MEDIKA d.d. and its subsidiaries

ANNUAL REPORT
TOGETHER WITH AUDITORS' REPORT
for the year ended 31 December 2019

CONTENTS

MANAGEMENT REPORT

In 2019, the Medika Group (the "Group") generated a consolidated revenue in the amount of HRK 3,647,001 thousand, HRK 568,723 thousand above the prior year's figure. The consolidated operating profit amounts to HRK 92,870 thousand, which is by HRK 50,852 thousand higher than the prior year's figure.

The consolidated profit before tax amounts to HRK 90,017 thousand, and the consolidated net profit amounts to HRK 72,780 thousand, which is HRK 39,096 thousand less than the 2018 figure.

Increase in the consolidated operating profit and consolidated profit before tax was mostly influenced by the increase in sales and the decrease in other operating expenses (note 9 in the financial statements), ie impairmet of receivables for loans given to Agrokor d.d. in the amount of HRK 50,006 thousand.

By analysing the individual operating segments (note 6 to the financial statements), 47.7% of the total consolidated revenue was generated by pharmacies (2018: 50.9%), of which 10.9% by own pharmacies (2018: 11.8%). At the same time, 37.0% of the total consolidated revenue was generated from hospitals (2018: 32.4%).

Total consolidated assets amount to HRK 2,340,729 thousand, representing a increase of 17.6% from the prior year. The amount of consolidated non-current assets decreased by 4.8% from the prior year, whereas the amount of non-consolidated current assets increased by 21.2%. The consolidated current assets account for 80.4% of the total assets. Trade and other receivables represent the most significant item of the total consolidated assets and are increased by 21.3% from the prior year. In addition, due to the sales growth, inventories rose by 10.8% compared with the prior year.

The total consolidated loan debt amounts to HRK 315,717 thousand, comprising of short-term loans (note 27). The Company on 31 December 2019 had no long-term loans.

The equity-to-assets ratio is 22%, showing that the Group finances 22% of its total assets from own sources.

The consolidated performance is presented in the statement of comprehensive income on page 38 of the financial statements.

Expected future development of the Group

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

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

Treasury shares

At 31 December 2019, 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.

Subsidiaries and associates

The Company is the whole owner of its subsidiaries Zdravstvena ustanova (ZU) Ljekarne Prima Pharme and Primus nekretnine d.o.o. In 2019, the Company entered into a contract with the buyer for the transfer of a business interest in the subsidiary Primus nekretnine d.o.o. and the asset is reclassified to the assets held for sale.

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 42.41%, i.e. 46.99% voting shares. In the course of the financial restructuring of Auctor d.o.o., during 2019, there was a transfer of ownership of Auctor d.o.o. to Auctor Holding a.s. this led to an indirect change in the ownership of the Company's shares.

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

Risks

Credit risk

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

Credit risk arises primarily from trade receivables. The risk is higher when dealing with privately owned pharmacies. Hospitals, on the other hand, have extended collection periods, but there is no risk of non settlement.

Price risk

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

Foreign exchange risk

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

Risks (continued)

Interest rate risk

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

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

CORPORATE GOVERNANCE STATEMENT

As an entity listed on the official market of the Zagreb Stock Exchange, Medika d.d. applies the Corporate Governance Code of the CFSSA (Croatian Financial Services Supervisory Agency) and the Zagreb Stock Exchange, which is published on the website of the Zagreb Stock Exchange.

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

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

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

Corporate governance

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

- General Assembly
- Supervisory Board
- Management Board.

General Assembly

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

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 Board and provides its consent with certain Management Board 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 Vađić, Chairwoman, Mr Damjan Možina, Vice Chairman; Members: Mr Mihael Furjan, Mr Oleg Uskoković, Mrs Gracijela Balaban, Mr Josef Pilka and Mr Jozef Harviš.

CORPORATE GOVERNANCE STATEMENT (continued)

Management Board

The Management Board 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 Board of Medika has three members: Mr Jasminko Herceg, President of managament Board, Mr Matko Galeković, Member of managament Board and Mr Jakov Jaki Radošević, Member of managament Board, which represent 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 Vađić, Chairwoman, Mr Oleg Uskoković and Mr Dalibor Briški.

NON-FINANCIAL REPORT

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

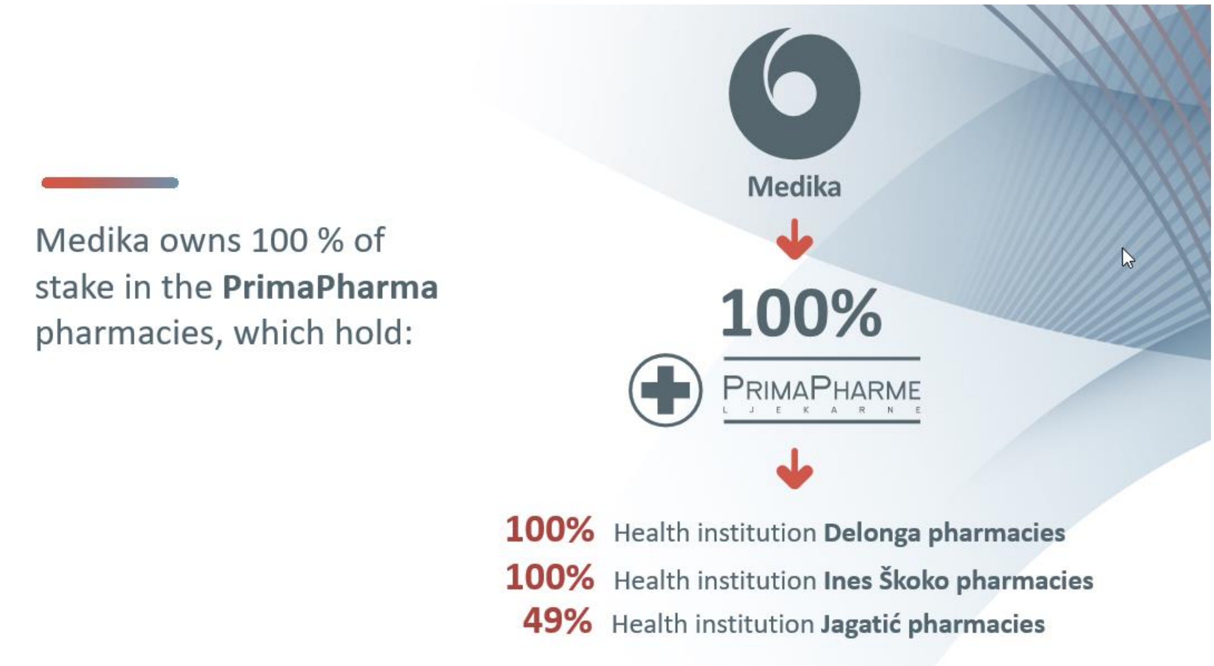
Business Description of the Medika Group

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

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

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

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



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

NON-FINANCIAL REPORT (continued)

Wholesale

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

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

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

<u>Wholesale Sales Programme</u>

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

Pharmaceutics

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

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

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

Medika continually monitors the news and trends in medicine and pharmacy and, through cooperation with pharmaceutical suppliers and manufacturers, expands its portfolio of medicines thus enabling the presence and distribution on the Croatian market of the latest medicines and therapeutic systems such as immune drugs, biologicals, rare medicines disease (Orphan drugs) and gene therapies (aka ATMPs - Advanced Therapy Medicinal Products).

Medicinal Products and Special Products

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

NON-FINANCIAL REPORT (continued)

Wholesale (continued)

Dietetics and cosmetics

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

Dental Department

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

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

Veterinary

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

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

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

Logistics

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

The total storage spaces is 18,550 m2. Zagreb Logistics Center is a place where the decisions on the procurement and distribution are made, while in modernly structured distribution and storage centers in Osijek, Rijeka and Split has been organized storage and distribution.

NON-FINANCIAL REPORT (continued)

Retail

Sales in the retail channel takes place through the operations of 81 Prima Pharme Group pharmacies.

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

Business environment and competition

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

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

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

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

NON-FINANCIAL REPORT (continued)

Business environment and competition (continued)

Strategic business goals:

- One of the most important goals is to build an employee-based system as a source of competitive advantage for the Group, and through employee education and motivation, ensure employee development and strengthen the corporate culture.
- • Although Medika is a market leader, it is certainly very important to strengthen existing market position and remain a market leader.
- • Vertical integration or expansion of our own sales network remains an imperative for the overall development of the Medika Group and one of its strategic goals. By increasing the number of quality pharmacies in its ownership, the Medika Group increases its market potential and therefore the overall value of the Group companies.
- • Improvement of infrastructure and internal processes is one of the most important goals in the Group's continued operations, due to the continuous annual growth in the number of items the Group has in its range and the increase in the number of items issued. Enterprise growth must be accompanied by the development and improvement of infrastructure and internal processes.
- • In order to maintain its leadership position, the Group urgently needs to work on the development of new services, which will not only lead to an increase in total revenues, which directly results in the improvement of business relations and the strengthening of business ties with its partners.

Medika Group and customer relationship

Medika d.d. and customer relationship

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

a) Promotional activities

The main goal of promotional activities is to position the company in a business environment:
- Informing users in all available ways (telephone sales, web sites, e-mail, personal contact)
- Supporting users in using the Company's services by providing quality as a priority goal,
- Providing additional services and contents in order to bring our customers closer to some new skills and tools they can use in their business,
- Monitoring, measuring and constantly improving customer satisfaction levels is a fundamental reflection of service quality.

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

NON-FINANCIAL REPORT (continued)

Medika Group and customer relationship (continued)

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

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

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

b) Education

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

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

Prima Pharme Group and relationship with patients

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

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

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

NON-FINANCIAL REPORT (continued)

Medika Group and supplier relationship

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

Medika Group supplies the following goods:

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

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

Risk management

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

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

Regulatory Risk Management Requirements:

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

NON-FINANCIAL REPORT (continued)

Significant risks and risk management

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

Business Risks

Conformity risks –inadequate compliance with regulatory requirements

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

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

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

Operational risks

The risk of unauthorized entry into warehouse spaces

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

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

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

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

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

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

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

NON-FINANCIAL REPORT (continued)

Significant risks and risk management (continued)

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

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

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

Quality and Environmental Policy

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

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

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

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

The quality and environmental policy has been reinstated (the requirements of ISO 50001 are included) and is accessible to all interested parties through the means of communication available to the Company, and is appropriate to the purpose / context of the organization and clearly states its commitment to environmental compliance, improvement and protection. There are no new stakeholder requirements that have an impact on the quality system. The context of the organization has not changed.

Medika

POLITIKA KVALITETE I ZAŠTITE OKOLIŠA

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

Medika d.d. se obvezuje da će:

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

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

Direktor
Jasminko Herceg, dipl.oec.

Medika d.d.
Sustav upravljanja kvalitetom
ORIGINAL

Zagreb, 10.06.2015.

NON-FINANCIAL REPORT (continued)

Quality and Environmental Policy (continued)

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

Quality management system and environmental protection

The integrated quality and environmental management system is based on ISO 9001: 2015, 14001: 2015, ISO 50001:2011 and Good Manufacturing Practice and Good Distribution Practices requirements.

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

During 2019, an Energy Management Policy was adopted, whereby the Company opted to increase energy efficiency and reduce consumable energy where possible and to promote long-term environmental and economic sustainability in the area of its business.

