

MEDIKA d.d.

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

CONTENTS

	Page
Management Report	1-4
Statement of the Responsibility of the Management and Supervisory Boards	5
Independent Auditors' Report to the shareholders of Medika d.d.	6-12
Separate statement of comprehensive income	13
Separate statement of financial position	14
Separate statement of changes in shareholders' equity	15
Separate statement of cash flows	16-17
Notes to the separate financial statements	18-64

MANAGEMENT REPORT

In 2019, Medika d.d. (the “Company”) generated a non-consolidated revenue in the amount of HRK 3,530,384 thousand, which is HRK 559,249 thousand above than the prior year’s non-consolidated revenue. The non-consolidated operating profit amounts to HRK 73,955 thousand, which is by HRK 46,583 thousand higher than the prior year’s figure.

Profit before tax on a non-consolidated basis amounts to HRK 70,375 thousand, and the non-consolidated net profit amounts to HRK 57,045 thousand, which is HRK 37,013 thousand more than the 2018 figure.

The increase in non-consolidated operating profit and non-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 impairment 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), 46.0% of the total non-consolidated income was generated by pharmacies (2018: 49.1%). At the same time, 38.2% of the total non-consolidated income was generated from hospitals (2018: 33.5%).

Total non-consolidated assets amount to HRK 2,178,852 thousand, representing a increase of 15.2% from the prior year. The amount of non-consolidated non-current assets decreased by 7.4% from the prior year, whereas the amount of non-consolidated current assets increased by 19.7%. The non-consolidated current assets account for 86.8% of the total assets. Trade and other receivables represent the most significant item of the total non-consolidated assets and are increased by 19.1% from the prior year. In addition, due to the sales growth, inventories rose by 11.1% compared with the prior year.

The total non-consolidated loan debt amounts to HRK 301,017 thousand, comprising of short-term loans (Note 26). The Company on 31 December 2019 had no long-term loans.

The equity-to-assets ratio is 20%, showing that the Company finances 20% of its total assets from own sources.

The non-consolidated performance is presented in the statement of comprehensive income on page 13 of the financial statements.

Expected future development of the Company

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

Treasury shares

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 Company is the long collection period for trade receivables, especially those HZZO (Croatian State Health Insurance) and HZZO related receivables. Therefore, a significant amount of working capital is not available, which strongly affects the cash flow of Medika d.d. and timely settlement of its liabilities. As the receivables represent, directly or indirectly, amounts owed by state institutions, their collection should not be regarded as probable of default risk. This indirectly increases the need for additional funding, which means additional business costs.

Credit risk arises primarily from trade receivables. The risk is higher when dealing with 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 is a further risk. To lower this risk, the Company has focused on expanding the lines of products that are not limited by law in respect of the price of the product.

Foreign exchange risk

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

Interest rate risk

The Company's interest rate risk arises from its short-term and long-term borrowings at variable rates, which expose the Company to cash-flow interest rate risk. Variable-rate borrowings expose the Company to the interest-rate cash flow risk. Fixed-rate borrowings expose the Company to the interest-rate fair value risk.

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

CORPORATE GOVERNANCE STATEMENT

As an entity listed on the official market of the Zagreb Stock Exchange, Medika d.d. applies the Corporate Governance Code of the CFSSA (Croatian Financial Services Supervisory Agency) and the Zagreb Stock Exchange, which is published on the website of the Zagreb Stock Exchange. In the business year 2019, the Company substantially complied with and adopted the recommendations specified in the Code. Minor departures from the individual recommendations provided in the Code are explained in the questionnaire the Company publishes on the Zagreb Stock Exchange website and on its own website and submits to the CFSSA.

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

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

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

Corporate governance structure

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

- General Assembly
- Supervisory Board
- Management.

General Assembly

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

Supervisory Board

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

The members of the Supervisory Board are as follows: Mrs Ružica Vađić, Chairwoman, Mr Damjan Možina, Vice Chairman; Members: Mr Mihael Furjan, Mr Oleg Uskoković, Mrs Gracijela Balaban, Mr Josef Pilka and Mr Jozef Harviš.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE STATEMENT (continued)

Corporate governance structure (continued)

Management Board

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.

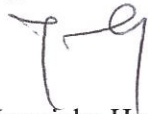
The Management Board of Medika has three members: Mr Jasminko Herceg, President of Management Board, Mr Matko Galeković, Member of Management Board and Mr Jakov Jaki Radošević, Member of Management Board, which represent the Company and managing its affairs solely.

Audit Committee

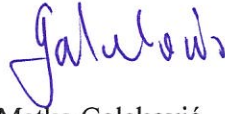
The Audit Committee has been established by decision of the Supervisory Board. The activities of the Audit Committee are governed by the Companies Act, the Accounting Act and other regulations. The term of office of the Audit Committee members coincides with the term of office for the Supervisory Board.

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

Zagreb, 10 March 2020



Jasminko Herceg
President of Management Board



Matko Galeković
Member of Management Board



Jakov Jaki Radošević
Member of Management Board

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 financial statements are prepared for each financial year in accordance with the International Financial Reporting Standards (“the IFRSs”) which give a true and fair view of the financial position and results of operations of the Company Medika d.d. for that period.

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

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


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

Management Board is responsible for keeping proper accounting records, which shall at any time reflect with reasonable accuracy the financial position and the results of operations of the Company and their compliance with the Accountancy Act. Furthermore, Management Board is responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

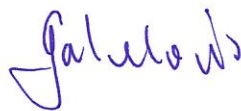
Management Board is responsible for submitting its annual report, together with the annual non-consolidated financial statements, to the Supervisory Board, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders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

The financial statements set out on pages 13 to 64 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
President of Management Board



Matko Galeković
Member of Management Board



Jakov Jaki Radošević
Member of Management Board



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

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Medika d.d. ("the Company"), which comprise the separate statement of financial position of the Company as at 31 December 2019, and its separate statements of comprehensive income, cash flows and changes in equity 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 unconsolidated financial position of the Company as at 31 December 2019 and of its unconsolidated financial performance and its unconsolidated 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 Company 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 3,530,384 thousand (2018: HRK 2,971,135 thousand). As at 31 December 2019: trade receivables: HRK 1,459,577 thousand (2018: HRK 1,251,303 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
<p>Revenue is a key measure used to evaluate the performance of the Company. 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.</p> <p>In addition, in the Company'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 Company 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.</p> <p>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.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none">• assessing the Company's revenue recognition policy for compliance with relevant provisions of the financial reporting standards;• obtaining understanding of and evaluating the Company'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 Company's:<ul style="list-style-type: none">○ 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 Company's records by inspecting the underlying documentation such as contracts with customers, invoices and credit notes;• examining whether the Company'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)

