

MEDIKA d.d.

**INDEPENDENT AUDITOR'S REPORT AND
SEPARATE 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.

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MANAGEMENT REPORT

In 2018, Medika d.d. (the "Company") generated a non-consolidated revenue in the amount of HRK 2,971,135 thousand, which is HRK 250,277 thousand above than the prior year's non-consolidated revenue. The non-consolidated operating profit amounts to HRK 27,372 thousand, which is by HRK 1,955 thousand higher than the prior year's figure.

Profit before tax on a non-consolidated basis amounts to HRK 24,769 thousand, and the non-consolidated net profit amounts to HRK 20,032 thousand, which is by 13,043 less than the 2017 figure.

By analysing the individual operating segments (Note 6 to the financial statements), 49.1% of the total non-consolidated income was generated by pharmacies (2017: 51.0%). At the same time, 33.5% of the total non-consolidated income was generated from hospitals (2017: 31.3%).

Total non-consolidated assets amount to HRK 1,891,009 thousand, representing a decrease of 3.5% from the prior year. The amount of non-consolidated non-current assets is almost equal to that of the prior year, whereas the amount of non-consolidated current assets decreased by 4.2%. The non-consolidated current assets account for 83.2% of the total assets. Trade and other receivables represent the most significant item of the total non-consolidated assets and are increased by 1.27% from the prior year. In addition, inventories rose by 13.9% compared with the prior year.

In 2018, the Company increased the share capital of the subsidiary Primus nekretnine d.o.o. in the amount of HRK 200 thousand, paid in cash.

In 2018, the Company 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 non-consolidated loan debt amounts to HRK 266,937 thousand, comprising HRK 260,823 thousand of short-term loans and finance lease obligations and HRK 6,114 thousand of long-term borrowings and finance lease liabilities (Note 25). The Company on 31 December 2018 had no long-term loans.

The equity-to-assets ratio is 21%, showing that the Company finances 21% of its total assets from own sources. This indicator has not changed significantly compared with previous year.

The non-consolidated performance is presented in the statement of comprehensive income on page 12 of the financial statements.

Expected future development of the Company

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.

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 Company 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 is not available, which strongly affects the cash flow of Medika d.d. and timely settlement of its 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 is a further risk. To lower this risk, the Company has focused on expanding the lines of products that are not limited by law in respect of the price of the product.

Foreign exchange risk

Foreign exchange (currency) risk is a significant financial risk. The Company generates most of its revenue on the domestic market and in the 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 Company's interest rate risk arises from its short-term and long-term borrowings at variable rates, which expose the Company to cash-flow interest rate risk. Variable-rate borrowings expose the Company to the interest-rate cash flow risk. Fixed-rate borrowings expose the Company to the interest-rate fair value risk.

A part of the Company's assets are interest-bearing assets, 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 structure

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 of 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.

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. As a general rule, regular Supervisory Board meetings are held quarterly. 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: Mrs 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 REPORT (continued)

CORPORATE GOVERNANCE STATEMENT (continued)

Corporate governance structure (continued)

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.

Zagreb, 21 March 2019

Jasminko Herceg
Director



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 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 Company Medika d.d. for that period.

On the basis of the relevant review, the Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing separate financial statements.

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

- the selection and consistent application of the appropriate accounting policies;
- making reasonable and prudent judgements and estimates;
- following applicable accounting standards, subject to any material departures disclosed and explained in the separate financial statements; and
- preparing separate financial statements on the going concern principle, unless it is inappropriate to assume the Company will continue its business activities.

Management is responsible for keeping proper accounting records, which shall at any time reflect with reasonable accuracy the financial position and the results of operations of the Company and their compliance with the Accountancy Act. Furthermore, Management is responsible for safeguarding the assets of the Company 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 annual non-consolidated financial statements, to the Supervisory Board, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The financial statements set out on pages 12 to 67 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

³ **Medika** d.d.
Z A G R E B, Capraška 1

INDEPENDENT AUDITOR'S REPORT

to the shareholders of the Company Medika d.d., Zagreb

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying annual financial statements of Medika d.d. (the "Company"), which comprise the separate statement of financial position as at 31 December 2018, and the separate statement of comprehensive income, the separate statement of changes in shareholders' equity and the separate statement of cash flows for the year then ended, and notes to the separate 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 Company 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 (IFRS).

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 Company 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 is registered at the Commercial Court in Zagreb under registration number: 030022053; share capital: HRK 44.900,00; members of the Board: 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: RZBHR2X IBAN: HR1024840081100240905.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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 separate financial statements on pages 42 to 44	
<p>Revenue is an important measure used to evaluate the performance of the Company. There is a risk that revenue is presented in amounts higher than actually generated by the Company.</p> <p>Revenue comprises the fair value of the consideration received 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.</p> <p>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.</p>	<p>Our audit approach included both IT system tests and substantive procedures, which are the following:</p> <ul style="list-style-type: none"> • 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Valuation of trade receivables	
<i>Refer to Note 18 to the separate financial statements on pages 53 to 56</i>	
<p>A significant market risk for the Company 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).</p>	<p>As part of our audit, we performed the following substantive procedures:</p> <ul style="list-style-type: none">• 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.
<p>As at 31 December 2018, the gross balance of trade receivables amounts to HRK 1,229,507 thousand, and the impairment provisions recognised for expected credit loss amount to HRK 14,204 thousand.</p>	
<p>Trade receivables are recognised initially at fair value and subsequently at amortised cost, which is determined using the effective interest method, less any impairment losses.</p>	
<p>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.</p>	
<p>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.</p>	

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the 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 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 and 22 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in the Articles 22 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 attached financial statements;
2. Management Report has been prepared, in all material respects, in accordance with the Article 21 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 of the same Act.

