

MEDIKA d.d.

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

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Management Report

In 2017 Medika d.d. (the "Company") generated a non-consolidated revenue in the amount of HRK 2,720,858 thousand, which is by HRK 175,951 thousand higher than the prior year's non-consolidated revenue. The non-consolidated operating profit amounts to HRK 25,417 thousand, which is by HRK 37,116 thousand lower than the prior year's figure.

Profit before tax on a non-consolidated basis amounts to HRK 24,816 thousand, and the non-consolidated net profit amounts to HRK 33,075 thousand, which is by 17,629 less than the 2016 figure.

Increase of other expenses (note 9 to the financial statements), i.e. impairment allowance on trade receivables and other receivables, had the most significant impact on the decrease in non-consolidated operating profit and profit before tax. The Management, based on published audited financial statements for Agrokor d.d. and its related parties for 2016, has estimated that on 31 December 2017, 50% of receivables for given loans should be value adjusted, which amounts to 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), 51.0% of the total non-consolidated income was generated by pharmacies (2016: 51.7%). At the same time, 31.3% of the total non-consolidated income was generated from hospitals (2016: 29.8%).

Total non-consolidated assets amount to HRK 1,959,232 thousand, representing a decrease of 4.8% from the prior year. In the current year the share of non-current assets in the total non-consolidated assets, is by HRK 65,064 thousand bigger than the prior year's figure, due to investment accession in amount of HRK 40,000 thousand into the subsidiary ZU Ljekarne Prima Pharme. Namely, the Company decided to increase share capital (resources for the subsidiary operations) with contribution in rights-converting part of due receivables into subsidiary share (note 16 to the financial statements). The total non-consolidated current assets amount is lower for HRK 164,003 thousand compared with the beginning of the year. 83.8% of the total non-consolidated assets is generated in non-consolidated current asset. Trade and other receivables represent the most significant item of the total non-consolidated assets and are decreased by 16.7% from the prior year, mostly affected with hospitals recovery in 2017. In addition, inventories rose by 12.3% compared 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 total amount of HRK 2,000 thousand per share.

The total non-consolidated loan debt amounts to HRK 366,636 thousand, comprising HRK 360,851 thousand of short-term loans and finance lease obligations and HRK 5,785 thousand of long-term borrowings and finance lease liabilities (note 25). The company on December 31, 2017, had no long-term loans.

The equity-to-assets ratio is 20%, showing that the Company finances 20% of its total assets from own sources. This indicator has not changed compared with previous year.

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

Expected future development of the Company

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

Treasury shares

During 2017, the Company acquired 238 treasury shares in total amount of HRK 3,342 thousand and released 100 treasury shares with a 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 percent. In 2017 Ljekarna Ana Pantelić was acquired 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 Company is the long collection period for trade receivables, especially those HZZO (Croatian State Health Insurance) and HZZO related receivables. Therefore, a significant amount of working capital is not available, which strongly affects the cash flow of Medika d.d. and timely settlement of its liabilities. As the receivables represent, directly or indirectly, amounts owed by state institutions, their collection should not be regarded as probable of default risk. 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 is a further risk. To lower this risk, the Company has focused on expanding the lines of products that are not limited by law in respect of the price of the product.

Risks (continued)

Foreign exchange risk

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

Interest rate risk

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

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

Corporate Governance Statement

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

Corporate Governance Statement (continued)

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.

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

Zagreb, 2 March 2018

Jasminko Herceg
Director

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

After making enquiries, the Management has a reasonable expectation that the Company 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 those 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 Company will continue in business.

Management is responsible for selecting suitable accounting policies, which give a true and fair view of the financial position of the Company, as well as its compliance with Croatian Accounting Act. Management has a general responsibility for taking such steps which are reasonably available to it in order to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

The financial statements set out on pages 12 to 60 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



Medika d.d.
ZAGREB, Capraška 1



Deloitte d.o.o.
Zagreb Tower
Radnička cesta 80
10 000 Zagreb
Croatia
TAX ID: 11686457780

Tel: +385 (0) 1 2351 900
Fax: +385 (0) 1 2351 999
www.deloitte.com/hr

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Medika d.d., Zagreb:

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at 31 December 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 Company 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.

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

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INDEPENDENT AUDITOR'S REPORT (continued)

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 for 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 separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Complexity of revenue <i>Refer to Notes 5 and 6 to the separate financial statements on pages 35 to 37.</i>	
<p>Revenue is an important measure used to evaluate the performance of a company. There is a risk that revenue is presented in amounts higher than actually generated by the Company.</p> <p>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. The transactions are mainly processed automatically in the Company's information system.</p> <p>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.</p>	<p>Our audit approach included both controls testing and substantive procedures, which are the following:</p> <ul style="list-style-type: none"> • We evaluated the relevant IT system and the design and operational effectiveness of controls over capturing and recording the revenue transactions. In doing so, we involved our IT specialists to assist in the audit of the automated controls. • By applying substantive testing, we have assessed the occurrence of revenue recorded. • 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Valuation of trade receivables

Refer to Note 18 to the separate financial statements on pages 46 to 49.

A significant market risk for the Company is the long collection period for receivables, especially because the majority of the customers are health institutions whose funding depends on HZZO (the Croatian State Health Insurance).