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

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

NON-FINANCIAL REPORT (continued)

Results of the Quality Management System and Environmental Protection

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

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

Some of the key activities conducted during the year 2019:

- A three-member Management Board is established.
- Two new organizational departments have been established: the Human Resources Department and the Internal Audit Department.
- The systematic and documented implementation of the validation / qualification of the cargo space of delivery vehicles, storage facilities and cooling chambers continued.
- Established policies and documentation for location, transportation and computer security.
- Renewal of fleet (freight and passenger vehicles) - reduced average fleet age.
- The activity of transport according to the requirements of good practice in wholesale of medicines is subcontracted.
- Energy renovation / efficiency project completed (changes initiated) in the center of PC Split, air-conditioning of expedition space, reception and specific warehouses.
- Integrated energy management system according to EN ISO 50001: 2011 into Medika d.d. system
- The request for co-financing of renewable energy projects through a tender entitled "Increasing energy efficiency and using renewable energy sources in the service sector (tourism and trade"), approved by the Environmental and Energy Efficiency Fund in May 2018 - was approved is the construction of a solar power plant at the Medika Osijek facility.
- A storage and distribution service for several new users has been established.
- A system has been put in place for the wholesale serialization of medicines (entry into force of EU Regulation 2016/161, which complements Directive 2001/83 / EC, 9 February 2016 with effect from 9 February 2019).
- An upgrade of the existing video surveillance system has been made at the Zagreb Business Center.
- Remodeling of office and common areas in PC Rijeka was completed, video surveillance system and gate control were introduced. The project of renovating the warehouse part of the facility in PC Rijeka is continuing, the area of unloading of goods (reception and sorting space) has been completed, storage facilities have been created to accommodate narcotics and expensive products in PC Rijeka.
- Additional air-conditioning of the storage facilities in the storage facilities at the PC Zagreb location (separate location).

NON-FINANCIAL REPORT (continued)

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

- PC Split (Dugopolje) was connected to the public sewerage system.
- Installation of plastic (PVC) curtains, modifications of the existing heating installation and installation of an additional air-conditioning unit in the reception area in PC Zagreb (separate location)
- The first conceptual design of the project of the new logistics center in Zagreb was made
- Implementation of the equipping machine in the process of secondary equipping of medicines; has been approved by HALMED.

Permits and licences for business

There were no new permits and certificates.

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

1. Results and reports of internal and external audits

a) During 2019, a number of internal and external audits were carried out at all centres of the Company. Improvements in the CAPA (corrective action-preventive action) monitoring and closure were noted. All CAPAs are tracked through Quality Indicators and were regularly reported to the Management Board.

b) In January 2019, an audit plan for suppliers of services or materials was prepared by the Company and all planned audits were realized in 2019.

2. Status of deviations, corrective and preventive actions

During 2019, all open deviations were closed. A decrease in the number of open deviations was observed as a result of the increase in system compliance and the continuous audit of system documentation, corrective / preventive actions and employee education.

NON-FINANCIAL REPORT (continued)

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

3. Complaints and returns of goods from customers

   Indications of complaints and returns from customers are among the most important indicators. In general terms, a downward trend in complaints was particularly evident after the introduction of the WMS system and a wireless issuing system in distribution centres. In 2019, the goal to maintain the total number of complaints on the level of the Company under 0.26% was achieved.

   A decrease in number of returns by customer was noted for the whole company Medika (2%) and the average number of returns amounted to 0.51% of the total number of issued items (0.52% in the previous period).

   Most of recorded returns represented returns of goods by customers due to one of the following reasons: order mistakes (mistakes in the orders placed by the pharmacy), old supplies in agreement with the salesman.

4. Quality indicators

   Review of operating short-term goals achieved in 2019:
   - Completed (re)validation of storage and other areas in line with the requirements Good Distribution Practices – the target was 100%, reached 116%.
   - Production materials reject – the < 1.0% the target was, achieved 0.021%
   - Complaints – the target was < 0.30% - an average of 0.26% was achieved, down 12% from the previous period
   - Products ratio in supply (shortage of a product in the market supply) and total items issued – the target was < 7.5% target, achived <6.78%
   - Sales – planned revenue – target achieved, revenue increase higher than planned,
   - Market share – the goal was to maintain the market leader position in 2019, which was reached.

5. Monitoring of significant environmental aspects

   The year 2019 saw the continuation of the activities carried out in the past period, which have contibuted to:
   - Reduction of exhaust emissions into the air by renewing the fleet (freight and passenger cars) – renewal of the fleet of vehicles (delivery and personal official);
   - Reduction of water pollution from cesspool – connection of internal sewerage system to main collector in Dugopolje;
   - Rationalization of electricity consumption by completing the changes in Split (accompanying lighting, environmental lighting and façade buildings).

NON-FINANCIAL REPORT (continued)

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

The energy renewal program at all locations has been continued.

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

6. Internal employee education

In the year 2019, all the education according to the plan and the program of continuous education was conducted, and a large number of unplanned education related to the quality system and environmental protection and continuous education were carried out in accordance with changes in system documentation. Some of the most significant are from the following areas:

- Product transport,
- Suspension and withdrawal from traffic,
- Deviations management,
- Materials Training and PowerPoint presentation Medika Energy Review for 2018, PC Zagreb
- Conducting trainings of new employees according to established themes continued in 2019 with the frequency of implementation every two months. In the period considered, 6 trainings of newcomers were carried out with the following topics:
- Organization of Medika d.d. and a review of working regulations,
- Quality management system, in general,
- GDP (Good Practice in Wholesale),
- Deviations management and product complaints,
- Counterfeit goods,
- Pharmacovigilance.

Monitoring and conducting employee training through a web application.

7. Working with customers

Medika pays special attention to the education of pharmacists which are an added value to the core business of the Company. The Company’s goal is to bring new business backgrounds and share business experiences, but also touch on topics that merely rely on the industry.

It is worth noting that all the courses that were held were evaluated by the Croatian Chamber of Pharmacists.

NON-FINANCIAL REPORT (continued)

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

The following professional lectures for pharmacist were organized in 2019:

- Professional meeting “Adherencija”, Zagreb, Split, Rijeka and Osijek
- Professional meeting “Poslovna abeceda – Budućnost u medicine, ljekarništvu, obrazovanju”, Poreč
- Professional meeting “Medikin dom zdravlja”, Zagreb, Split, Rijeka and Osijek
- Professional meeting “Emocionalna inteligencija”, Zagreb, Split, Rijeka and Osijek

Furthermore, for dentists following lectures were organized in 2019:

- Lectures "Estetika i preciznost" in Zagreb, Split and Rijeka, which were awarded by the Chamber of Dental Medicine.

Also, several dental courses were organized throughout Croatia.

8. Changes that may have an impact on the system

Medika d. d. processes are aligned with all the positive legal regulations, especially those that regulate the wholesale turnover of medicines and medical products, ie Good Distribution Practice (DDP) and Good Manufacturing Practice (DPP) for the drug manufacturing process (secondary equipment).

Areas / Activities Affecting the Quality Management System and Environmental Protection:

- Wholesale trade in medicinal products - Law Enforcing Regulation (EU) 2017/745 on Medical Devices and Regulation (EU) 2017/746 on In vitro Diagnostic Medical Devices (Official Gazette 100/18). the implementation of the following European Union regulations: Regulation (EU) 2017/745 of the European Parliament and of the Council of 5 April 2017 on medicinal products, and Regulation (EU) 2017/746 of the European Parliament and of the Council of 5 April 2017 on in vitro diagnostic medical products - alignment required
- Introduction of the Smartivo transport monitoring system

Environmental issues and social aspects of business operations

The integrated quality and environmental management system is based on ISO 9001:2015, ISO 14001: 2015 and ISO 50001:2011.

A representative of the Quality and Environmental Management Board has been appointed to carry out activities to meet the requirements of the ISO 9001:2015, ISO 14001: 2015 and ISO 50001:2011.standards and the requirements of Good Manufacturing Practice and Good Distribution Practices.

NON-FINANCIAL REPORT (continued)

Environmental issues and social aspects of business operations (continued)

As for the preventive measures, Medika has planned annual activities, i.e. plans of preventive inspection, which relate to all relevant aspects:

- Emissions into air
- Discharge into water
- Waste management, especially hazardous waste
- Soil contamination

Measurements are performed by authorized surveyors.

<u>Waste management</u>

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

Waste in Medika d.d. originated and delivered during 2019:

Waste name	**Quantity in t**
Print toners	0.75
Oily water from separators	6.60
Cardboard	149.98
Foil	16.17
Plastic packaging	7.60
Styrofoam	1.77
Medical refrigerator	8.53
Trade goods	0.10
Accumulators	0.15
Chemicals	0.03
Cytostatics	4.98
Medicines	5.52
Grease traps	49.19
Paper	0.34
Textile	0.05
FC tubes	0.95
Air conditioners	3.31
EE waste	4.30
Bulky waste	1.67
Written-down drugs	0.06

NON-FINANCIAL REPORT (continued)

Environmental issues and social aspects of business operations (continued)

<u>Collecting the returns from customers</u>

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

During 2019, a total amount of 1,763 kg of old medicinal products collected in the pharmacies from customers (patients) were properly disposed.

An overview of consumption of important energy sources in the Medika Group for 2019:

Year	Fuel (000'l)	Gas (000' kWh)	Electricity (000'kWh)
2019	741	670	3,139
2018	712	887	3,151
2017	626	1,325	3,073

Employees

Education of new employees in the Medika Group

In the company Medika d.d. employees get acquainted with the basic labor laws and internal acts, work organization, work safety during initial education of new employees (more details about educating new employees in Medika d.d., see page 20 of these financial statements). Continuous education has been provided related to quality standards, occupational safety, personal development and professional trainings.

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

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

NON-FINANCIAL REPORT (continued)

Employees (continued)

Classes are organized in one-day or two-day modules during the period of 24 months, and they cover different topics such as:

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

Realization of employee rights

As at 31 December 2019, there are 13 employees on maternity or parental leave in the Company Medika. As parental leave can also be used by fathers, in the last couple of years number of male employees had used parental leave.

In the Prima Pharma Group, 31 employees are on maternity or parental leave.

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

Medika Group has 9 persons enrolled in the Register of Persons with Disabilities (70% and more disability), and a larger number of employees with a lower percentage of established physical disability.

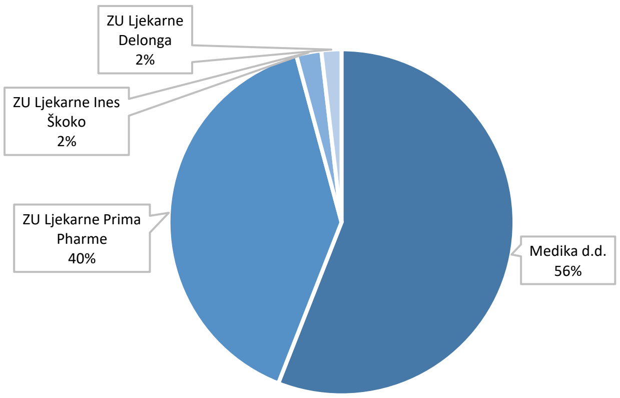
Also, Medika Group has been using incentive measures for employing young people under 30 for an indefinite period, and the Group currently has 122 employees for whom the above mentioned benefit has been used.