Based on the knowledge and understanding of the Company 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 judgement and maintain professional scepticism throughout the audit. We also:

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

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 to 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and the Council and the Audit Act

We were appointed as the statutory auditor of the Company by the General Assembly on the meeting held on 28 June 2018 to perform the 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 hereby confirm the following:

- Our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Company on 21 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 Article 5 paragraph 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, and which have not been disclosed in the Annual Report.

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



Marina Tonžetić

President of the Board and Certified auditor

Deloitte d.o.o.

21 March 2019
Radnička cesta 80
10 000 Zagreb
Croatia

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

<i>(All amounts are expressed in thousands of HRK)</i>	Note	2018	2017
Income	5, 6	2,971,135	2,720,858
Cost of goods sold	6	(2,765,406)	(2,511,703)
Staff expenses	7	(65,314)	(63,861)
Marketing and promotion expenses	8	(10,937)	(17,583)
Depreciation and amortisation	14, 15	(12,067)	(11,059)
Other operating expenses	9	(89,704)	(89,653)
Other losses – net	10	(335)	(1,582)
Profit from operations		27,372	25,417
Financial income	11	5,307	11,582
Financial expenses	11	(7,910)	(12,183)
Net financial loss		(2,603)	(601)
Profit before tax		24,769	24,816
Income tax	12	(4,737)	8,259
Profit for the year		20,032	33,075
Other comprehensive income for the year		-	-
Total comprehensive income for the year		20,032	33,075
Earnings per share	13	709.60	1,142.01
– basic and diluted (in HRK and lipa)			

The notes on pages 17 to 67 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2018

<i>(All amounts are expressed in thousands of HRK)</i>	Note	As at 31 December	
		2018	2017
ASSETS			
Non-current assets			
Property and equipment	14	165,258	167,087
Intangible assets	15	19,496	19,200
Investments in subsidiaries and associates	16	100,199	99,999
Deferred tax assets	26	10,588	15,325
Trade and other receivables	18	22,151	15,659
		<u>317,692</u>	<u>317,270</u>
Current assets			
Inventories	19	314,413	275,998
Trade and other receivables	18	1,231,794	1,222,610
Income tax receivable		8,054	5,151
Cash and cash equivalents	20	19,056	138,203
		<u>1,573,317</u>	<u>1,641,962</u>
Total assets		<u>1,891,009</u>	<u>1,959,232</u>
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		157,317	137,285
		<u>389,076</u>	<u>390,633</u>
Non-current liabilities			
Borrowings	25	6,114	5,785
Provisions	27	596	643
		<u>6,710</u>	<u>6,428</u>
Current liabilities			
Trade and other payables	24	1,233,702	1,200,598
Borrowings	25	260,823	360,851
Provisions	27	698	722
		<u>1,495,223</u>	<u>1,562,171</u>
Total equity and liabilities		<u>1,891,009</u>	<u>1,959,232</u>

The notes on pages 17 to 67 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF CHANGES IN CAPITAL AND RESERVES

FOR THE YEAR ENDED 31 DECEMBER 2018

<i>(All amounts are expressed in thousands of HRK)</i>	Note	Share capital	Reserve for re-invested profit	Reserves	Retained earnings and income for the year	Total
As at 1 January 2017		183,181	4,529	67,278	162,276	417,264
Comprehensive income for the year						
Profit for the year		-	-	-	33,075	33,075
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	33,075	33,075
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)
As at 31 December 2017		185,988	-	67,360	137,285	390,633
As at 1 January 2018		185,988	-	67,360	137,285	390,633
Comprehensive income for the year						
Profit for the year		-	-	-	20,032	20,032
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	20,032	20,032
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)
As at 31 December 2018		164,399	-	67,360	157,317	389,076

The notes on pages 17 to 67 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

<i>(All amounts are expressed in thousands of HRK)</i>	Note	2018	2017
Cash flow from operating activities:			
Profit for the year		20,032	33,075
Adjusted by:			
Income tax	12	4,737	(8,259)
Depreciation and amortisation	14, 15	12,067	11,059
Impairment of trade and other receivables, net	9	48,991	50,097
Value adjustment on inventories	19	5,512	4,292
Unrealised foreign exchange differences		(1,479)	535
Changes in provisions	27	(71)	(667)
(Gains)/losses on disposal of tangible assets	10	(712)	14
Impairment of intangible assets	15	8	4
Interest expense	11	8,011	12,263
Interest income	11	(5,307)	(11,582)
Changes:			
Increase in inventories		(43,927)	(34,529)
(Increase)/decrease in trade and other receivables		(106,321)	132,133
Increase in trade and other payables		59,510	26,784
Increase/(decrease) in dividends payable	24/ii/	(12,030)	12,030
Cash generated from operations		(10,979)	227,249
Interest paid		(8,435)	(12,818)
Income taxes paid		(3,870)	(11,101)
Cash flow from operating activities		(23,284)	203,330
Cash flow from investing activities:			
Purchases of property, equipment and intangible assets		(6,790)	(8,553)
Proceeds from the sale of property and equipment		1,064	965
Proceeds from repayment of given loans		56,094	47,738
Investment in subsidiary	16	(200)	-
Given loans		(23,460)	(12,099)
Interest received		14,277	2,225
Cash flow from investing activities		40,985	30,276

