,946**	**457,415**	**27,303**	**795,664**

Land, buildings and equipment of the Group in the amount of HRK 275,316 thousand (2019: HRK 414,592 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 Inc..

As of 31 December 2020, the assets under construction are mostly related to production equipment.

Of the total increase in property, plant and equipment in the amount of HRK 47,430 thousand, HRK 170 thousand relate to equipment purchased through a finance lease contract (2019: total increase of HRK 28,738 thousand; HRK 459 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 2019	**543,307**	**893,200**	**19,448**	**1,455,955**
Additions	-	-	23,186	23,186
Transfers	55	23,663	(23,718)	-
Disposals and write off's	(1,234)	(13,873)	(82)	(15,189)
Transfer to 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 off's	470	13,781	-	14,251
Transfer to 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**
Cost				
At 1 January 2020	**522,355**	**902,314**	**18,834**	**1,443,503**
Additions	-	-	33,716	33,716
Transfers	15	39,250	(39,265)	-
Disposals and write off's	-	(3,386)	(56)	(3,442)
At 31 December 2020	**522,370**	**938,178**	**13,229**	**1,473,777**
Accumulated amortisation				
At 1 January 2020	**(268,432)**	**(466,228)**	**-**	**(734,660)**
Charge for the year	(10,795)	(30,121)	-	(40,916)
Disposals and write off's	-	3,276	-	3,276
At 31 December 2020	**(279,227)**	**(493,073)**	**-**	**(772,300)**
Carrying amount at 31 December 2020	**243,143**	**445,105**	**13,229**	**701,477**

As of 31 December 2020, the assets under construction are mostly related to production equipment.

On 31 December 2020, buildings and land of the Company with a net book value of HRK 231,379 thousand have been pledged as collateral for loan liabilities of the Company and as a guarantee for the loan liabilities of the parent company Podravka Inc. (2019: HRK 369,063 thousand).

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 effect	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 effect	(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**
Cost			
At 1 January 2020	**16,823**	**7,503**	**24,326**
Exchange rate effect	29	34	63
Additions	3,054	8,548	11,602
Disposals and write offs	(1,183)	(3,271)	(4,454)
At 31 December 2020	**18,723**	**12,814**	**31,537**
Accumulated amortisation			
At 1 January 2020	**(4,229)**	**(2,944)**	**(7,173)**
Exchange rate effect	(6)	(9)	(15)
Charge for the year	(4,424)	(2,793)	(7,217)
Disposals and write offs	527	2,534	3,061
At 31 December 2020	**(8,132)**	**(3,212)**	**(11,344)**
Carrying amount at 31 December 2020	**10,591**	**9,602**	**20,193**

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**
Cost			
At 1 January 2020	**8,844**	**4,974**	**13,818**
Additions	3,054	6,328	9,382
Disposals and write offs	(1,183)	(2,674)	(3,857)
At 31 December 2020	**10,715**	**8,628**	**19,343**
Accumulated amortisation			
At 1 January 2020	**(2,822)**	**(2,217)**	**(5,039)**
Charge for the year	(2,939)	(1,935)	(4,874)
Disposals and write offs	527	2,142	2,669
At 31 December 2020	**(5,234)**	**(2,010)**	**(7,244)**
Carrying amount at 31 December 2020	**5,481**	**6,618**	**12,099**

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

Movements in lease liabilities for right-of-use assets

	Group		Company	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	**17,712**	**21,003**	**9,252**	**12,383**
Interest expense	352	453	154	243
Increase of lease liabilities during the year	11,602	4,385	9,382	2,497
Lease liabilities payments	(7,419)	(7,875)	(4,883)	(5,604)
Write-off's	(1,404)	(894)	(1,191)	(894)
Exchange rate effect	(803)	640	(893)	627
At 31 December	**20,040**	**17,712**	**11,821**	**9,252**
Current portion of long term liability for right-of-use assets	7,277	5,438	4,830	3,288
Long term liability for right-of-use assets	12,763	12,274	6,991	5,964

Amounts recognised in the statement of comprehensive income

	Group		*Company*	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Depreciation expense of right-of-use asset	7,217	7,409	4,874	5,281
Interest expense of lease liabilities	352	453	154	243
Expenses related to short-term leases and leases of low-value assets etc.	2,514	2,106	2,184	1,760
Exchange rate differenece	(849)	607	(889)	592
Total amount recognised in the statment of comprehensive income	**9,234**	**10,575**	**6,323**	**7,876**

NOTE 20 - INVESTMENTS IN SUBSIDIARIES

Name of subsidiary	**Country**	**Ownership interest in %**		**Principal business**
		31 December 2020	**31 December 2019**	
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	North Macedonia	100	100	Distribution of pharmaceuticals
Carrying amount of the investment		**103,701**	**99,664**	

In 2020, the Company partially reversed the previously recognized impairment of investments in the subsidiary of Ljekarna Deltis Pharm, Koprivnica in the amount of HRK 4,000 thousand (2019: HRK 0). The Company also increase the share capital of its subsidiary Belupo d.o.o.el, Skopje in the amount of HRK 37 thousand (2019: HRK 0).