As at 31 December 2017 the gross balance of trade receivables amounts to HRK 1,174,802 thousand, and the impairment provisions recognised for bad receivables amount to HRK 14,928 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 Company 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.

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.

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 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 Article 21 and 22 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

1. Information included in the other information is, in all material respects, consistent with the accompanying annual financial statements for the year,
2. The Management Report has been prepared, in all material respects, in accordance with Article 21 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, point 2, 5, 6 and 7 of the same Act.

Based on the knowledge and understanding of the Company'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 those charged with governance for the annual financial statements

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

In preparing the accompanying annual financial statements, Management is responsible for assessing the Company'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 Company 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 Company.

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 separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting 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 Company'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 an entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We 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.

INDEPENDENT AUDITOR'S REPORT (continued)

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

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 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

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

<i>(All amounts are expressed in thousands of HRK)</i>	Notes	2017	2016
Revenue	5, 6	2,720,858	2,544,907
Cost of goods sold	6	(2,511,703)	(2,362,362)
Staff expenses	7	(63,861)	(60,566)
Marketing and promotion expenses	8	(17,583)	(8,629)
Depreciation and amortisation	14, 15	(11,059)	(11,288)
Other operating expenses	9	(89,653)	(42,987)
Other (losses)/gains – net	10	(1,582)	3,458
Profit from operations		25,417	62,533
Financial income	11	11,582	14,822
Financial expenses	11	(12,183)	(14,385)
Net financial (loss)/gain		(601)	437
Profit before tax		24,816	62,970
Income tax	12	8,259	(12,266)
Profit for the year		33,075	50,704
Other comprehensive income for the year		-	-
Total comprehensive income for the year		33,075	50,704
Earnings per share	13	1,142.01	1,748.11
– basic and diluted (in HRK and lipa)			

The notes on pages 17 to 60 form an integral part of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

<i>(All amounts are expressed in thousands of HRK)</i>	Notes	At 31 December	
		2017	2016
ASSETS			
Non-current assets			
Property and equipment	14	167,087	168,599
Intangible assets	15	19,200	15,734
Investments in subsidiaries and associates	16	99,999	59,999
Deferred tax assets	26	15,325	446
Trade and other receivables	18	15,659	7,428
		<u>317,270</u>	<u>252,206</u>
Current assets			
Inventories	19	275,998	245,761
Trade and other receivables	18	1,222,610	1,479,385
Income tax receivable		5,151	725
Cash and cash equivalents	20	138,203	80,094
		<u>1,641,962</u>	<u>1,805,965</u>
Total assets		<u>1,959,232</u>	<u>2,058,171</u>
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		137,285	162,276
		<u>390,633</u>	<u>417,264</u>
Non-current liabilities			
Borrowings	25	5,785	12,500
Provisions	27	643	684
		<u>6,428</u>	<u>13,184</u>
Current liabilities			
Trade and other payables	24	1,200,598	1,149,227
Borrowings	25	360,851	477,148
Provisions	27	722	1,348
		<u>1,562,171</u>	<u>1,627,723</u>
Total equity and liabilities		<u>1,959,232</u>	<u>2,058,171</u>

The notes on pages 17 to 60 form an integral part of these financial statements.

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

<i>(All amounts are expressed in thousands of HRK)</i>	Notes	Share capital	Reserve for re- invested profit	Reserves	Retained earnings	Total
Balance at 1 January 2016		178,211	8,262	67,278	165,410	419,161
Comprehensive income for the year						
Profit for the year		-	-	-	50,704	50,704
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	50,704	50,704
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		-	-	-	(49,117)	(49,117)
Transfers		-	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	162,276	417,264
Balance at 1 January 2017		183,181	4,529	67,278	162,276	417,264
Comprehensive income for the year						
Profit for the year		-	-	-	33,075	33,075
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	33,075	33,075
Transactions with owners recognised directly in equity						
Increase in share capital	21	4,529	(4,529)	-	-	-
Release of treasury shares	21	1,620	-	-	-	1,620
Purchase of treasury shares	21	(3,342)	-	-	-	(3,342)
Dividends paid	23	-	-	-	(57,984)	(57,984)
Transfers	22	-	-	82	(82)	-
Total transactions with owners recognised directly in equity		2,807	(4,529)	82	(58,066)	(59,706)
Balance at 31 December 2017		185,988	-	67,360	137,285	390,633

The notes on pages 17 to 60 form an integral part of these financial statements.

MEDIKA d.d., Zagreb**SEPARATE STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 31 DECEMBER 2017**

<i>(All amounts are expressed in thousands of HRK)</i>	Notes	2017	2016
Cash flows from operating activities:			
Profit for the year		33,075	50,704
Adjusted by:			
Income tax	12	(8,259)	12,266
Depreciation and amortisation	14, 15	11,059	11,288
Impairment of trade and other receivables, net	9	50,097	3,838
Value adjustment on inventories	19	4,292	8,252
Unrealised foreign exchange differences		535	(593)
Changes in provisions		(667)	967
Gain on disposal of tangible assets	10	14	29
Impairment of intangible assets	15	4	23
Interest expense	11	12,263	14,463
Interest income	11	(11,582)	(14,822)
Changes:			
Increase in inventories		(34,529)	(20,306)
Decrease/(Increase) in trade and other receivables		172,133	(233,040)
Increase in trade and other payables		26,784	64,502
(Decrease)/increase in dividends payable	24/ii/	12,030	(12)
Cash generated from operations		267,249	(102,441)
Interest paid		(12,818)	(14,735)
Income taxes paid		(11,101)	(10,287)
Cash flows from operating activities		243,330	(127,463)
Cash flows from investing activities:			
Purchases of property, equipment and intangible assets		(8,553)	(11,700)
Proceeds from the sale of property and equipment		965	809
Proceeds from repayment of given loans		47,738	457,242
Investment in subsidiary	16	(40,000)	(100)
Given loans		(12,099)	(396,850)
Interest received		2,225	14,810
Cash flows from investing activities		(9,724)	64,211

The notes on pages 17 to 60 form an integral part of these financial statements.