IMPAIRMENT OF TRADE RECEIVABLES

Trade receivables as at 31 December 2019: HRK 1,459,577 thousand (2018: HRK 1,215,303 thousand); related impairment allowance as at that date: HRK 10,780 thousand (2018: HRK 14,204 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
<p>The Company is exposed to significant credit risk associated with extended collection periods of trade receivables, due from health institutions generally directly or indirectly owned by state institutions.</p> <p>Trade accounts receivable are assessed by the Company 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 Company 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).</p> <p>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.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none">• 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 Company's impairment methodology against the relevant financial reporting requirements;• evaluating whether the Company's estimates of expected credit losses appropriately consider both current economic conditions and forward-looking information;• assessment of the accuracy and completeness of the Company's ECL estimates at 31 December 2019 including:<ul style="list-style-type: none">○ for a risk-based sample of debtors, inspecting the debtors' most recent financial statements, credit terms and historical repayment patterns, and making corroborating inquiries of the relevant finance and sales 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 Company'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)

Other Matter

The separate financial statements of the Company 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 Company, 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 the 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 Article 21 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 Article 21 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 the 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal 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

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

<i>(All amounts are expressed in thousands of HRK)</i>	Note	2019.	2018.
Income	5, 6	3,530,384	2,971,135
Cost of goods sold	6	(3,313,218)	(2,765,406)
Staff expenses	7	(71,767)	(65,314)
Marketing and promotion expenses	8	(10,214)	(10,937)
Depreciation and amortisation	14, 15,16	(14,409)	(12,067)
Other operating expenses	9	(44,232)	(89,704)
Other losses – net	10	(2,589)	(335)
Profit from operations		73,955	27,372
Financial income	11	2,063	5,307
Financial expenses	11	(5,643)	(7,910)
Net financial loss		(3,580)	(2,603)
Profit before tax		70,375	24,769
Income tax	12	(13,330)	(4,737)
Profit for the year		57,045	20,032
Other comprehensive income for the year		-	-
Total comprehensive income for the year		57,045	20,032
Earnings per share			
– basic and diluted (in HRK and lipa)	13	2,093,07	709,60

The notes on pages 18 to 64 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2019

<i>(All amounts are expressed in thousands of HRK)</i>	Note	As at 31 December	
		2019	2018
ASSETS			
Non-current assets			
Property and equipment	14	160,080	165,258
Right-of-use assets	15	10,626	-
Intangible assets	16	18,898	19,496
Investments in subsidiaries and associates	17	80,000	100,199
Deferred tax assets	27	1,825	10,588
Trade and other receivables	19	16,994	22,151
Total non-current assets		288,423	317,692
Current assets			
Inventories	20	349,361	314,413
Trade and other receivables	19	1,474,561	1,231,794
Income tax receivable		-	8,054
Cash and cash equivalents	21	46,308	19,056
		1,870,230	1,573,317
Assets intended for sale	17	20,199	-
Total current assets		1,890,429	1,573,317
Total assets		2,178,852	1,891,009
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	164,399	164,399
Reserves	23	67,360	67,360
Retained earnings and income for the year		195,284	157,317
		427,043	389,076
Non-current liabilities			
Borrowings	26	-	6,114
Lease obligations	15	6,746	-
Provisions	28	440	596
		7,186	6,710
Current liabilities			
Trade and other payables	25	1,433,800	1,233,702
Borrowings	26	301,017	260,823
Lease obligations	15	5,638	-
Profit tax liability		2,912	-
Provisions	28	1,256	698
		1,744,623	1,495,223
Total equity and liabilities		2,178,852	1,891,009

The notes on pages 18 to 64 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF CHANGES IN CAPITAL AND RESERVES

FOR THE YEAR ENDED 31 DECEMBER 2019

<i>(All amounts are expressed in in thousands of HRK)</i>	Note	Share capital	Reserves	Retained earnings and income for the year	Total
As at 1 January 2018		185,988	67,360	137,285	390,633
Comprehensive income for the year					
Profit for the year		-	-	20,032	20,032
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	20,032	20,032
Transactions with owners recognised directly in equity					
Acquisition of own shares	22	(21,589)	-	-	(21,589)
Total transactions with owners recognised directly in equity		(21,589)	-	-	(21,589)
As at 31 December 2018		164,399	67,360	157,317	389,076
As at 1 January 2019		164,399	67,360	157,317	389,076
Comprehensive income for the year					
Profit for the year		-	-	57,045	57,045
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	57,045	57,045
Transactions with owners recognised directly in equity					
Purchase of treasury shares	24	-	-	(19,078)	(19,078)
Total transactions with owners recognised directly in equity		-	-	(19,078)	(19,078)
As at 31 December 2019		164,399	67,360	195,284	427,043

The notes on pages 18 to 64 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

<i>(All amounts are expressed in thousands of HRK)</i>	Note	2019	2018
Cash flow from operating activities:			
Profit for the year		57,045	20,032
Adjusted by:			
Income tax	12	13,330	4,737
Depreciation and amortisation	14, 15,16	14,409	12,067
Impairment of trade and other receivables, net	9	324	48,991
Value adjustment on inventories	20	5,036	5,512
Unrealised foreign exchange differences		1,730	(1,479)
Changes in provisions	28	402	(71)
(Gains)/losses on disposal of tangible assets	10	(308)	(712)
Impairment of intangible assets	16	1	8
Interest expense	11	5,590	8,011
Interest income	11	(2,063)	(5,307)
Changes:			
Increase in inventories		(39,984)	(43,927)
Increase in trade and other receivables		(243,155)	(106,321)
Increase in trade and other payables		206,333	59,510
Decrease in dividends payable		-	(12,030)
Cash generated from operations		18,690	(10,979)
Interest paid		(5,738)	(8,435)
Income taxes paid		(1,655)	(3,870)
Cash flow from operating activities		11,297	(23,284)
Cash flow from investing activities:			
Purchases of property, equipment and intangible assets		(12,209)	(6,790)
Proceeds from the sale of property and equipment		550	1,064
Proceeds from repayment of given loans		8,288	56,094
Investment in subsidiary		-	(200)
Given loans		(2,600)	(23,460)
Interest received		2,055	14,277
Cash flow from investing activities		(3,916)	40,985

The notes on pages 18 to 64 form an integral part of these separate financial statements.

