MEDIKA d.d. and subsidiaries

AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 DECEMBER 2017

CONTENT

MANAGEMENT REPORT

In 2017 the Medika Group (the "Group") generated a consolidated revenue in the amount of HRK 2,826,631 thousand, HRK 171,928 thousand above the prior year's figure. The consolidated operating profit amounts to HRK 37,022 thousand, which is HRK 29,584 thousand less than in the prior year.

The consolidated profit before tax amounts to HRK 37,837 thousand, and the consolidated net profit amounts to HRK 43,509 thousand, which is HRK 12,007 thousand less than the 2016 figure.

Increase of other expanses (note 9 to the financial statements), respectively impairment allowance on trade receivables and other receivables, had the most significant impact on the reduction in non-consolidated operating profit and profit before tax on a non-consolidated basis. The Management of the Company, based on published audited financial statements for Agrokor d.d. and related parties for 2016, has estimated that on December 31, 2017, 50% of receivables for given loans should be value adjusted (HRK 50,000 thousand), due to uncertainty of claim recovery which will depend on the outcome of the settlement in the entire restructuring process of Agrokor Group.

By analysing the individual operating segments (note 6 to the financial statements), 52.8% of the total consolidated revenue was generated by pharmacies (2016: 53.7%), of which 12.5% by own pharmacies (2016: 13.2%). At the same time, 30.1% of the total consolidated revenue was generated from hospitals (2016: 28.6%).

Total consolidated assets amount to HRK 2,047,257 thousand, representing a decrease of 5.0% from the prior year. In the current year the amount of non-current assets in the total consolidated assets is by 5.6% higher than in the prior year (mainly because of an increase in deferred tax assets), whereas current assets decreased by 7.5%, accounting for 78.8% of the total assets. Trade and other receivables represent the most significant item of the total consolidated assets and have decreased by 15.6% from the prior year, mostly affected with hospitals recovery in 2017. In addition, inventories rose by 10.9% from with the prior year.

The share capital is increased in total amount of HRK 4,529 thousand from earnings retained in prior periods based on the decision of the General Assembly held on May 18, 2017.

The Company has paid out dividends based on the decision of the General Assembly held on December 19, 2017, in the amount of HRK 2,000 thousand per share.

The total consolidated loan debt amounts to HRK 376,660 thousand, comprising HRK 370,875 thousand of short-term loans and finance lease obligations and HRK 5,785 thousand of long-term borrowings and finance lease obligations (note 25). The Group has no long-term loans at 31 December 2017.

The equity-to-assets ratio is 21%, showing that 21% of the total consolidated assets are funded from own sources.

The consolidated performance is presented in the statement of comprehensive income on page 32 of the financial statements.

Expected future development of the Group

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

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

Treasury shares

During 2017, The Company acquired 238 treasury shares in total amount of HRK 3,342 thousand and released 100 treasury shares with book value of HRK 1,620 thousand. At 31 December 2017, the Company held 1,440 shares, which represents 4,77% of the total amount of shares. The nominal value per share amounts to HRK 6,930.

Subsidiary and associate entities

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

ZU Ljekarne Prima Pharme has the following fully owned subsidiaries: ZU Ljekarne Delonga and ZU Ljekarne Ines Škoko; it also has an associate, ZU Ljekarne Jagatić, in which it holds a share of 49%. In 2017 Ljekarna Ana Pantelić was bought and merged into ZU Ljekarne Prima Pharme.

Related parties

The company with the majority of voting rights, i.e. the parent company Auctor d.o.o. holds an ownership interest of 47.38%, i.e. 49.75% voting shares.

Pliva Hrvatska d.o.o., Zagreb, has an ownership interest of 25.32% and 26.59% of the voting rights in the Company. Given the ownership interest and the volume of transactions with the Company, Pliva Hrvatska d.o.o. has a significant influence on the current operations of the Company.

Risks

Credit risk

The most significant market risk for the Group is the long collection period for trade receivables, especially those HZZO (Croatian State Health Insurance) and HZZO related receivables. Therefore, a significant amount of the Group's working capital is not available, which strongly affects the cash flow of the Group 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. However, this is reflected through additional funding requirements and with it additional operating expenses.

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

Price risk

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

Risks (continued)

Foreign exchange risk

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

Interest rate risk

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

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

CORPORATE GOVERNANCE STATEMENT

As an entity listed on the official market of the Zagreb Stock Exchange, Medika d.d. applies the Corporate Governance Code of the CFSSA (Croatian Financial Services Supervisory Agency) and the Zagreb Stock Exchange, which is published on the website of the Zagreb Stock Exchange. In the business year 2017 the Company substantially complied with and adopted the recommendations specified in the Code. Minor departures from the individual recommendations provided in the Code are explained in the questionnaire the Company publishes on the Zagreb Stock Exchange website and on its own website and submits to the CFSSA.

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

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

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

Corporate governance

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

- General Assembly
- Supervisory Board
- Management

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

CORPORATE GOVERNANCE STATEMENT (continued)

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

The members of the Supervisory Board are as follows: Ružica Vađić, President, Mr Damjan Možina, Vice Chairman; Members: Mr Nikica Gabrić, Mr Mihael Furjan, Mr Oleg Uskoković, Mr Ante Turković and Mrs gđa Sanja Palić.

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

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

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

The members of the Audit Committee are as follows: Ružica Vađić, President, Mr Oleg Uskoković and Mr Dalibor Briški.

NON-FINANCIAL REPORT

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

Business Description of the Medika Group

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

Accordingly, the Company supplies pharmacies, healthcare facilities, hospitals, health centers, outpatient facilities, doctors' offices, wholesalers and specialized stores with the widest range of products. Relying on tradition but also on an innovative approach to daily operations, the Company has set new standards in the quality of service, which have helped it to retain the title of the market leader over five decades.

Business Description of the Medika Group (continued)

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

ZU Ljekarne Prima Pharme has 100% ownership of ZU Ljekarne Delonga and ZU Ljekarne Ines Škoko and affiliated company ZU Jagatić Pharmacy with 49% shares.

Wholesale

Customers of Medika are:
- pharmacies
- hospitals
- Other (health centers, polyclinics, dental clinics and polyclinics, veterinary clinics and farms, other wholesaler, and other legal entities licensed by the Ministry of Health or HALMED)

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

Sales Programme

Pharmaceutics

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

Urgent supply and import of medicinal products implies the supply and import of unlicenced medicinal products in the Republic of Croatia.

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

Dietetics and cosmetics

Dietetics and cosmetics include more than 6500 products, primarily non-prescription drugs, cosmetics, consumer goods, high quality dietetics and dermatological cosmetics which has been selling in pharmacies and specialized stores.

Medicinal Products and Special Products

The Department of Medical Products is one of the most comprehensive sales programs of the Company. Most of the business activities are directed at hospitals, health centers, institutes and private clinics and polyclinics to a greater extent, and the smaller part refers to pharmacies. Range of different programs make clinical and laboratory diagnostics, hemodialysis, cardiac surgery, ophthalmology, orthopedics, medical supplies, bandages and sanitary supplies, disinfection materials and supplies and other medical programs. Along with the constant monitoring of the offer, the rule is that the products must meet the highest criteria of modern medicine and contribute to the general health improvement.

Dental Department
Dental Department Sales Center has been an integral part of the Company since 1986. and has been the most important and the most powerful distributor of equipment, medicinal products and materials for dental and prosthodontic activity.

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

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

The company supplies veterinary offices and clinics, farms and veterinary and agricultural pharmacies and other agricultural businesses registered for the sale of veterinary medicines and veterinary activities. The Company emphasizes the pet care programs, thanks to the wide range of products for the treatment, nutrition and care. Imported products registered for the domestic market are available in the procurement and sales offices of the Company, including the emergency import for end-users.

Retail
The Prima Pharme Group operates in 79 pharmacies.

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

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

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

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

Significant impact on the operations of companies in the wholesale trade of medicinal products and medical devices has a long period of collection of receivables from customers, especially in the part referring to customers within the HZZO system (Croatian Health Insurance Fund). Therefore, a significant amount of working capital of the Group has been immobilized, which significantly affects the cash flow and the Group's ability to timely settle its own liabilities. Since the receivables from state institutions are involved - directly or indirectly, the collection of receivables should not be seen as a risk of non-payment. This indirectly increases the need for additional funding, which means additional business costs.

Business environment and competition (continued)

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

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

Business objectives in the short term

- One of the most important goals is to maintain a stable market share and a leading position
- Vertical integration or expansion of its own sales network is still an imperative of the overall development of the Medika Group and one of the strategic goals. By increasing the number of quality pharmacies in its ownership, the Medika Group increases the market potential, and thus the total value of the Companies in the Group.
- In order to maintain the leading position, Group needs to continually work on expanding its range of products and developing new services
- Improvement and implementation of new logistics solutions, which can only be achieved if the process of issuing goods is fully automated. In order to achieve this, it is necessary to set up and integrate new WMS system (Warehouse Management System). In 2017, the new WMS system was integrated in Zagreb, Osijek and Split, while the integration of the new system in Rijeka will be completed in 2018.

Medika Group and customer relationship

Medika d.d.

The imperative of Medika d.d. is to understand the present and future needs of customers and business partners, meet their demands and strive to exceed their expectations. Understanding the wishes and needs of customers represents the key to the Company's success. The focus on the customers has been also represented throughout the activities, which all represents an added value to the core business.

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

- informing users in all available ways
- supporting users in using our services by providing quality as a priority goal
- providing additional services and contents in order to bring closer to our customers some new skills and tools they can use in their business
- monitoring, measuring and constantly improving customer satisfaction levels is a fundamental reflection of service quality
- through all activities, ultimate goal is to build good relationships and to develop cooperation with customers, and to create a positive image of the company as a company that cares about the customer.

Medika participates as an exhibitor at the Professional Counseling and Congress organized by the Croatian Pharmaceutical Society. Associated with Pool of Sponsors with Pliva, Belupo, JGL and Farmal, and in the last few years, we have been appearing as the sponsor of a gathering that brings together the pharmaceutical profession. In addition to the exhibition space where dealerships and exclusive distributors have been represented, we have also been using the participation as a promotion means of Medika as the leader of the wholesalers.

Furthermore, as a member of the Pool, the Company has also been participating in the Pharmacy Technicians Assembly, which takes place every two years.

Cooperation with the Croatian Chamber of Pharmacists and the Croatian Pharmaceutical Society, has been taking place place through projects in which Medika has been actively involved, among other, by the engagement of its employees.
Cooperation with the Croatian Chamber of Dental Medicine has resulted in Medika's participation in all professional conferences, in their organization and publishing ads and promotional articles in professional journals published by the Chamber.