NON-FINANCIAL REPORT (continued)

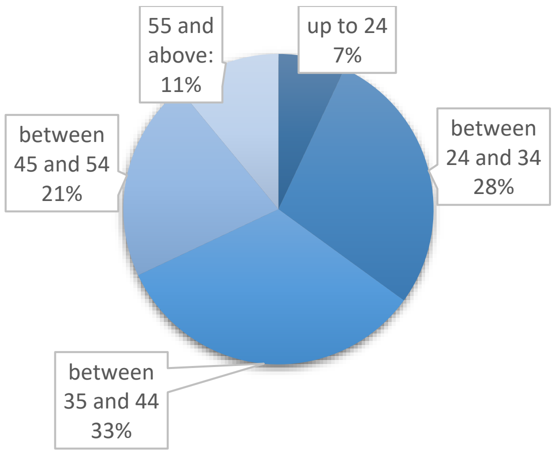
Employees (continued)

Employee structure on 31 December 2019:

- Number of Medika Group employees
    - Medika Group - 856 employees, of which:
        - Medika d.d. – 479 employees
        - ZU Ljekarna Prima Pharme – 341 employees
        - ZU Ljekarne Ines Škoko – 20 employees
        - ZU Ljekarne Delonga – 16 employees.



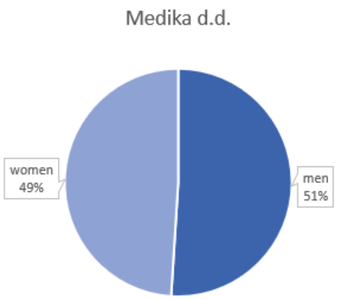
- The age structure of employees:

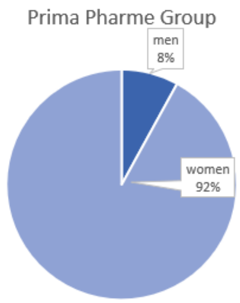


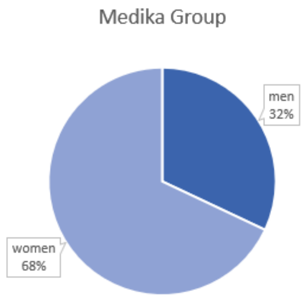
NON-FINANCIAL REPORT (continued)

Employees (continued)

- The ratio of men and women







- Experts with higher education in Medika Group:
    - In Medika d.d. - 111 employees with higher education (23% of the total number of employees)
    - Prima Pharme Group - 196 employees with higher education (52% of the total number of employees).

- Women in the management structure (in percentage) in the Medika Group: 45%, of which:
    - Medika d.d. – 28%
    - Prima Pharme Group – 69%.

Occupational safety and health protection

In accordance with the Occupational Safety and Health Act, the positive regulations governing this domain, as well as the Company's internal regulations in the field of safety, all new employees undergo theoretical and practical training in occupational safety and fire safety training, in relation to the following areas: safe work, safe work with computers (for employees who perform their work for more than 4 hours a day using a computer), fire minimum, evacuation and rescue, employer authorized, worker commissioner.

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

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

During 2019, there were 22 work-related injuries at the Group level.

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

NON-FINANCIAL REPORT (continued)

Employees (continued)

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

With the intention to bring closer the pharmacy activity to the future young pharmacists from the Faculty of Pharmacy and Biochemistry before the end of the study and in order to provide support for the chosen profession, the Prima Pharma Group regularly announces scholarship tenders. During 2019, twelve students received a scholarship. After completing their studies, they were given the opportunity to work at ZU Ljekarna Prima Pharme (hereinafter: “the Institution”).

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

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

Projects in which the Institution has participated:

- Pharmacy and Medical Biochemistry Students Congresses
- Competition in Clinical Skills
- Competition for the preparation of master's thesis
- Career Days
- Letters of recommendation for the Rector's Award.

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

Relationship with the Union

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

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

NON-FINANCIAL REPORT (continued)

Employees (continued)

Anti-corruption measures

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

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

Signed on behalf of the Management Board on 10 March 2020 by:

Jasminko Herceg	Matko Galeković	Jakov Jaki Radošević
President of Management Board	*Member of Management Board*	*Member of Managament Board*

10 Medika d.d.
ZAGREB, Capraška 1

STATEMENT OF RESPONSIBILITIES OF MANAGEMENT AND SUPERVISORY BOARD

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

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

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

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

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

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

The financial statements set out on pages 38 to 94 were authorised by the Management Board for submission to the Supervisory Board on 10 March 2020, in witness whereof they have been signed below.

Signed on behalf of the Management Board on 10 March 2020 by:

Jasminko Herceg	Matko Galeković	Jakov Jaki Radošević
President of Management Board	*Member of Management Board*	*Member of Managament Board*

10 Medika d.d.
ZAGREB, Capraška 1

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Medika d.d. ("the Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position of the Group as at 31 December 2019, and the consolidated statements of comprehensive income, cash flows and changes in equity of the Group for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

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

Basis for Opinion

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

Key Audit Matters

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

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

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters (continued)

REVENUE RECOGNITION

Revenue recognized in profit or loss in 2019: HRK 3,647,001 thousand *(2018: HRK 3,078,278 thousand)*. As at 31 December 2019: trade receivables: HRK 1,414,227 thousand *(2018: HRK 1,154,268 thousand).*

Please refer to the Note 2.19 *Revenue recognition* of Significant accounting policies, Note 5 *Revenue* and Note 6 *Segment information* in the financial statements.

Key audit matter	How our audit addressed the matter

Revenue is a key measure used to evaluate the performance of the Group. Application of revenue recognition principles of the relevant financial reporting standards is complex and requires making significant assumptions and judgments. Revenue comprises the fair value of the consideration received or receivables for sold goods within the normal course of business. Revenue is recognized when the control of the promised goods has transferred to the customer.
 	
In addition, in the Group's case, particular complexity is associated with the fact that revenue is reported net of discounts, incentives and rebates earned by customers. In conjunction with the above, the Group needs to consider whether it receives a distinct good or service in return for payments to customers. If so, then it is required to recognize such payments as expenses when the good or service is consumed. If not, they are recognized as a reduction of revenue. The above adds to the complexity of judgments required from management in establishing an appropriate accounting for said payments.
 	
In the wake of these factors, we considered revenue recognition to be associated with a significant risk of material misstatement in the financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.
	Our audit procedures in this area included, among others:
	• assessing the Group's revenue recognition policy for compliance with relevant provisions of the financial reporting standards;
	• obtaining understanding of and evaluating the Group's revenue recognition process, and testing related internal controls, including the controls associated with estimating and accounting for discounts, incentives and rebates;
	• for a sample of contracts with customers concluded during the audited year, inspecting contractual provisions and making inquiries of relevant sales and finance personnel in order to challenge the Group's:
	  ○ meeting of the contract existence criteria, including, among other things, those relating to the parties' commitment to their obligations and probability of collecting the consideration due;
	  ○ determination of total contract consideration, with particular focus on the estimated amount of variable consideration, such as discounts, price concessions and right of return, also by reference to our analysis of historical data and considering any effects of market changes in the current year.
	  ○ assessment, by reference to nature and substance of the underlying transaction, as to whether any payments to customers represent expenditure for distinct goods or services or sales incentives;
	  ○ determination of the timing of the transfer of control, the resulting pattern of revenue recognition and revenue amounts, by reference to transaction documentation (sales invoices, inventory and shipping documents, and other as appropriate).
	• obtaining a sample of outgoing invoices to compare the existence and accuracy of total net amount on the invoice (including on-invoice rebates) with goods delivery notes and general ledger entries;
	• for a sample of customers, obtaining confirmations of the amounts receivable outstanding as at the reporting date, and challenging any significant differences between confirmations received and the Group's records by inspecting the underlying documentation such as contracts with customers, invoices and credit notes;
	• examining whether the Group's revenue recognition-related disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

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

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters (continued)

VALUATION OF TRADE RECEIVABLES

Trade receivables as at 31 December 2019: HRK 1,414,227 thousand *(2018: HRK 1,154,268 thousand)*; related impairment allowance as at that date: HRK 10,917 thousand (31 December 2018: HRK 14,415 thousand).

Please refer to the Note 2.8 *Financial instruments* of Significant accounting policies, Note 4 *Key accounting estimates,* Note 6 *Segment information* and Note 19 *Trade and other receivables* in the financial statements.

Key audit matter	How our audit addressed the matter

The Group is exposed to significant credit risk associated with extended collection periods of trade receivables, in particular as regards the amounts of the HZZO (Croatian State Health Insurance) related receivables, due from health institutions generally directly or indirectly owned by state institutions.
 	
Trade accounts receivable are assessed by the Group for impairment at each reporting date, both at an individual and collective basis. Management measures the loss allowance at an amount equal to expected credit losses (ECLs) being a probability weighted estimate of credit losses. Credit losses are measured as the present value of an expected cash shortfall (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that it expects to receive). The estimate takes into account, among other things, repayment history and past credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date (such as current and expected liquidity of the Health System in Croatia).
 	
Due to the magnitude of the amounts involved, coupled with the complexity of the judgements and estimated required in estimating expected credit losses in respect of trade receivables, this area was considered by us to be associated with a significant risk of material misstatement. As such, it required our increased attention in the audit and was determined to be a key audit matter.
	Our audit procedures in this area included, among others:
	• Obtaining understanding of and assessing the design and implementation of key internal controls over the credit control, trade receivables collection process and making related loss allowances;
	• Assessment of the appropriateness of the Group's impairment methodology against the relevant financial reporting requirements;
	• Evaluating whether the Group's estimates of expected credit losses appropriately consider both current economic conditions and forward-looking information;
	• Assessment of the accuracy and completeness of the Group's ECL estimates at 31 December 2019 including:
	  ○ For a risk-based sample of debtors, inspecting the debtors' most recent financial statements, credit terms and historical repayment patters, and making corroborating inquiries of the Group's CFO and relevant finance personnel, to obtain understanding of any credit / repayment uncertainties, significant increase in credit risk or default;
	  ○ Inspecting supporting documents in relation to cash receipts from debtors subsequent to the end of the reporting period;
	  ○ Considering the outcome of the above procedures, critically assessing the Group's estimate of the expected cash flows from debtor in the sample, also assessing the appropriateness of the discount rate used.
	• Performing a retrospective assessment of the historical accuracy of the Management Board's impairment assumptions and estimates, including estimated loss rates, against actual outcomes;
	• Evaluating whether the disclosures in the financial statements in respect of the expected credit losses for trade receivables satisfy the requirements of the relevant financial reporting standards.

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

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters (continued)

IMPAIRMENT OF LICENCES AND GOODWILL

As at 31 December 2019, intangible assets included pharmacy licences with indefinite useful lives stated at HRK 119,285 thousand *(2018: HRK 113,164 thousand)*; Goodwill as at 31 December 2019: HRK 70,970 thousand *(2018: HRK 68,212 thousand)*. During 2019 and 2018, the Group did not recognize any impairment losses with respect to goodwill or licences.

Please refer to the Notes 2.6 *Intangible assets* and 2.7 *Impairment of non-financial assets* of Significant accounting policies, Note 4 *Key accounting estimates* and Note 16 *Intangible assets* in the financial statements.

Key audit matter	How our audit addressed the matter

In conjunction with its business acquisitions, the Group recognized goodwill and indefinite-lived intangible assets relating to licences.
 	