SEPARATE STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

<i>(All amounts are expressed in thousands of HRK)</i>	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Cash flows from financing activities:			
Repayments of borrowings		(184,109)	(437,660)
Proceeds from borrowings		59,700	587,000
Repayment of finance leases		(3,412)	(2,470)
Dividends paid		(45,954)	(49,128)
Release of treasury shares	21	1,620	1,040
Purchase of treasury shares	21	(3,342)	(4,524)
Cash flows from financing activities		(175,497)	94,258
Net increase in cash and cash equivalents		58,109	31,006
Cash and cash equivalents at the beginning of the year		80,094	49,088
Cash and cash equivalents at the end of the year	20	138,203	80,094

The notes on pages 17 to 60 form an integral part of these financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 1 – GENERAL INFORMATION

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

As at 31 December 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 financial statements. The accounting policies have been consistently applied to all the years presented in these financial statements, except where stated otherwise.

2.1 Basis of preparation

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

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

The Company has issued these separate financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. The Company has also prepared consolidated financial statements for the Company and its subsidiaries (“the Group”) in accordance with IFRS, which were approved by the Management on 2 March 2018. In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. Users of these separate financial statements should read them together with the Group’s consolidated financial statements as at and for the year ended 31 December 2017 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

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

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

- **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),
a
- **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).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- **Amendments to 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).

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),
- **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 have no material impact on the financial statements.

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

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

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)

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),

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- **Amendments to 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 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017, 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. (amendments are to be applied for annual periods beginning on or after 1 January 2019).
- **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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Operating segment reporting

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

2.3 Foreign currencies

(a) Functional and reporting currency

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

(b) 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. However, if the gain or loss on a monetary item is recognized directly in the reserve, then any component of foreign currency application and profit or loss should be recognized directly in the reserves.

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

2.4 Investments in subsidiaries and associates

(a) Subsidiaries

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

(b) Associates

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property and equipment

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

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

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

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 Company would currently obtain from disposal of the asset, less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its 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 the income statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

(a) Goodwill

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

Separately recognised goodwill is tested annually for impairment, 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 Company at which the goodwill is monitored for internal management purposes.

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

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

(b) Software

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

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets

The Company classifies its financial assets as trade and other receivables, except investments in subsidiaries and associates (note 2.4). The classification depends on the purpose for which the financial assets are acquired. 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 Company performs a review to identify any objective evidence that a financial asset may be impaired. Impairment testing of trade and loan receivables is described in note 2.11.

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

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

2.9 Leases

The Company leases certain property and equipment. Leases of property and equipment where the Company 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 equipment, or the present value of the minimum lease payment. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the finance 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 Company 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs attributable to the purchase of goods and is calculated based on the weighted average purchase price. Net 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 performed 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 impairment allowance of 50% of the value of the inventory is recognized, and for inventories with no movement within two years, an impairment allowance of 100% of the value of the stock is recognized.

2.11 Trade and loan receivables

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. An impairment allowance is made for receivables whenever there is objective evidence that the Company will not be able to collect all due receivables 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 asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The impairment losses on trade receivables are recognised in the income statement within "Other operating expenses".

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

2.12 Cash and cash equivalents

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

2.13 Share capital

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Reserves

(a) Legal reserves

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

(b) Other reserves

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

(c) Reserves for treasury shares

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

2.15 Financial liabilities

Financial liabilities recognized by the Company 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.

(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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

The Company derecognises financial liabilities when, and only when, the Company's 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Income tax (continued)

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 pension and other post-employment benefits

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

(b) Long-term employee benefits

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

(c) Short-term employee benefits

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits (continued)

(c) Short-term employee benefits (continued)

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

2.18 Provisions

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

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

Provisions are measured at the present value of the 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 comprises the fair value of the consideration received or receivable for the sale of products, goods and services in the ordinary course of the Company's business. Revenues are stated net of value added tax, estimated returns, discounts and rebates. The Company recognises revenue when the amount of the revenue can be measured reliably, when future economic benefits will flow into the Company and when the specific criteria for all the Company's activities as described below are met.

(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.