The notes on pages 17 to 67 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOW (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

<i>(All amounts are expressed in thousands of HRK)</i>	<u>Note</u>	<u>2018</u>	<u>2017</u>
Cash flows from financing activities:			
Repayments of borrowings		(773,000)	(184,109)
Proceeds from borrowings		673,000	59,700
Proceeds from returned deposits		50	-
Repayment of finance leases		(3,279)	(3,412)
Dividends paid		(12,030)	(45,954)
Release of treasury shares	21	-	1,620
Purchase of treasury shares	21	(21,589)	(3,342)
Cash flow from financing activities		(136,848)	(175,497)
Net (decrease)/increase in cash and cash equivalents		(119,147)	58,109
Cash and cash equivalents at the beginning of the year		138,203	80,094
Cash and cash equivalents at the end of year	20	19,056	138,203

The notes on pages 17 to 67 form an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 1 – GENERAL DATA

Medika d.d. (hereinafter: “the Company”) is a joint stock company incorporated in Croatia. The principal activity of the Company is the wholesale distribution of pharmaceutical products. The Company is headquartered in Zagreb, Capraška 1.

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 financial statements. The accounting policies have been consistently applied to all the years presented in these financial statements, except where stated otherwise..

2.1 Basis of preparation

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

The preparation of 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 Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The Company has issued these separate financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. The Company has also prepared consolidated financial statements for the Company and its subsidiaries (“the Group”) in accordance with IFRS, which were approved by the Management on 21 March 2019. In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. Users of these separate financial statements should read them together with the Group’s consolidated financial statements as at and for the year ended 31 December 2018 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

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),

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- **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 IFRSs (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 Company's financial statements.

Impact of initial application of IFRS 9 *Financial Instruments*

In the current year the Company 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 Company took advantage of.

In addition, the Company 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

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)

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

The Company 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 Company assessed the existing financial assets and financial liabilities in accordance with the IFRS 9 requirements) is 1 January 2018. Accordingly, the Company 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.

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

- The Company 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 Company 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 Company only has instruments that are measured at depreciated cost.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

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)

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 Company has reviewed and assessed the existing financial assets of the Company 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 Company with respect to classification and measurements.

Based on the performed analysis, the Company 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 Company 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.

Namely, IFRS 9 requires that the Company recognises expected credit losses on:

- (1) Debt instruments measured later 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 Company has assets measured at depreciated cost.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

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)

In particular, IFRS 9 requires the Company 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 Company 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 Company applies a simplified approach for trade receivables.

Review of the IFRS 9 application impact:

<i>(in thousands of HRK)</i>	<u>IAS 39 carrying amount</u>	<u>IFRS 9 carrying amount</u>	<u>Difference</u>
Trade receivables	0	260	260

The Company 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.

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Company 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.

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 21 March 2019 (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).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

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 (continued)

- **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 Conceptual Framework for IFRS (effective for annual periods beginning on or after 1 January 2020).**

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

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.

2.3 Foreign currencies

(a) Functional and reporting currency

Items included in the Company's financial statements are presented in the currency of the primary economic environment in which the Company operates (its functional currency). The financial statements are presented in the Croatian kuna (HRK), which is both the functional and reporting currency of the Company, rounded to the nearest thousand.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currencies (continued)

(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.

2.4 Investments in subsidiaries and associates

(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.

(b) Associates

Associates are companies in which the Company has between 20% and 50% of the voting rights, i.e. in which it has a significant influence, but not control. Such investments are presented in these financial statements at cost less any impairment losses, if any.

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 item will flow to the Company, and the cost of the item 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property and equipment (continued)

Land and assets under construction 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.

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 Company 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 Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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 Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Separately recognised goodwill is tested annually for impairment and 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 Company 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets (continued)

(b) 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.

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 purposes 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 Company when the Company 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

Until 31 December 2017, the Company classified its financial assets as trade and other receivables, except investments in subsidiaries and associates (Note 2.4). 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 Company 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).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

Financial assets (continued)

At each reporting date, the Company 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.

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 Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

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)

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.

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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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.

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

When assessing whether the credit risk for the financial instrument significantly increased since the initial recognition, the Company 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 Company considers both quantitative and qualitative information which are reasonable and available, including the historical experience, which can be accessed without unnecessary costs or engagements.

In particular, for the loans given, the Company relies on days of default when assessing significant credit risk deterioration. If the debtor is in default more than 30 days, then the Company 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 Company does not currently use the simplification of a low credit risk when assessing the significant increase in credit risk.

The Company 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 Company, in full (without considering any collateral held by the Company).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(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.

(iv) Write-off policy

The Company 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 Company 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 Company 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 Company 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 Company 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

Financial liabilities

The financial liabilities recognised by the Company 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 (less the transaction costs) and the redemption value is recognized in the profit and loss account over the period of the loan, using the effective interest method.

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

The Company derecognises financial liabilities when, and only when, the Company's liabilities are paid, cancelled or expired. 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 Company leases certain property and equipment. Leases of property and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance 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 equipment, 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 charge is charged to profit or loss 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 in which a significant portion of the risks and rewards of ownership are not retained by the Company are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the 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 realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Examination of damaged and/or obsolete inventories is preformed continuously and for all such inventories a provision is charged to cost of goods sold.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Inventories (continued)

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 impairment allowance of 50% of the value of the inventory is recognized, and for inventories with no movement within two years, an impairment allowance of 100% of the value of the stock is recognized.

