MEDIKA d.d. and its subsidiaries

AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2018

This version of the Annual report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the Annual report takes precedence over translation.

CONTENTS

MANAGEMENT REPORT

In 2018, the Medika Group (the "Group") generated a consolidated revenue in the amount of HRK 3,078,278 thousand, HRK 251,647 thousand above the prior year's figure. The consolidated operating profit amounts to HRK 42,018 thousand, which is by HRK 4,996 thousand higher than the prior year's figure.

The consolidated profit before tax amounts to HRK 41,151 thousand, and the consolidated net profit amounts to HRK 33,684 thousand, which is HRK 9,825 thousand less than the 2017 figure.

By analysing the individual operating segments (Note 6 to the financial statements), 50.9% of the total consolidated revenue was generated by pharmacies (2017: 52.8%), of which 11.8% by own pharmacies (2017: 12.5%). At the same time, 32.4% of the total consolidated revenue was generated from hospitals (2017: 30.1%).

Total consolidated assets amount to HRK 1,990,478 thousand, representing a decrease of 2.8% from the prior year. The amount of consolidated non-current assets increased by 0.6% in relation to the prior year, whereas the amount of current assets decreased by 3.7%. The consolidated current assets account for 78.0% of the total assets. Trade and other receivables represent the most significant item of the total consolidated assets and are increased by 1.7% from the prior year. In addition, inventories rose by 12.7% compared with the prior year.

In 2018, the Group adjusted the value of receivables for the loans to Agrokor d.d. in the total amount of HRK 50,006 thousands (Note 18).

There was a change in equity, comprising share capital, treasury shares and capital loss, in the position of treasury shares, whose amount increased by HRK 21,589 thousand, since the Company acquired 1,500 shares in the stock market.

The total consolidated loan debt amounts to HRK 276,944 thousand, comprising HRK 270,830 thousand of short-term loans and finance lease obligations and HRK 6,114 thousand of long-term borrowings and finance lease obligations (Note 25). The Group has no long-term loans at 31 December 2018.

The equity-to-assets ratio is 23%, showing that the Company finances 23% of its total consolidated assets from own sources. This indicator has not changed compared with previous year.

The consolidated performance is presented in the statement of comprehensive income on page 33 of the financial statements.

Expected future development of the Group

The Company will maintain the distribution of medicinal products and medical devices as its principal activity and boost the operations involving those products that constitute the Company's core business.

Zdravstvene ustanove Ljekarne Prima Pharme has a strategy to expand its pharmacy network all over the territory of the Republic of Croatia.

Treasury shares

In 2018, the Company acquired 1,500 treasury shares in total amount of HRK 21,589 thousand. At 31 December 2018, Medika d.d. held 2,940 shares, which represents 9.74% of the total amount of shares. The nominal value per share amounts to HRK 6,930.

Subsidiary and associate entities

The Company is the whole owner of its subsidiaries Zdravstvena ustanova (ZU) Ljekarne Prima Pharme and Primus nekretnine d.o.o.

ZU Ljekarne Prima Pharme has the following fully owned subsidiaries: ZU Ljekarne Delonga and ZU Ljekarne Ines Škoko; it also has an associate, ZU Ljekarne Jagatić, in which it holds a share of 49%.

Related parties

The Company with the majority of voting rights, i.e. the parent company Auctor d.o.o., holds an ownership interest of 32.86%, i.e. 36.40% voting shares.

Pliva Hrvatska d.o.o., Zagreb, has an ownership interest of 25.32% and 28.05% of the voting rights in the Company.

Risks

Credit risk

The most significant market risk for the Group is the long collection period for trade receivables, especially those HZZO (Croatian State Health Insurance) and HZZO related receivables. Therefore, a significant amount of working capital of the Group has been immobilized, which significantly affects the cash flow and the Group's ability to timely settle its own liabilities. As the receivables represent, directly or indirectly, amounts owed by state institutions, their collection should not be regarded as probable of default risk. This indirectly increases the need for additional funding, which means additional business costs.

Credit risk arises primarily from trade receivables. The risk is higher when dealing with pharmacies, which are exposed to the going-concern risk unlike hospitals, which, albeit with extended collection periods, are not exposed to the risk of default and the going-concern risk.

Price risk

A continuing decrease in the prices of prescription medicinal products on the HZZO list and the HZZO administrative approach in determining the prices and margins represents another risk of the Group. To lower this risk, the Group has focused on expanding the lines of products that are not limited by law in respect of the price of the product.

Risks (continued)

Foreign exchange risk

Foreign exchange (currency) risk is a significant financial risk. The Group generates most of its revenue on the domestic market and in Croatian kuna (HRK). However, purchases are partly made on foreign markets, which gives rise to the risk of exposure to changes in foreign exchange rates mostly against the euro. All loans are kuna-denominated; hence, there is no exposure to foreign exchange risk.

Interest rate risk

The Group's interest rate risk arises from its short-term and long-term borrowings at variable rates, which expose the Group to cash-flow interest rate risk. Fixed-rate borrowings expose the Group to the interest-rate fair value risk. The Group does not use derivative instruments to actively hedge its cash flow and fair value interest rate risk exposure.

A part of the Group's assets are interest-bearing, as a result of which its revenue and operating cash flows depend on fluctuations in market interest rates.

CORPORATE GOVERNANCE STATEMENT

As an entity listed on the official market of the Zagreb Stock Exchange, Medika d.d. applies the Corporate Governance Code of the CFSSA (Croatian Financial Services Supervisory Agency) and the Zagreb Stock Exchange, which is published on the website of the Zagreb Stock Exchange. In the business year 2018, the Company substantially complied with and adopted the recommendations specified in the Code. Minor departures from the individual recommendations provided in the Code are explained in the questionnaire the Company publishes on the Zagreb Stock Exchange website and on its own website and submits to the CFSSA.

The key components of the internal control and risk management system in the area of financial reporting include the following:

- an appropriate organisational structure at all levels, with appropriate segregation of duties and defined levels of powers;
- internal controls integrated into business processes and activities;
- a comprehensive set of accounting policies and procedures governing the preparation of annual report in accordance with International Accounting Standards and International Financial Reporting Standards adopted by the European Union.

The Company is not involved in any mutual-shareholding relationship with other companies, it has no securities with special rights or securities with restriction to vote. There are no instances of any financial rights arising from securities being separated from holding such securities.

Corporate governance
Medika is a Croatian joint-stock company based on the dualistic governance model and its governing bodies are the following:

- General Assembly
- Supervisory Board
- Management.

General Assembly
The General Assembly decides in the matters specified by the law and the Company's Statute which it also adopts, as well as decides on the use od the profit, on the increase and decrease of share capital, election and revocation of the Supervisory Board members, it provides note of release to the members of the Management and the Supervisory Board, appoints the external auditor and performs other duties in accordance with the law and the Company's Statute.

CORPORATE GOVERNANCE STATEMENT (continued)

Supervisory Board
The Supervisory Board oversees the management of the Company's affairs. To this end, it reviews and examines the business records, accounts and documentation of the Company. The Supervisory Board appoints members of the Management and provides its consent with certain Management decisions, such as strategic plans, business plans, financial statements and major investments. The Supervisory Board submits its report on the supervision over the management of the Company's affairs to the General Assembly to which it also presents decision proposals for adoption. The Supervisory Board consists of seven members. Ordinary Supervisory Board meetings usually take place on a quarterly basis. The Supervisory Board may decide on matters, i.e. cast vote by telephone. The term of office of the Supervisory Board members is governed by the Company's statute and expires at the closing of the General Assembly meeting in which approvals of action are granted for the third business year following, but excluding, the year of election.

The members of the Supervisory Board are as follows: Ružica Vadić, Chairwoman, Mr Damjan Možina, Vice Chairman; Members: Mr Nikica Gabrić, Mr Mihael Furjan, Mr Oleg Uskoković, Mrs Sanja Palić and Mrs Gracijela Balaban.

Management
Management defines business plans and controls the implementation, co-ordinates the activities of individual organisational units of the Company and their alignment with the current requirements and business plans, reports to the Supervisory Board about the operational developments and activities, profitability and efficiency, significant transactions and events as well as other matters specified in the Statute.

The Management of Medika has one member: Mr Jasminko Herceg, Director, representing the Company and managing its affairs solely.

Audit Committee
The Audit Committee has been established by decision of the Supervisory Board. The activities of the Audit Committee are governed by the Companies Act, the Accounting Act and other regulations. The term of office of the Audit Committee members coincides with the term of office for the Supervisory Board.

The Audit Committee consists of the following members: Mrs Ružica Vadić, Chairwoman, Mr Oleg Uskoković and Mr Dalibor Briški.

NON-FINANCIAL REPORT

Non-financial report was prepared according to the Guidelines for reporting on non-financial information of the European Commission.

Business Description of the Medika Group

Medika d.d. (hereinafter "Medika" or "the Company"), established in 1922, is the oldest and leading wholesaler in Croatia, whose primary activity is the sale and storage and also the distribution of human and veterinary drugs, medical products, equipment and dental supplies, dietetic, cosmetic, hygienic and other products intended for the healthcare market.

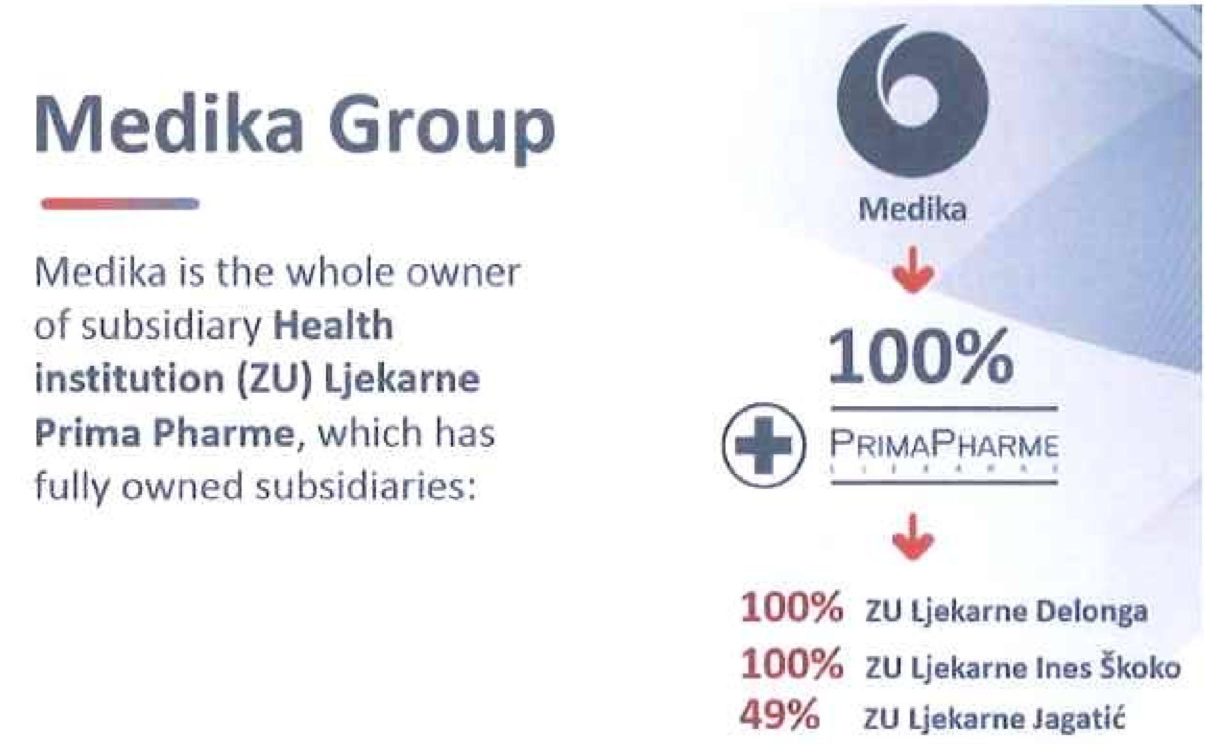
The Company supplies pharmacies, healthcare facilities, hospitals, health centers, outpatient facilities, doctors' offices, wholesalers and specialized stores with the widest range of products.

NON-FINANCIAL REPORT (continued)

Business Description of the Medika Group (continued)

The Company owns 100% shares in Zdravstvena ustanova (ZU) Ljekarne Prima Pharme and in the company Primus nekretnine d.o.o.

ZU Ljekarne Prima Pharme has the following fully owned subsidiaries: ZU Ljekarne Delonga and ZU Ljekarne Ines Škoko; it also has an associate, ZU Ljekarne Jagatić, in which it holds a share of 49%.



The Medika Group makes sales revenue through wholesale and retail channels, which are further detailed below. The wholesale sales revenue is made in the Company, and the retail sales revenue through the Prima Pharme Group.

Wholesale

Within the wholesale channel, Medika's customers are divided into several following segments:

- pharmacies
- hospitals
- other (health centres, polyclinics, dental clinics and polyclinics, veterinary clinics and farms, other wholesalers).

Financial segment information can be found in Note 6 of these financial statements.

Wholesale Sales Programme

In its sales programme, Medika holds a wide range of products divided into several lines of products described below.

NON-FINANCIAL REPORT (continued)

Wholesale (continued)

Wholesale Sales Programme (continued)

Pharmaceutics

Pharmaceutics represents a large part of the Company's operating income and offers the widest range of pharmaceutical products either from domestic or foreign manufacturers. Thanks to this, medicinal products available on the European and world market are available to our customers too.

As a part of its pharmaceutical sales programme, Medika ensures the urgent supply and import of medicinal products implies the supply and import of otherwise unlicenced medicinal products in the Republic of Croatia.

The regulatory compliance for urgent supply and import of medicinal products is issued by the Agency for Medicinal Products and Medical Devices of Croatia (HALMED) in cases of medically justified urgency, protection of human health, research necessity, clinical trials, pre-clinical development, in cases of natural disasters or other urgent states, as well as for urgent cases of individual treatment using a medicinal product prescribed by a physician or a dentist administering the treatment.

Medicinal Products and Special Products

Medical Products are one of the most comprehensive sales programs of the Company. The range of different programs entails clinical and laboratory diagnostics, hemodialysis, cardiac surgery, ophthalmology, orthopedics, medical supplies, bandages and sanitary supplies, disinfection materials and supplies and other medical programs. Along with the constant monitoring of the offer, the rule is that the products must meet the highest criteria of modern medicine.

Dietetics and cosmetics

Dietetics and cosmetics include a wide range of products, primarily non-prescription drugs, cosmetics, consumer goods, high quality dietetics and dermatological cosmetics.

Dental Department

Within this sales programme, the Company is one of the largest distributors of equipment, medicinal products and materials for dental and prosthodontic activity.

Ongoing professional education of employees forms an integral part of the development strategy of this programme. Knowledge of the new products and programs and mastering innovative skills for the employees of the Company facilitates the daily sales. In this way, better information to end-users is provided in their everyday practice, in terms of new professional techniques and technologies.

Veterinary

Wide range of sales programs of the Company is reflected in the offer products of all domestic and foreign manufacturers.

This program's customers comprise veterinary offices and clinics, farms and veterinary pharmacies and other businesses subjects registered for the sale of veterinary medicines and veterinary activities.

NON-FINANCIAL REPORT (continued)

Wholesale (continued)

Wholesale Sales Programme (continued)

Veterinary (continued)

Imported products registered for the domestic market are available in the procurement and sales offices of the Company, including the emergency import of veterinary drugs for end-users.

Logistics

Storage, goods manipulation and distribution services to customers are the primary activity of Medika, where it has been continuously invested in new technologies and work processes.

The total storage spaces is 36,900 m2. Zagreb Logistics Center is a place where the decisions on the procurement and distribution are made, while in modernly structured distribution and storage centers in Osijek, Rijeka and Split has been organized storage and distribution.

Retail

Sales in the retail channel takes place through the operations of 80 Prima Pharme Group pharmacies.

Pharmacy activity provides the supply and manufacture of medicines and the supply of medical products to citizens, health care institutions and other legal entities as well as to the private health practitioners. The supply of drugs and medical products implies the medicinal products retail. In addition to the supply of drugs and medical products, the pharmacy activiy includes the supply of homeopathic products, the supply of baby food and dietary products, the supply of cosmetic and other health care products which are regulated by the General Act of the Croatian Chamber of Pharmacists and counseling regarding the prescribing i.e. proper application of medicines, medical, homeopathic and dietary products.

Business environment and competition

In the wholesale trade of medicinal products and medical devices, the four largest companies have the largest market share (Phoenix Farmacija, Medika, Medical Intertrade and Oktal Pharma). Medika Group is distinguished by the size of its market share, the wide range of the sales programme and by the largest network of pharmacies in the country.

The long period of collection of receivables from customers, especially in the part referring to customers within the HZZO system (Croatian Health Insurance Fund) has a significant impact on the operations of companies in the wholesale trade of medicinal products and medical devices. Therefore, a significant amount of working capital of the Group has been immobilized, which significantly affects the cash flow and the Group's ability to timely settle its own liabilities. As the receivables represent, directly or indirectly, amounts owed by state institutions, their collection should not be regarded as probable of default risk. However, this is reflected through additional funding requirements and with it additional operating expenses.