Pursuant to the relevant provisions the financial reporting standards, annual impairment testing is required for intangible assets with an indefinite useful life and for cash generating units (CGUs) to which such assets or goodwill have been allocated. As disclosed in Note 16, based on its current year's test, the Group did not recognize any impairment in respect of those assets.
 	
Management Board uses judgment in allocating goodwill and other long-lived assets, including intangibles, to CGUs for the annual impairment test purposes. A complex model is applied in the test, relying on adjusted historical performance, and a range of internal and external sources of inputs to the assumptions. Significant judgment is required in making key forward-looking assumptions, including forecast cash flows and growth rates, as well as discount rates.
 	
Complex models using forward-looking assumptions tend to be prone to greater risk of management bias, error and inconsistent application. These conditions necessitate our additional attention in the audit, in particular to address the objectivity of sources used for assumptions, and their consistent application. Due to the above factors, we considered this area to be a key audit matter.
	Our audit procedures in this area, performed, where applicable, with the assistance from our own valuation specialists, included, among other things:
	• Considering the appropriateness of the Group's value in use model ("impairment model") applied to perform the annual impairment test, against the relevant requirements of the financial reporting standards;
	• Assessing the integrity of the impairment model, including the accuracy of the underlying calculation formulas;
	• Assessing asset grouping into CGUs, based on our understanding of the Group's operations and business units;
	• Evaluating the quality of the Group's forecasting by comparing historical projections with actual outcomes;
	• Using our knowledge of the Group, its past performance, business and customers, and our industry experience, challenging significant forecast cash flow and growth assumptions. As part of the procedure we, among other things:
	  o Traced forecasted figures to formally approved budgets,
	  o Applied increased skepticism to forecasts in any areas where previous year's forecasts were not achieved,
	  o Challenged the discount rate used by reference to publicly available market data, adjusted by risk factors specific to the Group and its industry,
	  o Challenged reasonableness of other key macroeconomic assumptions, such as expected market growth.
	  o Checked the assumed growth rate by reference to the Group's past performance, its approved plan and strategy, and our experience regarding the feasibility of these in the economic environment in which it operates;
	• Considering the sensitivity of the impairment model to changes in key assumptions, such as forecast growth rates, EBITDA and discount rates to identify the assumptions at higher risk of bias or inconsistency in application;
	• Assessing impairment-related disclosures in the financial statements against the requirements of the financial reporting standards.

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

Report on the Audit of the Financial Statements *(continued)*

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 21 March 2019.

Other Information

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

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

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

- the information given in the Management Report and Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Articles 21 and 24 of the Accounting Act;
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

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

Report on the Audit of the Financial Statements *(continued)*

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

Independent Auditors’ Report to the shareholders of Medika d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ 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 Auditors' Report to the shareholders of Medika d.d. *(continued)*

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 21 May 2019 to audit the consolidated financial statements of Medika d.d. for the year ended 31 December 2019. Our total uninterrupted period of engagement is one year, covering the year ending 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is Tony Ilijanić.

KPMG Croatia d.o.o.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

10 March 2020

MEDIKA d.d. and its subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts are expressed in thousands of HRK)	**Note**	**2019**	**2018**
Income	5, 6	3,647,001	3,078,278
Cost of goods sold	6	(3,338,881)	(2,786,039)
Staff expenses	7	(123,322)	(113,831)
Marketing and promotion expenses	8	(10,372)	(11,124)
Depreciation and amortisation	14, 15,16	(25,010)	(14,840)
Other operating expenses	9	(56,637)	(110,135)
Other (losses)/gains – net	10	91	(291)
Profit from operations		**92,870**	**42,018**
Financial income	11	2,071	5,343
Financial expenses	11	(6,873)	(8,148)
Net financial loss		**(4,802)**	**(2,805)**
Share in the profit of associates	17	1,949	1,938
Profit before tax		**90,017**	**41,151**
Income tax	12	(17,237)	(7,467)
Profit for the year		**72,870**	**33,684**
Other comprehensive income for the year		**-**	**-**
Total comprehensive income for the year		**72,870**	**33,684**
Earnings per share			
– basic and diluted (in HRK and lipa)	13	**2,670.43**	**1,193.20**

The notes on pages 43 to 94 form an integral part of these consolidated financial statements.

MEDIKA d.d., Zagreb, and its subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

(All amounts are expressed in thousands of HRK)	**Note**	**As at 31 December 2019**	**2018**
ASSETS			
Non-current assets			
Property and equipment	14	167,419	188,440
Righ-of-use assests	15	47,803	-
Intangible assets	16	200,239	192,910
Investments in associates	17	22,043	21,838
Deferred tax assets	28	2,193	11,370
Trade and other receivables	19	18,397	22,653
		458,094	437,211
Current assets			
Inventories	20	383,542	346,266
Trade and other receivables	19	1,429,447	1,171,272
Income tax receivable		-	7,136
Cash and cash equivalents	21	53,421	28,593
		1,866,410	1,553,267
Assets held for sale	22	16,225	-
Total current assets		1,882,635	1,553,267
Total assets		**2,340,729**	**1,990,478**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	23	164,399	164,399
Reserves	24	67,360	67,360
Retained earnings and income for the year		272,869	219,167
		504,628	450,926
Non-current liabilities			
Borrowings	27	-	6,114
Lease liabilities	15	36,849	-
Deferred tax liabilities	28	16,547	15,923
Provisions	29	572	740
		53,968	22,777
Current liabilities			
Trade and other payables	26	1,447,444	1,244,572
Lease liabilities	15	13,024	-
Borrowings	27	315,717	270,830
Income tax payable		3,982	-
Provisions	29	1,966	1,373
		1,782,133	1,516,775
Total equity and liabilities		**2,340,729**	**1,990,478**

The notes on pages 43 to 94 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts are expressed in thousands of HRK)	Note	Share capital	Reserves	Retained earnings and income for the year	Total
Balance at 1 January 2018		185,988	67,360	185,483	438,831
Comprehensive income for the year					
Profit for the year		-	-	33,684	33,684
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**33,684**	**33,684**
Transactions with owners recognised directly in equity					
Purchase of treasury shares	23	(21,589)	-	-	(21,589)
Total transactions with owners recognised directly in equity		**(21,589)**	**-**	**-**	**(21,589)**
Balance at 31 December 2018		**164,399**	**67,360**	**219,167**	**450,926**
Balance at 1 January 2019		164,399	67,360	219,167	450,926
Comprehensive income for the year					
Profit for the year		-	-	72,780	72,780
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**72,780**	**72,780**
Transactions with owners recognised directly in equity					
Dividend payment	25	-	-	(19,078)	(19,078)
Total transactions with owners recognised directly in equity		**-**	**-**	**(19,078)**	**(19,078)**
Balance at 31 December 2019		**164,399**	**67,360**	**272,869**	**504,628**

MEDIKA d.d. and its subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts are expressed in thousands of HRK)	**Note**	**2019**	**2018**
Cash flow from operating activities:			
Profit for the year		**72,780**	**33,684**
Adjusted by:			
Income tax	12	17,237	7,467
Depreciation and amortisation	14, 15, 16	25,010	14,840
Impairment of trade and other receivables, net	9, 19	259	48,955
Value adjustment on inventories	20	5,181	5,624
Unrealised foreign exchange differences		1,857	(1,479)
Changes in provisions	29	425	429
Gain on disposal of property and equipment	10	(695)	(755)
Gain on disposal of intangible assets	10	(2,293)	-
Disposal of intangible assets	16	5	8
Termination of lease contract		52	-
Interest income	11	(2,071)	(5,343)
Interest expense	11	6,681	8,247
Share in profit of associate	17	(1,949)	(1,938)
Changes:			
Decrease in inventories		(42,014)	(44,677)
Decrease in trade and other receivables		(258,486)	(110,713)
Increase in trade and other payables		207,535	56,818
Decrease in dividends payable	25	-	(12,030)
Cash generated from operations		**29,514**	**(863)**
Interest paid		(5,913)	(8,689)
Income taxes paid		(4,996)	(6,962)
Cash flow from operating activities		**18,605**	**(16,514)**
Cash flow from investing activities:			
Purchases of property and equipment		(13,776)	(7,432)
Proceeds from the sale of property and equipment		1,824	1,125
Purchases of intangible assets	16	(4,439)	(5,094)
Proceeds from the sale of intangible assets		2,293	-
Acquisition of subsidiary, net of cash acquired	30	(5,638)	-
Proceeds from repayment of given loans		8,288	56,144
Given loans		(2,600)	(23,460)
Deposits		(34)	-
Interest received		2,055	14,313
Share of profit from associates received	17	1,744	1,553
Cash flow from investing activities:		**(10,283)**	**37,149**

The notes on pages 43 to 94 form an integral part of these consolidated financial statements.

MEDIKA d.d. and its subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts are expressed in thousands of HRK)	**Note**	**2019**	**2018**
Cash flow from financing activities			
Repayments of borrowings		(556,000)	(773,000)
Proceeds from borrowings		604,700	673,000
Proceeds from returned deposits		-	71
Repayment of leases		(13,116)	(3,279)
Purchase of treasury shares	23	-	(21,589)
Dividends paid	25	(19,078)	(12,030)
Cash flow from financing activities		**16,506**	**(136,827)**
Net increase/(decrease) in cash and cash equivalents		**24,828**	**(116,192)**
Cash and cash equivalents at the beginning of the year		28,593	144,785
Cash and cash equivalents at the end of year	21	**53,421**	**28,593**

The notes on pages 43 to 94 form an integral part of these consolidated financial statements.

NOTE 1 – GENERAL DATA

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

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

Subsidiaries:

	2019	**2018**
Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb	100%	100%
- Zdravstvena ustanova Ljekarne Delonga, Zagreb (since May 2007)	100%	100%
- Zdravstvena ustanova Ljekarne Ines Škoko, Zagreb (since March 2011)	100%	100%
- Ljekarna marica Jelčić, Rijeka (acquired and merged in 2019)	-	-
Primus nekretnine d.o.o., Zagreb	100%	100%

Associates:

	2019	**2018**
Zdravstvena ustanova Ljekarne Jagatić, Zagreb (since November 2008)	49%	49%

As at 31 December 2019, 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 23.

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of preparation (continued)

First application of new standards and amendments to existing standards

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:
- IFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

As a result of applying IFRS 16, the Group had to change its accounting policy for leases, which is explained in note 2.9 and note 15.

The other amendments listed above did not have significant impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

New standards and amandments to existing not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Consolidation

(a) Subsidiaries

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

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

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

(b) Associates

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

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

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

2.3 Operating segment reporting

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currencies

(a) Functional and reporting currency

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

(b) Foreign currency transactions

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

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

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

2.5 Property and equipment

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

Subsequent expenditure is included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group, and the cost of the asset can be measured reliably. The carrying amount of a replaced part is derecognised. All other investment and maintenance costs are charged to the profit and loss account in the financial period they incurred in.

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

The estimated useful lives are as follows:

Buildings	10–40 years
Equipment	2–20 years

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property and equipment (continued)

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

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

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

2.6 Intangible assets

(a) Goodwill

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

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

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

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

(b) Licences

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

(c) Software

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets (continued)

(d) Other rights

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

2.7 Impairment of non-financial assets

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

2.8 Financial instruments

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

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

Financial assets

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (*continued*)

Financial assets (continued)

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

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

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

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

(i) Depreciated cost and effective interest rate method

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

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

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

NOTE 2 – 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 Group recognises interest income by using the effective interest rate adjusted by the credit risk to the depreciated cost of financial assets at initial recognition. The calculation is not returned to a gross basis, even if the credit risk of the financial assets subsequently improves so that the financial assets are no longer credit-impaired.