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

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

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

Education for pharmacists, dentists and veterinarians represents an additional value to our primary activity by which we have been bringing them closer to the news from the profession and exchanging business experiences.
An overview of current education is regularly published on the Company's web site

Surveys
The Company has been aspiring to impose on quality that allows the Company to continually segregate as the leading wholesaler among the competition and has been striving to maintain an individual approach to each and every customer. The results of these efforts are validated by the survey which has been conducted every two years. More details on the survey results are explained on the page 17.

Prima Pharme Group and relationship with patients

Prima Pharme Group consists of 79 pharmacies on 31 December 2017.

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

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

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

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

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

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

Medika

POLITIKA KVALITETE I ZAŠTITE OKOLIŠA

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

Medika d.d. se obvezuje da će:

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

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

Direktor

Jasminko Herceg, dipl.oec.

Medika d.d.
Sustav upravljanja kvalitetom
ORIGINAL

Zagreb, 10.06.2015

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

Some of the most important are ISO 9001 and 14001 certifications.

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

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

Quality management system and environmental protection

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

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

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

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

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

Regulatory Risk Management Requirements:

- Good Practice in Wholesale Medication (DDP) / Good Manufacturing Practice (DPP) / ISO 9001 / ISO 14001

- risk management is part of the quality system, with the active involvement of the management staff as well as the accompanying services

- risk management in medicinal product quality throughout the life cycle of the medicinal product (including DPP)

- planning - providing expected results, effectiveness, prevention and reduction of unwanted effects, achieving improvements

<u>Significant risks and risk management</u>
Below are some of the more significant business risks and the activities that are regularly carried out to in order to minimize them.

<u>Business Risks</u>
Conformity Risks –inadequate compliance with regulatory requirements

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

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

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

Operational risks

The risk of unauthorized entry into warehouse spaces

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

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

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

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

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

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

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

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

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

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

Results of Quality Management System and Environmental Protection

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

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

Some of the key activities conducted during the year 2017:

- Education on new standards ISO 9001: 2015/14001: 2015 for internal auditors and the Management was carried out by an independent organizer.
- On the basis of customer satisfaction monitoring through the surveys, the presentations for the Management (key employees) were held, and according to the results, the actions were started.
- Each employee has been trained in the Service for Legal, Personnel and Administrative Affairs.
- An authorization was obtained for the operation of the import, export and sale of radioactive sources from the State Bureau for Radiological and Nuclear Safety.
- Several new exclusive co-operation with drug dealers as well as dietetics and cosmetics suppliers have been accomplished
- The project of establishing and optimizing delivery schedules of the goods by the suppliers to Medika has been continued
- Renewal of the fleet (trucks and passenger cars) - decreased average age of vehicles
- The project for the introduction of a new warehouse management system (WMS) with the use of RF terminals (wireless radio frequency bar codes readers) at the distribution center Osijek and at the distribution center Split was completed; the distribution center Rijeka continues with the implementation of the warehouse management system (WMS).
- Climate-Ventilation-Heating System (KVG) upgrade project in logistics center in Zagreb has been finished.
- The use of active containers in the process of distributing products in the cold chain for delivery to customers has been established.
- The expansion project of the expedition in the logistics center in Zagreb has been continued.
- The project for the construction of a new area of goods unloading was launched. which would enable the better operation of warehouses and transport at the distributive center Rijeka.

<u>Permits and licences for business</u>

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

- Production Permit (GMP) for Capraška 1, Zagreb, including a certificate on Good manufacturing practice,
- Permit for wholesale of medicinal products and medical devices for the location of Capraška 1, Slavonska avenija 26/9, Slavonska avenija 24/6, including a new certificate on the implementation of good practice in wholesale medicines,

Results of Quality Management System and Environmental Protection (continued)

Permits and licences for business (continued)

- decision on carrying out the activity of selling and exporting open radioactive sources, for traffic to radiopharmaceuticals
- a new certificate of quality management system ISO 9001: 2015,
  new certificate of environmental management system ISO 14001: 2015

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

1. Results and reports of internal and external audits

a) During 2017, a number of internal and external audits were carried out at all centers of the Company. Improvements in the CAPA (corrective action-preventive action) monitoring and closure were noted. All CAPAs are tracked through Quality Indicators and were regularly reported to the Management Board. In the observed period, regarding the non-compliance with external audits, all corrective actions were reviewed and successfully implemented or the deadlines for implementation were redefinied. The Quality Department systematically monitors deadlines and execution of measures.

b) In January 2017, an audit plan for suppliers of services or materials was prepared by the Company and all planned audits were realized in 2017.

2. Status of deviations, corrective and preventive actions

   During 2017, a number of internal deviations (deviations from internal demands and processes) have been resolved. The noted decrease in the number of new deviations results from the increase in system compliance and continuous implementation of audit of system documentation, corrective / preventive actions and education of employees.

3. Complaints and returns of goods from customers

   In the year 2017, the goals for the majority of quality indicators that had set measurable values were achieved, and indications of complaints and returns from customers are among the most important indicators. Compared to 2016, the fulfillment of the goals was achieved for a majority of goals and improvements were made for 80% of the quality indicators.

   Improvements were recorded despite a higher number of issued items by 2.5% compared to the previous year. The introduction of the Warehouse Management System (WMS) for receiving and issuing materials and centers outside of Zagreb has also contributed to the reduction of complaints and return of goods. Additionally, in 2017, individual categories of complaints were elaborated and separated, both in certain centers and in relation to the processes within which complaints occur.

4. Monitoring of significant environmental aspects

   Activities carried out in the past period have contibuted to:

   - More efficient waste management - Reduction of soil pollution - a container for temporary disposal of hazardous and non-hazardous waste was purchased

- Reduction of exhaust emissions into the air by renewing the fleet (freight and passenger cars) - renewal of the fleet of vehicles (delivery and personal official)
- Reduction of water pollution from cesspool- connection of internal sewerage system to main collector in Dugopolje is in progress
- Rationalization of electricity consumption by completing the changes in Split (accompanying lighting, environmental lighting and façade buildings) - modifications are in progress.

The energy renewal program at all locations has been continued.

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

5. Internal employee education

In the year 2017, all the education according to the plan and the program of continuous education was conducted, and a large number of unplanned education related to the quality system and environmental protection and continuous education were carried out in accordance with changes in system documentation. Some of the most significant are from the following areas:

- Efficient communication
- Risk management
- Deviations management
- Packing of dangerous substances
- Hygiene and clothing of employees
- Internal audits
- Pharmacovigilance in wholesale
- SAP Education (SAP Transactions)
- Self-motivation and motivation of employees

Conducting of education of new employees according to established themes continued in 2017 with the frequency of implementation every two months. In the period considered, 6 training of newcomers was carried out with the following topics:

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

During 2017, monitoring and analysis of the education of each employee and the realization of the education of newcomers were carried out in the Legal, Personnel and Administrative Service Department.

Participation in external education and conferences in 2017 with the following topics:

- Efficient inventory and stock inventory
- New legislation - a new direction for medical products
- PQ Conference: PQ Challenges in Modern Pharmaceutical Trading
- The most common GDP deviations and how to avoid them
- Cold chain

6. Customer activity and customers feedback

In order to improve the business organization and work of the Company and to monitor customer satisfaction, by the end of 2016, a survey was conducted by buyers by an independent agency. The method of personal interview (face-to-face) and web survey was used, where personal interview was the primary method of data collection. By the end of 2016 and during 2017., presentations for the Board and Management were also made.

- Pharmacists estimate that the quality of the Company over the last two years has, to a lesser extent, been improved.
- Satisfaction with individual services is also at a high level, the pharmacists are satisfied with all the services on average, but are somewhat less satisfied with the financial conditions and with additional services and promotional support.
- Among all the elements, pharmacists consider as the most important the financial conditions, then the accuracy and quality of delivery and speed of delivery.
- Medika is distinguished by the product range, i.e. prescription drugs and urgent supply import, by providing promotional packagings.
- Elements in which improvements have been noted relate to the availability of the person who receives the order, the agreed delivery time, the orderliness and accuracy of the delivery content.

7. Working with Customers

Medika dedicates a special attention to the education of pharmacists which are an added value to core business of the Company. The Company's goal is to bring new business backgrounds and share business experiences, but also touch on topics that are just back in the industry. It is worth noting that all the courses that were held were evaluated by the Croatian Chamber of Pharmacists. During 2017, Medika organized 7 expert meetings, each attended by between 150 and 400 attendees.

The following professional lectures were organized in cooperation with business partners:

- Counseling of pharmacists, Umag
- Professional meeting of InPharma Mother and Child, Zagreb
- Symposium on Preventive and Social Pediatrics Osijek

8. Compliance with the legislation and requirements of interested parties

   In the period from January 2016 to December 2017, the following legal regulations / recommendations / norms came into force and the following status was established:

   Directive 2017/1572 (EU) 15.09.2017. - Amendments to Directive 2001/83 / EC of the European Parliament and of the Council as regards the principles and guidelines of Good Manufacturing Practice for Medicinal Products for Human Use.

   Directive 2017/1569 (EU) 23.05.2017. - on the supplement to Regulation (EU) No. 536/2014 of the European Parliament and of the Council by laying down the principles and guidelines for Good Manufacturing Practice in the Production of Examined Medicinal Products for Human Use and by establishing an inspection arrangement.

9. Changes that may have an impact on the system

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

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

   - The impact of drug serialization (Regulation 2016/161, application as of 2 May 2019) on business
   - Establishment of a WMS system at the distribution center Rijeka.
   - Introduction of a computer system for carrying out and keeping records of education

Environmental issues and social aspects of business

The integrated quality and environmental management system is based on ISO 9001: 2015 and 14001: 2015 standards, and during 2017 the transition to new standards and alignment with new requirements has been carried out.

During 2017, an audit was carried out by an independent entity for the purpose of managing ISO 14000: 2015 and the certificate was extended.

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

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

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

Measurements are performed by authorized surveyors.

Waste management

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

Waste in Medika d.d. originated and delivered during 2017:

Waste name	**Quantity in t**
Cytostatics	0,0079
EE Waste	2,811
Oil filters	0,029
Foil	18,404
Bulky waste	11,183
Isolation	0,411
Cardboard	41,586
Air conditioners	0,08
Medicines	5,317
Grease traps	3,64
Lubricating oils	0,19
Medical refrigerator	0,508
FC tubes	0,095
Dangerous chemicals	0,0948
Paper	3,26
Styrofoam	1,036
Brake fluid	0,022
Toners	0,582
Commodity goods	2,676
Oily water from separators	1,2
Oily sludge from the separator	0,45

Collecting the returns from customers (patients)

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

During 2017, a total amount of 1,415 kg of old medicinal products collected in the pharmacies were properly disposed.