MEDIKA d.d., Zagreb**SEPARATE STATEMENT OF CASH FLOW (continued)****FOR THE YEAR ENDED 31 DECEMBER 2019**

<i>(All amounts are expressed in thousands of HRK)</i>	Note	2019	2018
Cash flows from financing activities:			
Repayments of borrowings		(556,000)	(773,000)
Proceeds from borrowings		600,000	673,000
Proceeds from returned deposits		-	50
Repayment of finance leases		(5,051)	(3,279)
Dividends paid	24	(19,078)	(12,030)
Purchase of treasury shares	22	-	(21,589)
Cash flow from financing activities		19,871	(136,848)
Net (decrease)/increase in cash and cash equivalents		27,252	(119,147)
Cash and cash equivalents at the beginning of the year		19,056	138,203
Cash and cash equivalents at the end of year	21	46,308	19,056

The notes on pages 18 to 64 form an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 1 – GENERAL DATA

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

As at 31 December 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 22.

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

The Company has issued these separate financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. The Company has also prepared consolidated financial statements for the Company and its subsidiaries (“the Group”) in accordance with IFRS, which were approved by the Management on 10 March 2020. In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. Users of these separate financial statements should read them together with the Group’s consolidated financial statements as at and for the year ended 31 December 2019 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

First application of new standards and amendments to existing standards

The Company 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of preparation (continued)

First application of new standards and amendments to existing standards (continued)

As a result of applying IFRS 16, the Company 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 amendments 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 Company. 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 Operating segment reporting

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

2.3 Foreign currencies

(a) Functional and reporting currency

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

(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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Investments in subsidiaries and associates

(a) Subsidiaries

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

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

(b) Associates

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

2.5 Property and equipment

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

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

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

The estimated useful lives are as follows:

Buildings	10 – 40 years
Equipment	2 – 20 years

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

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

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

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

(a) Goodwill

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

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

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

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

(b) Software

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

2.7 Impairment of non-financial assets

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

2.8 Financial instruments

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

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

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

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

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

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

(i) Depreciated cost and effective interest rate method

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

Financial assets (continued)

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

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

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

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

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

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

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

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

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

(i) Significant increase in credit risk

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

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

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

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

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

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 (continued)

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

(ii) Definition of default status

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

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of expected credit losses

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of expected credit losses (continued)

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

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

Financial liabilities

The financial liabilities recognised by the Company are trade payables and borrowings.

The Company measures all financial liabilities at depreciated cost.

(a) Trade payables

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

(b) Borrowings

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Leases

The Company 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.

Until 31 December 2018, leases of property and equipment in which the Company 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.

Leases in which the Company 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 property is ready for use. Right-of-use assets and lease liabilities are initially recognized at the present value of acquisition cost.

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Inventories

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

2.11 Trade and loan receivables

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

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

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

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

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

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

2.12 Cash and cash equivalents

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

2.13 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits

(a) Pension obligations and other post-employment benefits

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

(b) Long-term employee benefits

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

(c) Short-term employee benefits

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

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

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

2.18 Provisions

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Revenue recognition

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

(a) Sales of goods

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

(b) Service revenue

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

(c) Financial income

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

2.20 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.

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 3 - FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

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

(a) Market risk

(i) Foreign exchange rate risk

The Company generates most of its revenue on the domestic market and in the Croatian kuna (HRK). However, the Company purchases a part of goods on foreign markets, which exposes it to the currency risk arising from changes in foreign exchange rates mostly against the euro, which may affect future operating results and cash flows. The Finance Division of the Company seeks to minimise the foreign exchange risk by reducing the balance of foreign-currency denominated financial liabilities. This mainly relates to borrowings, which are entirely denominated in the Croatian kuna and hence do not give rise to any foreign exchange risk exposure. The Purchase Division reduced the foreign exchange risk arising from liabilities owed to foreign suppliers by agreeing the Croatian kuna as the payment currency. It is the tendency in the future to agree payments in Croatian kuna with as many existing foreign suppliers as possible so as to minimise the risk arising from transactions with foreign suppliers.

As at 31 December 2019 (Notes 19, 21, 25, 26), if the euro would weaken/strengthen against the Croatian kuna by 1.0% (2018: 1.0%), with all other variables held constant, the net profit for the reporting period would have been HRK 4,799 thousand higher/lower (2018: HRK 4,185 thousand), 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 Company's interest rate risk arises from its borrowings. Borrowings granted at variable rates expose the Company to cash-flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

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

For trade receivables, the Company applied a simplified approach to measuring loss for the life-long expected credit losses.

The Company is exposed to one customer from the hospital segment, accounting for 26% of total trade receivables. (2018: 21%).

(c) Liquidity risk

Prudent liquidity risk management implies the maintenance of a sufficient cash level, ensuring the availability of financial assets due to adequate amounts of contracted credit lines and the ability to settle all liabilities. The aim of the Company is to maintain financing flexibility by ensuring that the credit lines are available. The Finance Department of the Company regularly monitors the level of available sources of cash funds. Customers consist largely of those owned by, or dependent of the Republic of Croatia. Hence, the liquidity risk level also depends on the state. The insufficient level of cash from period to period is a direct consequence of the schedule of payments received from the state in settling the state's liabilities concerning the health system. Where the payment periods are extended by the state, the Company agrees extended payment deadlines with its suppliers. Any shortfall is covered using lines of credit available at commercial banks. At 31 December 2019, the balance of cash and cash equivalents amounts to HRK 46,308 thousand, and the Company 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 Company by contractual maturities. The amounts presented below represent undiscounted cash flows.