2.11 Trade and loan receivables

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

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

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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 measured at tax rates which are expected to be applied in the period when the assets are to be recovered and liabilities settled, based on tax rates and tax laws in force or partially applied on the balance sheet date.

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) Pension obligations and other post-employment benefits

In the normal course of business the Company 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 Company does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Company is not obliged to provide any other post-retirement benefits.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(b) Long-term employee benefits

The Company 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.

(c) Short-term employee benefits

The Company 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 Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company 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 Company 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 stated as an interest expense.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received 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 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.

(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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Company's activities expose it to a variety of financial risks: market risk (which includes foreign exchange rate risk, the fair value interest rate risk and the cash flow interest rate), credit risk and liquidity risk. The pharmaceuticals wholesale 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 Company is focused on minimising or eliminating the potential adverse impact on the Company's financial position. Risk management within the Company is the responsibility of the Finance Division that, in cooperation with other divisions within the Company, identifies, assesses the risks and proposes risk protection measures.

(a) Market risk

(i) Foreign exchange rate risk

The Company generates most of its revenue on the domestic market and in the Croatian kuna (HRK). However, the Company 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 entirely denominated in the Croatian kuna and hence do not give rise to any foreign exchange risk exposure. 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), mainly as a result of foreign exchange gains/losses on translation of euro-denominated trade payables.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from its borrowings. Borrowings granted at variable rates expose the Company to cash-flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

The Company does not use derivative instruments to actively hedge its cash flow and fair value interest rate risk exposure. However, the Company 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).

(b) Credit risk

Current assets that expose the Company to credit risk consist mainly of cash, trade and other receivables. The Company has no significant concentrations of credit risk. The Company 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 Company 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 Company applied a simplified approach to measuring loss for the life-long expected credit losses.

The Company is exposed to one customer from the hospital segment, accounting for 21% of total trade receivables.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(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. The aim of the Company is to maintain financing flexibility by ensuring that the credit lines are available. 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 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 Company 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 19,056 thousand, and the Company had free credit lines in the amount of HRK 198,700 thousand available at demand for liquidity risk management purposes.

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

(in thousands of HRK)

	Up to 1 month	From 1 months to 1 year	1-3 years	Over 3 years	Total
At 31 December 2018					
Trade and other payables	370,323	863,379	-	-	1,233,702
Borrowings	550	262,014	6,326	-	268,890

(in thousands of HRK)

	Up to 1 month	From 1 months to 1 year	1-3 years	Over 3 years	Total
At 31 December 2017					
Trade and other payables	436,223	764,141	234	-	1,200,598
Borrowings	90,580	271,635	5,996	15	368,226

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for 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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company 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.

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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Total capital (equity and reserves)	389,076	390,633
Total assets	<u>1,891,009</u>	<u>1,959,232</u>
Equity to assets ratio	<u>21%</u>	<u>20%</u>

The 2018 ratio decreased from the one in 2017 and shows that the Company finances 21% of its total assets from own sources. Consequently, 79% of the assets are financed from sources other than owner's equity (2017: 80%)

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 4 - KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company 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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related 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 outlined 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 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 155 thousand higher/lower than reported (2017: HRK 165 thousand), 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) and in the segment 'Others' HRK 63 thousand (2017: HRK 64 thousand).

Useful life of property and equipment

The determination of the useful life of the assets is based on past experience involving similar assets, as well as on forecast changes in the economic environment and industry-specific factors. The adequacy of the useful life estimates is reviewed once a year, or whenever there is an indication 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). Medika 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 Company 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 Company 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 4 - KEY ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Business model assessment (continued)

Based on the performed analysis, the Company 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 Company considers quantitative and qualitative information which are reasonable and available.

ECL provisions calculation

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 5 – REVENUE

	2018	2017
	<i>(in thousands of HRK)</i>	
Sales revenue – unrelated parties	2,662,417	2,424,281
Sales and other revenue – related parties (Note 31)	294,673	284,315
Other income	14,045	12,262
	2,971,135	2,720,858

NOTE 6 – SEGMENT INFORMATION

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

The Company monitors revenues and gross profit by distribution channels:

1. Pharmacies, which are divided for the reporting purposes into the following categories:
 - county pharmacies
 - private pharmacies
 - self-owned pharmacies (subsidiary ZU Ljekarne Prima Pharme with its subsidiaries).
2. Hospitals
3. Other customers, divided into:
 - dental practices
 - veterinary clinics
 - medical centres
 - wholesalers
 - other customers (herbal pharmacies, companies, optics, etc.).

The Company 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 applies the same accounting policies in all the segments.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 6 – SEGMENT INFORMATION (continued)

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

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Other	Total
Revenue from sales	1,164,537	995,702	502,178	2,662,417
Sales and other revenue – related parties (Note 31)	294,579	-	94	294,673
Other income	178	327	13,540	14,045
Total income	1,459,294	996,029	515,812	2,971,135
Cost of goods sold	(1,376,348)	(924,293)	(464,765)	(2,765,406)
Segment result	82,946	71,736	51,047	205,729
Operating expenses				(178,357)
Profit from operations				27,372
Financial income				5,307
Financial expenses				(7,910)
Net financial loss				(2,603)
Profit before tax				24,769
Income tax				(4,737)
Profit for the year				20,032

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 6 – SEGMENT INFORMATION (continued)