Consumption of energy sources

An overview of consumption of important energy sources in the Medika Group for 2017:

Year	Fuel (000'l)	Gas (kWh)	Electricity (kWh)
2017	626	1.325.021	3.073.046
2016	558	1.360.035	2.837.685

Employees

Education of new employees in the Medika Group

In the company Medika d.d. employees get acquainted with the basic labor laws and internal acts, work organization, work safety during initial education of new employees (more details about educating new employees in Medika d.d., see page 16 of these financial statements). Continuous education has been provided related to quality standards, occupational safety, personal development and professional trainings.

Prima Pharma Group has also been organizing educations for all employees, among other things, about the management of business processes and the management of people in organizations. Classes are organized in one-day or two-day modules during the period of 18 months, and they cover different topics such as:

- Team Leadership
- Finance and Controlling
- Legal Framework of the Personnel Service
- Central Procurement
- Marketing

Realization of employee rights

In the company Medika d.d. currently, there are 11 employees on maternity or parental leave, and over the past few years there had been more than 10 employees per year using the maternity leave.
As parental leave can also be used by fathers, in the last couple of years, there were 6 male employees that had used parental leave.

There have been no reports of any harassment or any sexual harassment in Medika Group.

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

Medika Group has 8 persons enrolled in the Register of Persons with Disabilities (70% and more disability), of which three are deaf-mute people, and a larger number of employees with a lower percentage of established physical disability.

Also, Medika Group has been using the Employment incentive measures for young people under 30, and thus for an indefinite period, and the Group currently has 39 employees for whom the above mentioned benefit has been used.

Employee structure on 31 December 2017.
Medika Group - 780 employees, of which:

- Medika d.d. - 419 employees
- ZU Ljekarna Prima Pharme – 327 employees
- ZU Ljekarne Ines Škoko – 18 employees
- ZU Ljekarne Delonga – 16 employees

- Highly educated experts represent 37% of employees, of which:
    - In Medika d.d. - 111 highly educated employees (26% of the total number of employees)
    - Prima Pharme Group - 181 highly educated employees (50% of the total number of employees)

- The ratio of men and women (in percentage) in the Medika Group is 32%: - 68%, of which:
    - Medika d.d. – 51%:49%
    - Prima Pharme Group – 9% : 91%

- Women in the management structure (in percentage) in the Medika Group: 42%, of which:
    - Medika d.d. – 20%
    - Prima Pharme Group – 73%

- The age structure of employees in the Medika Group on 31 December 2017:
    - up to 24 years: 4%
    - from 24 to 34 years: 27%
    - from 35 to 44 years: 37%
    - from 45 to 54 years: 20 %
    - from 55 and over: 12%

Occupational safety and health protection
In accordance with the Occupational Safety Act, all new employees are required to undergo training on work safety and fire protection related to the following areas: safe work, fire minimum, evacuation and rescue, authorized employee appointed by the Company and also commissioner.
Specific work safety training is also carried out in accordance with the specific requirements of the workplace, such as:

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

During 2017, there were 12 work-related injuries at the Group level.
In addition to compulsory job-related medical examinations, all employees are allowed to perform a general medical examination at the expense of the employer every second year.

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

With the intention to bring closer the pharmacy activity to the future young pharmacists from the Faculty of Pharmacy and Biochemistry before the end of the study and in order to provide support for the chosen profession, the Prima Pharma Group regularly announces scholarship tenders. During 2017, three students received a scholarship and after completing their studies they had been employeed at ZU Ljekarna Prima Pharme (ZU).

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

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

Projects in which the Institution has participated:

- Competition in Consultation Skills
- Organization of Pharmacy and Medical Biochemistry Congresses
- Career Days

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

Relationship with Union

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

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

Anti-corruption measures

Medika d.d. as a company incorporated into the official market of the Zagreb Stock Exchange, applies the Corporate Governance Code issued by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange as detailed in page 3 of these financial statements. In the year 2017, the Company was closely following and applying the recommendations set out in the Code, which also applies to added anti-corruption measures.

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

Zagreb, 2 March 2018

Jasminko Herceg
Director

Medika d.d.
ZAGREB, Capraška 1

STATEMENT OF THE RESPONSIBILITIES OF THE MANAGEMENT AND SUPERVISORY BOARD

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

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

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

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

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

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

The financial statements set out on pages 32 to 86 were authorised by the Management for submission to the Supervisory Board on 2 March 2018, in witness whereof they have been signed below.

Signed on behalf of the Management on 2 March 2018 by:

Jasminko Herceg
Director

3 Medika d.d.
ZAGREB, Capraška 1

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Medika d.d. and subsidiaries:

Opinion

We have audited the accompanying consolidated financial statements of the Medika d.d. (the „Company") and it's subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for Opinion

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters

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

Key audit matter	***How our audit addressed the key audit matter***
Complexity of revenue *Refer to Notes **5** and **6** to the consolidated financial statements on pages **56 to 58**.*	
Revenue is an important measure used to evaluate the performance of a group. There is a risk that revenue is presented in amounts higher than actually generated by the Group. Revenue is recognised when the goods are delivered to, and accepted by the customer and when the collectability of the receivables is relatively certain. Goods are sold at the agreed discounts, with the right of the customers to return faulty goods. Sales of goods are recognized based on the contractually agreed prices less any contractually agreed discounts and returns. These transactions are mainly processed automatically in the Group's information system. Given the high level of reliance on the information system and the potential effects of inaccurately accounting for revenue transactions and revenue transactions that did not occur, we have concluded that revenue is a key audit matter addressed in our audit.	Our audit approach included both controls testing and substantive procedures, which are the following: • We evaluated the relevant IT system and the design and operational effectiveness of controls over capturing and recording the revenue transactions. In doing so, we involved our IT specialists to assist in the audit of the automated controls. • By applying substantive testing, we have assessed the occurrence of revenue recorded. • By substantive testing we have assessed that only contractually agreed discounts were approved to the customers. The discounts are mostly calculated automatically by the IT system, and we involved our IT specialists to assist in the audit of automated controls over the discount calculation and booking.

Key audit matters (continued)

<table>
<tr><th colspan="2">Valuation of trade receivables
Refer to Note 18 to the consolidated financial statements on pages 69 to 72.</th></tr>
<tr><td>A significant risk for the Group is the long collection period for receivables, especially because the majority of the customers are health institutions whose funding depends on HZZO (the Croatian State Health Insurance).

As at 31 December 2017 the gross balance of trade receivables amounts to HRK 1,110,121 thousand, and the impairment provisions recognised for bad receivables amount to HRK 15,191 thousand.

Trade receivables are recognised initially at fair value and subsequently at amortised cost, which is determined using the effective interest method, less any impairment losses. A provision for impairment of trade receivables is recognised whenever there is objective evidence that the Group will not be able to recover the amount receivable.

Because of the significant amount of trade receivables recognised in the statement of financial position, the Management estimates the recoverability of receivables based on an analysis of individual categories of this type of assets taking into account the following: the ageing analysis of trade receivables and the financial position of customers, which are compared against the collection history for each individual customer. The estimated recoverable amount of trade receivables represents the present value of estimated future cash flows, discounted at the annual effective interest rate.

Because of the significance, complexity and potential considerable effect of the judgements on the financial statements and the high balance of trade receivables, this is one of the key matters addressed in our audit.</td><td>As part of our audit, we performed the following substantive procedures:

• We have gained an understanding of the entity's process of calculating and recognising impairment of trade receivables. We have also reviewed, in detail, the ageing analysis of trade receivables to assess the specific amount of provisions for each individual customer;
• We have gained an understanding of the entity's processes of calculating estimated future cash flows and discounting those cash flows. In addition, we assessed the reasonableness of the discount rate applied and other assumptions made.</td></tr>
</table>

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Valuation of goodwill and the related intangible assets (pharmacy licences) *Refer to Note **15** to the consolidated financial statements on pages **65 to 66**.*	
Goodwill and the related intangible assets (pharmacy licences) have been recognised in the consolidated statement of financial position as a consequence of the acquisitive nature of the Group. As required by the applicable accounting standards, management conducts annual impairment tests to assess the recoverability of the carrying amount of goodwill and the related intangible assets which relate to pharmacy licences. The estimate is performed using discounted cash flow models. As disclosed in note **15**, there are a number of key sensitive judgements made in determining the inputs into these models which include: • revenue growth (including market developments and volume growth), • operating margins, and • the discount rates applied in the future cash flow projections. Accordingly, the impairment test of these assets is considered to be a key audit matter.	In performing the impairment tests of goodwill and the related intangible assets (pharmacy licences), we focused on the key assumptions made by management. We have engaged internal specialists to assist with validating assumptions applied to calculate the discount rates and other key assumptions used in the model. Our audit procedures included: • critically evaluating whether the model used by management to calculate the value in use of the individual cash generating units complies with the requirements of IAS 36 "Impairment of Assets."; • assessing the assumptions underlying the calculation of the discount rates and recalculating these rates; • analysing the future cash flows projections applied in the models to determine whether they are reasonable and supportable given the current macroeconomic climate and expected future performance of the cash generating units; • assessing the accuracy of management's projections by comparing the projected cash flows, including the assumptions relating to revenue growth rates and operating margins, against historical performance.

INDEPENDENT AUDITOR'S REPORT (continued)

Other Information

Other information is the responsibility of the Management. Such other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report.

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

With respect to our audit of the annual 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 Group's Management Report and the Corporate Governance Statement, which are included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examining whether the Management Report includes required disclosures in Management Report and Corporate governance Statement as set out in Articles 21, 22 and 24 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in Article 22 and 24 of the Accounting Act.

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

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

Based on the knowledge and understanding of the Group's operations and the environment in which it operates we gained during our audit of the annual financial statements, we have not identified any material misstatement in the other information.

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

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

In preparing the accompanying annual financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, where appropriate, whether the use of the going concern basis of accounting is appropriate. The use of the going concern basis of accounting is appropriate unless Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process established by the Group.

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INDEPENDENT AUDITOR'S REPORT (continued)

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements in the context of the applicable financial reporting framework. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. Our conclusions are based on the audit evidence obtained until the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Annual Financial Statements (continued)

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

From the matters communicated with those charged with governance, we are required to determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless a 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.

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

We were appointed as the statutory auditor of the Company and the Group by the General Assembly on the meeting held on 18 May 2017 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 4 years and covers period from 1 January 2014 to 31 December 2017.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Company on 2 March 2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

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

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

Marina Tonžetić,
Member of the Board and Certified Auditor

Deloitte d.o.o.