(in thousands of HRK)

	Up to 1 month	From 1 months to 1 year	1-3 years	Over 3 years	Total
At 31 December 2019					
Trade and other payables	464,228	969,572	-	-	1,433,800
Borrowings	130	301,905	-	-	302,035
Leases	454	5,362	5,375	1,135	12,686

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

(in thousands of HRK)

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

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

3.2 Capital management

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

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

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

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

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Total capital (equity and reserves)	427,043	389,076
Total assets	<u>2,178,852</u>	<u>1,891,009</u>
Equity to assets ratio	20%	21%

The 2019 ratio decreased from the one in 2018 and shows that the Company finances 20% of its total assets from own sources. Consequently, 80% of the assets are financed from sources other than owner's equity (2018: 79%)

3.3 Fair value measurement

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 4 - KEY ACCOUNTING ESTIMATES

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

Assumptions for determining the amount of provisions for trade receivables

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

When measuring ECL, the Company 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 3,746 thousand lower than reported (2018: HRK 4,525 thousand). Impact in the hospital segment would be HRK 3,674 thousand (2018: HRK 4,419 thousand), and in the pharmacy segment the HRK 72 thousand (2018: HRK 106 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). Medika defines its business model on a level reflecting the way in which the groups of financial assets are managed jointly in order to attain a specific business goal. This assessment entails the judgement which reflects all of the relevant proof, including the way in which the performance of the assets is assessed and their impact measured, risks affecting the assets value and the way they are managed, and the way for determining the fees for persons in charge of management of the relevant assets. The Company monitors the financial assets measured at depreciated cost which are derecognised before they mature, in order to understand the reason for their sale and whether the reasons comply with the business goals for which the assets were held. Monitoring is a part of a continued assessment of the Company concerning the appropriateness of the business model within which the financial assets are held, and if it is not appropriate, whether there a change in the business model occurred and, accordingly, whether there will be a change in asset classification in the future. Such changes were not necessary during the periods reported.

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 4 - KEY ACCOUNTING ESTIMATES (continued)

Useful life of property and equipment

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 5 – REVENUE

	2019	2018
	<i>(in thousands of HRK)</i>	
Revenue from sales of goods – unrelated parties	3,188,452	2,662,417
Revenue from sales of goods – related parties (note 31)	325,522	294,166
Revenue from sale of services	15,536	14,045
Revenue from sale of services – related parties (note 31)	874	507
	3,530,384	2,971,135

NOTE 6 – SEGMENT INFORMATION

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

The Company monitors revenues and gross profit by distribution channels:

1. Pharmacies
2. Hospitals
3. Other customers, divided into:
 - dental practices
 - veterinary clinics
 - medical centres
 - wholesalers
 - other customers (herbal pharmacies, companies, optics, etc.).

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

There are no transactions between the segments. The Company applies the same accounting policies in all the segments.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 6 – SEGMENT INFORMATION (continued)

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

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Other	Total
Revenue from sale of goods	1,297,415	1,349,989	541,048	3,188,452
Revenue from sale of goods - related parties (note 31)	324,855	-	667	325,522
Revenue from sale of services	173	270	15,093	15,536
Revenue from sale of services – related parties (note 31)	532	-	342	874
Total income	1,622,975	1,350,259	557,150	3,530,384
Cost of goods sold	(1,537,190)	(1,271,124)	(504,904)	(3,313,218)
Segment result	85,785	79,135	52,246	217,166
Operating expenses				(143,211)
Profit from operations				73,955
Financial income				2,063
Financial expenses				(5,643)
Net financial loss				(3,580)
Profit before tax				70,375
Income tax				(13,330)
Profit for the year				57,045

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 6 – SEGMENT INFORMATION (continued)

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

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Other	Total
Revenue from sale of goods	1,164,537	995,702	502,178	2,662,417
Revenue from sale of goods - related parties (note 31)	294,138	-	28	294,166
Revenue from sale of services	178	327	13,540	14,045
Revenue from sale of services – related parties (note 31)	441	-	66	507
Total income	1,459,294	996,029	515,812	2,971,135
Cost of goods sold	(1,376,348)	(924,293)	(464,765)	(2,765,406)
Segment result	82,946	71,736	51,047	205,729
Operating expenses				(178,357)
Profit from operations				27,372
Financial income				5,307
Financial expenses				(7,910)
Net financial loss				(2,603)
Profit before tax				24,769
Income tax				(4,737)
Profit for the year				20,032

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

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Other	Total
Trade receivables (note 19/ii/)	312,113	1,075,481	71,983	1,459,577

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

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Other	Total
Trade receivables (note 19/ii/)	305,955	828,261	81,087	1,215,303

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

Revenue from the most significant customer, from the hospital segment, was 14.1% in 2019 (2018: 10.3%).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 7 - EMPLOYEE COSTS

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Net salaries	37,459	33,973
Contributions from and on salaries /i/	18,624	17,262
Taxes and surtaxes	5,315	4,746
Management bonuses	4,572	4,300
Other employee benefits /ii/	2,799	2,373
Employee transportation costs	2,479	2,185
Termination benefits	519	475
	<u>71,767</u>	<u>65,314</u>

As at 31 December 2019, the Company employed 479 employees (31 December 2018: 438 employees).

/i/ Pension contributions recognised by the Company as payable to mandatory pension funds in respect of 2019 amount to HRK 10,566 thousand (2018: HRK 9,492 thousand).

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

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Donations	5,248	6,760
Entertainment	3,277	2,515
Marketing	1,689	1,662
	<u>10,214</u>	<u>10,937</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 9 - OTHER OPERATING EXPENSES

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Materials and energy	11,323	10,826
Maintenance of assets, security services and property insurance	11,196	10,234
Professional training and consultancy services	8,037	6,617
Taxes and contributions independent of the results	3,465	3,253
Rental costs	1,983	2,921
Bank and payment operation charges	1,628	1,959
Telephone, postal and utility services	1,289	1,167
Road tolls and transportation costs	1,170	1,099
Control and analysis services	561	525
Provisions for litigations (Note 28)	384	(50)
Impairment of trade and other receivables, net (Note 19)	324	48,991
Other costs	2,872	2,162
	<u>44,232</u>	<u>89,704</u>

NOTE 10 - OTHER LOSSES – NET

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Net gains/(losses) on disposal of property and equipment	308	712
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)	(583)
	<u>(2,589)</u>	<u>(335)</u>

NOTE 11 - NET FINANCIAL LOSS

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Financial income		
Interest income	2,063	5,306
Interest income – related companies (note 31)	-	1
	<u>2,063</u>	<u>5,307</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 11 - NET FINANCIAL LOSS (continued)

Financial expenses	2019	2018
	<i>(in thousands of HRK)</i>	
Interest expense		
Bank loans	(5,274)	(7,771)
Leases (note 15)	(316)	(240)
	<u>(5,590)</u>	<u>(8,011)</u>
Foreign exchange gains – net		
Foreign exchange gains	-	262
Foreign exchange losses	(53)	(161)
	<u>(53)</u>	<u>101</u>
	<u>(5,643)</u>	<u>(7,910)</u>