The political environment also significantly influences the operations of wholesalers. Announced reforms of the health system in the future, which would result in changes to the system and the model of health insurance and changes in their funding, could have a positive impact on the collection of receivables.

NON-FINANCIAL REPORT (continued)

Business environment and competition (continued)

Pharmacy activity is carried out within the primary health care network in accordance with a separate law (the demographic and geographic criteria) in pharmacies and pharmacy depots. The abolition of defined criteria for opening of pharmacies would significantly affect the expansion of the pharmacy network. Due to legal constraints, the expansion of the pharmacy network can only be achieved through acquisitions, which is also one of the strategic goals of the Medika Group.

Business objectives in the short term

- One of the most important goals is to maintain a stable market share and a leading position.
- Vertical integration or expansion of its own sales network is still an imperative of the overall development of the Medika Group and one of the strategic goals. By increasing the number of quality pharmacies in its ownership, the Medika Group increases the market potential, and thus the total value of the Companies in the Group.
- In order to maintain the leading position, Group needs to continually work on expanding its range of products and developing new services.
- Improvement and implementation of new logistics solutions, which can only be achieved if the process of issuing goods is fully automated, i.e. Warehouse Management System (WMS).

To see the Group's operational goals achieved in 2018 consult the chapter *Results of Quality Management System and Environmental Protection* under item 4 on page 16.

Medika Group and customer relationship

Medika d.d. and customer relationship

In its everyday activities, the Company tries to understand the current and anticipate the future needs of customers and business partners, and meet their demands in a timely manner. The focus on the customers is demonstrated throughout the activities, which all represents an added value to the core business.

a) Promotional activities
The main goal of promotional activities is to position the company in a business environment:

- Informing users in all available ways,
- Supporting users in using the Company's services by providing quality as a priority goal,
- Providing additional services and contents in order to bring our customers closer to some new skills and tools they can use in their business,
- Monitoring, measuring and constantly improving customer satisfaction levels is a fundamental reflection of service quality.

Cooperation with the Croatian Chamber of Pharmacists and the Croatian Pharmaceutical Society, has been taking place place through projects in which Medika has been actively involved, inter alia, by the engagement of its employees.

Cooperation with the Croatian Chamber of Dental Medicine has resulted in the Company's participation in all professional conferences, in their organization and publishing ads and promotional articles in professional journals published by the Chamber.

NON-FINANCIAL REPORT (continued)

Medika Group and customer relationship (continued)

Medika d.d. and customer relationship (continued)

In its public announcements, Medika has been directed to the professional public, and therefore the publication of advertisements have been related to professional publications, such as the Croatian Chamber of Pharmacists' Journal, the Pharmaceutical Journal / Professional Journal of the Croatian Pharmaceutical Society, and the Pharmabiz – Professional Journal for Medicinal Products nad Medical Devices.

The web sites of Medika have been primarily designed for the professional public and they have been representing the main activity of the Company, and all events that provide added value to the customers have been announced there.

b) Education
The Company pays particular attention to informing its partners and customers about new health system programs. By presentations and visits to customers, the competent and professional staff have been informing current and potential customers about both standard and new products.

Education for pharmacists, dentists and veterinarians represents an additional value to our primary activity by which we have been bringing them closer to the news from the profession and exchanging business experiences.

Prima Pharme Group and relationship with patients

All pharmacies advise on proper drug use, which means when a patient comes with a problematic or a newly prescribed therapy, he is provided with counselling and a written instruction on pharmacy care (how to use which drugs, what parameters to follow, what life habits to change).

In pharmacies, there are counseling centers for reproductive health or diabetes who have at their disposal trained employees who are ready to answer questions of patients, as needed and upon arrival. Also, the counseling plan for each pharmacy is published on the ZU Ljekarna Prima Pharme website, and the pharmacy manager is free to determine the day of counseling and the concept of it, according to the instructions given.

Education teams of MA pharmacists are divided in teams in charge of three areas: public health actions, leaflets for patients, and development of counselling pharmacies and clinical pharmacies. We launched the project *Let's talk about health*, which enables our patients to meet MA pharmacists who, in cooperation with medical specialists from different areas of biomedicine, along with a patient-specific program offer individual counselling and educational materials, depending of the relevant topic.

Medika Group and supplier relationship

The cooperation with suppliers of trade goods, materials or services is contracted based on the received offers, suppliers documentations and assessments made.

NON-FINANCIAL REPORT (continued)

Medika Group and supplier relationship (continued)

Medika Group supplies the following goods:

- Trade goods – products the Medika Group supplies and unaltered forwards to its customers, i.e. sells to final customers in pharmacies. They refer to drugs, medical products, veterinary-medical products, animal feed, veterinary tools, active substances, cosmetics, food supplements, general purpose objects, dangerous chemicals, biocides, baby food and equipment;
- Materials / equipment / systems (MOS) – suppliers' product, which Medika Group supplies and uses for product realisation (drugs equipment materials, equipment, computer programmes, vehicles, systems etc.);
- Services – products the Medika Group supplies as process or product support (for example, cleaning services, lease etc.).

The assessment process for trade goods suppliers (evaluation, tracking deadlines, compiling a list of suppliers according to their status) has been established within the SAP computer system in the company Medika in 2018.

Risk management

Compliance with the policy and achieving the objectives is an obligation of the Management Board and of all employees, and it is a measure of the quality of our busines. The aim of risk management is to provide the company Medika d.d. business within the limits of acceptable risk and to prevent the occurrence of unacceptable risks for:

- patients (indirect customer users)
- suppliers
- employees
- customers
- shareholders (owners)
- the social community
- environment.

Regulatory Risk Management Requirements:

- Good Practice in Wholesale Medication (DDP) / Good Manufacturing Practice (DPP); ISO 9001; ISO 14001; ISO 50001;
- Risk management is part of the quality system, with the active involvement of the management staff as well as the accompanying services;
- Risk management in medicinal product quality throughout the life cycle of the medicinal product (including DPP);
- Planning - providing expected results, effectiveness, prevention and reduction of unwanted effects, achieving improvements.

NON-FINANCIAL REPORT (continued)

Significant risks and risk management

Below are some of the more significant business risks and the activities that are regularly carried out to in order to minimize them.

Business Risks

Conformity risks –inadequate compliance with regulatory requirements

- Activities: monitoring of legal and other regulations, assessment of area of compliance, change management process.

Strategic risks - strategic risk is the risk of loss that may arise due to adverse business decisions, lack of ability to adopt to changes in the economic environment and similar.

- Activities: preparation of strategic development guidelines with the short-term and medium-term goals, preparation of annual business plans approved by the Supervisory Board.

Operational risks

The risk of unauthorized entry into warehouse spaces

- Activities: the system of object protection and authorized access to premises, external and internal control of the facility, record / log of employees, visitors, system, process of dealing with counterfeits.

The risk affecting the quality of the goods in manipulation - inadequate conditions of receiving/storing drug - exposure to outdoor weather conditions - receipt, storage, distribution

- Activities: design and build of the object - materials of defined mechanical resistance and stability, performance of the ramp for the acceptance of vehicles, thermo - technical installation, monitoring system of conditions in the space, process of monitoring of measuring and other equipment.

The risk of contamination of goods - product contamination by different types of contaminants and origin

- Activities: design and build of the object - materials of defined mechanical resistance and stability, design and build of energy infrastructure and attests, process of maintenance and cleaning of the infrastructure.

Security risks – fire protection, safety at work, illegal actions of third parties, environmental impacts

- Activities - employees education, appointment of responsible person for transport and storage of dangerous chemicals, systematic positioning of dangerous chemicals, regular testing of installations, production of safe working instructions, 24 hour duty, business entry procedures, technical protection and video surveillance, passage control.

NON-FINANCIAL REPORT (continued)

Significant risks and risk management (continued)

Operational risks (continued)

Legal regulation – high and strict regulation of all aspects of the activity

- Activities: - establishment of a database of all relevant laws and regulations, monitoring of legislation, regular review of internet databases of professional regulatory bodies and chambers, regular updating of data so that possible changes would not endanger the business itself, each executor as well as any other person in charge of a particular business area must independently monitor the relevant laws and regulations, and, in case of any doubt, consult a legal service that will give an opinion, if necessary applying the principles of conflict resolution of laws.

Financial risks financial risks are explained on pages 2 and 3 of these financial statements.

Quality and Environmental Policy

The systematic approach to quality issues in the Company started in 2001, when the process of creating a quality management system according to ISO 9001 was initiated, which was resulted with the certificate in 2002. By meeting the requirements of ISO 9001, the Company's business has gained a new, powerful backbone for systematic monitoring of the efficiency of all business activities with special emphasis on activities within the logistics segment. The principles of good distribution practice, with which all the company's logistical processes have already been aligned, have been applied through an internationally standardized format and in a way that enables effective monitoring and improvement of processes and operations.

The concept of Quality Management System and Environmental Protection of the Company has been based on the idea that products / services of highly recognizable quality are easier to find some new customers and to retain the existing ones.

The Company accepts the principle of the responsibility to fulfill the requirements relating to the environmental protection and environmental preservation and protection of the health and safety of its employees.

The commitment of the Company's employees towards the quality and environmental protection is one of the fundamental values of our business, confirmed by employees involvement and Management decisions. The Company has been systematically managing its own environmental impacts throughout continuous improvement of environmental relations, timely and effective prevention of possible pollution, in compliance with regulations and by putting all the efforts to reduce the use of natural resources, as well as informing all stakeholders of the constant the need for environmental concern. By defining the goals of quality and environmental protection and their realization, the international standards and requirements of the System we have have been turning into practical action, while supporting the theory of sustainable development and social responsibility. Quality and Environmental Policy is available to all interested parties through the means of communication available to the Company. It is enclosed on the next page.

Medika

POLITIKA KVALITETE I ZAŠTITE OKOLIŠA

Medika je dioničko društvo koje obavlja djelatnost prometa na veliko (nabava, skladištenje, prodaja i distribucija) humanih lijekova i veterinarsko-medicinskih proizvoda, medicinskih proizvoda, hrane za životinje, pribora za uporabu u veterinarstvu, kozmetike, dodataka prehrani i predmeta za opću uporabu namijenjenih prvenstveno sustavima zdravstvene zaštite i zaštite zdravlja životinja. Medika također obavlja djelatnost proizvodnje humanih lijekova i veterinarsko-medicinskih proizvoda.

Medika d.d. se obvezuje da će:

- primjenjivati važeće hrvatske i europske zakone, norme i preporuke u cijelom području poslovanja,
- voditi sustav upravljanja kvalitetom i zaštitom okoliša na temelju međunarodnih normi ISO 9001, ISO 14001 te zahtjevima Dobre proizvođačke prakse i Dobre distribucijske prakse,
- razumjeti sadašnje i buduće potrebe kupaca, ispuniti njihove zahtjeve i nastojati nadmašiti njihova očekivanja,
- neprekidno poboljšavati odnos s kupcima, dobavljačima i društvenom zajednicom,
- uspostaviti djelotvorne i učinkovite procese, te ciljeve kvalitete i zaštite okoliša,
- upravljati rizicima i osigurati lanac sigurnosti opskrbe,
- težiti jedinstvenim rješenjima i automatiziranim sustavima u provođenju procesa koji pridonose brzini opskrbe,
- osigurati uključenost svih zaposlenika u sustav upravljanja kvalitetom i zaštitom okoliša i trajnu edukaciju svih zaposlenika,
- pridržavati se načela odgovornosti za ispunjavanje zahtjeva koji se odnose na brigu o očuvanju i zaštiti okoliša te zaštiti zdravlja i sigurnosti zaposlenika,
- neprekidno poboljšavati odnos prema okolišu, pravovremenim i učinkovitim sprečavanjem mogućih zagađenja, smanjivanjem iskorištavanja prirodnih resursa, kao i upoznavanjem svih sudionika u procesima o potrebi stalne brige za okoliš,
- neprekidno poboljšavati i prilagođavati poslovanje potrebama dobavljača i krajnjih korisnika proizvoda u sustavu zdravstvene zaštite.

Pridržavanje politike i ostvarivanje ciljeva obveza je Uprave i svih zaposlenika te je mjerilo kvalitete našeg poslovanja.

Direktor

Jasminko Herceg, dipl.oec.

Medika d.d.
Sustav upravljanja kvalitetom
ORIGINAL

Zagreb, 10.06.2015

Quality and Environmental Policy (continued)

Due to the wide range of product programmes that the Company stores and distributes, and due to the fact that the trade turnover for the most of them is specifically regulated, the Company has obtained a series of certificates, permissions and licenses to prove the compliance with the requirements of the standards and relevant laws and regulations regulating the turnover of certain types of products.

Quality management system and environmental protection

The integrated quality and environmental management system is based on ISO 9001: 2015, 14001: 2015 and Good Manufacturing Practice and Good Distribution Practices requirements, and ISO 50001:2011 was introduced in 2018, for the energy management system.

Thanks to the inspection visits of various state institutions and regulatory bodies, external audits made by principals and other business partners and regular internal reviews, the system has been constantly upgraded and refined.

The success of the quality assurance and environmental protection system is an integral part of the overall business success of the Company The Integrated Quality Management and Environmental Management System ensure that the Company is under the supervision, and also that the Management and the Management Board are using the management system as an objective, documented and measurable tool for planning, monitoring and analysis of the fulfillment of objectives, ensuring the risk reduction and continuous improvement.

The Quality Department and the Quality Management Representative continuously carry out audits and reviews of the quality assurance system and confirm that process management, monitoring and measurement are in line with the objectives and environmental policy and that they regularly report all of it to the Management. The Report on the activities of the Quality Management and Environmental Management System Report is prepared at least once a year.

The Quality and Environmental Policy has been transferred and accessible to all interested parties, and appropriate to the purpose / context of the organization and it clearly mentions the commitment to compliance, improvement and environmental protection. There are no new requests from interested parties that have an impact on the quality system. The context of the organization has not been changed.

Results of the Quality Management System and Environmental Protection

The Quality and Environment Management Team helds regular meetings and reports on the activities to the Management.

An integrated quality and environmental management system based on ISO 9001:2015, 14001:2015 and 50001:2011 and Good Manufacturing Practice and Good Distribution Practices requirements, has been maintained through continuous process of implementation and enhancement activities. Processes and quality indicators are aligned with the Quality Policy. The Quality Policy has been passed and accessible to all interested parties, in an appropriate context of the Company, and it clearly mentions the commitment to compliance, improvement and environmental protection.

NON-FINANCIAL REPORT (continued)

Results of the Quality Management System and Environmental Protection (continued)

Some of the key activities conducted during the year 2018:

- New contracts for the provision of services of secondary drugs equipment have been signed, and drugs equipment for new contractual collaborations have been conducted;
- Monitoring and conducting employee training through a web application;
- The assessment process for goods suppliers (evaluation, tracking deadlines, compiling a list of suppliers according to their status) has been established within the SAP computer system;
- Review of the Quality Management System and Environmental Protection documentation continued in 2018;
- Systematic and documented validation/qualification of the cargo area of delivery vehicles, storage spaces and low-temperature chambers also continued;
- Renewal of the fleet (trucks and passenger cars) – decreased average age of vehicles;
- Implementation of the warehouse management system (WMS) in DSC Rijeka was finalised;
- Climate-Ventilation-Heating System (KVG) upgrade and reconstruction project in all of the facility of the logistics centre in Zagreb was finalised;
- The energy renewal program in the centre PC Split has been continued;
- A new energy management system in line with the EN ISO 50001:2011 – Energy Management System was introduced;
- A request was submitted for co-financing a RES project of construction of a solar power plant on the Medika building in Osijek, within the project "Increasing energy efficiency and use of RES in the private service sector (tourism, trade)", launched in May 2018 by the Environmental Protection and Energy Efficiency Fund;
- The activities of implementing drug serialization in wholesale stores

Permits and licences for business

New licenses for Medica d.d. have been obtained:

- a new certificate of energy management system ISO 50001:2011.

The audit and review of the system are based on the evaluation and analysis of the following aspects:

1. Results and reports of internal and external audits
   a) During 2018, a number of internal and external audits were carried out at all centres of the Company. Improvements in the CAPA (corrective action-preventive action) monitoring and closure were noted. All CAPAs are tracked through Quality Indicators and were regularly reported to the Management Board.
   In case of internal and external audits, in both cases, 2018 saw a decline in the number of deviations, due to maintenance, continued improvements and harmonisation of the system and the requirements.

   b) In January 2018, an audit plan for suppliers of services or materials was prepared by the Company and all planned audits were realized in 2018.

NON-FINANCIAL REPORT (continued)

Results of the Quality Management System and Environmental Protection (continued)

Permits and licences for business (continued)

The audit and review of the system are based on the evaluation and analysis of the following aspects (continued):

2. Status of deviations, corrective and preventive actions
   The noted decrease in the number of new deviations results from the increase in system compliance and continuous implementation of audit of system documentation, corrective / preventive actions and education of employees.

3. Complaints and returns of goods from customers
   Indications of complaints and returns from customers are among the most important indicators. In general terms, a downward trend in complaints was particularly evident after the introduction of the WMS system and a wireless issuing system in distribution centres. In 2018, the goal to maintain the total number of complaints on the level of the Company under 0.3% was achieved.