Zagreb, 2 March 2018
Radnička cesta 80
10 000 Zagreb
Republic of Croatia

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts are expressed in thousands of HRK)	**Notes**	**2017**	**2016**
Revenue	5, 6	2,826,631	2,654,703
Cost of goods sold	6	(2,534,692)	(2,390,677)
Staff expenses	7	(113,751)	(111,970)
Marketing and promotion expenses	8	(17,727)	(8,843)
Depreciation and amortisation	14, 15	(13,618)	(13,860)
Other operating expenses	9	(110,183)	(67,128)
Other gains – net	10	362	4,381
Profit from operations		**37,022**	**66,606**
Financial income	11	11,638	14,859
Financial expenses	11	(12,612)	(15,188)
Net financial gain/(loss)		**(974)**	**(329)**
Share in the profit of associates	16	1,789	1,236
Profit before tax		**37,837**	**67,513**
Income tax	12	5,672	(11,997)
Profit for the year		**43,509**	**55,516**
Other comprehensive income for the year		**-**	**-**
Total comprehensive income for the year		**43,509**	**55,516**
Earnings per share			
– basic and diluted (in HRK and lipa)	13	**1,502.28**	**1,914.01**

The notes on pages 37 to 86 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

(All amounts are expressed in thousands of HRK)	Notes	At 31 December 2017	2016
ASSETS			
Non-current assets			
Property and equipment	14	190,142	191,786
Intangible assets	15	189,796	188,121
Investments in associates	16	21,453	21,318
Deferred tax assets	26	16,106	1,524
Trade and other receivables	18	16,976	8,762
		434,473	411,511
Current assets			
Inventories	19	307,213	277,023
Trade and other receivables	18	1,156,915	1,382,459
Income tax receivable		3,871	461
Cash and cash equivalents	20	144,785	84,509
		1,612,784	1,744,452
Total assets		**2,047,257**	**2,155,963**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	185,988	183,181
Reserve for reinvested profit		-	4,529
Reserves	22	67,360	67,278
Retained earnings		185,483	200,040
		438,831	455,028
Non-current liabilities			
Borrowings	25	5,785	16,164
Deferred tax liabilities	26	15,923	15,923
Provisions	27	804	952
		22,512	33,039
Current liabilities			
Trade and other payables	24	1,214,159	1,167,342
Borrowings	25	370,875	499,049
Provisions	27	880	1,505
		1,585,914	1,667,896
Total equity and liabilities		**2,047,257**	**2,155,963**

The notes on pages 37 to 86 form an integral part of these consolidated financial statements.

MEDIKA d.d., Zagreb

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts are expressed in thousands of HRK)	Notes	Share capital	Reserve for re-invested profit	Reserves	Retained earnings	Total
Balance at 1 January 2016		**178,211**	**8,262**	**67,278**	**198,362**	**452,113**
Comprehensive income for the year						
Profit for the year		-	-	-	55,516	55,516
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	**55,516**	**55,516**
Transactions with owners recognised directly in equity						
Increase in share capital	21	8,454	(8,262)	-	(192)	-
Release of treasury shares	21	1,040	-	-	-	1,040
Purchase of treasury shares	21	(4,524)	-	-	-	(4,524)
Dividends paid	24	-	-	-	(49,117)	(49,117)
Transfers	22	-	4,529	-	(4,529)	-
Total transactions with owners recognised directly in equity		**4,970**	**(3,733)**	-	**(53,838)**	**(52,601)**
Balance at 31 December 2016		**183,181**	**4,529**	**67,278**	**200,040**	**455,028**
Balance at 1 January 2017		183,181	4,529	67,278	200,040	455,028
Comprehensive income for the year						
Profit for the year		-	-	-	43,509	43,509
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	**43,509**	**43,509**
Transactions with owners recognised directly in equity						
Increase in share capital	21	4,529	(4,529)	-	-	-
Release of treasury shares	21	1,620	-	-	-	1,620
Purchase of treasury shares	21	(3,342)	-	-	-	(3,342)
Dividends paid	24	-	-	-	(57,984)	(57,984)
Transfers	22	-	-	82	(82)	-
Total transactions with owners recognised directly in equity		**2,807**	**(4,529)**	**82**	**(58,066)**	**(59,706)**
Balance at 31 December 2017		**185,988**	-	**67,360**	**185,483**	**438,831**

The notes on pages 37 to 86 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts are expressed in thousands of HRK)	Notes	2017	2016
Cash flows from operating activities			
Profit for the year		**43,509**	**55,516**
Adjusted by:			
Income tax	12	(5,672)	11,997
Depreciation and amortisation	14, 15	13,618	13,860
Impairment of trade and other receivables, net	9, 18	50,049	3,810
Impairment of intangible assets	9, 15	705	3,129
Value adjustment on inventories	19	4,504	8,546
Unrealised foreign exchange differences		535	(624)
Changes in provisions	27	(773)	234
Gain on disposal of tangible assets	10	(104)	(116)
Disposal of tangible assets expense	15	2,207	1,453
Interest income	11	(11,638)	(14,859)
Interest expense	11	12,687	15,296
Transfer of (profit) of associate	16	(1,789)	(1,236)
Changes:			
Decrease in inventories		(34,415)	(18,969)
Decrease/(increase) in trade and other receivables		142,165	(237,152)
Increase in trade and other payables		20,353	62,994
(Increase) / decrease in dividends payable		12,030	(12)
Cash generated from operations		**247,971**	**(96,133)**
Interest paid		(13,288)	(15,539)
Income taxes paid		(12,593)	(11,897)
Cash flows from operating activities		**222,090**	**(123,569)**
Cash flows from investing activities			
Purchases of property and equipment		(5,173)	(12,159)
Proceeds from the sale of property and equipment		1,094	960
Purchases of intangible assets	15	(5,678)	(2,591)
Acquisition of subsidiary, net of cash acquired	30	(736)	(7,911)
Disposing of branch, net of disposed cash	31	-	(779)
Proceeds from repayment of given loans		47,779	458,797
Given loans		(12,099)	(396,200)
Interest received		2,337	14,860
Share of profit from associates received	16	1,654	1,038
Cash flows from investing activities		**29,178**	**56,015**

The notes on pages 37 to 86 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts are expressed in thousands of HRK)	Notes	2017	2016
Cash flows from financing activities			
Repayments of borrowings		(204,604)	(440,253)
Proceeds from borrowings		64,700	592,495
Repayment of finance leases		(3,412)	(2,470)
Purchase of treasury shares	21	(3,342)	(4,524)
Release of treasury shares	21	1,620	1,040
Dividends paid		(45,954)	(49,128)
Cash flows from financing activities		**(190,992)**	**97,160**
Net increase in cash and cash equivalents		**60,276**	**29,606**
Cash and cash equivalents at the beginning of the year		84,509	54,903
Cash and cash equivalents at the end of the year	20	**144,785**	**84,509**

NOTE 1 – GENERAL INFORMATION

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

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

Subsidiaries:

	2017	2016
Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb	100%	100%
- Zdravstvena ustanova Ljekarne Delonga, Okrug Gornji (since May 2007)	100%	100%
- Zdravstvena ustanova Ljekarne Ines Škoko, Zagreb (since March 2011)	100%	100%
- Zdravstvena ustanova Ljekarne Atalić, Osijek (merged in October 2016)	-	-
- Ljekarna Ana Pantelić, Rijeka (acquired and merged in 2017)	-	-
- Zdravstvena ustanova Ljekarne Soline Farm, Biograd na Moru (bought and sold in 2017)	-	-
- Ljekarna Mirela Klunić, Pula (merged in July 2016)	-	-
- Ljekarna Smilja Bagat, Split (acquired and merged in 2016)	-	-
- Ljekarna Maja Mučaji, Zadar (acquired and merged in 2016)	-	-
- Ljekarna Mirija Bohunicki, Medulin (acquired and merged in 2016)	-	-
- Zdravstvena ustanova Ljekarne Galla, Varaždin (bought and sold in 2016)	-	-
- Zdravstvena ustanova Ljekarne Diabpharm, Zagreb (founded and sold in 2016)	-	-
Primus nekretnine d.o.o., Zagreb	100%	100%

Associates:

	2017	2016
Zdravstvena ustanova Ljekarne Jagatić, Zagreb (since November 2008)	49%	49%

As at 31 December 2017, the Company's shares were listed on the official market of the Zagreb Stock Exchange. The ownership structure of the Company is shown in note 21.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017, and amendmends to IFRS 1 and IAS 28 for annual reports beginning on or after 1 May 2017).

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

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

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

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

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

The Company has decided not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Company anticipates that the adoption of these standards and amendments to existing standards will not have any material impact on the financial statements of the Company in the period of initial application.

Based on the analysis of the existing contracts with customers, the Management of the Company and the Group considers that the implementation of IFRS 15 will not have significant material impact on the financial statements of the Group.

According to the Company's financial assets and financial liabilities analysis at 31 December 2017, based on the facts and circumstances of that date, the Company's Management Board estimated that the impact of IFRS 9 on the financial statements has no material significance.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 2 March 2018 (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),

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

- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 effective for annual periods beginning on or after 1 January 2017, and amendments to IFRS 1 and IAS 28 for annual periods beginning on or after 1 January 2018),

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Standards and amendments to the existing Standards issued by IASB but not yet adopted by the EU (continued)

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

The Company anticipates that the adoption of the new standards and the amendments to the existing standards will have no material impact on its financial statements in the period of initial application.

At the same time, the hedge accounting issue involving financial assets and financial liabilities remains unregulated, as the principles have not yet been endorsed by the EU.

As assessed by the Company, the adoption of hedge accounting under **IAS 39 "Financial instruments: Recognition and Measurement"** to financial assets and financial liabilities at the reporting date would not have a significant impact on the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all companies (including structured entities) controlled by the Company. Control is achieved when the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. A subsidiary is consolidated when the Company obtains control over the subsidiary and ceases when the Company loses control over it. Such investments are presented in these financial statements at cost less any impairment losses, if any.

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

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

(b) Associates

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Operating segment reporting

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

2.4 Foreign currencies

(a) Functional and reporting currency

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

(b) Transactions and balances in foreign currencies

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.

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

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

2.5 Property and equipment

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

The estimated useful life is as follows:

Buildings	10-40 years
Equipment	2-20 years

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

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

Gains and losses arisen on disposal are determined by comparing the proceeds with carrying amount, and are recognised within "Other gains – net" in profit or loss.

2.6 Intangible assets

(a) Goodwill

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

Separately recognised goodwill is tested annually for impairment, or whenever there are indications of 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 Group at which the goodwill is monitored for internal management purposes.