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

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Other	Total
Revenue from sales	1,103,739	851,825	468,717	2,424,281
Sales and other revenue – related parties (Note 31)	284,021	-	294	284,315
Other income	300	5	11,957	12,262
Total income	1,388,060	851,830	480,968	2,720,858
Cost of goods sold	(1,298,426)	(782,911)	(430,366)	(2,511,703)
Segment result	89,634	68,919	50,602	209,155
Operating expenses				(183,738)
Profit from operations				25,417
Financial income				11,582
Financial expenses				(12,183)
Net financial loss				(601)
Profit before tax				24,816
Income tax				8,259
Profit for the year				33,075

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

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Other	Total
Trade receivables (Note 18/ii/)	305,955	828,261	81,087	1,215,303

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

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Other	Total
Trade receivables (Note 18/ii/)	409,440	659,562	90,872	1,159,874

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 7 - EMPLOYEE COSTS

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Net salaries	33,973	32,464
Contributions from and on salaries /i/	17,262	16,404
Taxes and surtaxes	4,746	4,525
Management bonuses	4,300	5,543
Other employee benefits /ii/	2,373	2,314
Employee transportation costs	2,185	2,030
Termination benefits	475	581
	<u>65,314</u>	<u>63,861</u>

As at 31 December 2018, the Company employed 438 employees (31 December 2017: 419 employees).

/i/ Pension contributions recognised by the Company as payable to mandatory pension funds in respect of 2018 amount to HRK 9,492 thousand (2017: HRK 9,050 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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Donations	6,760	13,374
Entertainment	2,515	2,511
Marketing	1,662	1,698
	<u>10,937</u>	<u>17,583</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 9 - OTHER OPERATING EXPENSES

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Impairment of trade and other receivables, net (Note 18)	48,991	50,097
Materials and energy	10,826	9,217
Maintenance of assets, security services and property insurance	10,234	9,137
Professional training and consultancy services	6,617	8,669
Taxes and contributions independent of the results	3,253	3,268
Rental costs	2,921	3,005
Bank and payment operation charges	1,959	1,696
Telephone, postal and utility services	1,167	1,114
Road tolls and transportation costs	1,099	1,050
Control and analysis services	525	586
Provisions for litigations (Note 27)	(50)	(526)
Other costs	2,162	2,340
	<u>89,704</u>	<u>89,653</u>

NOTE 10 - OTHER LOSSES – NET

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Net gains/(losses) on disposal of property and equipment	712	(14)
Net foreign exchange losses – trade and other receivables	(63)	(65)
Net foreign exchange losses – cash and cash equivalents	(401)	(387)
Net foreign exchange losses – trade and other payables	(583)	(1,116)
	<u>(335)</u>	<u>(1,582)</u>

NOTE 11 - NET FINANCIAL LOSS

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Financial income		
Interest income	5,306	11,582
Interest income – related companies (Note 31)	1	-
	<u>5,307</u>	<u>11,582</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 11 - NET FINANCIAL LOSS (continued)

Financial expenses	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Interest expense		
Bank loans and finance leases	(8,011)	(12,263)
	<u>(8,011)</u>	<u>(12,263)</u>
Foreign exchange gains – net		
Foreign exchange gains	262	81
Foreign exchange losses	(161)	(1)
	<u>101</u>	<u>80</u>
	<u>(7,910)</u>	<u>(12,183)</u>

NOTE 12 – INCOME TAX

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Current tax	-	6,620
Deferred tax liability (Note 26)	4,737	(14,879)
	<u>4,737</u>	<u>(8,259)</u>

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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Profit before taxation	24,769	24,816
Income tax at a rate of 18% (2017: 18%)	4,458	4,467
Effect of non-taxable income and tax incentives	(9,251)	(751)
Tax incentives to encourage investment activity	-	(6,620)
Effect of non-deductible expenses	621	9,524
Effect of deferred tax asset based on temporary differences (Note 26)	9,000	-
Effect of deferred tax asset based on temporary differences and tax incentives to encourage investment activity	-	(14,981)
Effect of deferred tax based on unrecognised and unused tax losses and deductible temporary differences (Note 26)	(91)	102
Income tax	<u>4,737</u>	<u>(8,259)</u>
Effective tax rate	<u>19.12%</u>	<u>-</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

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).

In accordance with local regulations, the Tax Authority may at any time inspect the Company's books and records within 3 years following the year in which the tax liability is reported, and may introduce additional tax liabilities 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, 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 13 – EARNINGS PER SHARE

Earnings per share are determined, by dividing the Company'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.

	<u>2018</u>	<u>2017</u>
Net profit attributable to the shareholders (<i>in thousands of HRK</i>)	20,032	33,075
Weighted average number of shares (excluding treasury shares)	<u>28,230</u>	<u>28,962</u>
Basic/diluted earnings per share (<i>in HRK and lipa</i>)	<u>709.60</u>	<u>1,142.01</u>

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 14 - PROPERTY AND EQUIPMENT