   A decrease in number of returns by customer was noted for the whole company Medika (5%) and the average number of returns amounted to 0.52% of the total number of issued items (0.55% in the previous period).
   More than 80% of recorded returns represented returns of goods by customers due to one of the following reasons: order mistakes (mistakes in the orders placed by the pharmacy), old supplies in agreement with the salesman, patient cancelling the order or short deadline.

4. Achievement of short-term goals (quality indicators)
   Review of operating short-term goals achieved in 2018:
   - Completed (re)validation of storage and other areas in line with the requirements Good Distribution Practices – the target was 100%, which was reached,
   - Production materials reject – the < 1,0% target achieved,
   - Complaints – the < 0,30% target achieved,
   - Products ratio in supply (shortage of a product in the market supply) and total items issued – the < 7,5% target achieved,
   - Sales – planned revenue – target achieved, revenue increase higher than planned,
   - Market share – the goal was to maintain the market leader position in 2018, which was reached.

5. Monitoring of significant environmental aspects
   The year 2018 saw the continuation of the activities carried out in the past period, which have contibuted to:
   - More efficient waste management – Reduction of soil pollution – a container for temporary disposal of hazardous and non-hazardous waste was purchased;
   - Reduction of exhaust emissions into the air by renewing the fleet (freight and passenger cars) – renewal of the fleet of vehicles (delivery and personal official);
   - Reduction of water pollution from cesspool – connection of internal sewerage system to main collector in Dugopolje;
   - Rationalization of electricity consumption by completing the changes in Split (accompanying lighting, environmental lighting and façade buildings).

NON-FINANCIAL REPORT (continued)

Results of the Quality Management System and Environmental Protection (continued)

Permits and licences for business (continued)

The audit and review of the system are based on the evaluation and analysis of the following aspects (continued):

The energy renewal program at all locations has been continued.

The Board's intent is to continuously ensure the use of modern organizational, technical and technological solutions in operations and supervision and to prevent possible pollution and reduce the vulnerability of the negative impacts of business on the environment and the sustainable use of resources.

6. Internal employee education

In the year 2018, all the education according to the plan and the program of continuous education was conducted, and a large number of unplanned education related to the quality system and environmental protection and continuous education were carried out in accordance with changes in system documentation. Some of the most significant are from the following areas:

- Efficient communication,
- Risk management,
- Deviations management,
- Packing of dangerous substances,
- Hygiene and clothing of employees,
- Internal audits,
- SAP Education (SAP Transactions),
- Self-motivation and motivation of employees,
- Web application for internal trainings.

Conducting trainings of new employees according to established themes continued in 2018 with the frequency of implementation every two months. In the period considered, 4 trainings of newcomers were carried out with the following topics:

- Organization of Medika d.d. and a review of working regulations,
- Quality management system, in general,
- GDP (Good Practice in Wholesale),
- Deviations management and product complaints,
- Counterfeit goods,
- Occupational safety and fire protection.

Monitoring and conducting employee training through a web application.

NON-FINANCIAL REPORT (continued)

Results of the Quality Management System and Environmental Protection (continued)

Permits and licences for business (continued)

The audit and review of the system are based on the evaluation and analysis of the following aspects (continued):

7. Working with customers
   Medika pays special attention to the education of pharmacists which are an added value to the core business of the Company. The Company's goal is to bring new business backgrounds and share business experiences, but also touch on topics that merely rely on the industry. It is worth noting that all the courses that were held were evaluated by the Croatian Chamber of Pharmacists.

   The following professional lectures were organized in cooperation with business partners:
   - Counselling of pharmacists, Opatija
   - Professional meeting of InPharm "Pharma & Beauty", Zagreb
   - For doctors of dental medicine: lecture "Aesthetics and Precision"
   -
8. Changes that may have an impact on the system
   Medika d. d. processes are aligned with all the positive legal regulations, especially those that regulate the wholesale turnover of medicines and medical products, ie Good Distribution Practice (DDP) and Good Manufacturing Practice (DPP) for the drug manufacturing process (secondary equipment).

   Areas / Activities Affecting the Quality Management System and Environmental Protection:
   - The impact of drug serialization establishment of a WMS system at the distribution centre Rijeka,
   - Introduction of a computer system for carrying out and keeping records of education.

Environmental issues and social aspects of business operations
The integrated quality and environmental management system is based on ISO 9001:2015 and 14001: 2015 standards, and during 2018 the transition to new standards and alignment with new requirements has been carried out.

A representative of the Quality and Environmental Management Board has been appointed to carry out activities to meet the requirements of the ISO 14001:2015 and ISO 9001: 2015 standards and the requirements of Good Manufacturing Practice and Good Distribution Practices. .

In 2018, an energy management system was introduces, in line with ISO 50001:2011.

As for the preventive measures, Medika has planned annual activities, i.e. plans of preventive inspection, which relate to all relevant aspects:
- Emissions into air
- Discharge into water
- Waste management, especially hazardous waste
- Soil contamination

Measurements are performed by authorized surveyors.

NON-FINANCIAL REPORT (continued)

Environmental issues and social aspects of business operations (continued)

Waste management

Medika d.d. has provided working instructions and procedures to prevent uncontrolled waste generation and the prevention of unpredictable situations. All waste is properly stored and transported by authorized collectors.

Waste in Medika d.d. originated and delivered during 2018:

Waste name	Quantity in t
Print toners	0.32
Oily water from separators	1.10
Cardboard	111.75
Foil	16.24
Plastic packaging	5.83
Styrofoam	1.29
Medical refrigerator	0.08
Trade goods	2.25
Accumulators	1.28
Chemicals	0.08
Cytostatics	0.00
Medicines	9.84
Grease traps	4.92
Paper	21.42
Textile	0.08
FC tubes	0.05
Air conditioners	0.87
EE waste	2.03
Bulky waste	4.43
Written-down drugs	0.06

Collecting the returns from customers
In all pharmacies of the Prima Pharme Group, it is possible for the customers (patients) to dispose old medicinal products that are properly disposed of afterwards.

During 2018, a total amount of 1,552 kg of old medicinal products collected in the pharmacies from customers (patients) were properly disposed.

NON-FINANCIAL REPORT (continued)

Environmental issues and social aspects of business operations (continued)

Consumption of energy sources
An overview of consumption of important energy sources in the Medika Group for 2018:

Year	Fuel (000'l)	Gas (000' kWh)	Electricity (000'kWh)
2018	712	887	3,151
2017	626	1,325	3,073
2016	558	1,360	2,838

Employees

Education of new employees in the Medika Group

In the company Medika d.d. employees get acquainted with the basic labor laws and internal acts, work organization, work safety during initial education of new employees (more details about educating new employees in Medika d.d., see page 17 of these financial statements). Continuous education has been provided related to quality standards, occupational safety, personal development and professional trainings.

Prima Pharma Group has also been organizing educations for all employees, among other things, about the management of business processes and the management of people in organizations.

Prima Pharma Group also organizes a programme called Talent pool, a 2-year programme for developing young talents, including employees deemed to have potential for growth, development and taking on new, more responsible roles in the future, promoting health institution values. The aim of the programme is to develop competencies for managing people within the organisation, ensuring a wider perspective for managing business processes, acquiring knowledge from different business areas, and sharing best experiences and practice among pharmacies and regions. The Talent pool is a continued and strategic way of development for the Prima Pharma Group, which will continue in the following years.

Classes are organized in one-day or two-day modules during the period of 18 months, and they cover different topics such as:

- Team Leadership
- Finance and Controlling
- Legal Framework of the Personnel Service
- Central Procurement
- Sales Academy for Pharmacists.

NON-FINANCIAL REPORT (continued)

Employees (continued)

Realization of employee rights

As at 31 December 2018, there are 12 employees on maternity or parental leave in the Company Medika.

As parental leave can also be used by fathers, in the last couple of years, there were 6 male employees that had used parental leave.

In the Prima Pharma Group, 34 employees are on maternity or parental leave.

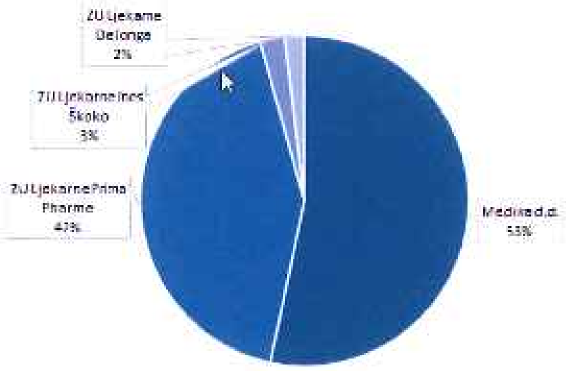
Employment of persons with disabilities and encouragement of employment of young people

Medika Group has 11 persons enrolled in the Register of Persons with Disabilities (70% and more disability), and a larger number of employees with a lower percentage of established physical disability.

Also, Medika Group has been using incentive measures for employing young people under 30 for an indefinite period, and the Group currently has 109 employees for whom the above mentioned benefit has been used.

Employee structure on 31 December 2018:

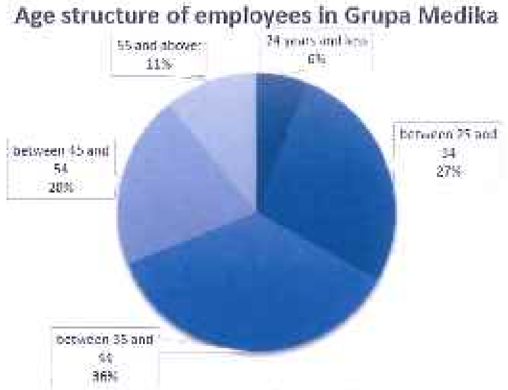
- Number of Medika Group employees
    - Medika Group - 821 employees, of which:
        - Medika d.d. – 438 employees
        - ZU Ljekarna Prima Pharme – 347 employees
        - ZU Ljekarne Ines Škoko – 20 employees
        - ZU Ljekarne Delonga – 16 employees.



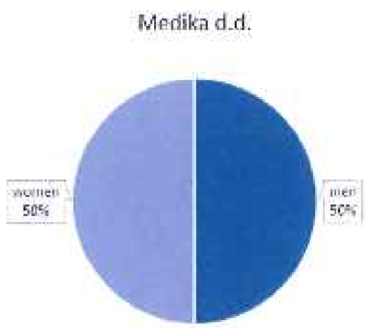
NON-FINANCIAL REPORT (continued)

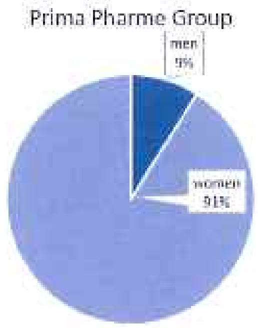
Employees (continued)

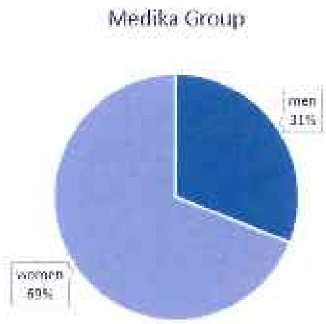
- The age structure of employees in the Medika Group on 31 December 2018:



- The ratio of men and women in the Medika Group







- Experts with higher education in Medika Group:
    - In Medika d.d. - 108 employees with higher education (25% of the total number of employees)
    - Prima Pharme Group - 194 employees with higher education (51% of the total number of employees).

- Women in the management structure (in percentage) in the Medika Group: 40%, of which:
    - Medika d.d. – 20%
    - Prima Pharme Group 67%.

NON-FINANCIAL REPORT (continued)

Employees (continued)

Occupational safety and health protection

In accordance with the Occupational Safety Act, all new employees are required to undergo training on work safety and fire protection related to the following areas: safe work, fire minimum, evacuation and rescue.

Specific work safety training is also carried out in accordance with the specific requirements of the workplace, such as:

- Training to work with dangerous chemicals,
- Forklift handling training,
- Training for storage and transport of flammable liquids and gases.

During 2018, there were 13 work-related injuries at the Group level.

In addition to compulsory job-related medical examinations, all employees are allowed to perform a general medical examination at the expense of the employer every other year.

Students scholarships and co-operation with the Faculty of Pharmacy and Biochemistry

With the intention to bring closer the pharmacy activity to the future young pharmacists from the Faculty of Pharmacy and Biochemistry before the end of the study and in order to provide support for the chosen profession, the Prima Pharma Group regularly announces scholarship tenders. During 2018, five students received a scholarship. After completing their studies, they were given the opportunity to work at ZU Ljekarna Prima Pharme (hereinafter: "the Institution").

In the last few years, the Institution has been regularly available to the Faculty of Pharmacy and Biochemistry and the Student Association of CPSA regarding all the ideas and projects in order to bring closer to students the the profession of a pharmacist and his occupation. Through the expertise of employees, their core values and openness to new directions of pharmaceutics the goal is to combine youth and experience.

In addition to supporting projects, congresses, student's competitions, students is also offered the attending to internal training courses and projects which are held at the Institution level. In this way, we are trying to introduce them to the real pharmacy, pharmacists and pharmaceutics, that are awaiting for them after the completion of the study.

Projects in which the Institution has participated:

- Pharmacy and Medical Biochemistry Students Congresses
- Competition in Marketing Skills
- Career Days.

As a signatory of the Professional Training Agreement concluded by the Institution with the Faculty of Pharmacy and Biochemistry of the University of Zagreb, students have at their disposal expert, motivated and interested magisters whose role as a mentor is to transfer the best of the actual pharmacy practice.

NON-FINANCIAL REPORT (continued)

Employees (continued)

Relationship with the Union

In Medika d.d. a trade union branch of Medika, Trade Union of Croatia / SSSH was organized. The Company has a proper co-operation with the union commission, within the legal obligations and powers. In ZU Ljekarne Prima Pharme also has been organized a trade union of Independent Trade Union HUS "ZU Ljekarne Prima Pharme".

Both the Company and the ZU have the elected Workers' Council, which, according to statutory powers, protects and promotes the interests of the workers by consulting, common decision making or negotiations with the employer on matters of importance for the position of the workers, and before the adoption of certain decisions, the Company and the ZU shall consult with the Workers Council.

Anti-corruption measures

Medika d.d. as a company incorporated into the official market of the Zagreb Stock Exchange, applies the Corporate Governance Code issued by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange as detailed in page 3 of these financial statements. In the year 2018, the Company was closely following and applying the recommendations set out in the Code, which also applies to added anti-corruption measures.

Also, the adopted Employee Regulations of the Company and its affiliated companies as well as the other adopted regulations in the companies of the Medika Group, contains provisions relating to the rules of conduct and ethics of employees in order to regulate also the bribery and corruption issues; the education for employees related to the prevention of conflict of interest, the suppression of corruption and the rules of ethical behaviour of employees was conduced as well.

Signed on behalf of the Management on 21 March 2019 by:

Jasminko Herceg
Director

3 Medika d.d.
ZAGREB Capraška 1

STATEMENT OF RESPONSIBILITIES OF MANAGEMENT AND SUPERVISORY BOARD

Pursuant to the Accounting Act of the Republic of Croatia, the Management is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with the International Financial Reporting Standards ("the IFRSs") which give a true and fair view of the financial position and results of operations of the Medika Group ("the Group") for that period.

After making enquiries, the Management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management continues to adopt the going concern basis in preparing the financial statements.

In preparing consolidated financial statements, the Management is responsible for:

- selecting and then consistently applying suitable accounting policies;
- making reasonable and prudent judgments and estimates;
- following applicable accounting standards, disclose and explain any material departures in the financial statements; and
- preparing the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the Group and their compliance with the Croatian Accounting Act. The Management is also responsible for safeguarding the assets of the Group, and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Management is responsible for submitting its annual report, together with the consolidated financial statements, to the Supervisory Board, following which the Supervisory Board is required to approve the consolidated financial statements for submission to the General Assembly of Shareholders for adoption.

The financial statements set out on pages 33 to 90 were authorised by the Management for submission to the Supervisory Board on 21 March 2019, in witness whereof they have been signed below.

Signed on behalf of the Management on 21 March 2019 by:

Jasminko Herceg
Director

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INDEPENDENT AUDITOR'S REPORT

to the shareholders of Medika d.d. and its subsidiaries:

Statement of Audit of the Financial Statements

Opinion

We have audited the financial statements of Medika d.d., Zagreb, (the "Company"), and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2018, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for Opinion

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

This version of the auditor`s report is translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Board Members: Branislav Vrtačnik, Marina Tonžetić, Juraj Moravek, Dražen Nimčević; commercial bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABAHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR1024840081100240905.