NOTE 21 – NON-CURRENT FINANCIAL ASSETS

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings to related party	-	-	18,945	20,503
Deposits	89	130	87	128
Other	167	165	-	-
	256	**295**	**19,032**	**20,631**

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*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Finished goods and merchandise	146,766	149,997	100,935	98,839
Raw materials and supplies	88,282	57,598	77,058	54,244
Work in progress	6,413	2,235	6,067	2,235
	241,461	**209,830**	**184,060**	**155,318**

During the year 2020, the Group has recognized the impairment loss of HRK 8,144 thousand at expense (2019: HRK 4,981 thousand in favor of income). This impairment is presented in the Statement of comprehensive income under *"Cost of goods sold"*.

During the year 2020, the Company has recognized the impairment loss of HRK 7,306 thousand (2019: HRK 2,053 thousand at expense). This impairment is presented in the Statement of comprehensive income under *"Cost of goods sold"*.

In August 2020, the Pharmaceuticals segment analyzed the used estimate of value adjustments of stocks of raw materials and packaging and changed the value adjustment policy in accordance with that analysis. The analysis showed that raw materials and packaging have longer shelf life and that consequently a significant part of previously corrected raw materials and packaging is still used in production. The updated estimate of impairment will approximate actual write-off trends in raw materials and packaging. The change in assessment or policy resulted in lower costs contained in products sold in the amount of HRK 2,919 thousand (before taxes) in the period 1.-12. 2020 (2019: HRK 955 thousand (before tax)).

NOTE 23 – NON-CURRENT ASSETS HELD FOR SALE

At the date of the statement of financial position, the Company has entered into a contract for the sale of the subject property for an amount higher than the book value. The sale and transfer of ownership will be realized after the payment of the entire purchase price (2019: the Company's Management Board has made a decision to reclassify non-operating assets as non-current assets intended for sale).

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Land	1,117	1,117	1117	1,117
Buildings	634	634	634	634
	1,751	**1,751**	**1,751**	**1,751**

NOTE 24 – TRADE AND OTHER RECEIVABLES

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Trade receivables	394,266	338,547	288,723	239,930
Less: Provisions for impairment	(26,720)	(26,614)	(8,093)	(9,378)
Net trade receivables	***367,546***	***311,933***	***280,630***	***230,552***
Advances to suppliers	3,191	5,305	3,175	5,272
Trade receivables from related parties	407	402	21,827	21,574
Prepaid expenses and other receivables from related parties	250	393	344	458
Other receivables	8,710	17,833	7,504	16,238
Total current receivables	**380,104**	**335,866**	**313,480**	**274,094**

Other receivables in the Group and the Company are elaborated below (2019: Other receivables include receivables from suppliers based on a complaint letter in the amount of HRK 7,425 thousand for delivered goods of inadequate quality. The Management Board believes that the recoverability of this receivable is not in question).

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

	Group		*Company*	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	26,614	26,236	9,378	9,432
Collected	(333)	(654)	(41)	(3)
Increase/(decrease)	1,570	1,032	(113)	(51)
Written off as uncollectable	(1,131)	-	(1,131)	-
At 31 December	**26,720**	**26,614**	**8,093**	**9,378**

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

Ageing analysis of trade receivables past due but not impaired:

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Non due	271,592	276,919	238,455	237,913
0-90 days	83,563	27,742	60,487	13,169
91-180 days	8,742	5,124	3,202	609
181-360 days	4,056	2,550	313	435
	367,953	**312,335**	**302,457**	**252,126**

NOTE 24 – TRADE AND OTHER RECEIVABLES (continued)

Other receivables consist of the following:

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Net VAT receivable	3,583	4,374	3,583	4,374
Prepaid expenses	3,646	12,503	2,682	11,026
Receivables from employees	517	688	480	654
Other receivables	964	268	759	184
	8,710	**17,833**	**7,504**	**16,238**

Movement of prepaid expenses and accrued income:

	Group		*Company*	
	2020	***2019***	***2020***	***2019***
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	**12,503**	**12,521**	**11,026**	**10,927**
Additions	11,880	11,552	10,837	10,039
Decrease	(20,737)	(11,570)	(19,181)	(9,940)
At 31 December	**3,646**	**12,503**	**2,682**	**11,026**

NOTE 25 – RECEIVABLES ON LOANS GRANTED

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings				
Loans to related parties	-	-	18,945	20,503
Total non-current borrowings	-	-	**18,945**	**20,503**
Current borrowings				
Loans to related parties	-	-	8,765	8,494
Total current borrowings	-	-	**8,765**	**8,494**
Total loans	-	-	**27,710**	**28,997**

NOTE 26 – CASH AND CASH EQUIVALENTS

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Cash with banks	19,979	18,455	2,015	13,120
Cash in hand	150	115	9	9
Deposits	-	1,522	-	1,522
	20,129	**20,092**	**2,024**	**14,651**

Cash on bank accounts refers to transaction accounts at commercial banks with an average interest rate of 0.0006% for the Group and 0.0003% for the Company.

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*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
BAM	14,075	521	7	14
EUR	3,947	5,900	639	3,270
USD	47	2	47	2
RUB	47	4,624	47	4,624
HRK	1,255	7,658	609	5,404
Other currencies	758	1,387	675	1,337
	20,129	**20,092**	**2,024**	**14,651**

NOTE 27 – SHARE CAPITAL

The share capital of the Company as at 31 December 2020 amounts to HRK 579,087,600.00 and is divided into 5,790,876 ordinary shares (2019: HRK 579,087,600.00 divided into 5,790,876 shares) with a nominal value of HRK 100, which are wholly owned by Podravka Inc., Koprivnica.