NOTE 12 – INCOME TAX

	2019	2018
	<i>(in thousands of HRK)</i>	
Current tax	4,567	-
Deferred tax (note 27)	8,763	4,737
	<u>13,330</u>	<u>4,737</u>

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

	2019	2018
	<i>(in thousands of HRK)</i>	
Profit before taxation	70,375	24,769
Income tax at a rate of 18% (2018: 18%)	12,668	4,458
Effect of non-taxable income and tax incentives	(16)	(31)
Effect of non-deductible expenses	678	310
Income tax	<u>13,330</u>	<u>4,737</u>
Effective tax rate	<u>18.94%</u>	<u>19.12%</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 12 - INCOME TAX (continued)

In accordance with local regulations, the Tax Authority may at any time inspect the Company's books and records within 3 years following the year in which the tax liability is reported, and may introduce additional tax liabilities and penalties. The Management is not familiar with any circumstances which may lead to contingent liabilities in that respect.

Tax loss utilized

According to the calculation of income tax for 2018, a transferable tax loss of HRK 23,174 thousands was made. On this basis the Company recognised deferred tax assets in the amount of HRK 4,172 thousand, with the option of use to 2023. In 2019, the Company utilized full amount of tax losses carried forward (note 27).

Tax incentives to encourage investment activity

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

Based on the assessment of the profitability of tax relief by the Management Board, in the financial statements for 2017, the Company initially recognized the total amount of tax relief granted as deferred tax assets and tax revenue. The utilization of deferred tax assets on the basis of tax relief was recorded in 2017 at the current tax expense of the Company's profit of HRK 6,620 thousand and in 2019 at the current tax expense of 4,567 thousand which would be payable if there was no such relief. (note 27) 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 Company's net profit by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares redeemed and held by the Company as treasury shares. The weighted average number of shares decreased to 27,254 as the Company had transactions involving its treasury shares in 2018.

	<u>2019</u>	<u>2018</u>
Net profit attributable to the shareholders (<i>in thousands of HRK</i>)	57,045	20,032
Weighted average number of shares (excluding treasury shares)	<u>27,254</u>	<u>28,230</u>
Basic/diluted earnings per share (<i>in HRK and lipa</i>)	2,093.09	709.60

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 14 - PROPERTY AND EQUIPMENT

<i>(All amounts are expressed in thousands of HRK)</i>	Land	Buildings	Equipment	Assets under construction and prepayments	Total
Balance at 31 December 2017					
Cost	18,233	178,345	89,274	9,275	295,127
Accumulated depreciation	-	(63,546)	(64,494)	-	(128,040)
Net carrying amount	18,233	114,799	24,780	9,275	167,087
For the year ended 31 December 2018					
Opening carrying amount, net	18,233	114,799	24,780	9,275	167,087
Additions	-	-	90	9,533	9,623
Transfer from assets under construction	-	330	10,769	(11,099)	-
Disposals	-	(75)	(277)	-	(352)
Depreciation	-	(4,481)	(6,619)	-	(11,100)
Closing carrying amount, net	18,233	110,573	28,743	7,709	165,258
Balance at 31 December 2018					
Cost	18,233	178,204	95,547	7,709	299,693
Accumulated depreciation	-	(67,631)	(66,804)	-	(134,435)
Net carrying amount	18,233	110,573	28,743	7,709	165,258
For the year ended 31 December 2019					
Opening carrying amount, net	18,233	110,573	28,743	7,709	165,258
Adjustment due to changes in accounting policies	-	-	(8,407)	-	(8,407)
Adjusted net book value	18,233	110,573	20,336	7,709	156,851
Additions	-	-	-	11,639	11,639
Transfer from right-of-use assets (note 15)	-	-	301	-	301
Transfer from assets under construction	5,174	5,910	6,134	(17,218)	-
Disposals	-	-	(130)	-	(130)
Depreciation	-	(4,512)	(4,069)	-	(8,581)
Closing carrying amount, net	23,407	111,971	22,572	2,130	160,080
Balance at 31 December 2019					
Cost	23,407	184,115	89,058	2,130	298,710
Accumulated depreciation	-	(72,144)	(66,486)	-	(138,630)
Net carrying amount	23,407	111,971	22,572	2,130	160,080

Loan liabilities (note 26) 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 126,456 thousand).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 15 – LEASES

The Company leases vehicles and business premises under lease agreements.

/i/ The leases presented in the statement of financial position at 31 December are as follows:

	<u>2019.</u>	<u>01.01.2019.</u>
	<i>(in thousands of HRK)</i>	
Right-of-use assets:		
Vehicles	9,515	10,373
Business premises	1,111	1,065
	<u>10,626</u>	<u>11,438</u>
Lease obligations:		
Current	5,638	4,738
Non-current	6,746	7,983
	<u>12,384</u>	<u>12,721</u>

/ii/ Long-term lease liabilities are as follows:

	<u>2019.</u>	<u>01.01.2019.</u>
	<i>(in thousands of HRK)</i>	
From 1-2 years	4,219	3,852
From 2-5 years	2,527	4,131
	<u>6,746</u>	<u>7,983</u>

/iii/ Leases presented in the statement of comprehensive income are as follows:

	<u>2019.</u>	<u>01.01.2019.</u>
	<i>(in thousands of HRK)</i>	
Depreciation	4,661	-
Interest expense (note 11)	316	-
Rental costs related to short-term leases (note 9)	1,983	-
	<u>6,960</u>	<u>-</u>

The average interest rate is 2.76%.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 15 – LEASES (continued)

/iv/ An overview of the movement of right-of-use assets is as follows:

<i>(all amounts are expressed in thousands of HRK)</i>	Vehicles	Business premises	Total
For the year ended December 31 2019			
Opening net book value of leases recognized under IFRS 16	1,966	1,065	3,031
Reclassification of previously recognized assets under financial leases	8,407	-	8,407
Opening carrying amount, net	10,373	1,065	11,438
Additions	-	-	4,262
Transfer to property and equipment (Note 14)	(301)	-	(301)
Transfer from assets under construction	3,583	679	-
Disposals and retirements	(112)	-	(112)
Depreciation and amortisation	(4,028)	(633)	(4,661)
Closing carrying amount, net	9,515	1,111	10,626
Balance at 31 December 2019			
Cost	14,187	1,744	15,931
Accumulated depreciation	(4,672)	(633)	(5,305)
Neto knjigovodstvena vrijednost	9,515	1,111	10,626

Subsequent to the adoption of IFRS 16, the Company recognized lease obligations in respect of leases that were previously classified as operating leases in accordance with IAS 17 Leases. These liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. When recognizing the lease liability as of January 1, 2019, the Company used an average weighted incremental borrowing rate of 2.76%.