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

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

(b) Licences

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets (continued)

(c) Software

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

(d) Other rights

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

2.7 Impairment of non-financial assets

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

2.8 Financial assets

The Group classifies its financial assets as trade and other receivables, except investments in subsidiaries and associates (note 2.2) The classification depends on the purpose for which the financial assets are acquired, Management determines the classification of its financial assets at initial recognition.

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date, which are classified as non-current assets.

Trade and other receivables are measured at amortised cost using effective interest method.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

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.

2.9 Leases

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

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

2.10 Inventories

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

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

2.11 Trade and loan receivables

Trade and loan receivables are initially recognized at fair value and subsequently measured at amortized cost using effective interest method, less an allowance for impairment, Impairment is made whenever there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, the probability of bankruptcy proceedings at the debtor, or default or delinquency in payment are considered objective evidence of impairment. The amount of the impairment allowance is calculated for each debtor individually as the difference between the carrying value of the amount receivable and the present value of estimated future cash flows, discounted at the effective interest rate. The impairment losses on receivables are recognised in profit or loss within "Other operating expenses".

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and loan receivables (continued)

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

2.12 Cash and cash equivalents

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

2.13 Share capital

The share capital consists of ordinary shares.

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

2.14 Reserves

(a) Legal reserves

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

(b) Other reserves

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

(c) Reserves for treasury shares

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

2.15 Financial liabilities

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

(a) Trade payables

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Financial liabilities (continued)

(b) Borrowings

Borrowings are recognised initially at fair value, less transaction costs. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of a financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

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 taxes are determined using the balance sheet liability method. They arise on temporary differences between the tax base of an asset or a liability and in the amounts they are reported in the financial statements. However, no deferred tax is recognised on the initial recognition of assets and liabilities in a transaction other than a business combination that does not affect neither the accounting nor the taxable profit (tax loss) at the time of the transaction. Deferred tax assets and liabilities are determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.17 Employee benefits

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits

(b) Long-term employee benefits

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

(c) Short-term employee benefits

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

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

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

2.18 Provisions

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

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

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

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for products, goods or services sold in the regular course of operations. Revenues are stated net of value added tax, estimated returns, discounts and rebates.

The Group recognises revenue when the amount of the revenue can be measured reliably, when future economic benefits will flow into the Group and when the specific criteria for all the Group's activities as described below are met.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Revenue recognition

(a) Sales of goods

Goods wholesale revenue is recognized when the goods are delivered to, and accepted by the customer and when the collectability of the receivables is relatively certain. Goods are sold at the agreed discounts, with the right of the customers to return faulty goods. Sales revenue is recognised based on the price from the underlying sales contract, less any discounts agreed in the underlying contract.

Retail product and merchandise sales are recognised upon the sale to the customer. Retail sales are usually in cash or by credit card. The revenue recognised includes credit card fees payable for the transaction, Such fees are included in other operating expenses.

(b) Service revenue

Revenue from services is recognized in the period when the services are rendered.

(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 expenses

Finance expenses comprise interest expense accrued on borrowings, impairment losses recognised on financial assets, and foreign exchange losses, Borrowing costs are recognised in profit or loss 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 or sale.

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 (VAT)

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

2.23 Earnings per share

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group generates most of its revenue on the domestic market and in Croatian kuna (HRK). However, the Group purchases a part of goods on foreign markets, which exposes it to the currency risk arising from changes in foreign exchange rates mostly against the euro, which may affect future operating results and cash flows. The Finance Division of the Company seeks to minimise the foreign exchange risk by reducing the balance of foreign-currency denominated financial liabilities. This mainly relates to borrowings, which are almost entirely denominated in the Croatian kuna, and hence the exposure to the foreign exchange risk is insignificant. The Finance Division has reduced, in cooperation with the Purchase Division, 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 2017 (notes 18, 20, 24, 25), if the euro would weaken/strengthen against the Croatian kuna by 1.0% (2016: 1.0%), with all other variables held constant, the net profit for the reporting period would have been HRK 3,308 thousand higher/lower (2016: HRK 3,027 thousand higher/lower), mainly as a result of foreign exchange gains/losses on translation of euro-denominated trade payables.

(ii) Cash flow and fair value interest rate risk

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

The Group does not use derivative instruments to actively hedge its cash flow and fair value interest rate risk exposure. However, it 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 2017, if the effective interest rate on borrowings (issued at variable rate) would be 0.10% higher/lower on an annual level (2016: 0.10%), the net profit for the reporting period would be HRK 214 thousand lower/higher (2016: HRK 221 thousand).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

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

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and ensuring availability of funding by entering into adequate credit lines as well as the ability to settle all liabilities. It is the objective of the Company and the Group to maintain flexibility in funding, by ensuring availability of the agreed credit lines. The Finance Division monitors the available sources of cash regularly. 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 2017 the balance of cash and cash equivalents amounts to HRK 144,785 thousand, and the Group had free credit lines in the amount of HRK 34,100 thousand available at demand for liquidity risk management purposes.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

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

(in thousands of HRK)	Less than 1 month	2 months to 1 year	Between 1 and 3 years	Over 3 years	Total
31 December 2017					
Trade and other payables	301,399	912,415	345	-	1,214,159
Borrowings	90,604	281,785	5,996	15	378,400

(in thousands of HRK)	Less than 1 month	2 months to 1 year	Between 1 and 3 years	Over 3 years	Total
31 December 2016					
Trade and other payables	295,886	871,456	-	-	1,167,342
Borrowings	161,637	339,521	16,464	171	517,793

In 2018 the Group will settle trade and other liabilities according to the collection of receivables which depends on the liquidity of the entire healthcare system.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

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

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

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

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

	2017	2016
	(in thousands of HRK)	
Total liabilities and equity	438,831	455,028
Total assets	2,047,257	2,155,963
Equity to assets ratio	**21%**	**21%**

In 2017 the ratio remained unchainged compared to 2016, showing that 21% of the Group's total assets are financed from its own resources. In accordance with the stated, 79% of the assets is financed from other resources (2016: 79%).

3.3 Fair value measurement

The nominal amounts of trade receivables, net of impairment provision, and trade payables are assumed to approximate their fair values.

NOTE 4 – KEY ACCOUNTING ESTIMATES

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

Assumptions for determining the amount of provisions for trade receivables

Due to the significance of the amount of trade receivables recognised in the statement of financial position, the Management estimates the probability of recovering trade receivables based on an analysis of individual categories of such assets. Factors taken into consideration by the Management include: ageing analysis of trade receivables and the comparison of the financial position of customers against the collection history for an individual customer. The estimated recoverable amount of trade receivables represents the present value of estimated future cash inflows, discounted at the annual effective interest rate of 2.76% (2016: 2.88%). Should actual amounts recovered be lower than the actual estimates made by the Management estimates, the Group would be required to recognise an additional impairment charge.

As at 31 December 2017, if the assessed irrecoverable amount of receivables would be 1% lower/higher, with all other variables held constant, the net profit for the reporting period would be HRK 165 thousand higher/lower than reported (2016: HRK 861 thousand higher/lower than reported), and the effect in the hospital segment would be HRK 12 thousand (2016: HRK 625 thousand), in the pharmacy segment HRK 89 thousand (2016: HRK 132 thousand) and in the segment 'Others' HRK 64 thousand (2016: HRK 104 thousand).

Useful life of property and equipment

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

NOTE 5 – REVENUE

	2017	2016
	(in thousands of HRK)	
Sales revenue	2,775,668	2,604,938
Sales and other revenue – related parties (note 32)	35,734	31,453
Other income	15,229	18,312
	2,826,631	**2,654,703**

NOTE 6 – SEGMENT INFORMATION

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

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

The wholesale distribution channel consists of:

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

2. Hospitals

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

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

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

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

NOTE 6 – SEGMENT INFORMATION (continued)

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

	Wholesale			Retail	Total
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Others**	**Own pharmacies**	
Sales revenue	1,103,739	851,825	468,716	351,388	2,775,668
Other income	300	5	11,971	2,953	15,229
Sales and other revenue – related parties (note 32)	35,440	-	294	-	35,734
Total income	**1,139,479**	**851,830**	**480,981**	**354,341**	**2,826,631**
Cost of goods sold	(1,050,205)	(782,911)	(430,365)	(271,211)	(2,534,692)
Segment result	**89,274**	**68,919**	**50,616**	**83,130**	**291,939**
Operating expenses					(254,917)
Profit from operations					**37,022**
Financial income					11,638
Financial expenses					(12,612)
Net financial loss					**(974)**
Share in the profit of associates					1,789
Profit before tax					**37,837**
Income tax					5,672
Profit for the year					**43,509**

NOTE 6 – SEGMENT INFORMATION (continued)

The results of the stated segments for the year ended 31 December 2016 are as follows:

	Wholesale			Retail	
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Others**	**Own pharmacies**	**Total**
Sales revenue	1,044,482	759,495	453,558	347,403	2,604,938
Other income	185	111	14,981	3,035	18,312
Sales and other revenue – related parties (note 32)	31,142	-	311	-	31,453
Total income	**1,075,809**	**759,606**	**468,850**	**350,438**	**2,654,703**
Cost of goods sold	(996,074)	(709,651)	(416,557)	(268,395)	(2,390,677)
Segment result	**79,735**	**49,955**	**52,293**	**82,043**	**264,026**
Operating expenses					(197,420)
Profit from operations					**66,606**
Financial income					14,859
Financial expenses					(15,188)
Net financial gain					**(329)**
Share in the profit of associates					1,236
Profit before tax					**67,513**
Income tax					(11,997)
Profit for the year					**55,516**

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

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

The analysis of trade receivables by the segments at 31 December 2016 is as follows:

	Wholesale			Retail	
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Others**	**Own pharmacies**	**Total**
Trade receivables (note 18/ii/)	372,320	688,095	88,143	90,814	1,239,372

NOTE 7 - STAFF EXPENSES

	2017	2016
	(in thousands of HRK)	
Net salaries	61,302	59,825
Contributions from and on salaries /i/	31,226	31,444
Taxes and surtaxes	8,431	9,102
Awards to employees	5,251	3,920
Employee transportation costs	3,687	3,734
Other employee benefits /ii/	3,108	3,155
Termination benefits	746	790
	113,751	**111,970**

At 31 December 2017, there were 780 persons employed at the Group (2016: 784 employees).