(b) Service revenue

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

(c) Financial income

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Finance expense

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Company generates most of its revenue on the domestic market and in Croatian kuna (HRK). However, the Company purchases a part of goods on foreign markets, which exposes it to the currency risk arising from changes in foreign exchange rates mostly against the euro, which may affect future operating results and cash flows. The Finance Division of the Company seeks to minimise the foreign exchange risk by reducing the balance of foreign-currency denominated financial liabilities. This mainly relates to borrowings, which are entirely denominated in the Croatian kuna and hence do not give rise to any foreign exchange risk exposure. The 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 3,038 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 Company's interest rate risk arises from its borrowings. Borrowings granted at variable rates expose the Company to cash-flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

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

As at 31 December 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 209 thousand).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Current assets that expose the Company to credit risk consist mainly of cash, trade and other receivables. The Company has no significant concentrations of credit risk. The Company has sales policies in place to ensure that the sale is made to customers with an appropriate credit history. With respect to credit risk exposure, customers are grouped into three categories: pharmacies, hospitals and other customers. A higher credit risk is found among pharmacies since they have a potential going concern issue. 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 Company secures the recovery of a part of the trade receivables with bills of exchange and promissory notes. A detailed credit risk analysis is presented in notes 17 and 18.

(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 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 138,203 thousand, and the Company had free credit lines in the amount of HRK 34,100 thousand available at demand for liquidity risk management purposes.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

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

<i>(in thousands of HRK)</i>	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	289,359	910,894	345	-	1,200,598
Borrowings	90,580	271,636	5,996	15	368,226

<i>(in thousands of HRK)</i>	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	280,376	868,851	-	-	1,149,227
Borrowings	161,419	317,329	12,654	171	491,573

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

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

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

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Total liabilities and equity	390,633	417,264
Total assets	<u>1,959,232</u>	<u>2,058,171</u>
Equity to assets ratio	<u>20%</u>	<u>20%</u>

The 2017 ratio decreased from the one in 2016 and shows that the Company finances 20 percent of its total assets from own sources. Consequently, 80 percent of the assets are financed from sources other than owner's equity (2016: 80%).

3.3 Fair value measurement

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 4 – KEY ACCOUNTING ESTIMATES

The Company makes estimates that are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, 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 Company 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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 5 – REVENUE

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Sales revenue	2,424,281	2,257,534
Sales and other revenue – related parties (note 31)	284,315	272,096
Other income	<u>12,262</u>	<u>15,277</u>
	<u>2,720,858</u>	<u>2,544,907</u>

NOTE 6 – SEGMENT INFORMATION

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

The Company monitors revenues and gross profit by distribution channels:

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 6 – SEGMENT INFORMATION (continued)

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 6 – SEGMENT INFORMATION (continued)

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

<i>(in thousands of HRK)</i>	<u>Pharmacies</u>	<u>Hospitals</u>	<u>Others</u>	<u>Total</u>
Sales revenue	1,044,483	759,495	453,556	2,257,534
Sales and other revenue – related parties (note 31)	271,757	-	339	272,096
Other income	185	111	14,981	15,277
Total income	1,316,425	759,606	468,876	2,544,907
Cost of goods sold	(1,236,154)	(709,651)	(416,557)	(2,362,362)
Segment result	80,271	49,955	52,319	182,545
Operating expenses				(120,012)
Profit from operations				62,533
Financial income				14,822
Financial expenses				(14,385)
Net financial gain				437
Profit before tax				62,970
Income tax				(12,266)
Profit for the year				50,704

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

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

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

<i>(in thousands of HRK)</i>	<u>Pharmacies</u>	<u>Hospitals</u>	<u>Others</u>	<u>Total</u>
Trade receivables (note 18/ii/)	565,371	688,095	82,211	1,335,677

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 7 - STAFF EXPENSES

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Net salaries	32,464	30,932
Contributions from and on salaries /i/	16,404	16,291
Management bonuses	5,543	3,760
Taxes and surtaxes	4,525	4,875
Employee transportation costs	2,030	1,995
Other employee benefits /ii/	2,314	1,979
Termination benefits	581	734
	<u>63,861</u>	<u>60,566</u>

At 31 December 2017 the Company had 419 employees (31 December 2016: 399 employees).

/i/ Pension contributions recognised by the Company as payable to mandatory pension funds in respect of 2017 amount to HRK 9,050 thousand (2016: HRK 8,884 thousand).

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

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Donations	13,374	4,759
Entertainment	2,511	2,014
Marketing	1,698	1,856
	<u>17,583</u>	<u>8,629</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 9 – OTHER OPERATING EXPENSES

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Impairment of trade and other receivables, net (note 18)	50,097	3,838
Materials and energy	9,217	9,477
Maintenance of assets, security services and property insurance	9,137	9,218
Professional training and consultancy services	8,669	5,134
Taxes and contributions independent of the results	3,268	3,113
Rental costs	3,005	3,004
Bank and payment operation charges	1,696	1,505
Telephone, postal and utility services	1,114	1,189
Road tolls and transportation costs	1,050	1,006
Control and analysis services (note 27)	586	494
Provisions for litigations	(526)	1,098
Other expenses	2,340	3,901
Other expenses – related parties (note 31)	-	10
	<u>89,653</u>	<u>42,987</u>

NOTE 10 – OTHER GAINS – NET

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Net foreign exchange gains – trade and other payables	(1,116)	4,020
Net (losses) / gains on disposal of property and equipment	(14)	(29)
Net foreign exchange losses – trade and other receivables	(65)	(106)
Net foreign exchange losses – cash and cash equivalents	(387)	(427)
	<u>(1,582)</u>	<u>3,458</u>

NOTE 11 - NET FINANCIAL GAINS

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Financial income		
Interest income	11,582	14,804
Interest income – related companies (note 31)	-	18
	<u>11,582</u>	<u>14,822</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 11 - NET FINANCIAL GAINS (continued)