For leases previously classified under finance leases, the Company recognized the carrying amount of the leased asset and liability immediately before the transition as the carrying amount of the rights of use and lease obligation at the date of initial recognition.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 15 – LEASES (continued)

/v/ Recognition of a lease liabilities:

(All amounts are expressed in thousands of HRK)

	1 December 2019
	<hr/>
Contracted rent on operating leases published as at 31 December 2018	4,551
Financial lease liabilities at 31 December 2018	9,689
Operating leases for which an exemption from recognition is used	(779)
Adjustments as a result of changing decision to terminate / extend the contract	(563)
Adjustments for discounting at initial recognition date	<hr/> (177)
Lease liabilities recognized on 1 January 2019	12,721 <hr/>

The Company's entire lease liability as at 31 December 2019 has been converted from the euro.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 16 - INTANGIBLE ASSETS

(all amounts are expressed in thousands of HRK)

	Software	Goodwill	Assets under construction	Total
Balance at 31 December 2017				
Cost	38,200	11,930	660	50,790
Accumulated amortisation	(31,590)	-	-	(31,590)
Net carrying amount	6,610	11,930	660	19,200
For the year ended 31 December 2018				
Opening carrying amount, net	6,610	11,930	660	19,200
Additions	-	-	1,271	1,271
Transfers from assets under construction	1,389	-	(1,389)	-
Expenses	(8)	-	-	(8)
Amortisation	(967)	-	-	(967)
Closing carrying amount, net	7,024	11,930	542	19,496
Balance at 31 December 2018				
Cost	39,493	11,930	542	51,965
Accumulated amortisation	(32,469)	-	-	(32,469)
Net carrying amount	7,024	11,930	542	19,496
For the year ended 31 December 2019				
Opening carrying amount, net	7,024	11,930	542	19,496
Additions	-	-	570	570
Transfers from assets under construction	1,059	-	(1,059)	-
Expenses	(1)	-	-	(1)
Amortisation	(1,167)	-	-	(1,167)
Closing carrying amount, net	6,915	11,930	53	18,898
Balance at 31 December 2019				
Cost	25,316	11,930	53	37,299
Accumulated amortisation	(18,401)	-	-	(18,401)
Net carrying amount	6,915	11,930	53	18,898

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

Goodwill impairment test

The Company calculated the recoverable amount using value-in-use method. Value-in-use cash flow projections were based on a five-year business plan approved by the Management. For the purposes of the cash flow projections, a discount rate of 7.01% (2018: 9.36%) and a terminal growth rate of 2.50% (2018: 2.50%) were applied. The recoverable amount exceeds the carrying amount.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 17 – INVESTMENTS IN SUBSIDIARIES

	<u>Interest in %, 2019</u>	<u>Interest in %, 2018</u>	<u>2019</u>	<u>2018</u>
			<i>(in thousands of HRK)</i>	
ZU Ljekarne Prima Pharme, Zagreb	100%	100%	80,000	80,000
Primus nekretnine d.o.o., Zagreb /i/	100%	100%	-	20,199
			<u>80,000</u>	<u>100,199</u>

Assets held for sale

/i/ 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 investment is reclassified to assets held for sale. The contract is expected to be completed by the end of 2020.

NOTE 18 – FINANCIAL INSTRUMENTS BY CATEGORY

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Financial assets – category: Loans and receivables		
Loans and receivables (note 19/v/)	1,484,810	1,245,106
Cash and cash equivalents (note 21)	46,308	19,056
	<u>1,531,118</u>	<u>1,264,162</u>
Financial liabilities - category: Other liabilities		
Trade payables (note 25/i/)	1,410,820	1,213,111
Other liabilities (note 25/ii/)	22,980	20,591
Total borrowings (note 26)	301,017	266,937
Leases (note 15)	12,384	-
	<u>1,747,201</u>	<u>1,500,639</u>

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

The quality of receivables not yet due and not impaired is considered from the aspect of the different credit risk exposures of the debtors (note 19/ii/):

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Pharmacies	181,749	186,646
Hospitals	243,097	190,957
Other	44,679	54,820
Balance at 31 December	<u>469,525</u>	<u>432,423</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 19 – TRADE AND OTHER RECEIVABLES

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Long-term receivables:		
Given loans /i/	16,891	22,048
Long-term deposits	<u>103</u>	<u>103</u>
	16,994	22,151
Current receivables:		
Trade receivables /ii/	1,459,577	1,215,303
Other current receivables /iii/	6,642	8,736
Given loans /iv/	188	348
Given loans – current portion of non-current receivables /i/	<u>8,154</u>	<u>7,407</u>
	1,474,561	1,231,794
	<u>1,491,555</u>	<u>1,253,945</u>

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

	<u>Effective interest rate</u>	<u>2019</u>	<u>2018</u>
		<i>(in thousands of HRK)</i>	
Loans given to pharmacies	3.0%-5.0%	24,351	28,811
Other given loans	2.0%-5.0%	<u>694</u>	<u>644</u>
Total non-current receivables, including current portion		25,045	29,455
Current portion of non-current receivables		<u>(8,154)</u>	<u>(7,407)</u>
		<u>16,891</u>	<u>22,048</u>

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

The maturity of long-term loans is as follows:

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
From 1 to 2 years	6,753	7,354
From 2 to 5 years	9,966	14,231
Over 5 years	<u>172</u>	<u>463</u>
	<u>16,891</u>	<u>22,048</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 19 – TRADE AND OTHER RECEIVABLES (continued)

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

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Domestic trade receivables	1,343,917	1,110,639
Trade receivables – related parties (note 31)	123,269	117,893
Foreign trade receivables	3,171	975
	<u>1,470,357</u>	<u>1,229,507</u>
Expected credit losses	(10,780)	(14,204)
	<u>1,459,577</u>	<u>1,215,303</u>

Age of receivables:

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Not yet due	469,525	432,423
0-180 days past due	734,822	565,241
181-360 days past due	199,302	155,529
Over 360 days past due	66,708	76,314
	<u>1,470,357</u>	<u>1,229,507</u>

Movements in impairment allowance for trade receivables:

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Balance at 1 January	14,204	14,928
Increase/Decrease (note 9)	330	(517)
Write-off	(3,754)	(207)
Balance at 31 December	<u>10,780</u>	<u>14,204</u>

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

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
HRK	1,488,948	1,252,982
EUR	2,589	663
GBP	18	12
DKK	-	288
	<u>1,491,555</u>	<u>1,253,945</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 19 – TRADE AND OTHER RECEIVABLES (continued)

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

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
VAT receivable not yet recognized	4,203	2,626
Prepaid expenses	836	5,600
Other	1,603	510
	<u>6,642</u>	<u>8,736</u>

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

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Given loans	1,480	1,656
	1,480	1,656
Impairment allowance	(1,292)	(1,308)
	<u>188</u>	<u>348</u>

Movements in reserves for impairment of given loans:

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Balance at 1 January	1,308	53,119
Increase (Note 9)	(6)	49,508
Write-off	(10)	(101,319)
Balance at 31 December	<u>1,292</u>	<u>1,308</u>

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 19 – TRADE AND OTHER RECEIVABLES (continued)

/v/ Financial assets by category include the following:

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Trade receivables	1,459,577	1,215,303
Given cash loans	18,130	20,820
Given commodity loans	7,090	8,970
Given cash loans – related parties (note 31)	13	13
	<u>1,484,810</u>	<u>1,245,106</u>

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

NOTE 20 - INVENTORIES

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Trade goods	331,424	301,008
Trade goods – related parties (note 31)	12,253	10,991
Prepayments made	6,491	3,180
Materials	114	103
Impairment allowance on inventories	(921)	(869)
	<u>349,361</u>	<u>314,413</u>

In 2019, the Company recognised an allowance in the amount of HRK 5,036 thousand (2018: HRK 5,512 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 Company's borrowings (note 26).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 21 - CASH AND CASH EQUIVALENTS

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Domestic currency (HRK) account balance	46,041	18,973
Foreign currency account balance	258	72
Cash in hand	6	11
Deposits	3	-
	<u>46,308</u>	<u>19,056</u>

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

NOTE 22 - 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 thousand) 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
	<i>(in pieces)</i>		<i>(in thousands of HRK)</i>		
As 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	<u>30,194</u>	<u>209,244</u>	<u>(37,187)</u>	<u>(7,658)</u>	<u>164,399</u>
Balance at 1 January 2019	30,194	209,244	(37,187)	(7,658)	164,399
Balance at 31 December 2019	<u>30,194</u>	<u>209,244</u>	<u>(37,187)</u>	<u>(7,658)</u>	<u>164,399</u>

In the period from 2013 to 2017, the share capital was increased by using tax relief based on reinvestment of 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, the Company acquired 1,500 treasury shares.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 22 - SHARE CAPITAL (continued)

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%

As at December 31, 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., during 2019, there was a transfer of ownership of Auctor d.o.o. to Auctor Holding a.s. what led to an indirect change in the ownership of the Company's shares.

NOTE 23 - RESERVES

<i>(in thousands of HRK)</i>	Legal provisions	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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 24 – RETAINED EARNINGS

Included in the retained earnings 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, while in 2018 there was no such a decision. The dividend per share amounted to HRK 700.00.

NOTE 25 – TRADE AND OTHER PAYABLES

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Trade payables /i/	1,410,820	1,213,111
Other liabilities /ii/	22,980	20,591
	<u>1,433,800</u>	<u>1,233,702</u>

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

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Foreign trade payables	948,270	769,708
Domestic trade payables	411,743	370,724
Trade payables - related parties (note 31)	50,807	72,679
	<u>1,410,820</u>	<u>1,213,111</u>

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

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
HRK	832,245	695,166
EUR	575,761	499,983
DKK	2,141	17,654
Other currencies	673	308
	<u>1,410,820</u>	<u>1,213,111</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 25 – TRADE AND OTHER PAYABLES (continued)

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

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
VAT payable	9,981	8,619
Salaries payable	5,270	4,968
Unused annual leave	2,802	2,629
Other taxes and contributions payable	249	182
Other	4,678	4,193
	<u>22,980</u>	<u>20,591</u>

NOTE 26 – BORROWINGS

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Long-term:		
Financial lease /ii/	-	6,114
	-	6,114
Short-term:		
Short-term loans /i/	301,017	257,248
Financial lease /ii/	-	3,575
	<u>301,017</u>	<u>260,823</u>
Total borrowings	<u>301,017</u>	<u>266,937</u>

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 26 – BORROWINGS (continued)

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

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

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

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Up to 1 year	-	3,575
1 to 5 years	-	6,114
	<u>-</u>	<u>9,689</u>

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

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
1 to 2 years	-	2,750
2 to 5 years	-	3,364
	<u>-</u>	<u>6,114</u>

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

	<u>2019</u>		<u>2018</u>	
	<u>HRK</u>	<u>EUR</u>	<u>HRK</u>	<u>EUR</u>
	%	%	%	%
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 long-term and short-term borrowings correspond mainly with their fair values.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 26 – BORROWINGS (continued)

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

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
Variable-rate borrowings		
Up to 3 months	60,643	1,032
3 to 12 months	120,000	106,635
Over 1 year	-	2,232
	<u>180,643</u>	<u>109,899</u>
Fixed-rate borrowings		
Fixed-rate loans	120,374	157,038
	<u>120,374</u>	<u>157,038</u>
Total borrowings	<u>301,017</u>	<u>266,937</u>

Given that borrowings in the amount of HRK 120,374 thousand bear interest at fixed rates (2018: HRK 157,038 thousand), there is no exposure to interest rate changes.