/i/ Pension contributions recognised by the Group as payable to mandatory pension funds in respect of 2017 amount to HRK 16,494 thousand (2016: HRK 17,249 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

	2017	2016
	(in thousands of HRK)	
Donations	13,393	4,776
Entertainment	2,582	2,073
Marketing	1,752	1,994
	17,727	**8,843**

NOTE 9 – OTHER OPERATING EXPENSES

	2017	2016
	(in thousands of HRK)	
Impairment of trade and other receivables, net (note 18)	50,049	3,810
Maintenance of assets, security services and property insurance	13,165	12,627
Rental costs	12,152	12,485
Materials and energy	11,841	12,430
Professional training and consultancy services	9,675	6,390
Taxes and contributions independent of the results	3,994	4,204
Bank and payment operation charges	2,720	2,616
Telephone, postal and utility services	2,015	2,176
Impairement of intangible assets (note 15)	705	3,129
Litigation provisions (note 27)	(526)	1,098
Other expenses	4,393	6,163
	110,183	**67,128**

NOTE 10 – OTHER GAINS – NET

	2017	2016
	(in thousands of HRK)	
Net foreign exchange gains – trade and other payables	(1,116)	4,019
Gain on disposal of a subsidiary (note 30)	10	779
Gains from the sale of property and equipment (net)	104	116
Gains from the sale of intangible asset(net)	1,816	-
Net foreign exchange losses – trade and other receivables	(65)	(106)
Net foreign exchange losses – cash and cash equivalents	(387)	(427)
	362	**4,381**

NOTE 11 - NET FINANCIAL LOSS

	2017	2016
	(in thousands of HRK)	
Financial income		
Interest income	11,638	14,859
	11,638	**14,859**

NOTE 11 - NET FINANCIAL GAINS / (LOSSES) (continued)

Financial expenses	2017	2016
	(in thousands of HRK)	
Interest expense:		
Bank loans and finance leases	(12,687)	(15,296)
	(12,687)	**(15,296)**
Foreign exchange gains / (losses) – net		
Foreign exchange gains	81	110
Foreign exchange losses	(6)	(2)
	75	108
	(12,612)	**(15,188)**

NOTE 12 – INCOME TAX

	2017	2016
	(in thousands of HRK)	
Current tax	8,910	13,327
Deferred tax (note 26)	(14,582)	(1,330)
	(5,672)	**11,997**

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

	2017	2016
	(in thousands of HRK)	
Profit before taxation	**37,837**	**67,513**
Income tax at the rate of 18% (2016: 20%)	6,810	13,504
Effect of non-taxable income and tax incentives	(1,121)	(1,662)
Effect of tax non-deductible expenses	9,680	1,597
Tax incentives to encourage investment activity	(6,620)	-
Tax incentives for reinvested profit	-	(906)
Impairment losses on intangible assets that are not deductible	127	626
Effect of deferred tax asset based on temporary differences and tax incentives to encourage investment activity	(14,981)	-
Effect of previously unrecognised and unused tax losses and deductible temporary differences now recognised	433	360
Effect of tax rate change on previously recognised temporary differences	-	(1,522)
Income tax	**(5,672)**	**11,997**
Effective tax rate	-	17,77%

NOTE 12 – INCOME TAX (continued)

Under the local regulations, the Tax Authority may at any time inspect the books and records of the Group companies within 3 years following the end of the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Tax Authority audited the operations of one member of the Group in 2011 and issued a resolution, imposing an additional tax liability. The member of the Group filed a complaint, and in 2016 received the final settlement, determing the additional tax liability. In 2016, the member of the Group settled the stated obligation and reversed provision for stated liability.

Tax incentives for reinvested profit

During 2016 the Company has generate profit before taxation in total amount of HRK 62,970 thousand. The Management Board of the Company has made a decision to reinvest part of the profit in the amount of HRK 4,529 thousand, which is also the amount for which the share capital of the Company has been increased in 2017.

In accordance with current tax rules, in 2016, the Company utilized stated amount as income tax incentives of the reinvested profit(for which the investment was made in long-term tangible and intangible assets), resulting in a reduction of current income tax in the amount of HRK 906 thousand.

Tax incentives to encourage investment activity

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

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

NOTE 13 – EARNINGS PER SHARE

Earnings per share are determined, by dividing the Group's net profit by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares redeemed and held by the Company as treasury shares. The weighted average number of shares decreased to 28,962, as the Company had transactions involving its treasury shares in 2017.

	2017	2016
Net profit attributable to the shareholders *(in thousands of HRK)*	43,509	55,516
Weighted average number of shares (excluding treasury shares)	28,962	29,005
Basic / diluted earnings per share *(in HRK and lipa)*	**1,502.28**	**1,914.01**

NOTE 14 – PROPERTY AND EQUIPMENT

(All amounts are expressed in thousands of HRK)	Land	Buildings	Equip-ment	Assets under construction and prepayments	Total
Balance at 31 December 2015					
Cost	25,227	195,230	112,861	4,205	337,523
Accumulated depreciation	-	(58,558)	(85,709)	(2,002)	(146,269)
Carrying amount	**25,227**	**136,672**	**27,152**	**2,203**	**191,254**
For the year ended 31 December 2016					
Opening carrying amount	25,227	136,672	27,152	2,203	191,254
Additions	-	6	889	12,783	13,678
Acquisition of a subsidiary (note 29)	-	-	61	-	61
Foundation of an associate company (note 30)	-	(878)	(70)	-	(948)
Transfer from assets under construction	-	1,451	3,856	(5,307)	-
Disposals	-	-	(219)	(625)	(844)
Depreciation for the year	-	(4,898)	(6,517)	-	(11,415)
Closing carrying amount	25,227	132,353	25,152	9,054	191,786
Balance at 31 December 2016					
Cost	25,227	195,739	109,040	9,054	339,060
Accumulated depreciation and impairement	-	(63,386)	(83,888)	-	(147,274)
Carrying amount	**25,227**	**132,353**	**25,152**	**9,054**	**191,786**
For the year ended 31 December 2017					
Opening carrying amount	25,227	132,353	25,152	9,054	191,786
Additions	-	-	559	10,057	10,616
Acquisition of a subsidiary (note 29)	-	-	3	-	3
Transfer from assets under construction	-	831	8,957	(9,788)	-
Disposals	-	(349)	(641)	-	(990)
Depreciation for the year	-	(4,912)	(6,361)	-	(11,273)
Closing carrying amount	25,227	127,923	27,669	9,323	190,142
Balance at 31 December 2017					
Cost	25,227	195,996	110,414	9,323	340,960
Accumulated depreciation	-	(68,073)	(82,745)	-	(150,818)
Carrying amount	**25,227**	**127,923**	**27,669**	**9,323**	**190,142**

NOTE 14 – PROPERTY AND EQUIPMENT (continued)

Loans and finance lease liabilities (note 25) have been secured by pledges over property and equipment with a carrying amount of HRK 138,914 thousand as at 31 December 2017 (2016: HRK 143,437 thousand).

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

	2017	2016
	(in thousands of HRK)	
Cost – capitalised finance lease	13,243	12,427
Accumulated depreciation	(4,900)	(6,201)
Carrying amount	**8,343**	**6,226**

NOTE 15 – INTANGIBLE ASSETS

(All amounts are expressed in thousands of HRK)	Goodwill	Licences, software and other rights	Assets under construction	Total
Balance at 31 December 2015				
Cost	76,085	176,665	1,879	254,629
Accumulated depreciation and impairment	(6,565)	(54,858)	-	(61,423)
Carrying amount	**69,520**	**121,807**	**1,879**	**193,206**
For the year ended 31 December 2015				
Opening carrying amount	69.520	121.807	1.879	193.206
Additions	931	791	869	2.591
Transfers	-	416	(416)	-
Acquisition of a subsidiary (note 29)	-	7.036	-	7.036
Foundation of a subsidiary (note 30)	-	(7.685)	-	(7.685)
Disposals	-	(3)	(1.450)	(1.453)
Imparement (note 9)	(2.788)	(341)	-	(3.129)
Amortisation for the year	-	(2.445)	-	(2.445)
Closing carrying amount	67.663	119.576	882	188.121
Balance at 31 December 2016				
Cost	77,016	167,318	882	245,216
Accumulated amortisation and impairment	(9,353)	(47,742)	-	(57,095)
Carrying amount	**67,663**	**119,576**	**882**	**188,121**
For the year ended 31 December 2017				
Opening carrying amount	67,663	119,576	882	188,121
Additions	-	963	4,715	5,678
Transfers	-	4,723	(4,723)	-
Acquisition of a subsidiary (note 29)	1,254	-	-	1,254
Disposals	-	(1,993)	(214)	(2,207)
Impairment (note 9)	(705)	-	-	(705)
Amortisation for the year	-	(2,345)	-	(2,345)
Closing carrying amount	68,212	120,924	660	189,796
Balance at 31 December 2017				
Cost	78.270	176.995	660	255.925
Accumulated amortisation and impairment	(10.058)	(56.071)	-	(66.129)
Carrying amount	**68.212**	**120.924**	**660**	**189.796**

NOTE 15 – INTANGIBLE ASSETS (continued)

Licences

At the reporting date, pharmacy licences with an indefinite useful life amount in total to HRK 110,634 thousand (2016: HRK 112,499 thousand). Pharmacy activities cannot be undertaken without pharmacy licences.

Impairment test of goodwill and licences with indefinite useful life

The Group calculated recoverable amount using value-in-use method. Value-in-use cash flow projections were based on a 7-year business plan approved by Management and Director. For the purposes of the cash flow projections, a discount rate of 8.97%, a growth rate of 1.0-3.5% and a terminal growth rate of 2.5% were applied. The recoverable amount exceeds the carrying amount. As a result of impairment test performed in 2017, an impairment loss with respect of goodwill and licences was recognised in the amount of HRK 705 thousand (2016: HRK 3,129 thousand).

NOTE 16 – INVESTMENTS IN ASSOCIATES

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

	2017	2016
	(in thousands of HRK)	
Balance at 1 January	21,318	21,120
Share of profit received	(1,654)	(1,038)
Share of profits	1,789	1,236
Balance at 31 December	**21,453**	**21,318**

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

(All amounts are expressed in thousands of HRK)	Assets	Liabilities	Revenue	Net gain
Balance at 31 December 2017				
ZU Ljekarne Jagatić	24.323	14.942	55.583	3.652
Total	**24.323**	**14.942**	**55.583**	**3.652**

(All amounts are expressed in thousands of HRK)	Assets	Liabilities	Revenue	Net gain
Balance at 31 December 2016				
ZU Ljekarne Jagatić	28.036	18.457	50.016	2.522
Total	**28.036**	**18.457**	**50.016**	**2.522**

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY

	2017	2016
	(in thousands of HRK)	
Financial assets - category: Loans and receivables		
Loans and receivables (note 18/v/)	1,168,876	1,384,358
Cash and cash equivalents (note 20)	144,785	84,509
	1,313,661	**1,468,867**

	2017	2016
	(in thousands of HRK)	
Financial liabilities - category: Other liabilities		
Trade payables (note 24/i/)	1,176,391	1,140,797
Other payables (note 24/ii/)	37,768	26,545
Total borrowings (note 25)	376,660	515,213
	1,590,819	**1,682,555**

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.