<i>(All amounts are expressed in thousands of HRK)</i>	Land	Buildings	Equipment	Assets under construction and prepayments	Total
Balance at 31 December 2016					
Cost	18,233	178,110	89,357	9,054	294,754
Accumulated depreciation	-	(59,321)	(66,834)	-	(126,155)
Net carrying amount	18,233	118,789	22,523	9,054	168,599
For the year ended 31 December 2017					
Opening carrying amount, net	18,233	118,789	22,523	9,054	168,599
Additions	-	-	1	9,280	9,281
Transfer from assets under construction	-	841	8,218	(9,059)	-
Transfer	-	(10)	10	-	-
Disposals and retirements	-	(349)	(630)	-	(979)
Depreciation	-	(4,472)	(5,342)	-	(9,814)
Closing carrying amount, net	18,233	114,799	24,780	9,275	167,087
Balance at 31 December 2017					
Cost	18,233	178,345	89,274	9,275	295,127
Accumulated depreciation and impairment	-	(63,546)	(64,494)	-	(128,040)
Net carrying amount	18,233	114,799	24,780	9,275	167,087
For the year ended 31 December 2018					
Opening carrying amount, net	18,233	114,799	24,780	9,275	167,087
Additions	-	-	90	9,533	9,623
Transfer from assets under construction	-	330	10,769	(11,099)	-
Disposals and retirements	-	(75)	(277)	-	(352)
Depreciation and amortisation	-	(4,481)	(6,619)	-	(11,100)
Closing carrying amount, net	18,233	110,573	28,743	7,709	165,258
Balance at 31 December 2018					
Cost	18,233	178,204	95,547	7,709	299,693
Accumulated depreciation	-	(67,631)	(66,804)	-	(134,435)
Net carrying amount	18,233	110,573	28,743	7,709	165,258

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
	<i>(in thousands of HRK)</i>	
Cost – capitalised finance lease	13,532	13,243
Accumulated depreciation	(5,125)	(4,900)
Net carrying amount	8,407	8,343

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 15 - INTANGIBLE ASSETS

(All amounts are expressed in thousands of HRK)

	Software	Goodwill	Assets under construction	Total
Balance at 31 December 2016				
Cost	34,067	11,930	668	46,665
Accumulated depreciation	(30,931)	-	-	(30,931)
Net carrying amount	3,136	11,930	668	15,734
For the year ended 31 December 2017				
Opening carrying amount, net	3,136	11,930	668	15,734
Additions	-	-	4,715	4,715
Transfers from assets under construction	4,723	-	(4,723)	-
Expenses	(4)	-	-	(4)
Depreciation and amortisation	(1,245)	-	-	(1,245)
Closing carrying amount, net	6,610	11,930	660	19,200
Balance at 31 December 2017				
Cost	38,200	11,930	660	50,790
Accumulated depreciation	(31,590)	-	-	(31,590)
Net carrying amount	6,610	11,930	660	19,200
For the year ended 31 December 2018				
Opening carrying amount, net	6,610	11,930	660	19,200
Additions	-	-	1,271	1,271
Transfers from assets under construction	1,389	-	(1,389)	-
Expenses	(8)	-	-	(8)
Depreciation and amortisation	(967)	-	-	(967)
Closing carrying amount, net	7,024	11,930	542	19,496
Balance at 31 December 2018				
Cost	39,493	11,930	542	51,965
Accumulated depreciation	(32,469)	-	-	(32,469)
Net carrying amount	7,024	11,930	542	19,496

Goodwill arose as a result of merging two subsidiaries into the Company in 2008.

Goodwill impairment test

The Company calculated the recoverable amount using value-in-use method. Value-in-use cash flow projections were based on a seven-year business plan approved by the Management. For the purposes of the cash flow projections, a discount rate of 9.36% (2017: 8,97%) and a terminal growth rate of 2.50% (2017: 2,50%) were applied. The recoverable amount exceeds the carrying amount.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 16 – INVESTMENTS IN SUBSIDIARIES

	<u>Interest in %, 2018</u>	<u>Interest in %, 2017</u>	<u>2018</u>	<u>2017</u>
			<i>(in thousands of HRK)</i>	
ZU Ljekarne Prima Pharme, Zagreb	100%	100%	80,000	80,000
Primus nekretnine d.o.o., Zagreb /i/	100%	100%	20,199	19,999
			<u>100,199</u>	<u>99,999</u>

/i/ In 2018 the Company decided to increase the share capital of the subsidiary Primus nekretnine d.o.o. in the amount of HRK 200,000 thousand.

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Financial assets – category: Loans and receivables		
Loans and receivables (Note 18/v/)	1,245,106	1,233,693
Cash and cash equivalents (Note 20)	19,056	138,203
	<u>1,264,162</u>	<u>1,371,896</u>
Financial liabilities - category: Other liabilities		
Trade payables (Note 24/i/)	1,213,111	1,169,165
Other liabilities (Note 24/ii/)	20,591	31,433
Total borrowings (Note 25)	266,937	366,636
	<u>1,500,639</u>	<u>1,567,234</u>

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:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Pharmacies	186,646	350,240
Hospitals	190,957	169,672
Other	54,820	65,099
Balance at 31 December	<u>432,423</u>	<u>585,011</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 18 – TRADE AND OTHER RECEIVABLES

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Long-term receivables:		
Given loans /i/	22,048	15,556
Long-term deposits	103	103
	<u>22,151</u>	<u>15,659</u>
Current receivables:		
Trade receivables /ii/	1,215,303	1,159,874
Other current receivables /iii/	8,736	4,423
Given loans /iv/	348	52,582
Given loans – current portion of non-current receivables /i/	7,407	5,681
Short-term deposits	-	50
	<u>1,231,794</u>	<u>1,222,610</u>
	<u>1,253,945</u>	<u>1,238,269</u>

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

	<u>Effective interest rate</u>	<u>2018</u>	<u>2017</u>
		<i>(in thousands of HRK)</i>	
Loans given to pharmacies	3.0%-5.0%	28,811	21,047
Other given loans	4.0%-5.0%	644	190
Total non-current receivables, including current portion		<u>29,455</u>	<u>21,237</u>
Current portion of non-current receivables		<u>(7,407)</u>	<u>(5,681)</u>
		<u>22,048</u>	<u>15,556</u>