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

	<u>2019</u>	<u>2018</u>
	<i>(in thousands of HRK)</i>	
HRK	301,017	257,248
EUR	-	9,689
	<u>301,017</u>	<u>266,937</u>

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 27 – DEFERRED TAX ASSETS

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

Deferred tax assets

<i>(in thousands of HRK)</i>	Inventories	Provisions for employee benefits	Tax incentives	Loans given	Tax loss	Right-of-use assets and lease liability	Total
Balance at 1 January 2018	202	142	5,981	9,000	-	-	15,325
Tax charged to profit or loss	-	(3)	-	(9,000)	-	-	(9,003)
Tax credited to profit or loss	94	-	-	-	4,172	-	4,266
Balance at 31 December 2018	296	139	5,981	-	4,172	-	10,588
Balance at 1 January 2019	296	139	5,981	-	4,172	-	10,588
Tax charged to profit or loss	-	(40)	(4,567)	-	(4,172)	-	(8,779)
Tax credited to profit or loss	7	-	-	-	-	9	16
Balance at 31 December 2019	303	99	1,414	-	-	9	1,825

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

The total amount of subvention that the Company can use is HRK 12,601 thousand, of which the Company used HRK 4,567 thousand in 2019 (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 liability

The Company has no deferred tax liability.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 28 – PROVISIONS

<i>(in thousands of HRK)</i>	Employee benefits	Legal disputes	Total
Balance at 31 December 2018	772	522	1,365
Long-term portion	596	-	596
Short-term portion	176	522	698
Balance at 1 January 2019	772	522	1,294
Increase/(decrease)	128	384	512
Utilized during year	(110)	-	(110)
Balance at 31 December 2019	790	906	1,696
Long-term portion	440	-	440
Short-term portion	350	906	1,256

Employee benefits

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

Legal disputes

During 2019, the Company increased provisions for one litigation in the amount of HRK 384 thousand based on an out-of-court settlement.

NOTE 29 - CONTINGENT LIABILITIES

The Company is a co-debtor and a guarantor for loans provided to its subsidiaries in the total amount of HRK 14,700 thousand (2018: HRK 10,000 thousand).

The contingent liabilities are not included in the statement of financial position at 31 December 2019. Namely, based on the Management's estimate, the liabilities of the subsidiaries will not become the parent company's obligations, as all transactions of the subsidiaries are under the control by the parent. There are currently no circumstances that would require from the Company to make the payments on behalf of its subsidiaries.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 30 - SUBSEQUENT EVENTS AFTER REPORTING DATE

Following the report date, 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 is 12,814 shares, which is 42.44% of share capital.

NOTE 31 – RELATED-PARTY TRANSACTIONS

The Company enters into transactions with related parties.

The related parties include:

	<u>2019</u>	<u>2018</u>
1. Subsidiaries:		
Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb	100%	100%
Primus nekretnine d.o.o., Zagreb	100%	100%
2. Subsidiaries of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb:		
Zdravstvena ustanova Ljekarne Delonga, Zagreb	100%	100%
Zdravstvena ustanova Ljekarne Ines Škoko, Zagreb	100%	100%
Ljekarna Marica Jelčić, Pula (acquired and merged in 2019)	-	-
3. Associate of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb:		
Zdravstvena ustanova Ljekarne Jagatić, Zagreb	49%	49%
4. The company with the highest voting rights, namely the parent company Auctor d.o.o. which holds 42.41% or 46.99% of the 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. Auctor Holding a.s. owns a 100.00% stake in Auctor d.o.o., while the owners of Auctor Holding a.s. are Oleg Uskokovic with 60.00% and JTPEG Croatia Investments a.s. with 40.00%.		
5. Pliva Hrvatska d.o.o., Zagreb, has an ownership interest of 25.32% and 28.05% of the voting rights in the Company.		
6. Other related companies: Auctor Invest d.o.o., Zagreb, a related party of Auctor d.o.o., Zagreb.		

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 31 – 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:

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>2019</u>	<u>2018</u>
Trade and other receivables			
<i>Given loans</i>			
Subsidiaries – interest receivables		13	13
	19	<u>13</u>	<u>13</u>
<i>Trade receivables</i>			
Subsidiaries		100,341	107,506
Subsidiaries of ZU Ljekarne Prima Pharme		413	127
Associate of ZU Ljekarne Prima Pharme		22,269	10,053
Pliva Hrvatska d.o.o.		246	207
	19	<u>123,269</u>	<u>117,893</u>
Inventories			
Pliva Hrvatska d.o.o.		12,253	10,991
	20	<u>12,253</u>	<u>10,991</u>
Trade payables			
Pliva Hrvatska d.o.o.		50,807	72,679
	25	<u>50,807</u>	<u>72,679</u>
Revenue from sale of goods			
<i>Subsidiaries</i>			
Subsidiaries of ZU Ljekarne Prima Pharme		260,814	238,985
Associate of ZU Ljekarne Prima Pharme		20,950	17,700
Pliva Hrvatska d.o.o.		43,091	37,483
		667	28
	5, 6	<u>325,522</u>	<u>294,166</u>
Revenue from sale of services			
<i>Subsidiaries</i>			
Subsidiaries of ZU Ljekarne Prima Pharme		518	418
Subsidiaries of ZU Ljekarne Prima Pharme		21	30
Associate of ZU Ljekarne Prima Pharme		-	-
Pliva Hrvatska d.o.o.		335	59
	5, 6	<u>874</u>	<u>507</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 31 – RELATED-PARTY TRANSACTIONS (continued)

Financial income

Other related companies		-	1
	11	-	1

Purchases of trade goods

Pliva Hrvatska d.o.o.		161,707	183,955
		<u>161,707</u>	<u>183,955</u>

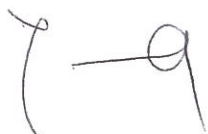
Key management compensation – salaries and bonuses for members (2018: for four key management members)		6,856	7,809
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Supervisory Board and Audit Committee compensation		430	452
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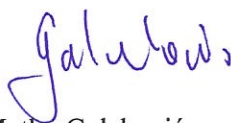
NOTE 32 - APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 13 to 64 were approved by the Management Board of the Company in Zagreb, on 10 March 2020.

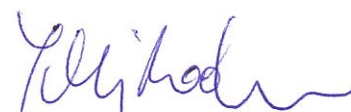
Signed on behalf of the Management Board of the Company on 10 March 2020:



Jasminko Herceg
President of Management Board



Matko Galeković
Member of Management Board



Jakov Jaki Radošević
Member of Management Board

¹⁰ **Medika** d.d.
ZAGREB, Capraška 1

ODLUKA


o usvajanju Financijskog izvješća o poslovanju Medike d.d. 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 Medike d.d. za 1-12. mj. 2019. god. kako ga je utvrdila Uprava Medike d.d.

Time je Izvješće o poslovanju Medike d.d. 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 Vadić, mag. oec.

1 Medika d.d.
ZAGREB, Capraška 1