Profit distribution

On 27 August 2020, the General Assembly decided that the Company's profit for 2019 in the amount of HRK 70,102 thousand be allocated to statutory reserves in the amount of HRK 3,505 thousand, to legal reserves in the amount of HRK 2,974 thousand, to other reserves in the amount of HRK 4,463 thousand, and the remaining part in the amount of HRK 59.160 thousad to retained earnings.
The Company and the Group as at 31 December 2020 reported development costs in the total amount of HRK 30,211 thousand (2018: HRK 23,044 thousand).

NOTE 28 –RESERVES

GROUP

(in thousands of HRK)	**Legal reserves**	**Other reserves**	**Translation reserves**	**Total**
At 1 January 2019	23,931	83,915	280	108,126
Exchange differences	-	-	273	273
Aktuarski dobici	2,255	3,087	-	5,342
Actuarial gains/(losses)	-	(234)	-	(234)
At 31 December 2019	**26,186**	**86,768**	**553**	**113,507**
At 1 January 2020	**26,186**	**86,768**	**553**	**113,507**
Exchange differences	-	-	1,016	1,016
Transfer to reserves	2,979	7,968	-	10,947
Actuarial gains	-	(385)	-	(385)
At 31 December 2020	**29,165**	**94,351**	**1,569**	**125,085**

NOTE 28 –RESERVES (continued)

Company

(in thousands of HRK)	**Legal reserves**	**Other reserves**	**Total**
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**
At 1 January 2020	**25,980**	**86,820**	**112,800**
Transfer to reserves	2,974	7,968	10,942
Actuarial gains	-	(366)	(366)
At 31 December 2020	**28,954**	**94,422**	**123,376**

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*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	**367,145**	**288,837**	**338,869**	**274,109**
Transfer to other reserves	(10,947)	(5,342)	(10,942)	(5,342)
Profit for the year	67,108	83,650	52,420	70,102
Dividend declared	(28,000)	-	(28,000)	-
At 31 December	**395,306**	**367,145**	**352,347**	**338,869**

On 27 August 2020, the General Assembly of the Company decided that the part of retained earnings in the amount of HRK 28,000 thousand would be paid to the owner as a dividend. As at 31 December 2020, the dividend was paid in full to the owner (2019: no dividend was approved or paid).

NOTE 30 – NON-CONTROLLING INTEREST

	2020	**2019**
	(in thousands of HRK)	
At 1 January	46,738	40,487
Share in profit/(loss) for the year	7,802	6,251
At 31 December	**54,540**	**46,738**

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 statements for Farmavita d.o.o. Sarajevo are presented below (in thousand of HRK).

Statement of financial position	**31 December 2020**	**31 December 2019**
Non-current assets	77,300	68,510
Current assets	138,759	122,022
Current liabilities	(52,825)	(45,140)
Non-current liabilities	(26,782)	(32,298)
Net assets	**136,452**	**113,094**
Statement of comprehensive income for the year		
Revenue from sale	226,922	207,433
Profit or loss after tax	21,884	18,550
Other comprehensive income or loss	516	132
Total comprehensive income or loss for the year	**22,400**	**18,682**
Statement of cash flows		
Net increase/(decrease) in cash and cash equivalents	13,652	(2,147)

NOTE 31 - LOANS AND BORROWINGS

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings				
Borrowings from related parties	6,474	8,790	-	-
Foreign banks and banks in Croatia	174,948	243,651	174,947	241,737
Finance lease	151	210	-	-
	181,573	**252,651**	**174,947**	**241,737**
Current borrowings				
Borrowings from related parties	2,428	3,196	-	-
Foreign banks and banks in Croatia	160,475	93,242	158,537	87,332
Finance lease obligations	224	577	-	-
	163,127	**97,015**	**158,537**	**87,332**
Total borrowings	**344,700**	**349,666**	**333,484**	**329,069**

Group:

Bank borrowings of HRK 247,092 thousand (2019: HRK 337,680 thousand) are secured by mortgages over the land, buildings and equipment of the Group.

During 2020, 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 162,950 thousand (2019: HRK 114,382 thousand), while the total cash loan repayment amounted to HRK 173,193 thousand (2019: HRK 207,841 thousand). Total non-cash transactions (excluding exchange rate differences) and financial leasing amounted to HRK 219,814 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 244,778 thousand HRK are secured by mortgages over the land and buildings of the Company (2019: bank borrowings of HRK 329,069 thousand are secured by mortgages over the land and buildings of the Company).

During 2020, the Company recorded financial activities and cash transactions on loans received, respectively, in the amount of HRK 155,243 thousand (2019: 103,000) and cash repayment of loans in the amount of HRK 155,673 thousand. The Company had non-cash transactions upon receipt of loans in the amount of HRK 219,644 thousand and non-cash transactions upon loan repayment in the amount of HRK 219,644 thousand (2019. the Company had no non-cash transactions upon receipt and repayment of loans).

During 2020, the Company and its co-borrower Podravka d.d. concluded loan agreements with two commercial banks in equal proportions, thus refinancing the obligation under the existing loan with HBOR in the amount of EUR 22,564 thousand (HRK 170,038 thousand) with more favorable financial conditions.

NOTE 31 - LOANS AND BORROWINGS (continued)

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. (2019: 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.).