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

The maturity of long-term loans is as follows:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
From 1 to 2 years	7,354	4,740
From 2 to 5 years	14,694	10,816
	<u>22,048</u>	<u>15,556</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Domestic trade receivables	1,110,639	1,024,180
Trade receivables – related parties (Note 31)	117,893	149,249
Foreign trade receivables	975	1,373
	<u>1,229,507</u>	<u>1,174,802</u>
Expected credit losses	(14,204)	(14,928)
	<u>1,215,303</u>	<u>1,159,874</u>

Maturity analysis of receivables:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Not yet due	432,423	585,011
0-180 days past due	565,241	418,929
181-360 days past due	155,529	130,666
Over 360 days past due	76,314	40,196
	<u>1,229,507</u>	<u>1,174,802</u>

Movements in impairment allowance for trade receivables:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Balance at 1 January	14,928	16,657
Decrease (Note 9)	(517)	(1,724)
Write-off	(207)	(5)
Balance at 31 December	<u>14,204</u>	<u>14,928</u>

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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
HRK	1,252,982	1,236,900
EUR	663	1,198
DKK	288	171
GBP	12	-
	<u>1,253,945</u>	<u>1,238,269</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Prepaid expenses	5,600	613
VAT receivable not yet recognized	2,626	3,327
Other	510	483
	<u>8,736</u>	<u>4,423</u>

/iv/ Current loans reported in the statement of financial position as at 31 December are as follows:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Given loans	1,656	105,701
	1,656	105,701
Impairment allowance	(1,308)	(53,119)
	<u>348</u>	<u>52,582</u>

Movements in reserves for impairment of given loans:

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

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/v/ Financial assets by category include the following:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Trade receivables	1,215,303	1,159,874
Given cash loans	20,820	62,423
Given commodity loans	8,970	11,383
Given cash loans – related parties (Note 31)	13	13
	<u>1,245,106</u>	<u>1,233,693</u>

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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Trade goods	301,008	260,565
Trade goods – related parties (Note 31)	10,991	12,166
Prepayments made	3,180	3,723
Materials	103	97
Impairment allowance on inventories	(869)	(553)
	<u>314,413</u>	<u>275,998</u>

In 2018, the Company recognised an allowance in the amount of HRK 5,512 thousand (2017: HRK 4,292 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 Company's borrowings (Note 25).

NOTE 20 - CASH AND CASH EQUIVALENTS

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Domestic currency (HRK) account balance	18,973	138,178
Foreign currency account balance	72	17
Cash in hand	11	8
	<u>19,056</u>	<u>138,203</u>

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

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 thousand) 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
	<i>(in pieces)</i>		<i>(in thousands of HRK)</i>		
As 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, the Company granted no treasury shares to its key management (2017: 100 treasury shares).

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 on 12 July 2017. The share capital was increased by a total of HRK 4,529 thousand from earnings retained in prior periods.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 21 - SHARE CAPITAL (continued)

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

<i>(in thousands of HRK)</i>	Legal provisions	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, they were increased from the other reserves based on a decision adopted at the General Assembly held on 18 May 2017.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Trade payables /i/	1,213,111	1,169,165
Other liabilities /ii/	20,591	31,433
	<u>1,233,702</u>	<u>1,200,598</u>

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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Foreign trade payables	769,708	598,321
Domestic trade payables	370,724	452,432
Trade payables - related parties (Note 31)	72,679	118,412
	<u>1,213,111</u>	<u>1,169,165</u>

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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
HRK	695,166	761,317
EUR	499,983	393,277
DKK	17,654	14,571
Other currencies	308	-
	<u>1,213,111</u>	<u>1,169,165</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 24 - TRADE AND OTHER PAYABLES (continued)

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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
VAT payable	8,619	6,876
Salaries payable	4,968	4,611
Unused annual leave	2,629	2,251
Other taxes and contributions payable	182	96
Dividends payable	-	12,030
Other	4,193	5,569
	<u>20,591</u>	<u>31,433</u>

NOTE 25 – BORROWINGS

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Long-term:		
Financial lease /ii/	6,114	5,785
	<u>6,114</u>	<u>5,785</u>
Short-term:		
Short-term loans /i/	257,248	357,672
Financial lease /ii/	3,575	3,179
	<u>260,823</u>	<u>360,851</u>
Total borrowings	<u>266,937</u>	<u>366,636</u>

/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 one month to one year. 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 Company ceases to make the payments.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 25 – BORROWINGS (continued)

The gross finance lease liability is as follows:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
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	<u>9,689</u>	<u>8,964</u>

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

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

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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
1 to 2 years	2,750	2,624
2 to 5 years	3,364	3,161
	<u>6,114</u>	<u>5,785</u>

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

	<u>2018</u>		<u>2017</u>	
	<u>HRK</u>	<u>EUR</u>	<u>HRK</u>	<u>EUR</u>
	%	%	%	%
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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 25 – BORROWINGS (continued)

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:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Variable-rate borrowings		
Up to 3 months	1,032	40,009
3 to 12 months	106,635	223,064
Over 1 year	2,232	-
	<u>109,899</u>	<u>263,073</u>
Fixed-rate borrowings		
Fixed-rate loans	157,038	103,563
	<u>157,038</u>	<u>103,563</u>
Total borrowings	<u>266,937</u>	<u>366,636</u>

Given that borrowings in the amount of HRK 157,038 thousand bear interest at fixed rates (2017: HRK 103,563 thousand), there is no exposure to interest rate changes.