Financial expenses	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Interest expense		
Bank loans and finance leases	<u>(12,263)</u>	<u>(14,463)</u>
	(12,263)	(14,463)
Foreign exchange gains – net		
Foreign exchange gains	81	78
Foreign exchange losses	<u>(1)</u>	<u>-</u>
	80	78
	<u>(12,183)</u>	<u>(14,385)</u>

NOTE 12 – INCOME TAX

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Current tax	6,620	11,983
Deferred tax liability (note 26)	<u>(14,879)</u>	<u>283</u>
	<u>(8,259)</u>	<u>12,266</u>

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Profit before taxation	24,816	62,970
Income tax at the rate of 18% (2016: 20%)	4,467	12,595
Effect of non-taxable income and tax incentives	(751)	(1,218)
Tax incentives to encourage investment activity	(6,620)	-
Tax incentives for reinvested profit	-	(906)
Effect of tax non-deductible expenses	9,524	1,512
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	102	234
Effect of tax rate change	-	49
Income tax	<u>(8,259)</u>	<u>12,266</u>
Effective tax rate	-	19,48%

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 12 – INCOME TAX(continued)

In accordance with the local regulations, the Tax Authority may at any time inspect the Company's books and records 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 Company's Management is not aware of any circumstances that may give rise to a potential material liability in this respect.

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 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 institutions iz 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, ie the availability of tax liability that the Company will be able to mitigate through incentive measures.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 13 – EARNINGS PER SHARE

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

	2017	2016
Net profit attributable to the shareholders (<i>in thousands of HRK</i>)	33,075	50,704
Weighted average number of shares (excluding treasury shares)	28,962	29,005
Basic / diluted earnings per share (<i>in HRK and lipa</i>)	1,142.01	1,748.11

NOTE 14 – PROPERTY AND EQUIPMENT

<i>(All amounts are expressed in thousands of HRK)</i>	Land	Buildings	Equipment	Assets under construction and prepayments	Total
Balance at 31 December 2015					
Cost	18,233	176,660	92,884	4,037	291,814
Accumulated depreciation and impairment	-	(54,884)	(68,292)	(1,840)	(125,016)
Carrying amount	18,233	121,776	24,592	2,197	166,798
For the year ended 31 December 2016					
Opening carrying amount	18,233	121,776	24,592	2,197	166,798
Additions	-	-	4	12,561	12,565
Transfer from assets under construction	-	1,451	3,628	(5,079)	-
Disposals and retirements	-	-	(213)	(625)	(838)
Depreciation for the year	-	(4,438)	(5,488)	-	(9,926)
Closing carrying amount	18,233	118,789	22,523	9,054	168,599
Balance at 31 December 2016					
Cost	18,233	178,110	89,357	9,054	294,754
Accumulated depreciation and impairment	-	(59,321)	(66,834)	-	(126,155)
Carrying amount	18,233	118,789	22,523	9,054	168,599
For the year ended 31 December 2017					
Opening carrying amount	18,233	118,789	22,523	9,054	168,599
Additions	-	-	1	9,280	9,281
Transfer from assets under construction	-	841	8,218	(9,059)	-
Additions	-	(10)	10	-	-
Disposals and retirements	-	(349)	(630)	-	(979)
Depreciation for the year	-	(4,472)	(5,342)	-	(9,814)
Closing carrying amount	18,233	114,799	24,780	9,275	167,087
Balance at 31 December 2016					
Cost	18,233	178,345	89,274	9,275	295,127
Accumulated depreciation and impairment	-	(63,546)	(64,494)	-	(128,040)
Carrying amount	18,233	114,799	24,780	9,275	167,087

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

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 141,441 thousand).

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 15 – INTANGIBLE ASSETS

(All amounts are expressed in thousands of HRK)

	Licences	Goodwill	Assets under development	Total
Balance at 31 December 2015				
Cost	33,959	11,930	449	46,338
Accumulated amortisation	(29,873)	-	-	(29,873)
Carrying amount	4,086	11,930	449	16,465
For the year ended 31 December 2016				
Opening carrying amount	4,086	11,930	449	16,465
Additions	-	-	654	654
Transfers	415	-	(415)	-
Disposals	(3)	-	(20)	(23)
Amortisation	(1,362)	-	-	(1,362)
Closing carrying amount	3,136	11,930	668	15,734
Balance at 31 December 2016				
Cost	34,067	11,930	668	46,665
Accumulated amortisation	(30,931)	-	-	(30,931)
Carrying amount	3,136	11,930	668	15,734
For the year ended 31 December 2017				
Opening net book amount	3,136	11,930	668	15,734
Additions	-	-	4,715	4,715
Transfers	4,723	-	(4,723)	-
Disposals	(4)	-	-	(4)
Amortisation	(1,245)	-	-	(1,245)
Closing carrying amount	6,610	11,930	660	19,200
Balance at 31 December 2017				
Cost	38,200	11,930	660	50,790
Accumulated amortisation	(31,590)	-	-	(31,590)
Carrying amount	6,610	11,930	660	19,200

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

Goodwill impairment test

The Company calculated the recoverable amount using value-in-use method. Value-in-use cash flow projections were based on a seven-year business plan approved by the Management. For the purposes of the cash flow projections, a discount rate of 8.97%, a growth rate of 1-2% and a terminal growth rate of 2.50% were applied. The recoverable amount exceeds the carrying amount.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 16 – INVESTMENTS IN SUBSIDIARIES

	Interest in %, 2017	Interest in %, 2016	2017	2016
			<i>(in thousands of HRK)</i>	
ZU Ljekarne Prima Pharme, Split	100%	100%	80,000	40,000
Primus nekretnine d.o.o., Zagreb	100%	100%	19,999	19,999
			99,999	59,999

/i/ In 2017 the Company decided to increase share capital (resources for the subsidiary ZU Ljekarne Prima Pharme operations) by contributing rights in amount of HRK 40,000 thousand, converting part of due receivables into subsidiary share.