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

Impairment of financial assets

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

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

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

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

NOTE 2 – 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 Group compares the risk of default on the reporting date to the risk of default of the financial instrument on the date of initial recognition. During the assessment, the Group considers both quantitative and qualitative information which are reasonable and available, including the historical experience, which can be accessed without unnecessary costs or engagements.

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

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

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

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

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

(ii) Definition of default status

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

NOTE 2 – 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 Group writes off financial assets when there are data pointing to the fact that the debtor is in serious financial difficulties and that there is no real chances of return, for example when the debtor has gone into liquidation or bankruptcy. Written-off financial assets can still be subject to enforcement activities within the Group recovery procedures, with regard to the relevant legal advice, where appropriate. Recovery is recognised in the profit or loss account.

(v) Measurement and recognition of expected credit losses

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

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

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

The Company measures all financial liabilities at depreciated cost.

(a) Trade payables

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

(b) Borrowings

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

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

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

2.9 Leases

The Group has selected modified retrospective application of IFRS 16 from January 1, 2019, which recognized the cumulative effects of initial application of the standard at the date of initial application and accordingly did not revise the comparative data for 2018, which the standard allows.

The Group leases certain properties and vehicles. The contracts are concluded for a period of 3 years to 10 years and have the possibility of extension. Contracts may contain lease and non lease components, allocation of consideration between components is based on their relative stand-alone prices.

Until 31 December 2018, leases of property and equipment in which the Group bears all the risks and rewards of ownership were classified as finance leases. Financial leases were capitalized at the beginning of the lease at the fair value of the leased property and equipment or the present value of the minimum lease, whichever is lower. The corresponding rental obligations net of finance charges were included in short-term and long-term borrowings. Each lease payment was divided into liabilities and financial expenses. The interest component of the financial expense was charged to the income statement during the lease period. Property and equipment purchased under the financial lease were depreciated over the useful life or lease term, whichever is shorter.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Leases (continued)

Leases in which the Group does not bear a significant portion of the risks and rewards of ownership were classified as operating leases. Payments made under operating leases were recorded in the income statement on a straight-line basis over the term of the lease.

As of January 1, 2019, leased property is classified as a right-of-use. At the same time, a lease liability is recognized on the date the underlying asset is available for use. Assets and liabilities from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments: fixed payments less any incentives, variable lease payments that are based on index, initially measured using the index as at commencement date, amounts expected to be payable by the Group under residual value guarantees. Lease payment to be made under reasonably certain extension options are also included in the measurement of the liability. Lease liabilities are discounted using the interest rates implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the Group's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated into the principal and the cost of financing. Financing expense is recognized in the income statement over the term of the lease.

Right-of-use assets are recognized using the cost method consisting of: the amount of the initial measurement of the lease liability, all payments made before the lease commences and direct costs. Right of use assets are depreciated over the useful life or lease term, whichever is shorter.

All leases that with a remaining lease term of less than 12 months and leases of assets with low value are recognized in the income statement on a straight-line basis over the term 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 realisable value represents the estimated selling price in the ordinary course of business less all variable selling costs. Examination of damaged and/or obsolete inventories is preformed continuously and for all such inventories a provision is charged to cost of goods sold.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and loan receivables

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

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

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. Assets held for sale

Assets are classified as held for sale when carrying value is expected to be recovered primarily through sale rather than through continuing use. Assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. Assets held for sale are not depreciated and are presented separately.

2.14 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 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 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.

2.16 Income tax

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

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits

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

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

(b) Long-term employee benefits

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

(c) Short-term employee benefits

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

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

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

2.18 Provisions

Provisions are recognised if the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Provisions (continued)

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

2.19 Revenue recognition

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

(a) Sales of goods

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

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

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

(b) Service revenue

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

(c) Financial income

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

2.20 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Dividends payable

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

2.22 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.

2.23 Earnings per share

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

NOTE 3 - FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

NOTE 3 - FINANCIAL RISK MANAGEMENT

(a) Market risk

(i) Foreign exchange risk

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

As at 31 December 2019, (Notes 19, 21, 26, 27), if the euro would weaken/strengthen against the Croatian kuna by 1.0%, with all other variables held constant, the net profit for the reporting period would have been HRK 5,028 thousand higher/lower (2018: HRK 4,185 thousand higher/lower), mainly as a result of foreign exchange gains/losses on translation of euro-denominated trade payables.

(ii) Cash flow and fair value interest rate risk

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

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

As at 31 December 2019, if the effective interest rate on borrowings (issued at variable rate) would be 0.10% higher/lower on an annual level, the net profit for the reporting period would be HRK 148 thousand lower/higher (2018: HRK 87 thousand).

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Current assets that expose the Group to credit risk consists mainly of cash, trade and other receivables. The Group has no significant concentrations of credit risk. The Group has sales policies in place to ensure that the sale is made to customers with an appropriate credit history. With respect to credit risk exposure, customers are grouped into three categories: pharmacies, hospitals and other customers. A higher credit risk is found among pharmacies since they have a potential going concern issue. However, collection period for hospitals is longer, but there is no risk that the receivables will not be recovered, i.e. there is no going concern issue. Other customers are not significant because of dispersion over a large number of customers and individually small balances. The Group secures the recovery of a part of the trade receivables with bills of exchange and promissory notes. A detailed credit risk analysis is presented in Notes 18 and 19.

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

The Group is exposed to one customer from the hospital segment, accounting for 27% of total trade receivables (2018: 22%)

(c) Liquidity risk

Prudent liquidity risk management implies the maintenance of a sufficient cash level, ensuring the availability of financial assets due to adequate amounts of contracted credit lines and the ability to settle all liabilities. It is the objective of the Company and the Group to maintain flexibility in funding, by ensuring availability of the agreed credit lines. The Finance Department of the Company regularly monitors the level of available sources of cash funds. Customers consist largely of those owned by, or dependent of, the Republic of Croatia. Hence, the Group's liquidity risk level also depends on the state. The insufficient level of cash from period to period is a direct consequence of the schedule of payments received from the state in settling the state's liabilities concerning the health system. Where the payment periods are extended by the state, the Group agrees extended payment deadlines with its suppliers. Any shortfall is covered using lines of credit available at commercial banks. At 31 December 2019, the balance of cash and cash equivalents amounts to HRK 53,421 thousand, and the Group had free credit lines in the amount of HRK 180,000 thousand available at demand for liquidity risk management purposes.

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

(in thousands of HRK)	**Up to 1 month**	**1 months to 1 year**	**1-3 years**	**Over 3 years**	**Total**
At 31 December 2019					
Trade and other payables (note 26)	479,164	968,280	-	-	1,447,444
Borrowings	420	320,208	4,332	481	325,441
Lease liabilities	1,073	12,129	22,961	14,012	50,175

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

(in thousands of HRK) **31 December 2018**	**Up to 1 month**	**1 months to 1 year**	**1-3 years**	**Over 3 years**	**Total**
Trade and other payables (note 26)	380,139	864,433	-	-	1,244,572
Borrowings	565	272,118	6,326	-	279,009

In 2020, the Group will settle trade and other liabilities according to the collection of receivables which depends on the liquidity of the entire healthcare system.

3.2 Capital management

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

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

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

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

	2019	**2018**
	(in thousands of HRK)	
Total capital (equity and reserves)	504,628	450,926
Total assets	2,340,729	1,990,478
Equity to assets ratio	**22%**	**23%**

The 2019 ratio decreased in relation to the 2018 ratio and shows that the Group finances 22% of its total assets from own sources. Consequently, 78% of the assets are financed from sources other than owner's equity (2018: 77%).

3.3 Fair value measurement

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

NOTE 4 - KEY ACCOUNTING ESTIMATES

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

Assumptions for determining the amount of provisions for trade receivables

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

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

Compared to 31 December 2019, if the discount rate were to increase by 1 percentage point, assuming that all other indicators remained unchanged, profit before tax for the reporting period would be HRK 3,836 thousand lower than for the reported (2018: HRK 4,598 thousand), that is, the impact in the hospital segment would be HRK 3,674 thousand (2018: HRK 4,419 thousand), in the pharmacy segment HRK 72 thousand (2018: HRK 106 thousand), and in the segment other 90 thousand (2018: HRK 73 thousand).

Business model assessment

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

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

NOTE 4 - KEY ACCOUNTING ESTIMATES (continued)

Useful life of property and equipment

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

Pharmaceutical licenses and goodwill impairment

The goodwill and pharmaceutical licenses with indefinite useful life impairment testing is performed once a year during the reporting period in accordance with the accounting policy explained in notes.

Goodwill relates partially to goodwill arising on acquisition of the subsidiaries Farmis and Famacon that were later merged into Medika and partially arising on acquisitions of pharmacies. At the end of 2019 impairment test was performed for a cash-generating units to which goodwill and licenses have been allocated to based on estimated future cash flows. The recoverable amount of an asset or cash generating unit is its value in use. In assessing value in use the estimated future cash flows are discounted to their present values which are based on financial projections for the period of five years approved by the Management.

Management Board set the planned growth rates and gross margins based on past experience and expected market development. Terminal growth rate of 2.5% and pre-tax discount rate reflecting specific risks related to relevant business segments, were used in discounted cash flow model. The sensitivity analysis indicates if discount rate is increased by 0.5% (assuming an unchanged terminal growth rate) or terminal growth rate is decreased by 0.5% (assuming an unchanged discount rate), there would be no impairment of other rights.

NOTE 5 – REVENUE

	2019	2018
	(in thousands of HRK)	
Revenue from sales of goods	3,584,313	3,023,631
Revenue from sale of goods – related parties (note 32)	44,093	37,511
Revenue from sale of services	18,595	17,077
Revenue from sale of services – related parties (note 32)	335	59
	3,647,001	**3,078,278**

NOTE 6 – SEGMENT INFORMATION

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

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

The wholesale distribution channel consists of:

1. Pharmacies

2. Hospitals

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

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

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

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

NOTE 6 – SEGMENT INFORMATION (continued)

The segments' results for the year ended 31 December 2019 are as follows:

	Wholesale			Retail	Total
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Own pharmacies**	
Revenue from sale of goods	1,297,415	1,349,989	541,048	395,861	3,584,313
Revenue from sale of goods - related parties (note 32)	43,091	-	667	-	43,758
Revenue from sale of services	173	270	15,093	3,059	18,595
Revenue from sale of services – related parties (note 32)	-	-	335	-	335
Total income	**1,340,679**	**1,350,259**	**557,143**	**398,920**	**3,647,001**
Cost of goods sold	(1,255,595)	(1,271,124)	(504,904)	(307,258)	(3,338,881)
Segment result	**85,084**	**79,135**	**52,239**	**91,662**	**308,120**
Operating expenses					(215,250)
Profit from operations					**92,870**
Financial income					2,071
Financial expenses					(6,873)
Net financial loss					**(4,802)**
Share in the profit of associates					1,949
Profit before tax					**90,017**
Income tax					(17,237)
Profit for the year					**72,780**

NOTE 6 – SEGMENT INFORMATION (continued)