The Group's financial lease obligations are as follows :

	Minimum lease payments		Finance costs		Present value of minimum lease payments	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019
			(in thousands of HRK)			
Up to one year	236	602	12	25	224	577
From one to five years	157	215	6	5	151	210
Less: future finance charges	(18)	(30)	18	30	-	-
Present value of minimum lease payment	**375**	**787**			**375**	**787**
Included in financial statements in:						
Current borrowings					224	577
Non-current borrowings					151	210
					375	**787**

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

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Up to 6 months	103,836	50,507	101,919	43,666
Between 6 – 12 months	59,291	46,508	56,618	43,666
Between 1 – 5 years	181,573	252,651	174,947	241,737
	344,700	**349,666**	**333,484**	**329,069**

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

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Between 1 and 2 years	99,073	92,618	94,929	87,332
Between 2 and 5 years	82,500	160,033	80,018	154,405
	181,573	**252,651**	**174,947**	**241,737**

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

	31 December 2020			**31 December 2019**		
	HRK	**EUR**	**Other**	**HRK**	**EUR**	**Other**
	%	**%**	**%**	**%**	**%**	**%**
Non-current borrowings						
Banks in Croatia	0.64	-	-	-	1.50	-
Banks in foreign countries	-	1.01	-	-	0.94	3.85
Finance lease obligations	-	4.80	-	-	-	4.80
Current borrowings						
Banks	0.51	-	-	0.51	-	2.95

NOTE 31 - LOANS AND BORROWINGS (continued)

The carrying amounts of long-term borrowings with fixed interest 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*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
HRK	248,741	-	248,741	-
BAM	8,902	20,594	-	-
EUR	87,057	329,072	84,743	329,069
	344,700	**349,666**	**333,484**	**329,069**

Of the total HRK 344,670 thousand of the Group's loans, HRK 123,423 thousand was contracted at a fixed interest rate and HRK 221,277 thousand at a variable interest rate.

Out of the total HRK 333,484 thousand of the Company's loans, HRK 123,423 thousand was contracted at a fixed interest rate and HRK 210,061 thousand at a variable interest rate.

The Group has the following unused loan facilities:

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Variable interest rate:				
- expiring within one year	233,720	203,484	215,905	186,615
	233,720	**203,484**	**215,905**	**186,615**

Group:
Total unused credit facilities of HRK 233,720 thousand refer to framework borrowings with banks and allowed overdrafts per transaction account.

Company:
Total unused credit facilities of HRK 215,905 thousand refer to framework borrowings with banks and allowed overdrafts per transaction account.

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

	Group		*Company*	
(in thousands of HRK)	**2020**	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	**349,666**	**441,682**	**329,069**	**415,003**
Proceeds from browings	162,950	114,382	155,243	103,000
Repayment of loans	(173,193)	(207,841)	(155,673)	(189,947)
Total cange in financial activity	**(10,243)**	**(93,459)**	**(430)**	**(86,947)**
Effect of exchange rate changes	5,107	1,104	4,845	1,013
Changes related to liability	170	339	-	-
At 31 December	**344,700**	**349,666**	**333,484**	**329,069**

NOTE 32 – PROVISIONS

GROUP

(in thousands of HRK)	**Jubilee awards and retirement benefts**	**Unused holidays accruals**	**Bonuses**	**Share based payments**	**Total**
Non-current	7,070	-	-	1,317	8,387
Current	446	2,398	2,008	-	4,852
At 31 December 2019	**7,516**	**2,398**	**2,008**	**1,317**	**13,239**
Increase/decrease of provision	996	2,273	2,582	1,043	6,894
Utilised/canclled during the year	(466)	(2,398)	(2,008)	-	(4,872)
At 31 December 2020	**8,046**	**2,273**	**2,582**	**2,360**	**15,261**
Non-current	7,622	-	-	2,360	9,982
Current	424	2,273	2,582	-	5,279
	8,046	**2,273**	**2,582**	**2,360**	**15,261**

Company

(in thousands of HRK)	**Jubilee awards and retirement benefts**	**Unused holidays accruals**	**Bonuses**	**Share based payments**	**Total**
Non-current	6,139	-	-	1,317	7,456
Current	437	1,681	929	-	3,047
At 31 December 2019	**6,576**	**1,681**	**929**	**1,317**	**10,503**
Increase/decrease of provision	1,119	1,532	1,379	1,043	5,073
Utilised/cancelled during the year	(456)	(1,681)	(929)	-	(3,066)
At 31 December 2020	**7,239**	**1,532**	**1,379**	**2,360**	**12,510**
Non-current	6,817	-	-	2,360	9,177
Current	422	1,532	1,379	-	3,333
	7,239	**1,532**	**1,379**	**2,360**	**12,510**

NOTE 33 – TRADE AND OTHER PAYABLES

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Trade payables	64,143	53,713	41,648	41,621
Trade payables to related parties	15,098	2,435	15,004	4,400
Other payables	35,996	31,128	27,754	24,156
	115,237	**87,276**	**84,406**	**70,177**

At 31 December 2020, the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.