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY

	2017	2016
	<i>(in thousands of HRK)</i>	
Financial assets - category: Loans and receivables		
Loans and receivables (note 18/v/)	1,233,693	1,480,439
Cash and cash equivalents (note 20)	138,203	80,094
	1,371,896	1,560,533
Financial liabilities - category: Other liabilities		
Trade payables (note 24/i/)	1,169,165	1,128,794
Other payables (note 24/ii/)	31,433	20,433
Total borrowings (note 25)	366,636	489,648
	1,567,234	1,638,875

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
	<i>(in thousands of HRK)</i>	
Pharmacies	350,240	368,813
Hospitals	169,672	128,292
Others	65,099	54,738
Balance at 31 December	585,011	551,843

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2017	2016
	<i>(in thousands of HRK)</i>	
Non-current receivables:		
Given loans /i/	15,556	7,276
Long-term deposits	103	152
	<u>15,659</u>	<u>7,428</u>
Current receivables:		
Trade receivables /ii/	1,159,874	1,335,677
Other current receivables /iii/	4,423	6,119
Given loans /iv/	52,582	131,129
Given loans – current portion of non-current receivables /i/	5,681	6,357
Short-term deposits	50	103
	<u>1,222,610</u>	<u>1,479,385</u>
	<u>1,238,269</u>	<u>1,486,813</u>

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

	Effective interest rate	2017	2016
		<i>(in thousands of HRK)</i>	
Loans given to pharmacies	3.0%-7.0%	21,047	12,056
Given loans - other	2.0%-8.0%	190	1,577
Total non-current receivables, including current portion		21,237	13,633
Current portion of non-current receivables		(5,681)	(6,357)
		<u>15,556</u>	<u>7,276</u>

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

The maturity of long-term loans is as follows:

	2017	2016
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	4,740	3,926
Between 2 and 5 years	10,816	3,350
	<u>15,556</u>	<u>7,276</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Domestic trade receivables	1,024,180	1,141,311
Trade receivables – related parties (note 31)	149,249	209,242
Foreign trade receivables	1,373	1,781
	<u>1,174,802</u>	<u>1,352,334</u>
Impairment allowance on trade receivables	(14,928)	(16,657)
	<u>1,159,874</u>	<u>1,335,677</u>

Maturity analysis of receivables:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Not yet due	585,011	551,843
0-180 days past due	418,929	549,413
181-360 days past due	130,666	193,914
Over 360 days past due	40,196	57,164
	<u>1,174,802</u>	<u>1,352,334</u>

Movements in impairment allowance for trade receivables:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Balance at 1 January	16,657	12,906
(Decrease)/Increase (note 9)	(1,724)	3,829
Amounts written off	(5)	(78)
Balance at 31 December	<u>14,928</u>	<u>16,657</u>

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
HRK	1,236,900	1,483,911
EUR	1,198	2,804
DKK	171	98
	<u>1,238,269</u>	<u>1,486,813</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
VAT receivable not yet recognized	3,327	3,331
Prepaid expenses	613	2,015
Others	483	773
	<u>4,423</u>	<u>6,119</u>

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

	<u>Effective interest rate</u>	<u>2017</u>	<u>2016</u>
		<i>(in thousands of HRK)</i>	
Given loans	3.0%-6.95%	105,701	132,427
		105,701	132,427
Impairment allowance		(53,119)	(1,298)
		<u>52,582</u>	<u>131,129</u>

Movements in impairment allowance for loan receivables:

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

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/v/ Financial assets by category include the following:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Trade receivables	1,159,874	1,335,677
Given cash loans	62,423	138,238
Given commodity loans	11,383	6,511
Cash loans – related parties (note 31)	13	13
	<u>1,233,693</u>	<u>1,480,439</u>

Of the total cash loans given, HRK 50,000 thousand (2016: HRK 130,984 thousand) relate to loans given to Agrokor d.d. The total capital amount is HRK 100,000 thousand of which HRK 50,000 thousand is value adjusted. The interest receivables amount is HRK 1,313 thousand of which 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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Trade goods	260,012	226,725
Trade goods – related parties (note 31)	12,166	16,517
Prepayments made	3,723	2,426
Materials	97	93
	<u>275.998</u>	<u>245.761</u>

In 2017 the Company recognised an allowance in the amount of HRK 4,292 thousand (2016: HRK 8,252 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 Company's borrowings (note 25).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 20 – CASH AND CASH EQUIVALENTS

	2017	2016
	<i>(in thousands of HRK)</i>	
Domestic currency account balance	138.178	80.061
Foreign currency account balance	17	28
Cash on hand	8	5
	138.203	80.094

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
	<i>(pcs)</i>		<i>(in thousands of HRK)</i>		
Balance at 1 January 2016	30,194	196,261	(9,397)	(8,653)	178,211
Release of treasury shares	-	-	700	340	1,040
Acquisition 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).