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

	Wholesale			Retail	Total
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Own pharmacies**	
Revenue from sale of goods	1,164,537	995,702	502,178	361,214	3,023,631
Revenue from sale of goods - related parties (note 32)	37,483	-	28	-	37,511
Revenue from sale of services	178	327	13,540	3,032	17,077
Revenue from sale of services – related parties (note 32)	-	-	59	-	59
Total income	**1,202,198**	**996,029**	**515,805**	**364,246**	**3,078,278**
Cost of goods sold	(1,119,571)	(924,293)	(464,765)	(277,410)	(2,786,039)
Segment result	**82,627**	**71,736**	**51,040**	**86,836**	**292,239**
Operating expenses					(250,221)
Profit from operations					**42,018**
Financial income					5,343
Financial expenses					(8,148)
Net financial loss					**(2,805)**
Share in the profit of associates					1,938
Profit before tax					**41,151**
Income tax					(7,467)
Profit for the year					**33,684**

The analysis of trade receivables by the segments at 31 December 2019 is as follows:

	Wholesale			Retail	Total
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Own pharmacies**	
Trade receivables (note 19/ii/)	211,481	1,075,481	71,867	56,580	1,415,409

NOTE 6 – SEGMENT INFORMATION (continued)

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

	Wholesale			Retail	
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Own pharmacies**	**Total**
Trade receivables (note 19/ii/)	198,436	828,261	80,975	46,876	1,154,548

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

Revenue from the most significant customer, from the hospital segment, was 14.8% in 2019 (2018: 10.6%)

NOTE 7 - STAFF EXPENSES

	2019	**2018**
	(in thousands of HRK)	
Net salaries	68,121	62,289
Contributions from and on salaries /i/	32,379	31,089
Taxes and surtaxes	9,532	8,463
Other employee benefits /ii/	4,339	3,621
Management bonuses	4,264	4,071
Employee transportation costs	4,077	3,805
Termination benefits	610	493
	123,322	**113,831**

At 31 December 2019, there were 856 persons employed at the Group (2018: 821 employees).

/i/ Pension contributions recognised by the Group as payable to mandatory pension funds in respect of 2019 amount to HRK 18,675 thousand (2018: HRK 17,425 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

	2019	2018
	(in thousands of HRK)	
Donations	5,255	6,763
Entertainment	3,346	2,591
Marketing	1,771	1,770
	10,372	**11,124**

NOTE 9 - OTHER OPERATING EXPENSES

	2019	2018
	(in thousands of HRK)	
Maintenance of assets, security services and property insurance	15,970	14,457
Materials and energy	13,894	13,332
Professional training and consultancy services	9,162	7,799
Taxes and contributions independent of the results	4,170	3,992
Bank and payment operation charges	2,694	2,977
Rental costs (note 15)	2,597	11,896
Telephone, postal and utility services	2,192	2,066
Litigation provisions (note 29)	420	483
Impairment of trade and other receivables, net (note 19)	259	48,955
Other costs	5,279	4,178
	56,637	**110,135**

NOTE 10 – OTHER (LOSSES)/GAINS – NET

	2019	2018
	(in thousands of HRK)	
Gains from the sale of property and equipment (net)	695	755
Gains from the sale of intangible asset (net)	2,293	-
Net foreign exchange losses – trade and other receivables	(26)	(63)
Net foreign exchange losses – cash and cash equivalents	(571)	(401)
Net foreign exchange losses – trade and other payables	(2,300)	(582)
	91	**(291)**

NOTE 11 - NET FINANCIAL LOSS

	2019	2018
	(in thousands of HRK)	
Financial income		
Interest income	2,071	5,342
Interest income – related companies (note 32)	-	1
	2,071	**5,343**
Financial expenses		
Interest expense:		
Bank loans	(5,678)	(8,247)
Leases (note 15)	(1,003)	-
	(6,681)	**(8,247)**
Foreign exchange gains – net		
Foreign exchange gains	1	262
Foreign exchange losses	(193)	(163)
	(192)	99
	(6,873)	**(8,148)**

NOTE 12 – INCOME TAX

	2019	2018
	(in thousands of HRK)	
Current tax	8,060	2,731
Deferred tax (note 28)	9,177	4,736
	17,237	**7,467**

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

	2019	2018
	(in thousands of HRK)	
Profit before taxation	**90,017**	**41,151**
Income tax at the rate of 18%	16,203	7,407
Effect of non-taxable income and tax incentives	(387)	(120)
Effect of non-deductible expenses	1,421	180
Income tax	**17,237**	**7,467**
Effective tax rate	19.15%	18.15%

NOTE 12 - INCOME TAX (continued)

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

Utilized tax losses

According to the income tax calculation for 2018, a transferable tax loss of HRK 23,174 thousand was made. On this basis, the Company recognized deferred tax assets in the amount of HRK 4,172 thousand with the possibility of use until 2023. In 2019, the Company utilized full amount of tax losses carried forward (note 28).

Tax incentives to encourage investment activity

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

Based on the assessment of the profitability of tax relief by the Management Board, in the financial statements for 2017, the Company initially recognized the total amount of tax relief granted as deferred tax assets and tax revenue. The utilization of deferred tax assets on the basis of tax relief was recorded in 2017 at the current tax expense of the Company's profit of HRK 6,620 thousand and in 2019 at the current tax expense of 4,567 thousand which would be payable if there was no such relief (note 28). In the coming years, deferred tax assets will be utilized in accordance with tax relief, i.e. the availability of tax liability that the Company will be able to mitigate through incentive measures.

NOTE 13 – EARNINGS PER SHARE

Earnings per share are determined, by dividing the Group’s net profit by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares redeemed and held by the Company as treasury shares. The weighted average number of shares decreased to 27,254 as the Company had transactions involving its treasury shares in 2018.

	2019	**2018**
Net profit attributable to the shareholders *(in thousands of HRK)*	72,780	33,684
Weighted average number of shares (excluding treasury shares)	27,254	28,230
Basic/diluted earnings per share *(in HRK and lipa)*	**2,670.43**	**1,193.20**

NOTE 14 - PROPERTY AND EQUIPMENT

(All amounts are expressed in thousands of HRK)	**Land**	**Buildings**	**Equipment**	**Assets under construction and prepayments**	**Total**
Balance at 31 December 2017					
Cost	25,227	195,996	110,414	9,323	340,960
Accumulated depreciation	-	(68,073)	(82,745)	-	(150,818)
Net carrying amount	**25,227**	**127,923**	**27,669**	**9,323**	**190,142**
For the year ended 31 December 2018					
Opening carrying amount, net	25,227	127,923	27,669	9,323	190,142
Additions	-	-	667	10,872	11,539
Transfer to intangible assets (note 16)	-	-	(3)	(227)	(230)
Transfer from assets under construction	-	330	11,877	(12,207)	-
Disposals	-	(75)	(288)	(10)	(373)
Depreciation	-	(4,922)	(7,716)	-	(12,638)
Closing carrying amount, net	25,227	123,256	32,206	7,751	188,440
Balance at 31 December 2018					
Cost	25,227	195,876	117,057	7,751	345,911
Accumulated depreciation	-	(72,620)	(84,851)	-	(157,471)
Net carrying amount	**25,227**	**123,256**	**32,206**	**7,751**	**188,440**
For the year ended 31 December 2019					
Opening carrying amount, net	25,227	123,256	32,206	7,751	188,440
Adjustment for change in accounting policy	-	-	(8,407)	-	(8,407)
Restated opening net book amount	**25,227**	**123,256**	**23,799**	**7,751**	**180,033**
Additions	-	-	899	12,877	13,776
Transfers from right-of-use assets (note 15)	-	-	301	-	301
Transfers to assets held for sale (note 22)	(6,994)	(8,380)	(3)	-	(15,377)
Acquisition of subsidiary (note 30)	-	-	2	-	2
Transfer from assets under construction	5,173	5,912	7,148	(18,233)	-
Disposals	-	(822)	(182)	(13)	(1,017)
Depreciation	-	(4,949)	(5,350)	-	(10,299)
Closing carrying amount, net	23,406	115,017	26,614	2,382	167,419
Balance at 31 December 2019					
Cost	23,406	189,081	110,801	2,382	325,670
Accumulated depreciation	-	(74,064)	(84,187)	-	(158,251)
Net carrying amount	**23,406**	**115,017**	**26,614**	**2,382**	**167,419**

NOTE 14 – PROPERTY AND EQUIPMENT (continued)

Loans (note 27) have been secured by pledges over property and equipment with a carrying amount of HRK 126,935 thousand as at 31 December 2019 (2018: HRK 134,863 thousand).

NOTE 15 – LEASES

The Company leases vehicles and business premises under lease agreements.

/i/ The balance sheet shows the following amounts relating to leases:

	2019	1 January 2019
	(HRK '000)	
Right-of-use assets:		
Vehicles	10,079	10,974
Buildings	37,724	37,730
	47,803	**48,704**
Lease liabilities:		
Current	13,024	11,560
Non-current	36,849	38,430
	49,873	**49,990**

/ii/ Non-current lease liabilities:

	2019	1 January 2019
	(HRK '000)	
1-2 years	10,496	11,106
2-5 years	22,760	24,063
Over 5 years	3,593	3,261
	36,849	**38,430**

NOTE 15 – LEASES (continued)

/iii/ The statement of profit or loss shows the following amounts relating to leases:

	2019	**1 January 2019**
	(HRK '000)	
Depreciation	12,229	-
Interest expense (note 11)	1,003	-
Rent expense for short-term leases (note 9)	2,597	-
	15,829	-

Average interest rate amounts to 2.68%.

/iv/ Movement of right-of-use assets is as following:

(HRK '000)	**Vehicles**	**Buildings**	**Total**
For year ended 31 December 2019			
Opening net book value of leases recognized under IFRS 16	2,567	37,730	40,297
Adjustment for change in accounting policy (asset previously recognized as finance lease)	8,407	-	8,407
Opening net book value	**10,974**	**37,730**	**48,704**
Additions	3,807	8,622	12,429
Transfers to property, plant and equipment (note 14)	(301)	-	(301)
Disposals and write offs	(112)	(688)	(800)
Depreciation	(4,289)	(7,940)	(12,229)
Closing net book value	10,079	37,724	47,803
At 31 December 2019			
Cost	15,012	45,664	60,676
Accumulated depreciation	(4,933)	(7,940)	(12,873)
Net book value	**10,079**	**37,724**	**47,803**

NOTE 15 – LEASES (continued)

/v/ Recognition of lease liability:

(All amounts are expressed in thousands of HRK)	**1 January 2019**
Operating lease commitments disclosed as at 31 December 2018	14,651
Finance lease liabilities recognized as at 31 December 2018	9,689
Operating leases for which practical exempt was used	(1,151)
Adjustments as a result of a different treatment of extension and termination options	30,416
Adjustments for discounting at initial recognition date	(3,615)
Lease liability recognized as at 1 January 2019	**49,900**

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as operating leases under principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to lease liabilities on 1 January 2019 was 2.68%.

For leases previously classified under finance lease the entity recognized the carrying amount of the lease asset and lease liability in immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application.
As of 1 January 2019, the Group had a number of operating leases of indefinite duration. The Group estimated that the estimated lease term of five years reflects the highly probable term of termination of these contracts.