Other payables include the following:

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Salaries and other benefits to employees	16,503	15,501	12,297	11,936
Interest on borrowings from banks	230	171	223	149
Interest liabilities for interest to related parties	13	18	-	-
Deferred income	5,802	6,133	5,802	6,127
Contributions and other duties payable	2,505	2,187	-	13
Value Added Tax payables	693	827	-	-
Other payables	10,250	6,291	9,432	5,931
	35,996	**31,128**	**27,754**	**24,156**

Movement of deferred income:

	Group		*Company*	
	2020	***2019***	***2020***	***2019***
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	**6,133**	**6,469**	**6,127**	**6,469**
Additions	314	82	314	74
Decrease	(645)	(418)	(639)	(416)
At 31 December	**5,802**	**6,133**	**5,802**	**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 pension insurance institute 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*	
	2020	**2019**	**2020**	**2019**
Discount rate	0.60%	1.80%	0.60%	1.80%
Fluctuation rate	4.60%	4.69%	4.60%	4.69%
Average expected remaining working life (in years)	21	22	21	22

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

	Group		*Company*	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Current service cost	499	332	427	375
Past service cost	(320)	51	(81)	51
Interest expense	47	121	41	110
Other actuarial adjustments	770	685	732	581
Benefits paid	(466)	(494)	(456)	(399)
	530	**695**	**663**	**718**

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

	Group		*Company*	
	2020	**2019**	**2020**	**2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
At 1 January	**7,516**	**6,821**	**6,576**	**5,858**
Current service cost	499	332	427	375
Past service cost	(320)	51	(81)	51
Interest expense	47	121	41	110
Benefits paid	(466)	(494)	(456)	(399)
Other actuarial adjustments	770	685	732	581
At 31 December	**8,046**	**7,516**	**7,239**	**6,576**

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*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Debt (non-current and current borrowings)	344,700	349,666	333,484	329,069
Cash and cash equivalents	(20,129)	(20,092)	(2,024)	(14,651)
Net debt	**324,571**	**329,574**	**331,460**	**314,418**
Equity	1,154,018	1,106,477	1,054,810	1,030,756
Net debt to equity ratio	*28.13%*	*29.79%*	*31.42%*	*30.50%*

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, 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 the notes to the financial statements.

35.3. Categories of financial instruments

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Financial assets at amortized cost				
Trade and other receivables	373,239	319,859	306,920	258,490
Cash and cash equivalents	20,129	20,092	2,024	14,651
Other financial assets	89	130	27,797	29,125
	393,457	**340,081**	**336,741**	**302,266**
Financial liabilities at amortized cost				
Borrowings and right-of-use assets liabilities	364,365	366,591	345,305	338,321
Trade and other payables	108,743	80,316	78,604	64,050
Finance lease liabilities	375	787	-	-
	473,483	**447,694**	**423,909**	**402,371**

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 of uncollectibility of receivables..

The Treasury department 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 2020 the Group used derivatives in order to potentially manage exchange rate fluctuations of the Russian Ruble. The Group does not use any derivatives 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 2020 the Group used a forward contract with commercial banks in order to potentially manage exchange rate fluctuation of the Russian Ruble. As at 31 December 2020, 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/expenses'.

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**	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)				*(in thousands of HRK)*			
BAM	20,651	30,108	87,364	70,543	126	141	19	19
EUR	132,680	167,309	22,927	31,668	109,920	157,768	63,925	71,010
USD	12	1,510	424	1,017	11	1,510	425	1,011
RUB	5,796	5,042	134,775	136,911	5,796	5,042	134,775	136,911
Other currencies	1,268	2,609	1,615	2,995	892	2,224	1,371	2,805

Foreign currency sensitivity analysis

The Group is mainly exposed to the fluctuations in the exchange rate of the Croatian kuna against EUR, USD, BAM and RUB, since the most of the trading in bulk pharmaceuticals on the international market is done in EUR, USD, BAM and RUB.

The following table details the Group's sensitivity to a 1.0 % decrease in Croatian kuna against the relevant foreign currencies in 2020, except RUB for which the sensitivity to a 10% decrease in the kuna exchange rate was analyzed (2019: a decrease in the Croatian kuna exchange rate of 1.0% against the relevant foreign currencies, except for the RUB for which a 10% decrease in the Croatian kuna exchange rate was analyzed). The sensitivity rates above 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. Previous sensitivity rates are rates that represent management's assessment of realistically possible changes in exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit where the Croatian kuna changes by above mentioned percentage against the relevant currency. In the case of an inversely proportional change in the value of the Craotian kuna against therelevant currency, the impact on profit would be equal and opposite.

The exposure to the fluctuations in exchange rates is mainly attributable to the money balance, borrowings, trade payables and receivables and receivables from related companies denominated in euros (EUR), Bosnian Convertible Marks (BAM), US Dollars (USD) and Russian rubles (RUB).

In 2020, a loan related to a currency clause in EUR was refinanced with two Croatian kuna loans from commercial banks in equal amounts, thus reducing currency risk.

NOTE 35 – FINANCIAL INSTRUMENTS (continued)

35.6. Foreign exchange risk management (continued)

	Group				*Company*			
	EUR impact		**USD impact**		**EUR impact**		**USD impact**	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)				*(in thousands of HRK)*			
Profit	1,098	1,356	-	5	460	868	-	5
(Loss)	-	-	(4)	-	-	-	(4)	-

	BAM impact		**RUB impact**		**BAM impact**		**RUB impact**	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)				*(in thousands of HRK)*			
Profit	-	-	-	-	1	1	-	-
(Loss)	(667)	(404)	(12,898)	(13,187)	-	-	(12,898)	(13,187)

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 2020	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years
		(in thousands of HRK)		
At current interest rates	223,726	120,631	60,314	42,781
At current interest rates + 50 basis points	225,102	121,439	60,676	42,987
Effect of increase of interest rate by 50 bp	**(1,376)**	**(808)**	**(362)**	**(206)**

Group as at 31 December 2019	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 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)**

Company as at 31 December 2020	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years
		(in thousands of HRK)		
At current interest rates	211,828	114,812	56,779	40,237
At current interest rates + 50 basis points	213,135	115,579	57,119	40,437
Effect of increase of interest rate by 50 bp	**(1,307)**	**(767)**	**(340)**	**(200)**

Company as at 31 December 2019	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 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)**

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.