\ii\ 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 21 – SHARE CAPITAL (continued)

The ownership structure of the Company as 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%
Individuals	2,065	6.84%	2,144	7.11%
Treasury shares	1,440	4.77%	1,302	4.31%
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

<i>(in thousands of HRK)</i>	Legal reserve	Reserves for treasury shares	Total
Balance at 31 December 2015 years	15,992	51,286	67,278
Changes during the year	2,474	(2,474)	-
Balance at 31 December 2016 years	18,466	48,812	67,278
Changes during the year	82	-	82
Balance at 31 December 2017 years	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 other reserves based on a decision adopted at the General Assembly held on 18 May 2017.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 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 relates to the profit realized in the period from January 1, 2005 to December 31, 2011 and HRK 32,530 thousand to the profit realized after January 1, 2001 to December 31, December 2004 for the period from 1 January 2012 to 31 December 2015. By 31 December 2017 HRK 45,954 thousand was paid out.

The dividend per share amounted to HRK 2,000.00.

NOTE 24 – TRADE AND OTHER PAYABLES

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Trade payables /i/	1,169,165	1,128,794
Other payables /ii/	31,433	20,433
	<u>1,200,598</u>	<u>1,149,227</u>

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Foreign trade payables	598,321	543,413
Domestic trade payables	452,432	452,413
Trade payables - related parties (note 32)	118,412	132,968
	<u>1,169,165</u>	<u>1,128,794</u>

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
HRK	761,317	741,696
EUR	393,277	374,231
DKK	14,571	12,816
Other currencies	-	51
	<u>1,169,165</u>	<u>1,128,794</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 24 – TRADE AND OTHER PAYABLES (continued)

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Dividends payable	12,030	
VAT payable	6,876	8,771
Salaries payable	4,611	4,563
Unused annual leave	2,251	1,909
Other taxes and contributions payable	96	180
Other	5,569	5,010
	<u>31,433</u>	<u>20,433</u>

NOTE 25 – BORROWINGS

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Long-term borrowings:		
Long-term loan /i/	5,785	4,267
Finance lease	-	8,233
	<u>5,785</u>	<u>12,500</u>
Short-term borrowings:		
Short-term loans /i/	357,672	474,403
Finance lease /ii/	3,179	2,745
	<u>360,851</u>	<u>477,148</u>
Total borrowings	<u>366,636</u>	<u>489,648</u>

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

/ii/ Long-term finance lease liabilities relate to the purchase of delivery vehicles and a fork lift. In 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 Company ceases to make the payments.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 25 – BORROWINGS

The gross finance lease liability is as follows:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
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	<u>8,964</u>	<u>7,012</u>

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Up to 1 year	3,179	2,743
Between 1 and 5 years	5,785	4,269
	<u>8,964</u>	<u>7,012</u>

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
1 year to 2 years	2,624	8,238
From 2 years to 5 years	3,161	4,262
	<u>5,785</u>	<u>12,500</u>

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

	<u>2017</u>		<u>2016</u>	
	<u>HRK</u>	<u>EUR</u>	<u>HRK</u>	<u>EUR</u>
	%	%	%	%
Long-term borrowings				
Long-term loans	-	-	3.33%	-
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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 25 – BORROWINGS (continued)

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Variable-rate borrowings		
Up to 3 months	40,009	-
3 to 12 months	223,064	269,400
Over 1 year	-	-
	<u>263,073</u>	<u>269,400</u>
Fixed-rate borrowings		
Fixed-rate loans	103,563	220,248
	<u>103,563</u>	<u>220,248</u>
Total borrowings	<u>366,636</u>	<u>489,648</u>

Given that borrowings in the amount of HRK 103,563 thousand bear interest at fixed rates (2016: HRK 220,248 thousand), there is no exposure to interest rate changes.

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
HRK	357,672	482,636
EUR	8,964	7,012
	<u>366,636</u>	<u>489,648</u>

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

Breach of contractual conditions

For the part of short-term loans with commercial banks, during 2017, the Company arranged contractual conditions, of which part of the terms refers to the ratio of paid dividends over the period to the net profit of the previous year.

By the end of 2017, the Company is not coordinated with the contractual terms. The total principal amount of these loans at 31 December 2017 amounts to HRK 60,300 thousand. Business banks were timely informed with the above and provided written confirmation that they would not activate the contractual arrangements related to the breach of contractual obligations. All liabilities due on December 31, 2017 were timely settled.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 26 – DEFERRED TAX ASSETS

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

Deferred tax assets

<i>(u tisućama kuna)</i>	Impairment allowance on inventories	Provisions for employee benefits	Tax incentives	Value adjustment of given loans	Totalo
Balance at 1 January 2016	539	190	-	-	729
Tax charged to profit or loss	(225)	(9)	-	-	(234)
Tax credited to profit or loss	-	-	-	-	-
Effect of change in the tax rate	(31)	(18)	-	-	(49)
Balance at 31 December 2016	283	163	-	-	446
Balance at 1 January 2017	283	163	-	-	446
Tax charged to profit or loss	(81)	(21)	-	-	(102)
Tax credited to profit or loss	-	-	5.981	9.000	14.981
Stanje 31. prosinca 2017. godine	202	142	5.981	9.000	15.325

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 subvention that the Company can use is HRK 12,601 thousand, of which the Company used HRK 6,620 thousand in 2017 (note 12).