/vi/ The carrying amounts of the Group's lease liabilities are denominated in the following currencies:

	2019.	**2018.**
	(in thousands of HRK)	
HRK	9,574	-
EUR	40,299	-
Lease liability:	**49,873**	-

NOTE 16 – INTANGIBLE ASSETS

(All amounts are expressed in thousands of HRK)	**Goodwill**	**Licences, software and other rights**	**Assets under construction**	**Total**
Balance at 31 December 2017				
Cost	78,270	176,995	660	255,925
Accumulated amortisation and impairment	(10,058)	(56,071)	-	(66,129)
Net carrying amount	**68,212**	**120,924**	**660**	**189,796**
For the year ended 31 December 2018				
Opening carrying amount, net	68,212	120,924	660	189,796
Additions	-	3,025	2,069	5,094
Transfers	-	2,187	(2,187)	-
Transfer from property and equipment (note 14)	-	230	-	230
Expenses	-	(8)	-	(8)
Amortisation	-	(2,202)	-	(2,202)
Closing carrying amount, net	68,212	124,156	542	192,910
Balance at 31 December 2018				
Cost	78,270	181,102	542	259,914
Accumulated amortisation and impairment	(10,058)	(56,946)	-	(67,004)
Net carrying amount	**68,212**	**124,156**	**542**	**192,910**
For the year ended 31 December 2019				
Opening carrying amount, net	68,212	124,156	542	192,910
Additions	-	2,502	1,937	4,439
Transfers	-	2,169	(2,169)	-
Transfers to assets held for sale (note 22)	-	(848)	-	(848)
Acquisition of subsidiary (note 30)	2,758	3,467	-	6,225
Disposals	-	(5)	-	(5)
Amortisation	-	(2,482)	-	(2,482)
Closing carrying amount, net	70,970	128,959	310	200,239
Balance at 31 December 2019				
Cost	81,029	170,530	310	251,869
Accumulated amortisation and impairment	(10,059)	(41,571)	-	(51,630)
Net carrying amount	**70,970**	**128,959**	**310**	**200,239**

Licences

At the reporting date, pharmacy licences with an indefinite useful life amount in total to HRK 119,285 thousand (2018: HRK 113,164 thousand). Pharmacy activities cannot be undertaken without pharmacy licences.

NOTE 16 – INTANGIBLE ASSETS (continued)

Impairment test of goodwill and licences with indefinite useful life

The Group calculated recoverable amount using value-in-use method. Value-in-use cash flow projections were based on a 5-year business plan approved by Management and Director. Discount rate of 7.01% (2018: 9.36%) and terminal growth rate of 2.5% (2018: 2.5%) were used for discounting the projected cash flow. In 2019 and 2018, the recoverable amount exceeds the carrying amount, so no impairment loss on goodwill was recognised based on a goodwill impairment test.

NOTE 17 – INVESTMENTS IN ASSOCIATES

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

	2019	**2018**
	(in thousands of HRK)	
Balance at 1 January	21,838	21,453
Share of profit paid	(1,744)	(1,553)
Transfer of profit made	1,949	1,938
Balance at 31 December	**22,043**	**21,838**

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

(All amounts are expressed in thousands of HRK)	**Assets**	**Liabilities**	**Income**	**Net gain**
Balance at 31 December 2019	35,516	25,048	67,572	3,978
ZU Ljekarne Jagatić				
Total	**35,516**	**25,048**	**67,572**	**3,978**

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

NOTE 18 – FINANCIAL INSTRUMENTS BY CATEGORY

	2019	2018
	(in thousands of HRK)	
Financial assets – category: Loans and receivables		
Loans and receivables (note 19/v/)	1,440,665	1,184,428
Cash and cash equivalents (note 21)	53,421	28,593
	1,494,086	**1,213,021**

	2019	2018
	(in thousands of HRK)	
Financial liabilities - category: Other liabilities		
Trade payables (note 26/i/)	1,418,162	1,217,809
Other liabilities (note 26/ii/)	29,282	26,763
Total borrowings (note 27)	315,717	276,944
Lease liabilities (note 15)	49,873	-
	1,813,034	**1,521,516**

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 (note 19 /ii/):

	2019	2018
	(in thousands of HRK)	
Pharmacies	132,853	129,805
Hospitals	243,097	190,957
HZZO	41,240	35,824
Other	48,929	56,717
Balance at 31 December	**466,199**	**413,303**

NOTE 19 – TRADE AND OTHER RECEIVABLES

	2019	2018
	(in thousands of HRK)	
Long-term receivables:		
Given loans /i/	16,891	22,083
Trade receivables /ii/	1,182	280
Long-term deposits	324	290
	18,397	22,653
Current receivables:		
Trade receivables /ii/	1,414,227	1,154,268
Other current receivables /iii/	6,855	9,207
Given loans /iv/	188	390
Given loans – current portion of non-current receivables /i/	8,177	7,407
	1,429,447	1,171,272
	1,447,844	**1,193,925**

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

	Effective interest rate	2019	2018
		(in thousands of HRK)	
Loans given to pharmacies	3.0%-5.0%	24,351	28,846
Other given loans	2.0%–5.0%	717	644
Total non-current receivables, including current portion		25,068	29,490
Current portion of non-current receivables		(8,177)	(7,407)
		16,891	**22,083**

Fair velue of long term receivables is similar to their carrying value.

The maturity of long-term loans is as follows:

	2019	2018
	(in thousands of HRK)	
From 1 to 2 years	6,753	7,389
From 2 to 5 years	9,966	14,694
Over 5 years	172	-
	16,891	**22,083**

NOTE 19 – TRADE AND OTHER RECEIVABLES (continued)

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

	2019	2018
	(in thousands of HRK)	
Domestic trade receivables	1,401,016	1,157,728
Trade receivables – related parties (note 32)	22,139	10,260
Foreign trade receivables	3,171	975
	1,426,326	1,168,963
Expected credit losses	(10,917)	(14,415)
	1,415,409	**1,154,548**

Ageing structure of receivables:

	2019	2018
	(in thousands of HRK)	
Not yet due	466,119	413,303
0–180 days past due	694,277	523,918
181–360 days past due	199,331	155,538
Over 360 days past due	66,599	76,204
	1,426,326	**1,168,963**

Movements in impairment allowance for trade receivables:

	2019	2018
	(in thousands of HRK)	
Balance at 1 January	14,415	15,191
Increase/ (decrease) (note 9)	265	(553)
Amounts written-off	(3,763)	(223)
Balance at 31 December	**10,917**	**14,415**

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

	2019	2018
	(in thousands of HRK)	
HRK	1,445,237	1,192,962
EUR	2,589	663
DKK	18	288
GBP	-	12
	1,447,844	**1,193,925**

NOTE 19 – TRADE AND OTHER RECEIVABLES (continued)

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

	2019	2018
	(in thousands of HRK)	
VAT receivables not yet recognized	4,236	2,626
Prepaid expenses	889	5,898
Other	1,730	683
	6,855	**9,207**

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

	Effective interest rate	2019	2018
		(in thousands of HRK)	
Given loans	3.0%	1,480	1,698
		1,480	1,698
Impairment allowance		(1,292)	(1,308)
		188	**390**

Movements in reserves for impairment of given loans:

	2019	2018
	(in thousands of HRK)	
Balance at 1 January	1,308	53,119
(Decrease) / increase (note 9)	(6)	49,508
Write-off	(10)	(101,319)
Balance at 31 December	**1,292**	**1,308**

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

NOTE 19 – TRADE AND OTHER RECEIVABLES (continued)

/v/ Financial assets by category include the following:

	2019	2018
	(in thousands of HRK)	
Trade receivables	1,415,409	1,154,548
Given cash loans	18,166	20,910
Given commodity loans	7,090	8,970
	1,440,665	**1,184,428**

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 20 - INVENTORIES

	2019	2018
	(in thousands of HRK)	
Trade goods	361,999	330,020
Trade goods – related parties (note 32)	15,381	13,328
Prepayments made	6,549	3,217
Materials	534	570
Impairment allowance on inventories	(921)	(869)
	383,542	**346,266**

In 2019 the Group recognised an allowance in the amount of HRK 5,181 thousand (2018: HRK 5,624 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 (2018: HRK 130,000 thousand) have been pledged as collateral for the borrowings (note 27).

NOTE 21 - CASH AND CASH EQUIVALENTS

	2019	2018
	(in thousands of HRK)	
Domestic currency (HRK) account balance	53,129	28,492
Foreign currency account balance	262	72
Cash in hand	27	29
Cash deposits	3	-
	53,421	**28,593**

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

NOTE 22 – ASSETS HELD FOR SALE

In 2019, the Company entered into a contract with the buyer for the transfer of a business interest in the subsidiary Primus nekretnine d.o.o. The subsidiary only have one property with carrying value of HRK16,225 thousand which has been reclassified to assets held for sale. The contract is expected to be completed by the end of 2020.

NOTE 23 - SHARE CAPITAL

At 31 December 2019, the share capital of the Company amounts to HRK 209,244,420 thousand (31 December 2018: HRK 209,244,420) and is divided into 30,194 shares (2018: 30,194 shares). The nominal value per share amounts to HRK 6,930 (31 December 2018: HRK 6,930). All issued shares are fully paid in.

	Number of shares	**Share capital**	**Treasury shares**	**Capital gains/ (losses)**	**Total**
	(in pieces)		*(in thousands of HRK)*		
Balance at 1 January 2018	30,194	209,244	(15,598)	(7,658)	185,988
Acquisition of treasury shares \i\	-	-	(21,589)	-	(21,589)
Balance at 31 December 2018	**30,194**	**209,244**	**(37,187)**	**(7,658)**	**164,399**
Balance at 1 January 2019	30,194	209,244	(37,187)	(7,658)	164,399
Balance at 31 December 2019	**30,194**	**209,244**	**(37,187)**	**(7,658)**	**164,399**

In the period from 2013 to 2017, the share capital was increased from the reinvested profit in the amount of HRK 148,856 thousand. The distribution of this amount in future periods may result in a tax liability.

\i\ In 2018 Company acquired 1,500 treasury shares.

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

	2019		**2018**	
	Number of shares	**%**	**Number of shares**	**%**
Auctor d.o.o.	12,806	42.41%	12,806	42.41%
Pliva Hrvatska d.o.o.	7,646	25.32%	7,646	25.32%
Krka d.d. Novo Mesto	3,614	11.97%	3,614	11.97%
Other legal persons	1,058	3.50%	1,089	3.61%
Treasury shares	2,940	9.74%	2,940	9.74%
Natural persons	2,130	7.06%	2,099	6.95%
Total	**30,194**	**100%**	**30,194**	**100%**

NOTE 23 - SHARE CAPITAL

As at 31 December 2019, Auctor d.o.o. holds 12,806 shares, accounting for 46.99% (2018: 46.99%) of voting shares when considering non-voting treasury shares. In the course of the financial restructuring of Auctor d.o.o., in 2019 there was a transfer of ownership of Auctor d.o.o. to Auctor Holding a.s. this led to an indirect change in the ownership of the Company's shares.

NOTE 24 - RESERVES

(in thousands of HRK)	**Legal reserves**	**Reserves for treasury shares**	**Total**
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**
Changes during the year	-	-	-
Balance at 31 December 2019	**18,548**	**48,812**	**67,360**

NOTE 25 – RETAINED EARNINGS

Included in the retained earning are other reserves in the total amount of HRK 31,714 thousand (2018: 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 2019, the General Assembly adopted in its meeting held on 21 May 2019 a decision to distribute dividends from the retained earnings in the amount of HRK 19,078 thousand. The dividend per share amounted to HRK 700.00.