	2017	2016
	(in thousands of HRK)	
Pharmacies	254,985	273,958
Hospitals	169,672	128,292
HZZO	36,307	35,602
Others	72,433	65,296
Balance at 31 December	**533,397**	**503,148**

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2017	2016
	(in thousands of HRK)	
Non-current receivables:		
Given loans /i/	15,642	7,417
Trade receivables /ii/	1,023	878
Long-term deposits	311	467
	16,976	8,762
Current receivables:		
Trade receivables /ii/	1,093,907	1,238,494
Other current receivables /iii/	4,654	6,293
Given loans /iv/	52,623	131,117
Given loans – current portion of non-current receivables /i/	5,681	6,452
Short-term deposits	50	103
	1,156,915	1,382,459
	1,173,891	**1,391,221**

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

	Effective interest rate	2017	2016
		(in thousands of HRK)	
Loans given to pharmacies	3.0%-7.0%	21,047	12,056
Given loans - other	2.0%-8.0%	276	1,813
Total non-current receivables, including current portion		21,323	13,869
Current portion of non-current receivables		(5,681)	(6,452)
		15,642	**7,417**

The fair value of long-term receivables approximates their carrying amounts since the contractually agreed interest rates are equal to market rates.

The maturity of long-term loans is as follows:

	2017	2016
	(in thousands of HRK)	
Between 1 and 2 years	4,826	3,980
Between 2 and 5 years	10,816	3,437
	15,642	**7,417**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	2017	2016
	(in thousands of HRK)	
Domestic trade receivables	1,095,686	1,238,475
Trade receivables – related parties (note 32)	13,062	16,096
Foreign trade receivables	1,373	1,781
	1,110,121	1,256,352
Impairment allowance on trade receivables	(15,191)	(16,980)
	1,094,930	**1,239,372**

Maturity analysis of receivables:

	2017	2016
	(in thousands of HRK)	
Not yet due	533,397	503,148
0-180 days past due	405,924	502,081
181-360 days past due	130,683	194,010
Over 360 days past due	40,117	57,113
	1,110,121	**1,256,352**

Movements in impairement allowance for trade receivables:

	2017	2016
	(in thousands of HRK)	
Balance at 1 January	16,980	13,350
Increase / (decrease) (note 9)	(1,772)	3,801
Amounts written-off	(17)	(171)
Balance at 31 December	**15,191**	**16,980**

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

	2017	2016
	(in thousands of HRK)	
HRK	1,172,522	1,388,319
EUR	1,198	2,804
DKK	171	98
	1,173,891	**1,391,221**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	2017	2016
	(in thousands of HRK)	
VAT receivable not yet recognised	3,327	3,349
Prepaid expenses	780	2,081
Others	547	863
	4,654	**6,293**

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

	Effective interest rate	2017	2016
		(in thousands of HRK)	
Given loans	3.0%-6.95%	105,742	132,415
		105,742	132,415
Impairment allowance		(53,119)	(1,298)
		52,623	**131,117**

Movements in impairement allowance for loan receivables:

	2017	2016
	(in thousands of HRK)	
Balance at 1 January	1,298	1,289
Increase (note 9)	51,821	9
Balance at 31 December	**53,119**	**1,298**

From total increase of HRK 51,821 thousand, HRK 51,313 thousand refers to the imperment allowance for loan receivables to Agrokor d.d. Equity is value adjusted for HRK 50,000 thousand and interest receivables for HRK 1,313 thousand.

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/v/ Financial assets by category include the following:

	2017	2016
	(in thousands of HRK)	
Given cash loans	62,563	138,475
Given commodity loans	11,383	6,511
Trade receivables	1,094,930	1,239,372
	1,168,876	**1,384,358**

Of total loans given, HRK 50,000 thousand (2016: HRK 130,984 thousand) relate to loans given to Agrokor d.d. The principal amounts to HRK 100,000 thousand, of which HRK 50,000 thousand is value adjusted. Interest receivables amount to HRK 1,313 thousand and total amount is value adjusted.

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

NOTE 19 – INVENTORIES

	2017	2016
	(in thousands of HRK)	
Trade goods	288,483	255,059
Trade goods – related parties (note 32)	14,473	19,030
Prepayments made	3,755	2,440
Materials	502	494
	307,213	**277,023**

In 2017 the Group recognised an allowance in the amount of HRK 4,504 thousand (2016: HRK 8,546 thousand) as an expense, which relates to damaged and expired inventories and is included in the cost of goods sold.

Inventories in the amount of HRK 130,000 thousand (2016: HRK 100,000 thousand) have been pledged as collateral for the borrowings (note 25).

NOTE 20 – CASH AND CASH EQUIVALENTS

	2017	2016
	(in thousands of HRK)	
Domestic currency account balance	144,746	84,461
Foreign currency account balance	17	27
Cash on hand	22	21
	144,785	**84,509**

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

NOTE 21 – SHARE CAPITAL

At 31 December 2017 the share capital of the Company amounts to HRK 209,244,420 thousand (31 December 2016: HRK 204,715,320) and is divided into 30,194 shares (2016: 30,194 shares), The nominal value per share amounts to HRK 6,930 (31 December 2016: HRK 6,780). All issued shares are fully paid in.

	Number of shares	Share capital	Treasury shares	Capital gains/ (losses)	Total
	(pcs)	*(in thousands of HRK)*			
Balance at 1 January 2016	30,194	196,261	(9,397)	(8,653)	178,211
Release of treasury shares	-	-	700	340	1,040
Purchase of treasury shares	-	-	(4,524)	-	(4,524)
Increase in share capital	-	8,454	-	-	8,454
Balance at 31 December 2016	**30,194**	**204,715**	**(13,221)**	**(8,313)**	**183,181**
Balance at 1 January 2017	30,194	204,715	(13,221)	(8,313)	183,181
Release of treasury shares \i\	-	-	965	655	1,620
Acquisition of treasury shares \ii\	-	-	(3,342)	-	(3,342)
Increase in share capital \iii\	-	4,529	-	-	4,529
Balance at 31 December 2017	**30,194**	**209,244**	**(15,598)**	**(7,658)**	**185,988**

\i\ In 2017 the Company granted 100 treasury shares to its key management (2016: 80 treasury shares).

\i\ In 2017 the Company acquired 238 treasury shares (2016: 347 treasury shares).

\iii\ The share capital was increased based on the decision of the General Assembly held on 18 May 2017, The Commercial Court in Zagreb issued a decision on the registration of the increase of share capital on 12 July 2017. The share capital was increased by a total of HRK 4,529 thousand from earnings retained in prior periods.

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

	2017		2016	
	Number of shares	%	Number of shares	%
Auctor d.o.o.	14,306	47.38%	14,306	47.38%
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%
Treasury shares	1,440	4.77%	1,302	4.31%
Individuals	2,065	6.84%	2,144	7.11%
Other legal persons	1,123	3.72%	1,182	3.91%
Total	**30,194**	**100%**	**30,194**	**100%**

At 31 December 2017 Auctor d.o.o. held 14,306 shares. which represents 49.75% (2016: 49.52%) of shares with voting rights taking into account non-voting treasury shares.

NOTE 22 – RESERVES

(in thousands of HRK)	Legal reserve	Reserves for treasury shares	Total
Balance at 31 December 2015	**15,992**	**51,286**	**67,278**
Changes during the year	2,474	(2,474)	-
Balance at 31 December 2016	**18,466**	**48,812**	**67,278**
Changes during the year	82	-	82
Balance at 31 December 2017	**18,548**	**48,812**	**67,360**

Legal reserves amount to HRK 18,548 thousand (31 December 2016: HRK 18,466 thousand) and were increased from the reserves of treasury shares based on a decision adopted at the General Assembly held on 18 May 2017.

NOTE 23 – RETAINED EARNINGS

Included in the retained earning are other reserves in the total amount of HRK 31,714 thousand (2016: HRK 31,796 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.

The General Assembly adopted in its meeting held on 19 December 2017 a decision to distribute dividends from the retained earnings in the amount of HRK 57,984 thousand, of which HRK 25,454 thousand refer to profit earned in period from 1 January 2015 until 31 December 2011. HRK 32,530 thousand refer to profit earned in period from 1 January 2001 until 31 December 2004 and in period from 1 January 2012 until 31 December 2015. Until 31 December 2017 dividends amounted to HRK 45,954 thousand were paid.

The dividend per share amounted to HRK 2,000.00.

NOTE 24 – TRADE AND OTHER PAYABLES

	2017	2016
	(in thousands of HRK)	
Trade payables /i/	1,176,391	1,140,797
Other payables /ii/	37,768	26,545
	1,214,159	**1,167,342**

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

	2017	2016
	(in thousands of HRK)	
Foreign trade payables	459,658	543,412
Domestic trade payables	598,321	464,417
Trade payables - related parties (note 32)	118,412	132,968
	1,176,391	**1,140,797**

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

	2017	2016
	(in thousands of HRK)	
HRK	768,543	753,699
EUR	393,277	374,231
DKK	14,571	12,816
Other currencies	-	51
	1,176,391	**1,140,797**

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

	2017	2016
	(in thousands of HRK)	
VAT payable	8.214	9.746
Salaries payable	8.961	8.538
Unused annual leave	2.580	2.215
Other taxes and contributions payable	67	112
Dividends payable	12.030	-
Other	5.916	5.934
	37.768	**26.545**

NOTE 25 – BORROWINGS

	2017	2016
	(in thousands of HRK)	
Long-term borrowings:		
Long-term loans	-	11,897
Finance lease /ii/	5,785	4,267
	5,785	**16,164**
Short-term borrowings:		
Short-term loans /i/	367,696	496,304
Finance lease /ii/	3,179	2,745
	370,875	**499,049**
Total borrowings	**376,660**	**515,213**

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

/ii/ Long-term finance lease liabilities relate to the purchase of delivery vehicles and a fork lift. In 2017 new lease contracts were concluded, with an interest rate of 2.82% - 3.13% (2016: 2.89%). The lease liabilities are repayable within four to six years and are secured by a pledge over all the vehicles and the fork lift subject to the finance lease (note 14). Lease liabilities are effectively secured since the lessor has the right to repossess the leased items if the Group ceases to make the payments.