Deferred tax liability

The Company has no deferred tax liability.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 27 – PROVISIONS

<i>(in thousands of HRK)</i>	Employee benefits	Legal disputes	Total
Balance at 31 December 2016	934	1,098	2,032
Long-term portion	684	-	684
Current portion	250	1,098	1,348
Balance at 1 January 2017	934	1,098	2,032
Increase	41	100	141
Utilised during the year	(182)	(626)	(808)
Balance at 31 December 2017	793	572	1,365
Long-term portion	643	-	643
Current portion	150	572	722

Employee benefits

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

Legal disputes

During 2017 the Company has reversed provision for litigations in total amount of HRK 626 thousand, based on the court judgement. The Company has increased the provisions for legal disputes based on assessment of the attorneys and the Management regarding the probability of losing the disputes in the total amount of HRK 100 thousand. The total amount of income from reversal of provisions is HRK 526 thousand (note 9).

NOTE 28 – CONTINGENT LIABILITIES

The Company is a co-debtor and a guarantor for loans provided to its subsidiaries in the total amount of HRK 10,000 thousand (2016: HRK 25,495 thousand).

The contingent liabilities are not included in the statement of financial position at 31 December 2017. Namely, based on the Management's estimate, the liabilities of the subsidiaries will not become the parent company's obligations, as all transactions of the subsidiaries are under the control by the parent. There are currently no circumstances that would require from the Company to make the payments on behalf of its subsidiaries.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 29 – OPERATING LEASES

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

The contractual rents under the operating leases are as follows:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Up to 1 year	2,059	2,081
Between 1 and 5 years	<u>3,647</u>	<u>1,555</u>
Contractual rents under operating leases	<u>5,706</u>	<u>3,636</u>

NOTE 30 – EVENTS AFTER THE BALANCE SHEET DATE

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

NOTE 31 – RELATED-PARTY TRANSACTIONS

The Company enters into transactions with related parties.

The related parties include:

	<u>2017.</u>	<u>2016.</u>
1. Subsidiaries:		
Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb	100%	100%
Primus nekretnine d.o.o., Zagreb (2015: Put stinica d.o.o., Zagreb)	100%	100%
2. Subsidiaries of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb:		
Zdravstvena ustanova Ljekarne Delonga, Okrug Gornji	100%	100%
Zdravstvena ustanova Ljekarne Atalić, Osijek (merged in October 2016)	-	-
Zdravstvena ustanova Ljekarne Ines Škoko, Zagreb		
Ljekarna Ana Pantelić, Rijeka (acquired and merged in 2017)	100%	100%
Zdravstvena ustanova Ljekarne Soline Farm, Biograd na mr (acquired 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 (acquired and sold in 2016)	-	-
Zdravstvena ustanova Ljekarne Diabpharm, Zagreb (founded and sold in 2016)	-	-
	-	-
3. Associate of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb:		
Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb	49%	49%

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 31 – RELATED-PARTY TRANSACTIONS (continued)

4. Primus nekretnine d.o.o., Zagreb: until October 2015 a subsidiary fully owned by associate Litmus d.o.o., Zagreb; since October 2015 a subsidiary fully owned by associate company Put stinica d.o.o.. Primus nekretnine d.o.o. was merged into Put stinica d.o.o. in December 2016.
5. 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.
6. 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.
7. 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 resulting from these transactions are as follows:

<i>(in thousands of HRK)</i>	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Trade and other receivables			
<i>Given loans</i>			
Subsidiaries		13	13
	18	13	13
<i>Trade receivables</i>			
Subsidiaries		134,636	188,568
Subsidiaries of ZU Ljekarne Prima Parme		1,551	4,578
Associate of ZU Ljekarne Prima Parme		12,835	15,831
Pliva Hrvatska d.o.o.		227	265
	18	149,249	209,242
Inventories			
Pliva Hrvatska d.o.o.		12,166	16,517
	19	12,166	16,517
Trade payables			
Pliva Hrvatska d.o.o.		118,412	132,968
	24	118,412	132,968

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 31 – RELATED-PARTY TRANSACTIONS (continued)

(in thousands of HRK)

	Notes	2017	2016
Sales and other income			
Subsidiaries		229,507	212,223
Subsidiaries of ZU Ljekarne Prima Parme		19,074	28,399
Associates of ZU Ljekarne Prima Parme		35,448	31,142
Subsidiary of Put stinica d.o.o.		-	21
Pliva Hrvatska d.o.o.		286	311
	5, 6	284,315	272,096
Other expenses			
Subsidiaries		-	10
	9	-	10
Financial income			
Subsidiary of Put stinica d.o.o.		-	18
	11	-	18
Purchases of trade goods			
Pliva Hrvatska d.o.o.		212,189	229,445
		212,189	229,445
Key management compensation – salaries and bonuses for four members		7,325	5,258
Supervisory Board and Audit Committee compensation		453	525

NOTE 32 – APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements set out on pages 12 to 60 were approved by the Management of the Company in Zagreb, on 2 March 2018.

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

Jasminka Herceg
Director

Medika d.d.
ZAGREB Capraška 1