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INDEPENDENT AUDITOR'S REPORT (continued)

Statement of Audit of the Financial Statements (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Complexity of revenue *Refer to Notes **5** and **6** to the consolidated financial statements on pages **63 to 65**.*	
Revenue is an important measure used to evaluate the performance of the Group. There is a risk that revenue is presented in amounts higher than actually generated by the Group. Revenue comprises the fair value of the consideration receives or receivables for sold products, goods or services within the normal course of business of the Group. Revenue is reported in the amount net of value added tax, estimated returns, rebates and discounts. Revenue is recognised when the delivery liability has been settled by transferring the control of the promised goods or services to the customer. Given the potential consequences of inaccurately calculated revenue from transactions, as well as unrealised revenue transactions, we concluded that revenue was one of the key audit matters.	Our audit approach included both IT system tests and substantive procedures, which are the following: • We evaluated the relevant IT system and the design and operational effectiveness of controls over capturing and recording the revenue transactions. In doing so, we involved our IT specialists to assist in the audit of the automated controls; • By applying substantive testing, we have assessed the occurrence of revenue recorded. Based on our sample, we confirmed the revenue per individual customer, by confirming the opening and closing balances, and payments throughout the year for the relevant customers. In line with the aforementioned sample, we aligned the turnover with the recorded revenue of selected customers; • By substantive testing we have assessed that only contractually agreed discounts were approved to the customers, and adequately recorded.

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INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Valuation of trade receivables *Refer to Note **18** to the consolidated financial statements on pages **76 to 79**.*	
A significant market risk for the Group is the long collection period for receivables, especially because the majority of the customers are health institutions whose funding depends on HZZO (the Croatian State Health Insurance). As at 31 December 2018, the gross balance of trade receivables amounts to HRK 1,168,963 thousand, and the impairment provisions recognised for expected credit loss amount to HRK 14,415 thousand. Trade receivables are recognised initially at fair value and subsequently at amortised cost, which is determined using the effective interest method, adjusted for expected credit losses. The expected credit loss is assessed based on the customer's activity, historical data, the current and expected liquidity of the Health System of the Republic of Croatia, as well as specific assessments of the Sales Sector for individual customers, depending on the current state of the market and the inability to collect them. Because of the significance, complexity and potential considerable effect of the judgements on the financial statements and the high balance of trade receivables, this is one of the key matters addressed in our audit.	As part of our audit, we performed the following substantive procedures: • We have assessed the first application of IFRS 9 "Financial instruments" in the financial statements of the Company; • We have gained an understanding of the entity's process of calculating and recognising the expected credit loss on the customer's trade receivables. We have also reviewed, in detail, the ageing analysis of trade receivables to assess the specific amount of provisions for each individual customer; • We assessed the reasonableness of the expected credit loss and other assumptions made, while developing the expected credit loss model.

Key Audit Matters (continued)

Valuation of goodwill and the related intangible assets (pharmacy licences)
*Refer to Note **15** to the consolidated financial statements on pages **73 to 74**.*

Goodwill and the related intangible assets (pharmacy licences) have been recognised in the consolidated statement of financial position as a consequence of the acquisitive nature of the Group. As required by the applicable accounting standards, management conducts annual impairment tests to assess the recoverability of the carrying amount of goodwill and the related intangible assets which relate to pharmacy licences.	In performing the impairment tests of goodwill and the related intangible assets (pharmacy licences), we focused on the key assumptions made by management. We have engaged internal specialists to assist with validating assumptions applied to calculate the discount rates and other key assumptions used in the model.
The estimate is performed using discounted cash flow models. As disclosed in Note **15**, there are a number of key sensitive judgements made in determining the inputs into these models which include: • revenue growth, including market developments and volume growth, • operating margins, and • the discount rates applied in the future cash flow projections, • terminal growth rate. Accordingly, the impairment test of these assets is considered to be a key audit matter.	Our audit procedures included: • Critically evaluating whether the model used by management to calculate the value in use of the individual cash generating units complies with the requirements of IAS 36 "Impairment of Assets."; • Assessing the assumptions underlying the calculation of the discount rates and recalculating the discount rates and the terminal growth rate; • Analysing the future cash flows projections applied in the models to determine whether they are reasonable and supportable given the current macroeconomic climate and expected future performance of the cash generating units; • Assessing the accuracy of management's projections by comparing the projected cash flows, including the assumptions relating to revenue growth rates and operating margins, against historical performance.

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INDEPENDENT AUDITOR'S REPORT (continued)

Statement of Audit of the Financial Statements (continued)

Other Information

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

Our opinion on the annual financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report and the Corporate Governance Statement, which are included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report and Corporate Governance Statement include required disclosures as set out in the Articles 21, 22 and 24 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in the Article 22 and 24 of the Accounting Act.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1. Information included in the other information is, in all material respects, consistent with the accompanying annual financial statements for the year;
2. Management Report has been prepared, in all material respects, in accordance with Articles 21 and 24 of the Accounting Act;
3. Corporate Governance Statement has been prepared, in all material aspects, in accordance with Article 22, paragraph 1, points 3 and 4 of the Accounting Act, and includes also the information from Article 22, paragraph 1, points 2, 5, 6 and 7 and Article 24, paragraph 2 of the same Act.

Based on the knowledge and understanding of the Group and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

Responsibilities of the Management and those charged with governance for the annual financial statements

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

In preparing the financial statements, Management is responsible for assessing the 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 Group or to cease operations, or has no realistic alternative but to do so.

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Statement of Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Annual Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Reporting in line with Other Legal and Regulatory Requirements

Other Regulatory Requirements of Regulation (EU) No. 537/2014 of the European Parliament and the Council and Audit Act

We were appointed as the statutory auditor of the Company and the Group by the General Assembly on the meeting held on 28 June 2018 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 5 years and covers period from 1 January 2014 to 31 December 2018.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Company on 15 March 2019 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings.

The engagement partner on the audit resulting in this independent auditor's report is Marina Tonžetić.

Marina Tonžetić

Member of the Board and Certified Auditor

Deloitte d.o.o.

21 March 2019

Radnička cesta 80

10 000 Zagreb

Republic of Croatia

MEDIKA d.d. and its subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts are expressed in thousands of HRK)	Note	2018	2017
Income	5, 6	3,078,278	2,826,631
Cost of goods sold	6	(2,786,039)	(2,534,692)
Staff expenses	7	(113,831)	(113,751)
Marketing and promotion expenses	8	(11,124)	(17,727)
Depreciation and amortisation	14, 15	(14,840)	(13,618)
Other operating expenses	9	(110,135)	(110,183)
Other (losses)/gains – net	10	(291)	362
Profit from operations		**42,018**	**37,022**
Financial income	11	5,343	11,638
Financial expenses	11	(8,148)	(12,612)
Net financial loss		**(2,805)**	**(974)**
Share in the profit of associates	16	1,938	1,789
Profit before tax		**41,151**	**37,837**
Income tax	12	(7,467)	5,672
Profit for the year		**33,684**	**43,509**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**33,684**	**43,509**
Earnings per share			
basic and diluted (in HRK and lipa)	13	**1,193.20**	**1,502.28**

The notes on pages 38 to 90 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

(All amounts are expressed in thousands of HRK)	Note	As at 31 December 2018	2017
ASSETS			
Non-current assets			
Property and equipment	14	188,440	190,142
Intangible assets	15	192,910	189,796
Investments in associates	16	21,838	21,453
Deferred tax assets	26	11,370	16,106
Trade and other receivables	18	22,653	16,976
		437,211	434,473
Current assets			
Inventories	19	346,266	307,213
Trade and other receivables	18	1,171,272	1,156,915
Income tax receivable		7,136	3,871
Cash and cash equivalents	20	28,593	144,785
		1,553,267	1,612,784
Total assets		**1,990,478**	**2,047,257**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	164,399	185,988
Reserves	22	67,360	67,360
Retained earnings and income for the year		219,167	185,483
		450,926	438,831
Non-current liabilities			
Borrowings	25	6,114	5,785
Deferred tax liabilities	26	15,923	15,923
Provisions	27	740	804
		22,777	22,512
Current liabilities			
Trade and other payables	24	1,244,572	1,214,159
Borrowings	25	270,830	370,875
Provisions	27	1,373	880
		1,516,775	1,585,914
Total equity and liabilities		**1,990,478**	**2,047,257**

The notes on pages 38 to 90 form an integral part of these consolidated financial statements.

MEDIKA d.d., Zagreb, and its subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts are expressed in thousands of HRK)	Note	Share capital	Reserve for re-invested profit	Reserves	Retained earnings and income for the year	Total
Balance at 1 January 2017		183,181	4,529	67,278	200,040	455,028
Comprehensive income for the year						
Profit for the year		-	-	-	43,509	43,509
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	**43,509**	**43,509**
Transactions with owners recognised directly in equity						
Increase in share capital	21	4,529	(4,529)	-	-	-
Release of treasury shares	21	1,620	-	-	-	1,620
Purchase of treasury shares	21	(3,342)	-	-	-	(3,342)
Dividends paid	23	-	-	-	(57,984)	(57,984)
Transfers	22	-	-	82	(82)	-
Total transactions with owners recognised directly in equity		**2,807**	**(4,529)**	**82**	**(58,066)**	**(59,706)**
Balance at 31 December 2017		**185,988**	-	**67,360**	**185,483**	**438,831**
Balance at 1 January 2018		185,988	-	67,360	185,483	438,831
Comprehensive income for the year						
Profit for the year		-	-	-	33,684	33,684
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	**33,684**	**33,684**
Transactions with owners recognised directly in equity						
Purchase of treasury shares	21	(21,589)	-	-	-	(21,589)
Total transactions with owners recognised directly in equity		**(21,589)**	-	-	-	**(21,589)**
Balance at 31 December 2018		**164,399**	-	**67,360**	**219,167**	**450,926**

The notes on pages 38 to 90 form an integral part of these consolidated financial statements.

MEDIKA d.d. and its subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts are expressed in thousands of HRK)	Note	2018	2017
Cash flow from operating activities:			
Profit for the year		**33,684**	**43,509**
Adjusted by:			
Income tax	12	7,467	(5,672)
Depreciation and amortisation	14, 15	14,840	13,618
Impairment of trade and other receivables, net	9, 18	48,955	50,049
Impairment of intangible assets	9, 15	-	705
Value adjustment on inventories	19	5,624	4,504
Unrealised foreign exchange differences		(1,479)	535
Changes in provisions	27	429	(773)
Gain on disposal of tangible assets	10	(755)	(104)
Disposal of tangible assets expense	15	8	2,207
Interest income	11	(5,343)	(11,638)
Interest expense	11	8,247	12,687
Transfer of (profit) of associate	16	(1,938)	(1,789)
Changes:			
Decrease in inventories		(44,677)	(34,415)
(Increase)/decrease in trade and other receivables		(110,713)	142,165
Increase in trade and other payables		56,818	20,353
(Decrease)/increase in dividends payable	24 /ii/	(12,030)	12,030
Cash generated from operations		**(863)**	**247,971**
Interest paid		(8,689)	(13,288)
Income taxes paid		(6,962)	(12,593)
Cash flow from operating activities		**(16,514)**	**222,090**
Cash flow from investing activities:			
Purchases of property and equipment		(7,432)	(5,173)
Proceeds from the sale of property and equipment		1,125	1,094
Purchases of intangible assets	15	(5,094)	(5,678)
Acquisition of subsidiary, net of cash acquired	29	-	(736)
Proceeds from repayment of given loans		56,144	47,779
Given loans		(23,460)	(12,099)
Interest received		14,313	2,337
Share of profit from associates received	16	1,553	1,654
Cash flow from investing activities:		**37,149**	**29,178**

The notes on pages 38 to 90 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts are expressed in thousands of HRK)	Note	2018	2017
Cash flow from financing activities			
Repayments of borrowings		(773,000)	(204,604)
Proceeds from borrowings		673,000	64,700
Proceeds from returned deposits		71	-
Repayment of finance leases		(3,279)	(3,412)
Purchase of treasury shares	21	(21,589)	(3,342)
Release of treasury shares	21	-	1,620
Dividends paid		(12,030)	(45,954)
Cash flow from financing activities		**(136,827)**	**(190,992)**
Net (decrease)/increase in cash and cash equivalents		**(116,192)**	**60,276**
Cash and cash equivalents at the beginning of the year		144,785	84,509
Cash and cash equivalents at the end of year	20	**28,593**	**144,785**

The notes on pages 38 to 90 form an integral part of these consolidated financial statements.

NOTE 1 – GENERAL DATA

Medika d.d. (hereinafter: "the Company") is a joint stock company incorporated in the Republic of Croatia. The principal activity of the Company and its subsidiaries (together "the Group") is the wholesale and retail distribution of pharmaceutical products. The Company is headquartered in Zagreb, Capraška 1.

The Group is comprised of the Company and the following subsidiaries and associates:

Subsidiaries:

	2018	2017
Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb	100%	100%
- Zdravstvena ustanova Ljekarne Delonga, Zagreb (since May 2007)	100%	100%
- Zdravstvena ustanova Ljekarne Ines Škoko, Zagreb (since March 2011)	100%	100%
- Ljekarna Ana Pantelić, Rijeka (acquired and merged in 2017)	-	-
- Zdravstvena ustanova Ljekarne Soline Farm, Biograd na Moru (bought and sold in 2017)	-	-
Primus nekretnine d.o.o., Zagreb	100%	100%

Associates:

	2018	2017
Zdravstvena ustanova Ljekarne Jagatić, Zagreb (since November 2008)	49%	49%

As at 31 December 2018, the Company's shares were listed on the official market of the Zagreb Stock Exchange. The ownership structure of the Company is shown in Note 21.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Set out below are the principal accounting policies adopted in the preparation of these consolidated financial statements. The accounting policies have been consistently applied to all the years presented in these financial statements, unless stated otherwise.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS). The consolidated financial statements have been prepared under the historical cost convention unless stated otherwise.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards adopted by the European Union (IFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **IFRS 9 "Financial Instruments"**, adopted by the European Union on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15", adopted by the European Union on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 2 "Share-based Payment"** - "Classification and Measurement of Share-based Payment Transactions", adopted by the European Union on 27 February 2018 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 "Insurance Contracts"** "Applying IFRS 9 'Financial Instruments' with IFRS 4 "Insurance Contracts"", adopted by the European Union on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or for periods when an entity first applies IFRS 9 "Financial Instruments"),

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 "Revenue from Contracts with Customers", adopted by the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IAS 40 "Investment Property"** - "Transfers of Investment Property", adopted by the EU on 14 March 2017 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 1 and IAS 28 "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

- **IFRS 22 "Foreign Currency Transactions and Advance Consideration"**, adopted by the European Union on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018),

The adoption of these amendments to the existing standards has not led to any material changes in the Group's financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Initial application of new amendments to the existing standards effective for the current reporting period (continued)

Impact of initial application of IFRS 9 *Financial Instruments*

In the current year the Group applied IFRS 9 Financial Instruments (amended in July 2014) and the related amendments of other IFRSs that are effective for the annual period beginning on or after 1 January 2018. The transitional provisions of IFRS 9 allow subjects to not adjust comparable data, which the Group took advantage of.

In addition, the Group adopted the amended IFRS 9 Financial instruments: Disclosures applied to disclosures for 2018.

IFRS 9 introduces new requirements for:

1) Classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) Hedge accounting.

Below are the details of these new requirements, as well as their impact on the Company's consolidated financial statements.

The Group implemented IFRS 9 in accordance with the transitional provisions listed in IFRS 9.

(a) Classification and measurement of financial assets

The date of first application (i.e. the date on which the Group assessed the existing financial assets and financial liabilities in accordance with the IFRS 9 requirements) is 1 January 2018. Accordingly, the Group applied the IFRS 9 requirements to the instruments which continued to be recognised as of 1 January 2018 and did not apply requirements to the instruments that had already ceased to be recognised on 1 January 2018.
All recognised financial assets within the framework of IFRS 9 should be subsequently measured at depreciated cost, fair value through other comprehensive income or fair value through profit or loss on the basis of the business model of the subject for the management of financial assets and contractual cash flow characteristics of financial assets.

In particular:

- Debt instruments held within a business model whose objective is to gather contractual cash flows, and which have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, later measured at depreciated cost;
- Debt instruments held within the business model whose objective is to gather contracted cash flows and sell debt instruments, and which have contracted cash flows that are solely payments of principal and interest on the principal amount outstanding, later measured at fair value through other comprehensive income (FVTOCI);
- All other debt investments and equity investments, allocated in other models or insofar as they have not met the criteria of contractual cash flows, they are subsequently measured at fair value through profit or loss.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Initial application of new amendments to the existing standards effective for the current reporting period (continued)

Impact of initial application of IFRS 9 *Financial Instruments (continued)*

(a) Classification and measurement of financial assets (continued)

Despite the aforementioned, the Group may upon the initial recognition of financial assets irrevocably determine the following:

- The Group may irrevocably decide on subsequent changes to the fair value of investments in equity that are not held for trading nor as contingent amounts recognised by an acquirer in a business merger, in other comprehensive income (FVTOCI option);
- The Group may irrevocably decide on debt investments that comply with depreciated costs or FVTOCI criteria that are measured at fair value through profit or loss if this eliminates or significantly reduces accounting discrepancies (FVTPL option).

In the current year, the Group only has instruments that are measured at depreciated cost.

In the event that recognition of debt investment measured at FVTOCI ceases, cumulative profit or loss previously recognised in other comprehensive income is reclassified from capital in profit or loss as an adjustment due to reclassification. In the event that recognition of equity investment for which the FVTOCI option has been selected ceases, cumulative profit or loss previously recognised in other comprehensive income is later transferred to retained earnings.