The gross finance lease liability is as follows:

	2017	2016
	(in thousands of HRK)	
Up to 1 year	3,408	2,929
Between 1 and 5 years	6,010	4,442
Future financing costs	(454)	(359)
Carrying amount of the finance lease liabilities	**8,964**	**7,012**

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

	2017	2016
	(in thousands of HRK)	
Up to 1 year	3,179	2,745
Between 1 and 5 years	5,785	4,267
	8,964	**7,012**

NOTE 25 – BORROWINGS (continued)

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

	2017	2017
	(in thousands of HRK)	
1 year to 2 years	2,624	10,071
From 2 year to 5 years	3,161	6,093
	5,785	**16,164**

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

	2017		2016	
	HRK %	EUR %	HRK %	EUR %
Long-term borrowings				
Long-term loans	-	-	3.33%-3.84%	-
Finance lease liabilities	-	2.82%-3.57%	-	2,89%-3.70%
Short-term borrowings				
Short-term loans	2.70% - 2.90%	-	2.70%-3.10%	-

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

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

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

	2017	2016
	(in thousands of HRK)	
Variable-rate borrowings		
Up to 3 months	40,009	-
3 to 12 months	223,064	284,438
Over 1 year	-	-
	263,073	**284,438**
Fixed-rate borrowings		
Fixed-rate loans	113,587	230,775
	113,587	**230,775**
Total borrowings	**376,660**	**515,213**

Given that borrowings in the amount of HRK 113,587 thousand bear interest at fixed rates (2016: HRK 230,775 thousand), there is no exposure to interest rate changes.

NOTE 25 – BORROWINGS (continued)

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

	2017	2016
	(in thousands of HRK)	
HRK	367,696	508,201
EUR	8,964	7,012
	376,660	**515,213**

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

Breach of contractual conditions

For a part of short-term loans with commercial banks, during 2017 the Company negotiated contractual terms, of which part of the terms refer to the ratio of paid dividends over the period in relation to the net profit from the previous year.

At the end of 2017, the Company did not comply with the contractual terms. The total principal amount of these loans at 31 December 2017 amounts to HRK 60,300 thousand. Commercial banks were informed in a timely manner about the above and have provided written confirmation that they would not activate the contractual terms related to the breach of contractual obligations. All liabilities that matured on 31 Decemeber 2017 were settled in a timely manner.

NOTE 26 – DEFERRED INCOME TAX

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

Deferred tax assets

(u tisućama kuna)	Impairment allowance on inventories	Impairment allowance on receivables	Provisions for employee benefits	Intragroup transfers of property and equipment	Impairment allowance on intangible assets	Tax incentive	Impairment allowance on given loans	Total
Balance at 1 January 2016	**1,038**	**73**	**292**	**1**	**420**	**-**	**-**	**1,824**
Tax charged to profit or loss	(217)	(8)	(27)	(1)	-	-	-	(253)
Tax credited to profit or loss	-	-	-	-	61	-	-	61
Effect of change in the tax rate	(31)	(6)	(28)	-	(43)	-	-	(108)
Balance at 31 December 2016	**790**	**59**	**237**	**-**	**438**	**-**	**-**	**1,524**
Balance at 1 January 2017	**790**	**59**	**237**	**-**	**438**	**-**	**-**	**1,524**
Tax charged to profit or loss	(135)	(11)	(42)	-	(211)	-	-	(399)
Tax credited to profit or loss	-	-	-	-	-	5,981	9,000	14,981
Balance at 31 December 2017	**655**	**48**	**195**	**-**	**227**	**5,981**	**9,000**	**16,106**

In 2017, the Company acknowledged the deferred tax asset based on the Ministry of Economy, 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 tax incentives that the Company can use is HRK 12,601 thousand, of which the Company used HRK 6,620 thousand in 2017 (note 12).

NOTE 26 – DEFFERED INCOME TAX (continued)

Deferred tax liabilities

(u tisućama kuna)	**Acquisition of a subsidiary – licences**
Balance at 1 January 2016	**17.475**
Tax on acquisition of a subsidiary (note 29)	1.252
Tax on formation of a subsidiary (note 30)	(1.174)
Effect of change in the tax rate	(1.630)
Balance at 31 December 2016	**15.923**
Balance at 1 January 2017	**15.923**
Changes during the year	-
Balance at 31 December 2017	**15.923**

The deferred tax liability arose at the acquisition of the subsidiary as a result of the temporary difference arising from the measurement of assets and liabilities of subsidiaries in consolidation at fair values, while the tax base of assets and liabilities remained at the level of expense. The resulting deferred tax liability affected the increase in goodwill in 2016.

NOTE 27 – PROVISIONS

(in thousands of HRK)	Employee benefits	Legal actions	Total
Balance at 31 December 2016	**1,359**	**1,098**	**2,457**
Long-term portion	952	-	952
Current portion	407	1,098	1,505
Balance at 1 January 2017	**1,359**	**1,098**	**2,457**
Increase	142	100	242
Utilised during the year	(389)	(626)	(1,015)
Balance at 31 December 2017	**1,112**	**572**	**1,684**
Long-term portion	804	-	804
Current portion	308	572	880

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 actions

During 2017 the Group has reversed the provision for litigations in the amount of HRK 626 thousand, based on the court ruling. The Group has increased the provisions for legal actions based on assessment of the attorneys and the Management regarding the probability of losing the disputes in the total amount of HRK 100 thousand. As the amount of provision reversal is greater compared to provisions increase, the Group reported net income from the reversal of provisions amounted to HRK 526 thousand (note 9).

NOTE 28 – OPERATING LEASES

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

The contractual rents under the operating leases are as follows:

	2017	2016
	(in thousands of HRK)	
Up to 1 year	6,176	6,007
Between 1 and 5 years	9,034	5,474
After 5years	2,266	796
Contractual rents under operating leases	**17,476**	**12,277**

NOTE 29 – ACQUISITION OF SUBSIDIARIES

Acquisition of Health Institutions

In 2017, the Group acquired 100% ownership over one pharmacy (2016: 100% ownership over three pharmacies) for a contractual amount of HRK 1,005 thousand (2016: HRK 9,874 thousand).

From the date of acquisition to the reporting date, the Group generated revenues on the basis of the newly acquired subsidiaries in the amount of HRK 1,988 thousand (2016: HRK 5,976 thousand) and profit in the amount of HRK 97 thousand (2015: HRK 289 thousand). The subsidiary was acquired as of 1 January 2017.

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

	2017	2016
	(in thousands of HRK)	
Acquisition cost	**1,005**	**9,874**
- Consideration paid	1,005	9,874
- Liabilities for the purchases of new subsidiaries (note 25/ii/)	-	-
Fair value of assets acquired	249	(9,874)
Goodwill (note 15)	**1,254**	-

The fair value of the acquired assets is as follows:

	2017	2016
	(in thousands of HRK)	
Intangible assets (note 15)	-	7,036
Property and equipment (note 14)	3	61
Inventories	279	1,151
Receivables	1,077	2,263
Cash and cash equivalents	269	1,963
Deferred tax liability (note 26)	-	(1,252)
Current liabilities	(1,877)	(1,348)
Net assets acquired	**(249)**	**9,874**
Purchase consideration paid in cash	1,005	9,874
Cash and cash equivalents acquired	(269)	(1,963)
Net cash outflow	**736**	**7,911**

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

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

NOTE 30 – FORMATION AND DISPOSAL OF SUBSIDIARIES

In 2016 ZU Prima Pharme established a new pharmacy, Zdravstvena ustanova Ljekarne Diabpharm, Zagreb. The pharmacy has been established by paying in the registered capital in the amount of HRK 20 thousand, and the assets transferred to the new institution consist of intangible assets in the amount of HRK 7,685 thousand (note 15), tangible assets in the amount of HRK 948 thousand (note 14), inventories in the amount of HRK 843 thousand and deferred tax liability in the amount of HRK 1,174 thousand (note 26). The total value of the investment amounted to HRK 8,321 thousand. The investment was sold for HRK 9,000 thousand, and the Group generated a gain from the disposal in the amount of HRK 679 thousand (note 10).

In 2016 the Group acquired a share in ZU Ljekarne Galla which it sold generating a gain on the disposal in the amount of HRK 100 thousand (note 10).

NOTE 31 – EVENTS AFTER THE BALANCE SHEET DATE

On 1 January 2018 the Group acquired a branch office Bibinje from ZU Ljekarne Soline Farm, Biograd na moru.

There are no other subsequent events that would require adjustments to or to be disclosed in the financial statements.

NOTE 32 – RELATED-PARTY TRANSACTIONS

The Group enters into transactions with related parties,

The related parties include:

	2017	2016
1. Associate of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb:		
Zdravstvena ustanova Ljekarne Jagatić, Zagreb	49%	49%

2. The company with the majority of voting rights, i.e. the parent company Auctor d.o.o., with an ownership interest of 47.38%. i.e. 49.75% of voting rights.
3. Pliva Hrvatska d.o.o,. Zagreb. with an ownership interest of 25.32% and 26.59% of the voting rights in the Company. Given the ownership interest and the volume of transactions with the Company, Pliva Hrvatska d.o.o. has significant influence on the current operations of the Company.
4. Other related companies: Auctor d.o.o. a related party of Auctor d.o.o.

Balances resulting from transactions with the related parties and included in the statement of financial position at 31 December 2017 and 31 December 2016 as well as the items included in the statement of comprehensive income resulting from these transactions are as follows:

(in thousands of HRK)	Notes	2017	2016
Trade and other receivables			
Trade receivables			
Associate of ZU Ljekarne Prima Pharme		12,835	15,831
Pliva Hrvatska d.o.o.		227	265
	18	13,062	16,096
Inventories			
Pliva Hrvatska d.o.o.		14,473	19,030
	19	14,473	19,030

NOTE 32 – RELATED-PARTY TRANSACTIONS (continued)

(in thousands of HRK)	Notes	2017	2016
Payables to suppliers			
Pliva Hrvatska d.o.o.		118,412	132,968
	25	118,412	132,968
Sales and other income			
Associate of ZU Ljekarne Prima Pharme		35,448	31,142
Pliva Hrvatska d.o.o.		286	311
	5	35,734	31,453
Purchase of trade goods			
Pliva Hrvatska d.o.o.		212,189	229,445
		212,189	229,445
Key management compensation – salaries and bonuses for five members		8,121	6,072
Supervisory Board and Audit Committee compensation		453	525

NOTE 33 – APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 32 to 86 were approved by the Management of the Company in Zagreb on 2 March 2018.

Signed on behalf of the Company on 2 March 2018 by:

Jasminka Herceg
Director

Medika d.d.
ZAGREB Capraška 1

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