NOTE 26 – TRADE AND OTHER PAYABLES

	2019	**2018**
	(in thousands of HRK)	
Trade payables /i/	1,418,162	1,217,809
Other liabilities /ii/	29,282	26,763
	1,447,444	**1,244,572**

NOTE 26 – TRADE AND OTHER PAYABLES (continued)

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

	2019	2018
	(in thousands of HRK)	
Foreign trade payables	948,268	769,708
Domestic trade payables	419,087	375,422
Trade payables - related parties (note 32)	50,807	72,679
	1,418,162	**1,217,809**

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

	2019	2018
	(in thousands of HRK)	
HRK	839,587	699,864
EUR	575,761	499,983
DKK	2,141	17,654
Other currencies	673	308
	1,418,162	**1,217,809**

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

	2019	2018
	(in thousands of HRK)	
VAT payable	11,218	9,895
Salaries payable	9,593	9,183
Unused annual leave	3,183	3,007
Other taxes and contributions payable	261	184
Other	5,027	4,494
	29,282	**26,763**

NOTE 27 – BORROWINGS

	2019	**2018**
	(in thousands of HRK)	
Long-term:		
Financial lease /ii/	-	6,114
	-	**6,114**
Short-term:		
Short-term loans /i/	315,717	267,255
Financial lease /ii/	-	3,575
	315,717	**270,830**
Total borrowings	**315,717**	**276,944**

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

/ii/ The gross finance lease liability is as follows:

	2019	**2018**
	(in thousands of HRK)	
Up to 1 year	-	3,807
1 to 5 years	-	6,326
Future financing costs	-	(444)
Carrying amount of the finance lease liabilities	**-**	**9,689**

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

	2019	**2018**
	(in thousands of HRK)	
Up to 1 year	-	3,575
1 to 5 years	-	6,114
	-	**9,689**

NOTE 27 – BORROWINGS (continued)

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

	2019	2018
	(in thousands of HRK)	
1 to 2 years	-	2,750
2 to 5 years	-	3,364
	-	**6,114**

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

	2019		2018	
	HRK %	**EUR %**	**HRK %**	**EUR %**
Long-term borrowings				
Financial lease	-	-	-	2.82%–3.97%
Short-term borrowings				
Short-term loans	1.31%-1.40%	-	1.81%–2.10%	-

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

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

	2019	2018
	(in thousands of HRK)	
Variable-rate borrowings		
Up to 3 months	60,643	1,032
3 to 12 months	120,000	106,635
Over 1 year	-	2,232
	180,643	**109,899**
Fixed-rate borrowings		
Fixed-rate loans	135,074	167,045
	135,074	**167,045**
Total borrowings	**315,717**	**276,944**

Given that borrowings in the amount of HRK 135,074 thousand bear interest at fixed rates (2018: HRK 167,045 thousand), there is no exposure to interest rate changes.

NOTE 27 – BORROWINGS (continued)

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

	2019	2018
	(in thousands of HRK)	
HRK	315,717	267,255
EUR	-	9,689
	315,717	**276,944**

Loans received are secured by registered lien over the Group's property and equipment (note 14), inventories (note 20) as well as bills of exchange and promissory notes.

NOTE 28 – DEFERRED TAX

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

Deferred tax assets

(in thousands of HRK)	**Inventor-ies**	**Receivab-les**	**Provisi-ons for employ-ee benefits**	**Intangible assets**	**Tax incentives**	**Loans given**	**Tax losses**	**IFRS 16 effects**	**Total**
Balance at 1 January 2018	**655**	**48**	**195**	**227**	**5,981**	**9,000**	-	-	**16,106**
Tax charged to profit or loss	-	(13)	(6)	-	-	(9,000)	-	-	(9,019)
Tax credited to profit or loss	111	-	-	-	-	-	4,172	-	4,283
Balance at 31 December 2018	**766**	**35**	**189**	**227**	**5,981**	**-**	**4,172**	**-**	**11,370**
Balance at 1 January 2019	**766**	**35**	**189**	**227**	**5,981**	**-**	**4,172**	**-**	**11,370**
Tax charged to profit or loss	(470)	(12)	(41)	-	(4,567)	-	(4,172)	-	(9,262)
Tax credited to profit or loss	-	-	-	-	-	-	-	85	85
Balance at 31 December 2019	**296**	**23**	**148**	**227**	**1,414**	**-**	**-**	**85**	**2,193**

NOTE 28 – DEFFERED TAX (continued)

Deferred tax assets (continued)

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

The total amount of subvention that the Company can use is HRK 12,601 thousand, of which the Company used HRK 4,567 thousand in 2019 (in 2017: HRK 6,620 thousand) (Note 12). The Company plans to continue using the remaining amount of the subvention in the following years.

Deferred tax liabilities

(in thousands of HRK)	**Acquisition of a subsidiary – licences**
Balance at 1 January 2018	**15,923**
Changes during the year	-
Balance at 31 December 2018	**15,923**
Balance at 1 January 2019	**15,923**
Changes during the year	624
Balance at 31 December 2019	**16,547**

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

NOTE 29 – PROVISIONS

(in thousands of HRK)	**Employee benefits**	**Legal disputes**	**Total**
Balance at 31 December 2018	**1,058**	**1,055**	**2,113**
Long-term portion	740	-	740
Short-term portion	318	1,055	1,373
Balance at 1 January 2019	**1,058**	**1,055**	**2,113**
Increase	222	420	672
Utilized during year	(217)	-	(217)
Balance at 31 December 2019	**1,063**	**1,475**	**2,538**
Long-term portion	572	-	572
Short-term portion	491	1,475	1,966

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

Based on an off-court settlement, the Company increased provisions for one court case and related interest in the amount of HRK 420 thousand during 2019.

NOTE 30 – ACQUISITION OF SUBSIDIARIES

Acquisition of Health Institutions

In 2019, the Group acquired 100% ownership over one pharmacy in the agreed amount of HRK 6,140 thousand (in 2018, the Group did not acquire a new subsidiary).

From the date of acquisition to the reporting date of 31 December 2019, on the basis of the newly acquired subsidiaries, the Group generated revenues in the amount of HRK 3,285 thousand and profit in the amount of HRK 102 thousand. The subsidiary was acquired as of 1 June 2019.

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

	2019
	(in thousands of HRK)
Acquisition cost	**6,140**
- Consideration paid	**6,140**
Fair value of assets acquired	(3,382)
Goodwill (note 16)	**2,758**

The fair value of the acquired assets is as follows:

	2019
	(in thousands of HRK)
Intangible assets (note 16)	3,467
Property and equipment (note 14)	2
Inventories	443
Receivables	1,170
Cash and cash equivalents	502
Deferred tax liabilities (note 28)	(624)
Current liabilities	(1,578)
Net assets acquired	**3,382**
Purchase consideration paid in cash	6,140
Cash and cash equivalents acquired	(502)
Net cash outflow	**5,638**

NOTE 30 – ACQUISITION OF SUBSIDIARIES

Acquisition of Health Institutions

In 2019, the Group has allocated the purchase price on identified assets, which include including intangible assets not identified in the statement of financial position, in accordance with IAS 38 “Intangible Assets”.

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

NOTE 31 - SUBSEQUENT EVENTS AFTER REPORTING DATE

After the reporting period, Auctor Holding a.s. acquired 8 shares through the takeover bid, representing 0.03% of the share capital. Auctor Holding a.s. owns a 100.00% stake in Auctor d.o.o. The total number of related parties shares is 12,814, which is 42.44% of share capital.

NOTE 32 – RELATED-PARTY TRANSACTIONS

The Group enters into transactions with related parties.

The related parties include:

	2019	**2018**
1. Associate of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb:		
Zdravstvena ustanova Ljekarne Jagatić, Zagreb	49%	49%

2. The Company with the majority of voting rights, i.e. the parent company Auctor d.o.o., holds an ownership interest of 42.41%, i.e. 46.99% voting shares. In the course of the financial restructuring of Auctor d.o.o., in 2019, there was a transfer of ownership of Auctor d.o.o. to Auctor Holding a.s. this led to an indirect change in the ownership of the Company's shares. Auctor Holding a.s. owns a 100.00% stake in Auctor d.o.o., while the owners of Auctor Holding a.s. Oleg Uskokovic with 60.00% and JTPEG Croatia Investments a.s. with 40.00%.
3. Pliva Hrvatska d.o.o., Zagreb, has an ownership interest of 25.32% and 28.05% of the voting rights in the Company.
4. Other related companies: Auctor Invest d.o.o, a related party of Auctor d.o.o.

NOTE 32 – RELATED-PARTY TRANSACTIONS (continued)

Balances resulting from transactions with the related parties and included in the statement of financial position at 31 December 2019 and 31 December 2018 as well as the items resulting from these transactions are as follows:

(in thousands of HRK)	**Note**	**2019**	**2018**
Trade and other receivables			
Trade receivables			
Associate of ZU Ljekarne Prima Pharme		21,893	10,053
Pliva Hrvatska d.o.o.		246	207
	19	22,139	10,260
Inventories			
Pliva Hrvatska d.o.o.		15,381	13,328
	20	15,381	13,328
Payables to suppliers			
Pliva Hrvatska d.o.o.		50,807	72,679
	26	50,807	72,679
Revenue from sale of goods			
Associate of ZU Ljekarne Prima Pharme		43,091	37,483
Pliva Hrvatska d.o.o.		667	28
	5, 6	43,758	37,511
Revenue from sale of services			
Associate of ZU Ljekarne Prima Pharme		-	-
Pliva Hrvatska d.o.o.		335	59
	5, 6	335	59
Financial income			
Other related companies	11	-	1
		-	1
Purchase of trade goods			
Pliva Hrvatska d.o.o.		161,707	183,955
		161,707	183,955
Key management compensation – salaries and bonuses for Managament Board and Director (2018: five members)		7,742	8,660
Supervisory Board, Audit Committee and Governing Council compensation		550	472

NOTE 33 - APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 38 to 94 were approved by the Management Board of the Company in Zagreb on 10 March 2020.

Jasminko Herceg	Matko Galeković	Jakov Jaki Radošević
President of Management Board	*Member of Management Board*	*Member of Managament Board*

10 Medika d.d.
ZAGREB, Capraška 1

ODLUKA

o usvajanju Financijskog izvješća o poslovanju Grupe Medika za 1-12. mj. 2019. god.

Dana 26. ožujka 2020. godine na 4. sjednici Nadzornog odbora Medike d.d. za trgovinu lijekovima i sanitetskim materijalom, Zagreb, Capraška 1, Nadzorni odbor Medike d.d. dao je suglasnost na Financijsko izvješće o poslovanju Grupe Medika za 1-12. mj. 2019. god. kako ga je utvrdila Uprava Medike d.d.

Time je Izvješće o poslovanju Grupe Medika za 1-12. mj. 2019. god. usvojeno u skladu s čl. 300 d. Zakona o trgovačkim društvima.

U Zagrebu, 26. 3. 2020.

Predsjednik Uprave

Jasminko Herceg, mag.oec.

Predsjednica Nadzornog odbora

Ružica Vađić,mag. oec.

1 Medika d.d.
ZAGREB, Capraška 1

Dioničko društvo za trgovinu lijekovima i sanitetskim materijalom
A Capraška 1 – HR – 10000 Zagreb, **T** +385 1 2412 555, 0800 2888, **E** medika@medika.hr, **I** www.medika.hr