Debt instruments that are subsequently measured at depreciated cost or at FVTOCI, are subject to impairment (see paragraph (b)).

Management of the Group has reviewed and assessed the existing financial assets of the Group as at 1 January 2018 on the basis of facts and circumstances that existed on this date and concluded that the initial application of IFRS 9 did not have an impact on the financial assets of the Group with respect to classification and measurements.

Based on the performed analysis, the Group concluded that the given loans do not comprise clauses which would lead to contractual cash flows test failure. Given loans were contracted with a fixed interest rate reflecting the time value of money. Following the aforementioned, there are no loans which would consequently be measured at fair value through profit or loss.

(b) Impairment of financial assets

In relation to impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to the incurred loan loss model according to IAS 39. The expected credit loss model requires that the Group takes into account the expected credit losses and changes in these expected credit losses on each reporting date so as to reflect changes in credit risk from the initial recognition of financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Initial application of new amendments to the existing standards effective for the current reporting period (continued)

Impact of initial application of IFRS 9 *Financial Instruments (continued)*

(b) Impairment of financial assets (continued)

Namely, IFRS 9 requires that the Group recognises expected credit losses on:
(1) Debt instruments subsequently measured at depreciated cost or at FVTOCI;
(2) Lease receivables;
(3) Trade receivables and contracted assets; and
(4) Financial guarantee contracts to which IFRS 9 impairment requirements apply.

The Group has assets measured at depreciated cost.

In particular, IFRS 9 requires the Group to measure provisions for expected loan losses for financial instruments in the amount equal to life-long expected credit losses (ECL) if the credit risk of the relevant financial instrument significantly increased since the initial recognition, if there is objective proof of an impairment, and in the case of purchased or incurred credit-impaired financial assets. However, if the credit risk for the financial instrument has not significantly increased since the initial recognition (aside from purchased or incurred credit-impaired financial assets), the Group shall be obliged to measure the loss for this financial instrument in the amount equal to a 12-month ECL. IFRS 9 also requires a simplified approach to measuring provisions for losses in an amount equal to life-long ECL for trade receivables, contractual assets and receivables for leases under certain circumstances.

The Group applies a simplified approach for trade receivables.

Review of the IFRS 9 application impact:

(in thousands of HRK)	**IAS 39 carrying amount**	**IFRS 9 carrying amount**	**Difference**
Trade receivables	0	285	285

The Group did not record the impact of IFRS 9 to retained earnings since the amount is not significant.

(a) Classification and measurement of financial liabilities

A significant change introduced through IFRS 9 as regards the classification and measurement of financial liabilities refers to calculation of changes in the fair value of financial liabilities, measured at fair value through profit or loss, and which may be attributed to the changes in credit risk of the issuer.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Initial application of new amendments to the existing standards effective for the current reporting period (continued)

Impact of initial application of IFRS 9 *Financial Instruments (continued)*

(a) Classification and measurement of financial liabilities (continued)

Namely, IFRS 9 requires that changes in the fair value of financial liabilities that may be attributed to changes in credit risks of those liabilities are recorded in other comprehensive income, except in the case when the recognition of the impact of changes in the credit risk of liabilities in other comprehensive income would create or increase the accounting discrepancies in profit or loss. Changes in fair value that may be attributed to loan risk of financial liabilities are subsequently not reclassified to profit or loss, they are rather transferred to retained profit when the financial liability ceases to be recognised. According to IAS 39, the entire amount of changes to the fair value of financial liabilities carried measured at fair value through profit or loss was shown in the profit and loss account.

The Group has no financial liabilities that are measured at fair value through profit or loss.

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following new standards and amendments to the existing standards were issued by IASB and adopted by the EU, but not yet effective:

- **IFRS 16 "Leases"**, adopted by the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** – "Prepayment Features with Negative Compensation", adopted by the European Union on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the European Union on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Group has decided not to adopt these new standards and amendments to existing standards in advance of their effective dates.

The Group anticipates that the adoption of the new standard IFRS 16 Leases will have a material impact on the financial statements in the period of the initial application of the standard. The Group assesses that the impact on the statement of financial position amounted to HRK 36,875 thousand of recognised value of assets with the right to use and liabilities per lease.

In addition, the Group anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements in the period of the initial application of the standard.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the date of publication of these financial statements (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 "Business Combinations"** – Defining business operations (effective for business combinations with the acquisition date on or after the start of the first annual reporting period starting on or after 1 January 2020 and obtaining funds on or after the starting date of the relevant period),
- **Amendments to 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material (effective for annual periods starting on or after 1 January 2020),
- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** "Long-term Interests in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards entitled "Improvements to IFRS Standards 2015-2017 Cycle"** resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily aimed at eliminating inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020).**

According to the Group's estimates, the adoption of relevant new accounting standards and amendments to existing standards will not materially affect their financial statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all companies (including structured entities) controlled by the Company. Control is achieved when the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. A subsidiary is consolidated when the Company obtains control over the subsidiary and ceases when the Company loses control over it.

Such investments are presented in these financial statements at cost less any impairment losses, if any.

The acquisition method of accounting is used to account for subsidiaries acquired by the Group. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.6). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless there are indications that a transferred asset may be impaired. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policy adopted by the Group.

(b) Associates

Companies are considered to be associates of the Group if the Group holds between 20% and 50% of the voting power in a company, i.e. in which it has a significant influence, but not control. Such investments are presented in the financial statements of the Group at cost less any impairment losses, if any.

The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables which form an integral part of the net investment, the Group does not recognize further losses unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the relevant associate. Unrealised losses are also eliminated unless there are indications that an asset exchanged in the transaction may be impaired. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Operating segment reporting

An operating segment is an integral part of a business entity that engages in business activities from which revenues can be realized that give rise to expenses and for which there are separate financial statements as well as the operating results of which are regularly reviewed by chief operating decision maker of the business entity in order to decide on resources to be allocated to the segment.

2.4 Foreign currencies

(a) Functional and reporting currency

Items included in the financial statements of each individual member of the Group are presented in the currency of the primary economic environment in which the Group member operates (functional currency). The consolidated financial statements are presented in the Croatian kuna, which is both the functional and reporting currency of the Group and all its members, rounded to the nearest thousand.

(b) Foreign currency transactions

Foreign-currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. However, if the gain or loss on a monetary item is recognized directly in the reserve, then any component of foreign currency application and profit or loss should be recognized directly in the reserves.

Non-monetary assets and items denominated in foreign currencies that are measured at historical cost are not re-translated.

Foreign-currency denominated non-monetary assets and liabilities measured at historical cost are translated to the functional currency using the exchange rate list in effect at the transaction dates.

2.5 Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes costs directly attributable to the acquisition of an asset.

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 asset will flow to the Group, and the cost of the asset can be measured reliably. The carrying amount of a replaced part is derecognised. All other investment and maintenance costs are charged to the profit and loss account in the financial period they incurred in.

Land and assets under development are not depreciated. Depreciation of other assets is provided using the straight-line method so as to write down the cost of an asset over its estimated useful life. Depreciation is provided on an individual asset basis until the asset is fully written off or written down.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property and equipment (continued)

The estimated useful lives are as follows:

Buildings	10–40 years
Equipment	2–20 years

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

If the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 2.7).

Gains and losses arisen on disposal are determined by comparing the proceeds with carrying amount, and are recognised within "Other gains/(losses) net" in the income statement.

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of acquisition of a subsidiary over the acquisition-date fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Separately recognised goodwill is tested annually for impairmentand is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated from the acquisition date, to each of the acquirer's cash generating units, or groups of cash generating units, expected to benefit from the synergies of the combination. Each such unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Any gain or loss on remeasurement at fair value is included in profit or loss.

Gains and losses on disposal of a business include the carrying amount of goodwill relating to that business.

(b) Licences

Cost incurred by the Group in obtaining pharmacy operation licences, without which no pharmacy activities can be performed, are capitalised to the extent that future economic activities are probable. These licences are amortized over their useful life estimated in the range from 5 years to an infinite lifetime. Impairment review is made on an annual basis.

(c) Software

Software licences are capitalised based on the cost of purchase and costs incurred in bringing software into a working condition for its intended use. The cost is amortised over the useful life of the assets, which ranges from 5 to 10 years.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets (continued)

(d) Other rights

Other rights are shown at historical cost, they have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of other rights over their estimated useful lives (5 years).

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position of the Group when the Group becomes a party to the contractual provision of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs which may be directly attributed to the acquisition or issuing the financial assets and financial liabilities (other than financial assets and financial liabilities measured at fair value through profit or loss) are added to or deducted from the fair value of financial assets and financial liabilities at initial recognition, where appropriate. Transaction costs which may be directly attributed to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in profit and loss.

Financial assets

Untill 31 December 2017, the Group classifies its financial assets by 31 December 2017 as trade and other receivables, except investments in subsidiaries and associates (Note 2.2). The classification depends on the purpose for which the financial assets are acquired at initial recognition (IAS 39).

In line with IFRS 9, all recognised financial assets are subsequently entirely measured at depreciated cost, fair value through other comprehensive income or fair value through profit or loss, depending on the business model and characteristics of contracted cash flows of financial assets.

As at 1 January 2018, the Group classifies its financial assets in a category measured at depreciated cost, using the effective interest rate method, within a business model whose aim is to collect contracted cash flows and according to which the cash inflow is made exclusively based on payments of principal and interest on the principal amount outstanding (IFRS 9).

At each reporting date the Group performs a review to identify any objective evidence that a financial asset may be impaired. Impairment testing of trade and loan receivables is described in Note 2.11.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (*continued*)

Financial assets (continued)

Financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are reported in the current assets, except for assets which mature more than 12 months after the date of statement of financial position. Such assets are classified as non-current assets.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognised in profit or loss.

(i) Depreciated cost and effective interest rate method

The effective interest method is a method of calculating the depreciated cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, aside from purchased or incurred credit-impaired financial assets (i.e. assets which were credit-impaired during the initial recognition), the effective interest rate is a rate that accurately discounts the estimated future cash inflow (including all fees and points paid or received, which constitute an integral part of the effective interest rate, transaction costs and other premiums or discounts), excluding the expected credit losses, during the expected life of a debt instrument or, where appropriate, during a shorter period, to gross carrying amounts of the debt instrument at initial recognition. For purchased or incurred credit-impaired financial assets, the effective interest rate adjusted to the loan is calculated by discounting estimated future cash flows, including expected credit losses, to the depreciated cost of the debt instrument at initial measurement.

The depreciated cost of financial assets is the amount at which the financial instrument is measured at initial recognition, less of payments of principal and plus accumulated depreciation, using the effective interest rate method for any difference between the opening amount and amount at maturity, adjusted for any loss. Gross carrying amount of financial assets is the depreciated cost of financial assets before adjustments for any loss.

Interest income is recognised by applying the effective interest rate for debt instruments, which are subsequently measured at depreciated cost. For financial assets, other than purchased or incurred credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, aside for the financial assets which subsequently became credit-impaired.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (*continued*)

Financial assets (continued)

(i) Depreciated cost and effective interest rate method (continued)

For financial assets which subsequently became credit-impaired, interest income is recognised by applying the effective interest rate to the depreciated cost of financial assets. If, in the following reporting periods, the credit risk for the credit-impaired financial instrument improves in the way that the financial instrument is no longer credit-impaired, the interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial assets.

For the purchased or incurred credit-impaired financial assets, the Group recognises interest income by using the effective interest rate adjusted by the credit risk to the depreciated cost of financial assets at initial recognition. The calculation is not returned to a gross basis, even if the credit risk of the financial assets subsequently improves so that the financial assets are no longer credit-impaired.

Interest income are recognised in the profit and loss account, and are included in the item "Financial income – interest income" (Note 11).

Impairment of financial assets

The Group recognises the provisions for expected credit losses of trade receivables and debt instruments measured at depreciated cost. The amount of expected credit losses is calculated at every reporting date in order to reflect the changes in the credit risk since the initial recognition of an individual financial instrument.

The Group always recognises life-long expected credit losses (ECL) for trade receivables based on a selected simplified approach. The expected credit losses for these financial assets are described in Note 2.11. The Group currently does not adjust the loss rate for future macroeconomic conditions, since it has not performed an analysis of the impact of macroeconomic factors on historical loss rates, including the time value of money, where appropriate.

For the given loans, the Group recognises the life-long ECL in case of a significant increase in credit risk since initial recognition. However, if the credit risk for the financial instrument has not significantly increased since the initial recognition, the Group measures the loss for this financial instrument in the amount equal to a 12-month ECL.

Life-long ECL represents expected credit losses resulting from all potential cases of default during the expected lifetime of the financial instrument. By contrast, a 12-month ECL represents a part of the life-long ECL, on account of the probability of a default status in the 12 months following the reporting date.

(i) Significant increase in credit risk

When assessing whether the credit risk for the financial instrument significantly increased since the initial recognition, the Group compares the risk of default on the reporting date to the risk of default of the financial instrument on the date of initial recognition. During the assessment, the Group considers both quantitative and qualitative information which are reasonable and available, including the historical experience, which can be accessed without unnecessary costs or engagements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (*continued*)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

In particular, for the loans given, the Group relies on days of default when assessing significant credit risk deterioration. If the debtor is in default more than 30 days, then the Group assumes that there is a significant increase in credit risk.

Despite the aforementioned, we assume that the credit risk for the financial instrument has not significantly increased since the initial recognition if we determine that the financial instrument has a low credit risk at the reporting date. We conclude that the financial instrument has a low credit risk if:

- The financial instrument has a low risk of default;
- The debtor has a strong ability to settle his/her contractual obligations in the short term; and
- Adverse changes in economic and business conditions in the long term may, but do not necessarily have to, decrease the lessee's ability to meet his/her contractual cash flow obligations.

However, the Group does not currently use the simplification of a low credit risk when assessing the significant increase in credit risk.

The Group regularly monitors the efficiency of criteria used to determine whether there has been a significant increase in credit risk and reviews them so that the criteria may identify a significant increase in credit risk before any default occurs.

(ii) Definition of default status

The following facts, which represent a case of default for internal credit risk management purposes are data that are internally developed or obtained from external sources, indicating that it is unlikely that the debtor will pay his/her creditors, including the Group, in full (without considering any collateral held by the Group).

(iii) Credit-impaired financial assets

Financial assets are credit-impaired when one or more events with an adverse effect on estimated future cash flows and financial assets occurred. Proof of credit impairment of the financial asset includes data available on the following events:

- Significant financial difficulties of the issuer or debtor;
- Default status (as defined above);
- When the issuer, due to the debtor's financial difficulties, grants the debtor a concession, which he would otherwise not consider;
- It becomes probable that the debtor will go into bankruptcy or undertake another type of financial restructuring;
- The disappearance of an active market for a specific financial asset because of financial difficulties.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (*continued*)

Financial assets (continued)

Impairment of financial assets (continued)

(iv) Write-off policy

The Group writes off financial assets when there are data pointing to the fact that the debtor is in serious financial difficulties and that there is no real chances of return, for example when the debtor has gone into liquidation or bankruptcy. Written-off financial assets can still be subject to enforcement activities within the Group recovery procedures, with regard to the relevant legal advice, where appropriate. Recovery is recognised in the profit or loss account.

(v) Measurement and recognition of expected credit losses

Measurement of expected credit losses represents a loss rate function, calculated in line with the model described in Note 2.11. In terms of exposure in the moment of default, for the financial assets it represents a gross carrying amount of the assets at the reporting date.

For the financial assets, the expected credit loss is assessed as the difference between all contractual cash flows maturing in line with the contract and all expected cash flows, discounted at the original effective interest rate.

If the Group measured provisions for expected loan losses for financial instruments in the amount equal to life-long ECL in the previous reporting period, but at the current reporting date it determined that the life-long ECL conditions are no longer met, the Group measures the loss in the amount equal to a 12-month ECL at the current reporting date, except for the assets for which a simplified approach was used (trade receivables).

The Group recognises impairment gains and losses in the profit and loss account for all financial instruments with the appropriate adjustment of the carrying amount through the loss provisions account.

Financial liabilities

Financial liabilities recognized by the Group are trade payables and borrowings.

The Company measures all financial liabilities at depreciated cost.

(a) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(b) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. In future periods, borrowings are reported at depreciated cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (*continued*)

Financial liabilities (continued)

(b) Borrowings (continued)

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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of a derecognised financial liability and paid fee per liability fee are calculated into profit or loss.

2.9 Leases

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

Leases under which the Group does not bear all the significant risks and rewards of ownership are classified as operating leases. Payments under operating leases are recognised in the income statement over the term of the underlying lease.

2.10 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs attributable to the purchase of goods and is calculated based on the weighted average purchase price. Net realisable value represents the estimated selling price in the ordinary course of business less all variable selling costs. Examination of damaged and/or obsolete inventories is preformed continuously and for all such inventories a provision is charged to cost of goods sold.

Inventories with no movement within one year, or two years, from the reporting date are deemed to be slow moving and obsolete inventories and therefore are value adjusted. For inventories with no movement within one year, an impairmant allowance of 50% of the value of the inventory is recognized, and for inventories with no movement within two years, an impairmant allowance of 100% of the value of the stock is recognized.