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 operates with pharmaceutical wholesellers and pharmacies 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. Part of trade receivables is secured by an insurance policy and the Group further expanded the scope of receivables insurance after the date of the statement of financial position.

35.9. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board 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 as at 31 December 2020	**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	**108,743**	108,743	108,743	-	-
	108,743	**108,743**	**108,743**	**-**	**-**
Interest bearing liabilities					
Financial lease liabilities	**375**	393	241	152	-
Liability for right-of-use assets	**20,040**	20,679	7,512	12,586	581
Borrowings	**344,325**	348,182	165,803	182,379	-
	364,740	**369,254**	**173,556**	**195,117**	**581**
	473,483	**477,997**	**282,299**	**195,117**	**581**
Non-interest bearing assets:					
Trade receivables (including bills of exchange) and other receivables	**373,239**	373,239	373,239	-	-
Cash and cash equivalents	**20,129**	20,129	20,129	-	-
	393,368	393,368	393,368	-	-
Interest bearing assets:					
Long-term deposits	**89**	89	-	89	-
	89	89	-	89	-
	393,457	**393,457**	**393,368**	**89**	**-**
Net liquidity	**(80,026)**	**(84,540)**	**111,069**	**(195,028)**	**(581)**

The Group's non-interest bearing liabilities up to one month comprise mainly of trade payables of HRK 43,438 thousand (2019: HRK 29,259 thousand) and liabilities to employees in amount of HRK 16,503 thousand (2019: HRK 15,501 thousand).

NOTE 35 – FINANCIAL INSTRUMENTS (continued)

35.9. Liquidity risk management (continued)

Liquidity risk analysis tables (continued)

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)	**319,859**	319,859	319,859	-	-
Cash and cash equivalents	**20,092**	20,092	20,092	-	-
	339,951	339,951	339,951	-	-
Interest bearing assets:					
Long-term deposits	**130**	130	-	130	-
	130	**130**	**-**	**130**	**-**
	340,081	**340,081**	**339,951**	**130**	**-**
Net liquidity	**(107,613)**	**(119,383)**	**152,274**	**(270,981)**	**(676)**

NOTE 35 – FINANCIAL INSTRUMENTS (continued)

35.9. Liquidity risk management (continued)

Liquidity risk analysis tables (continued)

Company as at 31 December 2020	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years
		(in thousands of HRK)		
Non-interest bearing liabilities:				
Trade and interest payables	**78,604**	78,604	78,604	-
	78,604	**78,604**	**78,604**	-
Interest bearing liabilities				
Liability for right-of-use assets	**11,821**	12,031	4,877	7,154
Borrowings	**333,484**	336,616	160,186	176,430
	345,305	**348,647**	**165,063**	**183,584**
	423,909	**427,251**	**243,667**	**183,584**
Non-interest bearing assets:				
Trade receivables (including bills of exchange)	**306,920**	306,920	306,920	-
Cash and cash equivalents	**2,024**	2,024	2,024	-
	308,944	308,944	308,944	-
Interest bearing assets:				
Long-term loans	**27,710**	29,214	9,615	19,599
Long-term deposits	**87**	87	-	87
	27,797	29,301	9,615	19,686
	336,741	**338,245**	**318,559**	**19,686**
Net liquidity	**(87,168)**	**(89,006)**	**74,892**	**(163,898)**

The Company's non-interest bearing liabilities up to one month comprise mainly from trade payables of HRK 41,603 thousand (2019: HRK 28,952 thousand) and liabilities to employees in amount of HRK 12,297 thousand (2019: HRK 11,936 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 as at 31 December 2019	**Net book value**	**Contracted cashflow**	Up to one year	1 - 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) and other receivables	**258,490**	258,490	258,490	-
Cash and cash equivalents	**14,651**	**14,651**	**14,651**	**-**
	273,141	273,141	273,141	-
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	**304,668**	**282,725**	**21,943**
Net liquidity	**(100,105)**	**(107,590)**	**124,056**	**(231,646)**

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 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 2020 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 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 2020		
Financial liabilities at fair value through profit or loss				
Liabilities for share based payments (cash settled)	-	2,360	-	2,360

In 2020, 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 2020, 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 in position ‘net financial income/expenses’

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 statement of financial position (continued)

	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

NOTE 36 – SHARE BASED PAYMENTS

Employee share options

Options for the purchase of Podravka Inc. shares are granted to key management of Belupo Inc.. The exercise price of the granted option equals the weighted average share price of Podravka Inc. 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	484.00
31 Dec 2020	7,500	2020	in accordance with performance and labor contract	31 Dec 2025	413.25	485.00
	31,500					

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 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 December 2020 Period less than 5 years	Series 31 December 2019 Period less than 5 years	Series 31 December 2018 Period less than 5 years	Series 31 December 2017 Period less than 5 years
The fair value of options at the date of issue in HRK	158.35	149.69	219.84	195.46
Grant date share price (in HRK and lipas)	485.00	484.00	375.00	270.00
Exercise price (in HRK and lipas)	413.25	429.13	316.52	352.15
Expected volatitlity (%)	22%	17%	16%	17%
Option life (years)	5	5	5	5
Risk-free interest rate (%)	2.72%	3.86%	4.30%	4.81%