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

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
HRK	257,248	357,672
EUR	9,689	8,964
	<u>266,937</u>	<u>366,636</u>

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 26 – DEFERRED TAX ASSETS

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

<i>(in thousands of HRK)</i>	Impairment allowance on inventories	Provisions for employee benefits	Tax incentives	Value adjustment of given loans	Tax loss transfer	Total
Balance at 1 January 2017	283	163	-	-	-	446
Tax charged to profit or loss	(81)	(21)	-	-	-	(102)
Tax credited to profit or loss	-	-	5,981	9,000	-	14,981
Balance at 31 December 2017	202	142	5,981	9,000	-	15,325
Balance at 1 January 2018	202	142	5,981	9,000	-	15,325
Tax charged to profit or loss	-	(3)	-	(9,000)	-	(9,003)
Tax credited to profit or loss	94	-	-	-	4,172	4,266
Balance at 31 December 2018	296	139	5,981	-	4,172	10,588

In 2017, the Company acknowledged the deferred tax asset based on the Ministry of Economy's certificate, entrepreneurship and crafts'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 liability

The Company has no deferred tax liability.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 27 – PROVISIONS

<i>(in thousands of HRK)</i>	Employee benefits	Legal disputes	Total
Balance at 31 December 2017	793	572	1,365
Long-term portion	643	-	643
Short-term portion	150	572	722
Balance at 1 January 2018	793	572	1,365
Increase/(decrease)	83	(50)	33
Utilized during year	(104)	-	(104)
Balance at 31 December 2018	772	522	1,294
Long-term portion	596	-	596
Short-term portion	176	522	698

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 Company has reversed the provision for one legal dispute in the total amount of HRK 57 thousand and increased the provisions for interests per legal dispute in the amount of HRK 7 thousand, based on assessment of the attorneys and the Management. As the total amount of income from reversal of provisions exceeds the increase in provisions, the Company reported that the net income from reversal of provisions amounts to HRK 50 thousand (Note 9).

NOTE 28 - CONTINGENT LIABILITIES

The Company is a co-debtor and a guarantor for loans provided to its subsidiaries in the total amount of HRK 10,000 thousand (2017: HRK 10,000 thousand).

The contingent liabilities are not included in the statement of financial position at 31 December 2018. Namely, based on the Management's estimate, the liabilities of the subsidiaries will not become the parent company's obligations, as all transactions of the subsidiaries are under the control by the parent. There are currently no circumstances that would require from the Company to make the payments on behalf of its subsidiaries.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 29 – OPERATING LEASES

The Company rents vehicles and office space under operating lease contracts.

The contractual rents under the operating leases are as follows:

	<u>2018</u>	<u>2017</u>
	<i>(in thousands of HRK)</i>	
Up to 1 year	2,037	2,059
1 to 5 years	2,514	3,647
Contractual rents under operating leases	<u>4,551</u>	<u>5,706</u>

NOTE 30 - SUBSEQUENT EVENTS AFTER REPORTING DATE

In March 2019 the Company 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.

NOTE 31 – RELATED-PARTY TRANSACTIONS

The Company enters into transactions with related parties.

The related parties include:

	<u>2018</u>	<u>2017</u>
1. Subsidiaries:		
Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb	100%	100%
Primus nekretnine d.o.o., Zagreb	100%	100%
2. Subsidiaries of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb:		
Zdravstvena ustanova Ljekarne Delonga, Zagreb	100%	100%
Zdravstvena ustanova Ljekarne Ines Škoko, Zagreb	100%	100%
Ljekarna Ana Pantelić, Rijeka (acquired and merged in 2017)	-	-
Zdravstvena ustanova Ljekarne Soline Farm, Biograd na Moru (acquired and sold in 2017)	-	-
3. Associate of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb:		
Zdravstvena ustanova Ljekarne Jagatić, Zagreb	49%	49%
4. 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.		
5. Pliva Hrvatska d.o.o., Zagreb, has an ownership interest of 25.32% and 28.05% of the voting rights in the Company		

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 31 – RELATED-PARTY TRANSACTIONS (continued)

6. 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:

<i>(in thousands of HRK)</i>	Note	2018	2017
Trade and other receivables			
<i>Given loans</i>			
Subsidiaries – interest receivables		13	13
	18	13	13
<i>Trade receivables</i>			
Subsidiaries		107,506	134,636
Subsidiaries of ZU Ljekarne Prima Pharme		127	1,551
Associate of ZU Ljekarne Prima Pharme		10,053	12,835
Pliva Hrvatska d.o.o.		207	227
	18	117,893	149,249
Inventories			
Pliva Hrvatska d.o.o.		10,991	12,166
	19	10,991	12,166
Trade payables			
Pliva Hrvatska d.o.o.		72,679	118,412
	24	72,679	118,412
Sales and other income			
Subsidiaries		239,403	229,507
Subsidiaries of ZU Ljekarne Prima Pharme		17,700	19,074
Associate of ZU Ljekarne Prima Pharme		37,483	35,448
Pliva Hrvatska d.o.o.		87	286
	5, 6	294,673	284,315
Financial income			
Other related companies		1	-
	11	1	-
Purchases of trade goods			
Pliva Hrvatska d.o.o.		183,955	212,189
		183,955	212,189
Key management compensation – salaries and bonuses for four members			
		7,809	7,325
Supervisory Board and Audit Committee compensation			
		452	453

MEDIKA d.d., Zagreb

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 32 - APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 12 to 67 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 Capraška 1