2.11 Trade and loan receivables

The Group always reports the provisions for expected credit losses of trade receivables in the amount equal to the life-long ECL.

Trade and credit receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and loan receivables (continued)

The impairment loss is assessed based on the customer's activity, i.e. the borrower's activity, and based on historical data, the current and expected liquidity of the Health System of the Republic of Croatia, as well as specific assessments of the Sales Sector for individual customers, depending on the current state of the market and the inability to collect them..

There were no changes in the assessment techniques or material assumptions during the current reporting period.

The impairment losses on trade receivables are recognised in the income statement within "Other operating expenses".

Loans and receivables with maturities greater than 12 months after the reporting date are classified as non-current assets.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits with banks and other short-term highly liquid instruments with original maturities of up to three months.

2.13 Share capital

Share capital consists of ordinary shares.

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

2.14 Reserves

(a) Legal reserves

The legal reserves are required under Croatian law according to which the Company has to build up legal reserves with a minimum of a twentieth part (5%) of the profit for the year until the legal reserves together with capital reserves reach 5% of the share capital. Legal reserves are not distributable.

(b) Other reserves

Other reserves are formed in accordance with Croatian law and decisions of the General Assembly.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Inventories (continued)

(c) Reserves for treasury shares

Reserves for treasury shares are formed in accordance with Croatian law and decisions of the General Assembly.

2.15 Income tax

Current tax is determined on the basis of the tax laws in effect in the Republic of Croatia at the balance sheet date. From time to time, the Management reviews individual items declared in the tax returns where such items might be subject to various tax interpretations and considers forming provisions, where necessary, based on the amount expected to be paid to the Tax Administration.

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

Deferred tax is calculated using the liability method, whilst taking into account the temporary differences between the tax bases of assets and liabilities and their carrying amounts in financial reports. However, deferred taxes are not recognised if it derives from the initial recognition of assets or liabilities within a transaction which is not a business merger and which has no bearing on the accounting profit or taxable profit (tax loss). Deferred tax assets and liabilities are determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised up to the amount of the future taxable profit which is likely to be available for the use of temporary differences.

2.16 Employee benefits

(a) Obligations in respect of retirement and other post-employment benefits

In the normal course of business the Group makes payments, through salary deductions, to mandatory pension funds on behalf of its employees, as required by law. All contributions paid to the mandatory pension funds are recognised as salary expense when accrued. The Group does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any other post-retirement benefits.

(b) Long-term employee benefits

The Group recognises a liability for long-term employee benefits (jubilee awards and retirement benefits for full-age retirement) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit obligation is determined using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate. Benefits falling due more than 12 months after the reporting date are discounted to their present value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(c) Short-term employee benefits

The Group recognises a provision for bonuses, unused annual leave and other benefits when there is a contractual obligation or a past practice giving rise to a constructive obligation.

Short-term liabilities for 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.

Short-term employee benefits include termination benefits and jubilee awards (stated in paragraph (b) above), which will be paid within a period of 12 months after the reporting date.

2.17 Provisions

Provisions are recognised if the Group has a present obligation, legal or constructive, as a result of a past event and it is probable 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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The amount of provision increases in each period to reflect the passage of time. This increase is presented as interest expense.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration receives or receivables for sold products, goods or services within the normal course of business of the Company. Revenue is reported in the amount net of value added tax, estimated returns, rebates and discounts. Revenue is recognised when the delivery liability has been settled by transferring the control of the promised goods or services to the customer.

(a) Sales of goods

Sales of goods revenue is recognized when the control of goods is transferred to the the customer, i.e. when the goods are delivered to the customer. The delivery is performed when the goods have been dispatched to a specific location, risk of obsolescence and loss is transferred to the customer, the customer received the goods pursuant to the contract, and the Company has objective proof that all of the conditions for the receipt of goods have been met.

The Company allocates the transaction cost to the delivery liability based on the relative individual sales prices.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition (continued)

(a) Sales of goods (continued)

Retail revenue is recognized at the time of sale of goods to the buyer. Retail revenue is mostly made in cash or through credit cards. Reported revenue includes credit card fees that are included in other operating expenses.

(b) Service revenue

Service revenue is recognized in the accounting period in which service is performed.

(c) Financial income

Financial income represents interest income earned on term deposits with banks and on given loans and is recognised on a time proportion basis using effective interest rate method.

2.19 Finance expense

Finance expenses comprise interest expense accrued on borrowings, impairment losses recognised on financial assets, and foreign exchange losses. Borrowing costs are recognised in income statement using the effective interest rate.

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.

2.20 Dividends payable

Dividends payable to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved in the General Meeting of the Company's shareholders.

2.21 Value added tax

The Tax Authorities require that VAT is settled on a net basis. VAT on sale and purchase transactions is recognised in the statement of financial position on a net basis. Where an amount receivable is impaired, the impairment loss is recognised in the gross amount of the receivable, i.e. including VAT.

2.22 Earnings per share

The Company presents basic earnings per share (EPS) for its ordinary shares. Basic earnings per share are determined by dividing the profit or loss for the year from ordinary shares by the weighted average number of ordinary shares during the year.

NOTE 3 - FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to various financial risks: market risk (which includes foreign exchange risk, fair value interest rate risk, interest rate cash flow risks and investment in securities risk), credit risk and liquidity risk. The pharmaceuticals wholesale and pharmacy industry in the Republic of Croatia is highly influenced by the state which plays its role by imposing strict legislation and the health system funding. As the dynamic of funding by the state is beyond control or prediction and given the inability to predict financial market trends, the overall risk management of the Group is focused on minimising or eliminating the potential adverse impact on the Group's financial position. Risk management within the Group is the responsibility of the Finance Division that, in cooperation with other divisions within the Group, identifies, assesses the risks and proposes risk protection measures.

(a) Market risk

(i) Foreign exchange risk

The Group generates most of its revenue on the domestic market and in Croatian kuna (HRK). However, the Group purchases a part of goods on foreign markets, which exposes it to the currency risk arising from changes in foreign exchange rates mostly against the euro, which may affect future operating results and cash flows. The Finance Division of the Company seeks to minimise the foreign exchange risk by reducing the balance of foreign-currency denominated financial liabilities. This mainly relates to borrowings, which are almost entirely denominated in the Croatian kuna, and hence the exposure to the foreign exchange risk is insignificant. The Purchase Division reduced the foreign exchange risk arising from liabilities owed to foreign suppliers by agreeing the Croatian kuna as the payment currency. It is the tendency in the future to agree payments in Croatian kuna with as many existing foreign suppliers as possible so as to minimise the risk arising from transactions with foreign suppliers.

As at 31 December 2018, (Notes 18, 20, 24, 25), if the euro would weaken/strengthen against the Croatian kuna by 1.0% (2017: 1.0%), with all other variables held constant, the net profit for the reporting period would have been HRK 4,185 thousand higher/lower (2017: HRK 3,308 thousand higher/lower), mainly as a result of foreign exchange gains/losses on translation of euro-denominated trade payables.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from its borrowings, which expose the Group to cash-flow interest rate risk. Fixed-rate borrowings expose the Group to the interest-rate fair value risk.

The Group does not use derivative instruments to actively hedge its cash flow and fair value interest rate risk exposure. However, the Group continuously monitors changes in interest rates. Various scenarios are simulated taking into account refinancing, renewal of existing positions and alternative financing.

As at 31 December 2018, if the effective interest rate on borrowings (issued at variable rate) would be 0.10% higher/lower on an annual level (2017: 0.10%), the net profit for the reporting period would be HRK 87 thousand lower/higher (2017: HRK 214 thousand).

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Current assets that expose the Group to credit risk consists mainly of cash, trade and other receivables. The Group has no significant concentrations of credit risk. The Group has sales policies in place to ensure that the sale is made to customers with an appropriate credit history. With respect to credit risk exposure, customers are grouped into three categories: pharmacies, hospitals and other customers. A higher credit risk is found among pharmacies since they have a potential going concern issue. However, collection period for hospitals is longer, but there is no risk that the receivables will not be recovered, i.e. there is no going concern issue. Other customers are not significant because of dispersion over a large number of customers and individually small balances. The Group secures the recovery of a part of the trade receivables with bills of exchange and promissory notes. A detailed credit risk analysis is presented in Notes 17 and 18.

For trade receivables, the Group applied a simplified approach to measuring loss for the life-long ECL.

The Group is exposed to one customer from the hospital segment, accounting for 22% of total trade receivables.

(c) Liquidity risk

Prudent liquidity risk management implies the maintenance of a sufficient cash level, ensuring the availability of financial assets due to adequate amounts of contracted credit lines and the ability to settle all liabilities. It is the objective of the Company and the Group to maintain flexibility in funding, by ensuring availability of the agreed credit lines. The Finance Department of the Company regularly monitors the level of available sources of cash funds. Customers consist largely of those owned by, or dependent of, the Republic of Croatia. Hence, the Group's liquidity risk level also depends on the state. The insufficient level of cash from period to period is a direct consequence of the schedule of payments received from the state in settling the state's liabilities concerning the health system. Where the payment periods are extended by the state, the Group agrees extended payment deadlines with its suppliers. Any shortfall is covered using lines of credit available at commercial banks. At 31 December 2018, the balance of cash and cash equivalents amounts to HRK 28,593 thousand, and the Group had free credit lines in the amount of HRK 198,700 thousand available at demand for liquidity risk management purposes.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses financial liabilities of the Group by contractual maturities. The amounts presented below represent undiscounted cash flows.

(in thousands of HRK)	**Up to 1 month**	**1 months to 1 year**	**1-3 years**	**Over 3 years**	**Total**
At 31 December 2018					
Trade and other payables	380,139	864,433	-	-	1,244,572
Borrowings	565	272,118	6,326	-	279,009

(in thousands of HRK)	**Up to 1 month**	**1 months to 1 year**	**1-3 years**	**Over 3 years**	**Total**
31 December 2017					
Trade and other payables	448,263	765,662	234	-	1,214,159
Borrowings	90,604	281,785	5,996	15	378,400

In 2019, the Group will settle trade and other liabilities according to the collection of receivables which depends on the liquidity of the entire healthcare system.

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to ensure returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the self-financing ratio in the financial statements. This ratio is calculated as the proportion of total equity and total assets.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management (continued)

The equity-to-total assets ratio is as follows:

	2018	2017
	(in thousands of HRK)	
Total capital (equity and reserves)	450,926	438,831
Total assets	1,990,478	2,047,257
Equity to assets ratio	**23%**	**21%**

The 2018 ratio increased in relation to the 2017 ratio and shows that the Group finances 23% of its total assets from own sources. Consequently, 77% of the assets are financed from sources other than owner's equity (2017: 79%).

3.3 Fair value measurement

The nominal amount value of trade receivables less impairment allowance and of trade payables are assumed to approximate their fair values.

NOTE 4 - KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates that are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Assumptions for determining the amount of provisions for trade receivables

Due to the significance of the amount of trade receivables recognised in the statement of financial position, the Management estimates the probability of recovering trade receivables (i.e. potential losses) based on an analysis of individual categories of such assets. Factors taken into consideration by the Management include: receivables from customers in earlier years, current and expected liquidity of the Health System of the Republic of Croatia, as well as a specific assessment of the Sales Sector for individual customers, depending on the current market trends and their financial position.

As at 31 December 2018, if the assessed irrecoverable amount of receivables would be 1% lower/higher, with all other variables held constant, the net profit for the reporting period would be HRK 157 thousand higher/lower than reported (2017: HRK 165 thousand higher/lower than reported), and the effect in the hospital segment would be HRK 4 thousand (2017: HRK 12 thousand), in the pharmacy segment HRK 88 thousand (2017: HRK 89 thousand), in the own pharmacy segment HRK 2 thousand (2017: HRK 3 thousand) and in the segment 'Others' HRK 63 thousand (2017: HRK 64 thousand).

NOTE 4 - KEY ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Useful life of property and equipment

Determining the useful lives of assets is based on historical experience with similar assets as well as anticipated changes in the economic environment and factors relating to the industry in which the Group operates. The useful life is reviewed annually or whenever there are indications of significant changes in the underlying assumptions.

Business model assessment

Classification and measurement of financial assets depends on the results of the verification of contractual cash flows and the business model test (see *Financial assets* section in Note 3). The Group defines its business model on a level reflecting the way in which the groups of financial assets are managed jointly in order to attain a specific business goal. This assessment entails the judgement which reflects all of the relevant proof, including the way in which the performance of the assets is assessed and their impact measured, risks affecting the assets value and the way they are managed, and the way for determining the fees for persons in charge of management of the relevant assets. The Group monitors the financial assets measured at depreciated cost which are derecognised before they mature, in order to understand the reason for their sale and whether the reasons comply with the business goals for which the assets were held. Monitoring is a part of a continued assessment of the Group concerning the appropriateness of the business model within which the financial assets are held, and if it is not appropriate, whether there a change in the business model occurred and, accordingly, whether there will be a change in asset classification in the future. Such changes were not necessary during the periods reported.

Based on the performed analysis, the Group concluded that the given loans do not comprise clauses which would lead to contractual cash flows test failure. Given loans were contracted with a fixed interest rate reflecting the time value of money. Following the aforementioned, there are no loans which would consequently be measured at fair value through profit or loss.

Significant increase in credit risk

As specified in Note 3, ECL is measured as a provision in the amount equal to a 12-month ECL for the assets allocated to Level 1, or to a life-long ECL for assets allocated to Level 2 or 3. Assets are transferred to Level 2 when there is a significant increase in credit risk since the date of initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. When assessing whether the credit risk of an asset has increased significantly, the Group considers quantitative and qualitative information which are reasonable and available.

ECL provisions calculation

When measuring ECL, the Group uses reasonable and relevant information, based on historical data. ECL calculation model is further described in Note 2.11.

NOTE 5 – REVENUE

	2018	2017
	(in thousands of HRK)	
Sales revenue – related parties	3,023,631	2,775,668
Sales and other revenue – related parties (Note 31)	37,570	35,734
Other income	17,077	15,229
	3,078,278	**2,826,631**

NOTE 6 – SEGMENT INFORMATION

Segment information follows the structure used by the Company and the Group for internal reporting purposes, which has remained unchanged in comparison with the prior year.

The Group monitors revenues and gross profit through two main distribution channels: wholesale and retail.

The wholesale distribution channel consists of:

1. Pharmacies, which are divided for the reporting purposes into the following categories:
   - county pharmacies
   - private pharmacies

2. Hospitals

3. Other customers, divided into:
   - dental practices
   - veterinary clinics
   - medical centres
   - wholesalers
   - other customers (herbal pharmacies, companies, optics and other)

Retail distribution channel consists of self-owned pharmacies (subsidiary ZU Prima Pharme and its subsidiaries).

The Group uses margin calculated as sales revenue minus cost of goods sold as a performance measure of a particular segment.

There are no transactions between the segments. The Company and the Group apply the same accounting policies in all the segments.

NOTE 6 – SEGMENT INFORMATION (continued)

The segments' results for the year ended 31 December 2018 are as follows:

	Wholesale			Retail	Total
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Own pharmacies**	
Sales revenue	1,164,537	995,702	502,178	361,214	3,023,631
Sales and other revenue – related parties (Note 31)	37,483	-	87	-	37,570
Other income	178	327	13,540	3,032	17,077
Total income	**1,202,198**	**996,029**	**515,805**	**364,246**	**3,078,278**
Cost of goods sold	(1,119,571)	(924,293)	(464,765)	(277,410)	(2,786,039)
Segment result	**82,627**	**71,736**	**51,040**	**86,836**	**292,239**
Operating expenses					(250,221)
Profit from operations					**42,018**
Financial income					5,343
Financial expenses					(8,148)
Net financial loss					**(2,805)**
Share in the profit of associates					1,938
Profit before tax					**41,151**
Income tax					(7,467)
Profit for the year					**33,684**

NOTE 6 – SEGMENT INFORMATION (continued)

The segments' results for the year ended 31 December 2017 are as follows:

	Wholesale			Retail	
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Own pharmacies**	**Total**
Sales revenue	1,103,739	851,825	468,716	351,388	2,775,668
Sales and other revenue – related parties (Note 31)	35,440	-	294	-	35,734
Other income	300	5	11,971	2,953	15,229
Total income	**1,139,479**	**851,830**	**480,981**	**354,341**	**2,826,631**
Cost of goods sold	(1,050,205)	(782,911)	(430,365)	(271,211)	(2,534,692)
Segment result	**89,274**	**68,919**	**50,616**	**83,130**	**291,939**
Operating expenses					(254,917)
Profit from operations					**37,022**
Financial income					11,638
Financial expenses					(12,612)
Net financial loss					**(974)**
Share in the profit of associates					1,789
Profit before tax					**37,837**
Income tax					5,672
Profit for the year					**43,509**

The analysis of trade receivables by the segments at 31 December 2018 is as follows:

	Wholesale			Retail	
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Own pharmacies**	**Total**
Trade receivables (Note 18/ii/)	198,436	828,261	80,975	46,876	1,154,548

The analysis of trade receivables by the segments at 31 December 2017 is as follows:

	Wholesale			Retail	
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Own pharmacies**	**Total**
Trade receivables (Note 18/ii/)	273,357	659,562	90,770	71,241	1,094,930

Other assets are not analysed by segment considering the same assets are used in all segments for performing activities. Furthermore, the Group does not follow assets per geographical areas since it operates merely in the area of Republic of Croatia.