Expense recognized in profit or loss	**2020**	**2019**
	(in thousands of HRK)	
Share based payment transactions	1,043	1,072
Utilised during the year	-	(1,107)
	1,043	**(35)**

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

	2020		**2019**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Balance at the beginning of the year	**24,000**	**368.52**	**26,584**	**327.55**
Granted during the year	7,500	413.25	11,500	409.55
Exercised during the year	-	-	(14,084)	486.99
Balance at year end	**31,500**		**24,000**	

As of 31 December 2020, a total of 7,500 options were granted, with the vesting period beginning 1 January 2021 (2019: 9,500 options with the vesting period beginning 1 January 2020 and 2,000 options with the vesting period beginning 1 January 2019).

In 2020 no options were exercised (2019: 14,084 options of 15th and 16th series were exercised).

NOTE 37 – RELATED PARTY TRANSACTIONS

Name of subsidiary	Country	Ownership interest in % 31 December 2020	31 December 2019	Principal business
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	North Macedonia	100	100	Distribution of pharmaceuticals
Carrying amount of the investment		**103,701**	**99,664**	

In 2020, the Company partially reversed the previously recognized impairment of investments in the subsidiary of Ljekarna Deltis Pharm, Koprivnica in the amount of HRK 4,000 thousand (2019: HRK 0). The Company also increase the share capital of its subsidiary Belupo d.o.o.el, Skopje in the amount of HRK 37 thousand (2019: HRK 0).

Related party transactions include business transactions within the Podravka Group companies and items included in the statement of comprehensive income and statement of financial as at 31 December 2020 and 31 December 2019, are as follows:

REVENUE

	Group 2020	2019	*Company* 2020	2019
	(in thousands of HRK)		*(in thousands of HRK)*	
Company outside Belupo Group				
Income from sales of goods and merchandise:				
Podravka d.d., Koprivnica	32	26	-	-
	32	**26**	**-**	**-**
Revenue from services:				
Podravka d.d., Koprivnica	2,172	2,045	2,172	2,045
	2,172	**2,045**	**2,172**	**2,045**
Company within Belupo Group				
Income from sales of goods and merchandise:				
Farmavita d.o.o, Sarajevo	-	-	31,090	26,218
Belupo d.o.o., Bratislava	-	-	31,090	29,439
Belupo d.o.o.el, Skopje	-	-	12,030	11,576
Belupo d.o.o., Ljubljana	-	-	15,250	11,601
Ljekarne Deltis Pharm, Koprivnica	-	-	1,280	1,122
	-	**-**	**90,740**	**79,956**
Revenue from services:				
Farmavita d.o.o, Sarajevo	-	-	46	70
Belupo d.o.o., Bratislava	-	-	94	369
Belupo d.o.o., Ljubljana	-	-	-	168
Ljekarne Deltis Pharm, Koprivnica	-	-	404	406
	-	**-**	**544**	**1,013**
	2,204	**2,071**	**93,456**	**83,014**
Other income				
Ljekarne Deltis Pharm, Koprivnica	-	-	4,001	1
	-	**-**	**4,001**	**1**
Finance income				
Podravka d.d., Koprivnica	1,287	1,824	1,287	1,824
Other related parties	-	-	5,230	3,638
	1,287	**1,824**	**6,517**	**5,462**
Total expenses	**3,491**	**3,895**	**103,974**	**88,477**

NOTE 37 – RELATED PARTY TRANSACTIONS (continued)

EXPENSES

Payments to members of the Management Board and directors	*Group* 2020	2019	*Company* 2020	2019
	(in thousands of HRK)		*(in thousands of HRK)*	
Salaries, bonuses and other benefits paid	8,200	9,508	8,200	9,508
	8,200	**9,508**	**8,200**	**9,508**

These remunerations at the Group and the Company includes HRK 3,274 thousand of salary contributions and taxes and surcharges (2019: HRK 3,841 thousand).

	Group 2020	2019	*Company* 2020	2019
Operating expenses outside Belupo Group:				
Podravka d.d., Koprivnica	25,207	20,843	24,802	20,421
Podravka d.o.o., Ljubljana	182	157	-	-
Podravka d.o.o.el., Skopje	102	45	56	-
Operating expenses within Belupo Group:				
Ljekarne Deltis Pharm, Koprivnica	-	-	(131)	(131)
Farmavita d.o.o., Sarajevo	-	-	(4,100)	(2,342)
Belupo s.r.o., Bratislava	-	-	163	446
Belupo d.o.o., Ljubljana	-	-	(170)	-
	25,491	**21,045**	**20,620**	**18,394**
Finance costs				
Podravka d.d., Koprivnica	125	131	125	125
Podravka d.o.o., Ljubljana	6	-	-	-
Farmavita d.o.o., Sarajevo	-	-	1	-
	131	**131**	**126**	**125**
Total expenses	**25,622**	**21,176**	**20,746**	**18,519**

NOTE 37 – RELATED PARTY TRANSACTIONS (continued)