NOTE 7 - STAFF EXPENSES

	2018	2017
	(in thousands of HRK)	
Net salaries	62,289	61,302
Contributions from and on salaries /i/	31,089	31,226
Taxes and surtaxes	8,463	8,431
Management bonuses	4,071	5,251
Employee transportation costs	3,805	3,687
Other employee benefits /ii/	3,621	3,108
Termination benefits	493	746
	113,831	**113,751**

At 31 December 2018, there were 821 persons employed at the Group (2017: 780 employees).

/i/ Pension contributions recognised by the Group as payable to mandatory pension funds in respect of 2018 amount to HRK 17,425 thousand (2017: HRK 16,494 thousand).

/ii/ Other employee benefits relate to accruals for unused annual leave, business trip expenses, aids, awards and similar.

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	2018	2017
	(in thousands of HRK)	
Donations	6,763	13,393
Entertainment	2,591	2,582
Marketing	1,770	1,752
	11,124	**17,727**

NOTE 9 - OTHER OPERATING EXPENSES

	2018	2017
	(in thousands of HRK)	
Impairment of trade and other receivables, net (Note 18)	48,955	50,049
Maintenance of assets, security services and property insurance	14,457	13,165
Materials and energy	13,332	11,841
Rental costs	11,896	12,152
Professional training and consultancy services	7,799	9,675
Taxes and contributions independent of the results	3,992	3,994
Bank and payment operation charges	2,977	2,720
Telephone, postal and utility services	2,066	2,015
Impairment of intangible assets (Note 15)	-	705
Litigation provisions (Note 27)	483	(526)
Other costs	4,178	4,393
	110,135	**110,183**

NOTE 10 – OTHER (LOSSES)/GAINS – NET

	2018	2017
	(in thousands of HRK)	
Net foreign exchange losses – trade and other payables	(582)	(1,116)
Gain on disposal of a subsidiary	-	10
Gains from the sale of property and equipment (net)	755	104
Gains from the sale of intangible asset (net)	-	1,816
Net foreign exchange losses – trade and other receivables	(63)	(65)
Net foreign exchange losses – cash and cash equivalents	(401)	(387)
	(291)	**362**

NOTE 11 - NET FINANCIAL LOSS

	2018	2017
	(in thousands of HRK)	
Financial income		
Interest income	5,342	11,638
Interest income – related companies (Note 31)	1	-
	5,343	**11,638**

NOTE 11 - NET FINANCIAL LOSS (continued)

Financial expenses	**2018**	**2017**
	(in thousands of HRK)	
Interest expense:		
Bank loans and finance leases	(8,247)	(12,687)
	(8,247)	**(12,687)**
Foreign exchange gains – net		
Foreign exchange gains	262	81
Foreign exchange losses	(163)	(6)
	99	75
	(8,148)	**(12,612)**

NOTE 12 – INCOME TAX

	2018	**2017**
	(in thousands of HRK)	
Current tax	2,731	8,910
Deferred tax liability (Note 26)	4,736	(14,582)
	7,467	**(5,672)**

Reconciliation of the Group's tax (benefit) / expense as per income statement and the tax at the statutory tax rate is presented in the table below:

	2018	**2017**
	(in thousands of HRK)	
Profit before taxation	**41,151**	**37,837**
Income tax at the rate of 18% (2017: 18%)	7,407	6,810
Effect of non-taxable income and tax incentives	(9,672)	(1,121)
Effect of non-deductible expenses	799	9,680
Tax incentives to encourage investment activity	-	(6,620)
Impairment losses on intangible assets that are not deductible	25	127
Effect of deferred tax asset based on temporary differences and tax incentives to encourage investment activity (Note 26)	(92)	(14,981)
Effect of deferred tax based on unrecognised and unused tax losses and deductible temporary differences (Note 26)	9,000	433
Income tax	**7,467**	**(5,672)**
Effective tax rate	18.15%	-

NOTE 12 - INCOME TAX (continued)

According to the calculation of income tax for 2018, a transferable tax loss of HRK 23,174 thousands was made (2017: HRK 0). On this basis the Company recognised deferred tax assets in the amount of HRK 4,172 thousand, with the option of use to 2023 (Note 26).

Under the local regulations, the Tax Authority may at any time inspect the books and records of the Group companies within 3 years following the end of the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Management is not familiar with any circumstances which may lead to contingent liabilities in that respect.

Tax incentives to encourage investment activity

In accordance with Act on Investment Promotion and Investment Climate Improvement, the Company acquired status of the support measures holder. Based on the Ministry of Economy's certificate, the Company was granted tax incentives as a support for eligible labour expenses related to investment project and supporting measures for capital costs of the project in the permitted amount of tax incentives for investments amounted to HRK 12,601 thousand. The Company will have a possibility of reducing future tax liabilities based on income in order to decrease income tax rate by 50%. The Company can use the stated tax incentives latest until 2023. Made investments subject to supervision of the competent institutions from the period of using the supporting measures. If the conditions of states supporting measures are not accomplished, the Company will have to retroactively pay income tax including default interest.

Based on the assessment of the profitability of tax relief by the Management Board, in the financial statements for 2017, the Company initially recognized the total amount of tax relief granted as deferred tax assets and tax revenue. The utilization of deferred tax assets on the basis of tax relief was recorded in 2017 at the current tax expense of the Company's profit of HRK 6,620 thousand which would be payable if there was no such relief. In the coming years, deferred tax assets will be utilized in accordance with tax relief, i.e. the availability of tax liability that the Company will be able to mitigate through incentive measures.

NOTE 13 – EARNINGS PER SHARE

Earnings per share are determined, by dividing the Group's net profit by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares redeemed and held by the Company as treasury shares. The weighted average number of shares decreased to 28,230 as the Company had transactions involving its treasury shares in 2018.

	2018	2017
Net profit attributable to the shareholders *(in thousands of HRK)*	33,684	43,509
Weighted average number of shares (excluding treasury shares)	28,230	28,962
Basic/diluted earnings per share *(in HRK and lipa)*	**1,193.20**	**1,502.28**

/i/ Weighted average number of shares (excluding treasury shares)	2018	2017
Number of shares *(in pieces)*	30,194	30,194
Effect of treasury shares	(1,964)	(1,232)
Weighted average number of shares (excluding treasury shares)	**28,230**	**28,962**

NOTE 14 - PROPERTY AND EQUIPMENT

(All amounts are expressed in thousands of HRK)	Land	Buildings	Equipment	Assets under construction and prepayments	Total
Balance at 31 December 2016					
Cost	25,227	195,739	109,040	9,054	339,060
Accumulated depreciation	-	(63,386)	(83,888)	-	(147,274)
Net carrying amount	**25,227**	**132,353**	**25,152**	**9,054**	**191,786**
For the year ended 31 December 2017					
Opening carrying amount, net	25,227	132,353	25,152	9,054	191,786
Additions	-	-	559	10,057	10,616
Acquisition of a subsidiary (Note 29)	-	-	3	-	3
Transfer from assets under construction	-	831	8,957	(9,788)	-
Disposals	-	(349)	(641)	-	(990)
Depreciation and amortisation	-	(4,912)	(6,361)	-	(11,273)
Closing carrying amount, net	25,227	127,923	27,669	9,323	190,142
Balance at 31 December 2017					
Cost	25,227	195,996	110,414	9,323	340,960
Accumulated depreciation	-	(68,073)	(82,745)	-	(150,818)
Net carrying amount	**25,227**	**127,923**	**27,669**	**9,323**	**190,142**
For the year ended 31 December 2018					
Opening carrying amount, net	25,227	127,923	27,669	9,323	190,142
Additions	-	-	667	10,872	11,539
Transfer to intangible assets (Note 15)	-	-	(3)	(227)	(230)
Transfer from assets under construction	-	330	11,877	(12,207)	-
Disposals	-	(75)	(288)	(10)	(373)
Depreciation and amortisation	-	(4,922)	(7,716)	-	(12,638)
Closing carrying amount, net	25,227	123,256	32,206	7,751	188,440
Balance at 31 December 2018					
Cost	25,227	195,876	117,057	7,751	345,911
Accumulated depreciation	-	(72,620)	(84,851)	-	(157,471)
Net carrying amount	**25,227**	**123,256**	**32,206**	**7,751**	**188,440**

NOTE 14 – PROPERTY AND EQUIPMENT (continued)

Loans and finance lease liabilities (Note 25) have been secured by pledges over property and equipment with a carrying amount of HRK 134,863 thousand as at 31 December 2018 (2017: HRK 138,914 thousand).

Delivery vehicles and a fork lift under finance lease arrangements are as follows:

	2018	2017
	(in thousands of HRK)	
Cost – capitalised finance lease	13,532	13,243
Accumulated depreciation	(5,125)	(4,900)
Net carrying amount	**8,407**	**8,343**

NOTE 15 – INTANGIBLE ASSETS

(All amounts are expressed in thousands of HRK)	Goodwill	Licences, software and other rights	Assets under construction	Total
Balance at 31 December 2016				
Cost	77,016	167,318	882	245,216
Accumulated depreciation and impairment	(9,353)	(47,742)	-	(57,095)
Net carrying amount	**67,663**	**119,576**	**882**	**188,121**
For the year ended 31 December 2017				
Opening carrying amount, net	67,663	119,576	882	188,121
Additions	-	963	4,715	5,678
Transfers	-	4,723	(4,723)	-
Acquisition of a subsidiary (Note 29)	1,254	-	-	1,254
Expenses	-	(1,993)	(214)	(2,207)
Impairment (Note 9)	(705)	-	-	(705)
Depreciation and amortisation	-	(2,345)	-	(2,345)
Closing carrying amount, net	68,212	120,924	660	189,796
Balance at 31 December 2017				
Cost	78,270	176,995	660	255,925
Accumulated depreciation and impairment	(10,058)	(56,071)	-	(66,129)
Net carrying amount	**68,212**	**120,924**	**660**	**189,796**
For the year ended 31 December 2018				
Opening carrying amount, net	68,212	120,924	660	189,796
Additions	-	3,025	2,069	5,094
Transfers	-	2,187	(2,187)	-
Transfer from tangible assets (Note 14)	-	230	-	230
Expenses	-	(8)	-	(8)
Depreciation and amortisation	-	(2,202)	-	(2,202)
Closing carrying amount, net	68,212	124,156	542	192,910
Balance at 31 December 2018				
Cost	78,270	181,102	542	259,914
Accumulated depreciation and impairment	(10,058)	(56,946)	-	(67,004)
Net carrying amount	**68,212**	**124,156**	**542**	**192,910**

NOTE 15 – INTANGIBLE ASSETS (continued)

Licences

At the reporting date, pharmacy licences with an indefinite useful life amount in total to HRK 113,164 thousand (2017: HRK 110,634 thousand). Pharmacy activities cannot be undertaken without pharmacy licences.

Impairment test of goodwill and licences with indefinite useful life

The Group calculated recoverable amount using value-in-use method. Value-in-use cash flow projections were based on a 7-year business plan approved by Management and Director. Discount rate of 9,36% (2017: 8.97%) and terminal growth rate of 2,5% (2017.: 2,5%) were used for discounting the projected cash flow. In 2018, the recoverable amount exceeds the carrying amount, while in 2017, an impairment loss on goodwill in the amount of HRK 705 thousand was recognised based on a goodwill impairment test.

NOTE 16 – INVESTMENTS IN ASSOCIATES

The Group holds a 49% share in the associate Zdravstvena ustanova Ljekarne Jagatić, which was acquired in 2008.

	2018	2017
	(in thousands of HRK)	
Balance at 1 January	21,453	21,318
Share of profit paid	(1,553)	(1,654)
Transfer of profit made	1,938	1,789
Balance at 31 December	**21,838**	**21,453**

Information on associates for the year ended 31 December can be summarised as follows:

(All amounts are expressed in thousands of HRK)	Assets	Liabilities	Income	Net gain
Balance at 31 December 2018				
ZU Ljekarne Jagatić	21,627	11,578	59,844	3,954
Total	**21,627**	**11,578**	**59,844**	**3,954**

(All amounts are expressed in thousands of HRK)	Assets	Liabilities	Income	Net gain
Balance at 31 December 2017				
ZU Ljekarne Jagatić	24,323	14,942	55,583	3,652
Total	**24,323**	**14,942**	**55,583**	**3,652**

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY

	2018	2017
	(in thousands of HRK)	
Financial assets – category: Loans and receivables		
Loans and receivables (Note 18/v/)	1,184,428	1,168,876
Cash and cash equivalents (Note 20)	28,593	144,785
	1,213,021	**1,313,661**

	2018	2017
	(in thousands of HRK)	
Financial liabilities - category: Other liabilities		
Trade payables (Note 24/i/)	1,217,809	1,176,391
Other liabilities (Note 24/ii/)	26,763	37,768
Total borrowings (Note 25)	276,944	376,660
	1,521,516	**1,590,819**

The quality of financial receivables not yet due and not impaired can be assessed based on the historical data about the customers.

The quality of receivables not yet due and not impaired is considered from the aspect of the different credit risk exposures of the debtors:

	2018	2017
	(in thousands of HRK)	
Pharmacies	129,805	254,985
Hospitals	190,957	169,672
HZZO	35,824	36,307
Other	56,717	72,433
Balance at 31 December	**413,303**	**533,397**

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2018	2017
	(in thousands of HRK)	
Long-term receivables:		
Given loans /i/	22,083	15,642
Trade receivables /ii/	280	1,023
Long-term deposits	290	311
	22,653	16,976
Current receivables:		
Trade receivables /ii/	1,154,268	1,093,907
Other current receivables /iii/	9,207	4,654
Given loans /iv/	390	52,623
Given loans – current portion of non-current receivables /i/	7,407	5,681
Short-term deposits	-	50
	1,171,272	1,156,915
	1,193,925	**1,173,891**

/i/ Given loans, as reported in the statement of financial position as at 31 December, are as follows:

	Effective interest rate	2018	2017
		(in thousands of HRK)	
Loans given to pharmacies	3.0%-5.0%	28,846	21,047
Other given loans	4.0%–5.0%	644	276
Total non-current receivables, including current portion		29,490	21,323
Current portion of non-current receivables		(7,407)	(5,681)
		22,083	**15,642**

The fair value of long-term receivables approximates the carrying amounts.

The maturity of long-term loans is as follows:

	2018	2017
	(in thousands of HRK)	
From 1 to 2 years	7,389	4,826
From 2 to 5 years	14,694	10,816
	22,083	**15,642**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/ii/ Trade receivables, as reported in the statement of financial position at 31 December, are as follows:

	2018	2017
	(in thousands of HRK)	
Domestic trade receivables	1,157,728	1,095,686
Trade receivables – related parties (Note 31)	10,260	13,062
Foreign trade receivables	975	1,373
	1,168,963	1,110,121
Expected credit losses	(14,415)	(15,191)
	1,154,548	**1,094,930**

Maturity analysis of receivables:

	2018	2017
	(in thousands of HRK)	
Not yet due	413,303	533,397
0–180 days past due	523,918	405,924
181-360 days past due	155,538	130,683
Over 360 days past due	76,204	40,117
	1,168,963	**1,110,121**

Movements in impairment allowance for trade receivables:

	2018	2017
	(in thousands of HRK)	
Balance at 1 January	15,191	16,980
Decrease (Note 9)	(553)	(1,772)
Amounts written-off	(223)	(17)
Balance at 31 December	**14,415**	**15,191**

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	2018	2017
	(in thousands of HRK)	
HRK	1,192,962	1,172,522
EUR	663	1,198
DKK	288	171
GBP	12	-
	1,193,925	**1,173,891**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/iii/ Other receivables, as reported in the balance sheet as at 31 December, are as follows:

	2018	2017
	(in thousands of HRK)	
Prepaid expenses	5,898	780
VAT receivables not yet recognized	2,626	3,327
Other	683	547
	9,207	**4,654**

/iv/ Given loans, as reported in the balance sheet as at 31 December, are as follows:

	Effective interest rate	2018	2017
		(in thousands of HRK)	
Given loans	3.0%	1,698	105,742
		1,698	105,742
Impairment allowance		(1,308)	(53,119)
		390	**52,623**

Movements in reserves for impairment of given loans:

	2018	2017
	(in thousands of HRK)	
Balance at 1 January	53,119	1,298
Increase (Note 9)	49,508	51,821
Write-off	(101,319)	-
Balance at 31 December	**1,308**	**53,119**

In 2018, the Company adjusted the value of loan receivables to Agrokor d.d. in the total amount of HRK 50,006 thousand, and derecognised the principle in the amount of HRK 100,006 thousand, together with the interest receivables in the amount of HRK 1,313 thousand.