RECEIVABLES FOR GOODS AND SERVICES

	Group		*Company*	
	Short-term trade receivables for goods and services		**Short-term trade receivables for goods and services**	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company within Belupo Group:				
Farmavita d.o.o., Sarajevo	-	-	16,118	14,079
Ljekarne Deltis Pharm, Koprivnica	-	-	254	2,230
Belupo d.o.o.el., Skopje	-	-	1,235	2,207
Belupo s.r.o., Bratislava	-	-	-	-
Belupo d.o.o., Ljubljana	-	-	3,820	2,664
Company outside Belupo Group:				
Podravka d.d., Koprivnica	407	402	400	394
Total trade receivables – Group entities	**407**	**402**	**21,827**	**21,574**

PAYABLES FOR GOODS AND SERVICES

	Group		*Company*	
	Short-term trade payables for goods and services		**Short-term trade payables for goods and services**	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company within Belupo Group:				
Farmavita d.o.o., Sarajevo	-	-	-	2,072
Ljekarne Deltis Pharm, Koprivnica	-	-	2	3
Belupo s.r.o., Bratislava	-	-	35	16
Company outside Belupo Group:				
Podravka d.d., Koprivnica	15,094	2,438	14,967	2,309
Podravka d.o.o.el., Skopje	4	-	-	-
Podravka Sarajevo	-	(3)	-	-
Total trade payables – Group entities	**15,098**	**2,435**	**15,004**	**4,400**

LIABILITY FOR RIGHT-OF-USE ASSETS

	Group		*Company*	
	Other receivables		**Other receivables**	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company within Belupo Group:				
Farmavita d.o.o., Sarajevo	-	-	68	88
Liability for right-of-use assets	-	-	**68**	**88**
Company outside Belupo Group:				
Podravka Ljubljana	404	528	-	-
Liability for right-of-use assets	**404**	**528**	-	-

NOTE 37 – RELATED PARTY TRANSACTIONS (continued)

OTHER RECEIVABLES AND PREPAID EXPENSES OF THE FUTURE PERIOD

	Group Other receivables		*Company* Other receivables	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company within Belupo Group:				
Farmavita d.o.o., Sarajevo	-	-	49	65
Total other receivables from related parties	**-**	**-**	**49**	**65**

	Group Total prepaid expenses of the future period and outstanding revenue collection		*Company* Total prepaid expenses of the future period and outstanding revenue collection	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company outside Belupo Group:				
Podravka d.d. , Koprivnica	250	393	250	393
Company within Belupo Group:				
Belupo s.r.o., Bratislava	-	-	45	-
Total prepaid expenses of the future period and outstanding revenue collection	**250**	**393**	**295**	**393**

As at 31 December 2020, the Company has a receivable for a loan granted to a subsidiary company within the Belupo Group in the amount of HRK 27,710 thousand (2019: HRK 28,997 thousand).

OTHER LIABILITIES AND DEFERRED PAYMENTS

	Group Accured expenses		*Company* Accured expenses	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company within Belupo Group:				
Farmavita d.o.o., Sarajevo	-	-	-	222
Total accrued expenses from related companies	**-**	**-**	**-**	**222**

As at 31 December 2020, the Group has a liability towards a minority shareholder in the amount of HRK 8,902 thousand (2019: 11,986 thousand).

NOTE 37 – RELATED PARTY TRANSACTIONS (continued)

GIVEN GUARANTEES AND WARRANTIES

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Podravka d.d., Koprivnica	392,819	448,619	392,819	448,619
Farmavita d.o.o., Sarajevo	-	-	17,516	18,541
Mirna d.d., Rovinj	2,000	2,000	2,000	2,000
Ljekarne Deltis Pharm, Koprivnica	-	-	179	121
	394,819	**450,619**	**412,514**	**469,281**

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 Management Board of the Group as at 31 December 2020 and 2019 no contingent liability will arise for the Group and the Company.

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
Podravka d.d. - co-borrowing on credit and framework lines	-	45,166	-	45,166
Podravka d.d. - corporate guarantees	132,975	206,346	132,975	206,346
Podravka d.d. - guarantee	259,844	197,107	259,844	197,107
Farmavita d.o.o. - corporate guarantee	-	-	17,516	18,541
Mirna d.d. - co-debtor on loans and frameworks	2,000	2,000	2,000	2,000
Ljekarne Deltis Pharm - bank guarantee	-	-	179	121
Bank guarantee	18,284	11,931	3,768	3,722
	413,103	**462,550**	**416,282**	**473,003**

NOTE 38b – CAPITAL COMMITMENTS

Group:
As at 31 December 2020, the Group had contracted and unrealized liabilities in the amount of HRK 9,089 thousand, most of which are related to the investments in Belupo d.d. (31 December 2019: HRK 37,375 thousand for investments in Belupo d.d.).

Company:
As at 31 December 2020 the Company had capital commitments in the amount of HRK 5,931 thousand for capital investments (31 December 2019: HRK 37,375 thousand for capital investments). Contracted payment of operating lease liabilities for the use of vehicles and IT equipment are as follows:

	Group		*Company*	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
	(in thousands of HRK)		*(in thousands of HRK)*	
One year or less	1,739	1,036	1,739	1,036
One to five years	1,472	882	1,472	882
	3,211	**1,918**	**3,211**	**1,918**

NOTE 39 - APPROVAL OF FINANCIAL STATEMENTS

The consolidated and separate financial statements were adopted by the Management Board and approved for issue on 13 April 2021.

Signed on behalf of the Company and the Group on April 13, 2021:

Hrvoje Kolarić
President of the Management Board

Tihomir Hedever
Member of the Management Board

BELUPO
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KOPRIVNICA