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/v/ Financial assets by category include the following:

	2018	2017
	(in thousands of HRK)	
Given cash loans	20,910	62,563
Given commodity loans	8,970	11,383
Trade receivables	1,154,548	1,094,930
	1,184,428	**1,168,876**

The commodity loans given relate to trade receivables past due that have been reprogrammed and the payment has been agreed in future periods. The loans are not intended to generate financial benefit, but rather to collect current receivables from customers.

NOTE 19 - INVENTORIES

	2018	2017
	(in thousands of HRK)	
Trade goods	330,020	289,036
Trade goods related parties (Note 31)	13,328	14,473
Prepayments made	3,217	3,755
Materials	570	502
Impairment allowance on inventories	(869)	(553)
	346,266	**307,213**

In 2018 the Group recognised an allowance in the amount of HRK 5,624 thousand (2017: HRK 4,504 thousand) as an expense, which relates to damaged, expired inventories and inventories withdrawn from the market which is included in the cost of goods sold.

Inventories in the amount of HRK 130,000 thousand (2017: HRK 130,000 thousand) have been pledged as collateral for the borrowings (Note 25).

NOTE 20 - CASH AND CASH EQUIVALENTS

	2018	2017
	(in thousands of HRK)	
Domestic currency (HRK) account balance	28,492	144,746
Foreign currency account balance	72	17
Cash in hand	29	22
	28,593	**144,785**

Cash on HRK and foreign-currency denominated accounts is held with commercial banks in Croatia.

NOTE 21 - SHARE CAPITAL

At 31 December 2018, the share capital of the Company amounts to HRK 209,244,420 thousand (31 December 2017: HRK 209,244,420) and is divided into 30,194 shares (2017: 30,194 shares). The nominal value per share amounts to HRK 6,930 (31 December 2017: HRK 6,930). All issued shares are fully paid in.

	Number of shares	Share capital	Treasury shares	Capital gains/ (losses)	Total
	(in pieces)		*(in thousands of HRK)*		
Balance at 1 January 2017	30,194	204,715	(13,221)	(8,313)	183,181
Release of treasury shares \i\	-	-	965	655	1,620
Acquisition of treasury shares \ii\	-	-	(3,342)	-	(3,342)
Increase in share capital \iii\	-	4,529	-	-	4,529
Balance at 31 December 2017	**30,194**	**209,244**	**(15,598)**	**(7,658)**	**185,988**
Balance at 1 January 2018	30,194	209,244	(15,598)	(7,658)	185,988
Acquisition of treasury shares \ii\	-	-	(21,589)	-	(21,589)
Balance at 31 December 2018	**30,194**	**209,244**	**(37,187)**	**(7,658)**	**164,399**

\i\ In 2018, there was no release of treasury shares (2017: 100 treasury shares were granted to the key management).

\ii\ In 2018, the Company acquired 1,500 treasury shares (2017: 238 treasury shares).

\iii\ There was no change in the share capital item in 2018. The share capital was increased based on the decision of the General Assembly held on 18 May 2017. The Commercial Court in Zagreb issued a decision on the registration of the increase of share capital on12 July 2017. The share capital was increased by a total of HRK 4,529 thousand from earnings retained in prior periods.

The ownership structure of the Company as at 31 December is as follows:

	2018		2017	
	Number of shares	%	Number of shares	%
Auctor d.o.o.	9,921	32.86%	14,306	47.38%
Pliva Hrvatska d.o.o.	7,646	25.32%	7,646	25.32%
Other legal persons	3,974	13.16%	1,123	3.72%
Krka d.d. Novo Mesto	3,614	11.97%	3,614	11.97%
Treasury shares	2,940	9.74%	1,440	4.77%
Natural persons	2,099	6.95%	2,065	6.84%
Total	**30,194**	**100%**	**30,194**	**100%**

At 31 December 2018, Auctor d.o.o. held 9,921 shares, which represents 36.40% (2017: 49.75%) of shares with voting rights taking into account non-voting treasury shares.

NOTE 22 - RESERVES

(in thousands of HRK)	Legal reserves	Reserves for treasury shares	Total
Balance at 31 December 2016	**18,466**	**48,812**	**67,278**
Changes during the year	82	-	82
Balance at 31 December 2017	**18,548**	**48,812**	**67,360**
Changes during the year	-	-	-
Balance at 31 December 2018	**18,548**	**48,812**	**67,360**

Legal reserves amount to HRK 18,548 thousand (31 December 2017: HRK 18,548 thousand).

In 2017, the legal reserves were increased from the other reserves (in retained earnings) based on a decision adopted at the General Assembly held on 18 May 2017.

NOTE 23 – RETAINED EARNINGS

Included in the retained earning are other reserves in the total amount of HRK 31,714 thousand (2017: HRK 31,714 thousand).

The other reserves in the amount of HRK 31,714 thousand comprise reserves arisen as a result of hyperinflation during the 1990s, which resulted in a high increase of prices.

In 2017, the General Assembly adopted in its meeting held on 19 December 2017 a decision to distribute dividends from the retained earnings in the amount of HRK 57,984 thousand. The dividend per share amounted to HRK 2,000.00.

NOTE 24 – TRADE AND OTHER PAYABLES

	2018	2017
	(in thousands of HRK)	
Trade payables /i/	1,217,809	1,176,391
Other liabilities /ii/	26,763	37,768
	1,244,572	**1,214,159**

/i/ Trade payables recognised as at 31 December are as follows:

	2018	2017
	(in thousands of HRK)	
Foreign trade payables	769,708	459,658
Domestic trade payables	375,422	598,321
Trade payables - related parties (Note 31)	72,679	118,412
	1,217,809	**1,176,391**

The carrying amounts of the Company's trade payables are denominated in the following currencies:

	2018	2017
	(in thousands of HRK)	
HRK	699,864	768,543
EUR	499,983	393,277
DKK	17,654	14,571
Other currencies	308	-
	1,217,809	**1,176,391**

/ii/ Other payables recognised as at 31 December are as follows:

	2018	2017
	(in thousands of HRK)	
VAT payable	9,895	8,214
Salaries payable	9,183	8,961
Unused annual leave	3,007	2,580
Other taxes and contributions payable	184	67
Dividends payable	-	12,030
Other	4,494	5,916
	26,763	**37,768**

NOTE 25 – BORROWINGS

	2018	2017
	(in thousands of HRK)	
Long-term:		
Financial lease /ii/	6,114	5,785
	6,114	**5,785**
Short-term:		
Short-term loans /i/	267,255	367,696
Financial lease /ii/	3,575	3,179
	270,830	**370,875**
Total borrowings	**276,944**	**376,660**

/i/ Short-term loans relate to financing from various banks for working capital purposes. They are denominated in Croatian kunas (HRK), with maturities ranging from three to eleven months. A portion of the loans are with a fixed interest rate.

/ii/ Long-term finance lease liabilities relate to the purchase of delivery vehicles and a fork lift. In 2018, new lease contracts were concluded, with an interest rate of 2.75% (2017: 2.82%–3.13%). The lease liabilities are repayable within four to six years and are secured by a pledge over all the vehicles and the fork lift subject to the finance lease (Note 14). Lease liabilities are effectively secured since the lessor has the right to repossess the leased items if the Group ceases to make the payments.

The gross finance lease liability is as follows:

	2018	2017
	(in thousands of HRK)	
Up to 1 year	3,807	3,408
1 to 5 years	6,326	6,010
Future financing costs	(444)	(454)
Carrying amount of the finance lease liabilities	**9,689**	**8,964**

The carrying amount of the finance lease liability is as follows:

	2018	2017
	(in thousands of HRK)	
Up to 1 year	3,575	3,179
1 to 5 years	6,114	5,785
	9,689	**8,964**

NOTE 25 – BORROWINGS (continued)

The long-term portion is due and payable as follows:

	2018	2017
	(in thousands of HRK)	
1 to 2 years	2,750	2,624
2 to 5 years	3,364	3,161
	6,114	**5,785**

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

	2018		2017	
	HRK %	EUR %	HRK %	EUR %
Long-term borrowings				
Financial lease	-	2.82% 3.97%	-	2.82%-3.97%
Short-term borrowings				
Short-term loans	1.81%–2.10%	-	2.70%–2.90%	-

The fair value of the finance lease liabilities approximates their carrying amounts.

The carrying amounts of long-term and short-term borrowings correspond mainly with their fair values.

The Company's exposure to changes in the interest rates on the borrowings and the contractual repricing dates at the reporting date is as follows:

	2018	2017
	(in thousands of HRK)	
Variable-rate borrowings		
Up to 3 months	1,032	40,009
3 to 12 months	106,635	223,064
Over 1 year	2,232	-
	109,899	**263,073**
Fixed-rate loans		
Fixed-rate loans	167,045	113,587
	167,045	**113,587**
Total borrowings	**276,944**	**376,660**

Given that borrowings in the amount of HRK 167,045 thousand bear interest at fixed rates (2017: HRK 113,587 thousand), there is no exposure to interest rate changes.

NOTE 25 – BORROWINGS (continued)

The carrying amounts of the Group's borrowings were translated from the following currencies:

	2018	2017
	(in thousands of HRK)	
HRK	267,255	367,696
EUR	9,689	8,964
	276,944	**376,660**

Loans received are secured by registered lien over the Group's property and equipment (Note 14), inventories (Note 19) as well as bills of exchange and promissory notes.

NOTE 26 – DEFERRED TAX

Pursuant to the income tax legislation, deferred tax assets and deferred tax liabilities are measured at the actual tax rate of 18%, which is effective as from 1 January 2017.

Deferred tax assets

(in thousands of HRK)	**Impairment allowance on inventories**	**Impairment allowance on receivables**	**Provisions for employee benefits**	**Impairment allowance on intangible assets**	**Tax incentives**	**Impairment allowance on given loans**	**Tax loss transfer**	**Total**
Balance at 1 January 2017	**790**	**59**	**237**	**438**	-	-	-	**1,524**
Tax charged to profit or loss	(135)	(11)	(42)	(211)	-	-	-	(399)
Tax credited to profit or loss	-	-	-	-	5,981	9,000	-	14,981
Balance at 31 December 2017	**655**	**48**	**195**	**227**	**5,981**	**9,000**	**-**	**16,106**
Balance at 1 January 2018	**655**	**48**	**195**	**227**	**5,981**	**9,000**	**-**	**16,106**
Tax charged to profit or loss	-	(13)	(6)	-	-	(9,000)	-	(9,019)
Tax credited to profit or loss	111	-	-	-	-	-	4,172	4,283
Balance at 31 December 2018	**766**	**35**	**189**	**227**	**5,981**	**-**	**4,172**	**11,370**

NOTE 26 – DEFFERED INCOME TAX (continued)

Deferred tax assets (continued)

In 2017, the Company acknowledged the deferred tax asset based on the Ministry of Economy's certificate on the status of the support measures holder for investments, based on the fulfillment of the conditions of the Act on Investment Promotion and Investment Climate Improvement.

The total amount of subvention that the Company can use is HRK 12,601 thousand, of which the Company used HRK 6,620 thousand in 2017 (Note 12). The Company plans to continue using the remaining amount of the subvention in the following years.

Deferred tax liabilities

(in thousands of HRK)	**Acquisition of a subsidiary – licences**
Balance at 1 January 2017	**15,923**
Changes during the year	-
Balance at 31 December 2017	**15,923**
Balance at 1 January 2018	**15,923**
Changes during the year	-
Balance at 31 December 2018	**15,923**

The deferred tax liability arose at the acquisition of the subsidiary as a result of the difference arising from the measurement of assets and liabilities of subsidiaries in consolidation at fair values, while the tax base of assets and liabilities remained at the level of expense.

NOTE 27 – PROVISIONS

(in thousands of HRK)	Employee benefits	Legal disputes	Total
Balance at 31 December 2017	**1,112**	**572**	**1,684**
Long-term portion	804	-	804
Short-term portion	308	572	880
Balance at 1 January 2018	**1,112**	**572**	**1,684**
Increase	137	483	620
Utilized during year	(191)	-	(191)
Balance at 31 December 2018	**1,058**	**1,055**	**2,113**
Long-term portion	740	-	740
Short-term portion	318	1,055	1,373

Employee benefits

This provision comprises estimated long-term employee benefits relating to retirement benefits and jubilee awards, as defined by the Collective Agreement. The non-current portion of the provision relates to the rights estimated to become vested with respect to retirement benefits and jubilee awards that will be paid one year after the date of the statement of financial position. The current portion includes jubilee awards and retirement benefits which will be paid within 12 months after the date of the statement of financial position.

Legal disputes

During 2018, the Group has reversed the provision for one legal dispute in the total amount of HRK 57 thousand and increased the provisions for legal disputes and for interests per legal dispute in the amount of HRK 540 thousand, based on assessment of the attorneys and the Management. As the amount of the provisions increase exceeds the amount of the provisions reversal, the Group reported net expense from the increase of provisions amounting to HRK 483 thousand (Note 9).

NOTE 28 – OPERATING LEASES

The Company and the Group rent vehicles and office space under operating lease contracts.

The contractual rents under the operating leases are as follows:

	2018	2017
	(in thousands of HRK)	
Up to 1 year	5,962	6,176
1 to 5 years	7,125	9,034
Over 5 years	1,564	2,266
Contractual rents under operating leases	**14,651**	**17,476**

NOTE 29 – ACQUISITION OF SUBSIDIARIES

Acquisition of Health Institutions

In 2018, the Group did not acquire a new subsidiary. In 2017, the Group acquired 100% ownership over one pharmacy in the agreed amount of HRK 1,005 thousand.

From the date of acquisition to the reporting date of 31 December 2017, on the basis of the newly acquired subsidiaries, the Group generated revenues in the amount of HRK 1,988 thousand and profit in the amount of HRK 97 thousand. The subsidiary was acquired as of 1 January 2017.

These amounts have been calculated using the Group's accounting policies. The net book value of assets acquired and goodwill determined are as follows:

	2017
	(in thousands of HRK)
Acquisition cost	**1,005**
- Consideration paid	**1,005**
Fair value of assets acquired	249
Goodwill (Note 15)	**1,254**

The fair value of the acquired assets is as follows:

	2017
	(in thousands of HRK)
Property and equipment (Note 14)	3
Inventories	279
Receivables	1,077
Cash and cash equivalents	269
Current liabilities	(1,877)
Net assets acquired	**(249)**
Purchase consideration paid in cash	1,005
Cash and cash equivalents acquired	(269)
Net cash outflow	**736**

In 2017, the Group has allocated the purchase price on identified assets, which include including intangible assets not identified in the statement of financial position, in accordance with IAS 38 "Intangible Assets".

The Management of the Group identified and fair valued a pharmacy licence as the only form of intangible assets which arises on the acquisition of medical institutions/pharmacies. The assets were fair valued at the acquisition date at the net present value of cash flows from the use of identified tangible and intangible assets of the Group and those directly attributable to them.

NOTE 30 - SUBSEQUENT EVENTS AFTER REPORTING DATE

In March 2019 the Group started enforcements against 11 customers from the hospital segment in the total amount of receivables for goods in the amount of HRK 119,564 thousand for a slowed down collection.

After the reporting period, the Group paid an advance for the purchase of a pharmacy licence at the address Vukovarska 44, Srebreno.

NOTE 31 – RELATED-PARTY TRANSACTIONS

The Group enters into transactions with related parties.

The related parties include:

	2018	2017
1. Associate of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb: Zdravstvena ustanova Ljekarne Jagatić, Zagreb	49%	49%

2. The Company with the majority of voting rights, i.e. the parent company Auctor d.o.o., holds an ownership interest of 32.86%, i.e. 36.40% voting shares.
3. Pliva Hrvatska d.o.o., Zagreb, has an ownership interest of 25.32% and 28.05% of the voting rights in the Company.
4. Other related companies: Auctor d.o.o, a related party of Auctor d.o.o.

Balances resulting from transactions with the related parties and included in the statement of financial position at 31 December 2018 and 31 December 2017 as well as the items resulting from these transactions are as follows:

(in thousands of HRK)	Note	2018	2017
Trade and other receivables			
Trade receivables			
Associate of ZU Ljekarne Prima Pharme		10,053	12,835
Pliva Hrvatska d.o.o.		207	227
	18	10,260	13,062
Inventories			
Pliva Hrvatska d.o.o.		13,328	14,473
	19	13,328	14,473
Payables to suppliers			
Pliva Hrvatska d.o.o.		72,679	118,412
	24	72,679	118,412
Sales and other income			
Associate of ZU Ljekarne Prima Pharme		37,483	35,448
Pliva Hrvatska d.o.o.		87	286
	5, 6	37,570	35,734

NOTE 31 – RELATED-PARTY TRANSACTIONS (continued)

(in thousands of HRK)	Note	2018	2017
Financial income			
Other related companies	11	1	-
		1	-
Purchase of trade goods			
Pliva Hrvatska d.o.o.		183,955	212,189
		183,955	212,189
Key management compensation – salaries and bonuses for five members		8,660	8,121
Supervisory Board and Audit Committee compensation		452	453

NOTE 32 - APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 33 to 90 were approved by the Management of the Company in Zagreb on 21 March 2019.

Signed on behalf of the Management of the Company on 21 March 2019:

Jasminko Herceg
Director

Medika d.d.
ZAGREB Čapraška 1

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