MEDIKA d.d.

AUDITOR'S REPORT AND UNCONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2012

This version of the financial statements is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the financial statements takes precedence over this translation.

CONTENT

Operating result in 2012

Medika d.d. ("the Company") in 2012 realized unconsolidated revenue in the amount of HRK 2,151,570 thousand, an increase of 3.3%. Unconsolidated operating profit amounts to HRK 50,837 thousand which is a 28.1% increase in comparison to prior year.

Unconsolidated profit before tax amounts to HRK 36,469 thousand and net profit HRK 34,429 thousand, which is an increase of HRK 21,984 thousand in comparison to prior year.

The Management of the Company adopted a decision to reinvest profits for the purpose of long-term goals of encouraging investment in the amount of HRK 33,817 thousand, which will be registered during 2013 as an increase of the Company's share capital. Increase of share capital will be carried out by increasing the nominal value of the shares, which means that existing shareholder rights will not change, and will belong to the shareholders in proportion to their previous participation in the share capital.

When analysing operating segments (note 6 in financial statements), 61.1% of total unconsolidated income was generated through the "pharmacies" segment, and 24.5% through the "hospitals" segment. In comparison to previous year, the "pharmacies" segment remained at the same level and the "hospitals" segment experienced a decline of 1.1%.

Total unconsolidated assets amount to HRK 1,877,794 thousand, an increase of 6.7% in comparison to prior year. Unconsolidated current assets comprise 86.7% of total assets. Trade and other receivables are the largest and most significant amount of total assets and have increased by 10.5% in comparison to prior year. At the same time, inventory remained at the same level when compared with the prior period. These changes are the consequence of sales growth in the current period in comparison to prior year.

In accordance with the incorporation agreement of Litmus d.o.o., the Company invested its ownership interest in Primus nekretnine d.o.o. into the share capital of Litmus d.o.o. An independent valuer estimated the value of Primus nekretnine d.o.o. at HRK 18,698 thousand. As a result of this, the Company recognized an impairment loss of HRK 1,302 thousand. In addition, the Company increased the capital of Litmus d.o.o. by cash of HRK 450 thousand, which results in the Company owning 41.53% of Litmus d.o.o.

Equity to assets ratio is 18% which means that 18% of total unconsolidated assets are financed through own resources.

Total unconsolidated indebtedness exposure is HRK 268,729 thousand, of which HRK 146,794 thousand relates to short-term loans and finance leases, while the remainder of HRK 121,935 thousand relates to long-term loans and finance leases (note 25).

Unconsolidated operating results are presented in the statement of comprehensive income, page 6 of the financial statements.

The vision of company development

The business plan of Medika d.d. for 2013 anticipates annual growth of sales of 2%, with further growth potential in following years. The Company will continue with its core business: distribution of pharmaceuticals and medical products and will strongly develop operations with products that represent the core business of the firm.

Number of employees is planned to remain at the current level, with increase of productivity.

Treasury shares

In June 2012, the Company granted 252 of its treasury shares to key management.

During 2012, the Company has acquired 308 of its treasury shares.

Medika d.d. currently owns 1,640 treasury shares, which represents 5.43% of shares issued.

Subsidiaries and associates

Medika d.d. has a subsidiary Zdravstvena ustanova Ljekarne Prima Pharme, registered in Split which is 100% owned by Medika d.d. and an associate Litmus d.o.o., registered in Zagreb, which is 41.53% owned by Medika d.d.

Zdravstvena ustanova Ljekarne Prima Pharme itself has subsidiaries: Zdravstvena ustanova Ljekarne Delonga (Okrug Gornji), Zdravstvena ustanova Ljekarne Ines Škoko (Zagreb), Zdravstvena ustanova Ljekarne Atalić (Osijek), Ljekarna Alagić (Split) and Zdravstvena ustanova Ljekarne Čaić (Bošnjaci). These subsidiaries are wholly owned by ZU Ljekarne Prima Pharme.

During the year 2012, Ljekarna Dragica Blagus-Vičanović (Strahoninec) has been merged into ZU Ljekarne Prima Pharme.

Zdravstvena ustanova Ljekarne Jagatić (Zagreb) is 49% owned by ZU Ljekarne Prima Pharme.

Risks

The most significant market risk for Medika d.d. is the long collection period for receivables, especially HZZO (Croatian State Health Insurance) and HZZO related receivables. Therefore, a significant amount of working capital is not available with strong influence on cash flows and timely settlement of Medika d.d. liabilities.

As these receivables are either dependent from or owned by State institutions, risk of bad debt is not considered high. However, this increases the need for additional financing, which increases operating expenses.

Significant risk for Medika d.d. operations is a continuous decrease in the price of prescription medication on the HZZO list and the HZZO administrative approach in determining prices and margins of medication. To lower this risk, Medika d.d. has focused on increasing products which are not limited by law in respect of the price of the product.

Currency risk is a significant financial risk. Majority of inventories are purchased from foreign suppliers in foreign currencies, hence exposure to currency risk.

Interest risk for the Company arises from short-term and long-term borrowings, with variable interest rate.

Credit risk most significantly arises from trade receivables. Credit risk is higher when dealing with pharmacies, which have more potential going concern issues. Hospitals which have longer collection periods do not have a collection issue and going concern issue.

Corporate governance code

As a listed entity of the Zagreb Stock Exchange, Medika d.d. adopts the corporate governance code of the CFSSA (Croatian Financial Services Supervisory Agency) and the Zagreb Stock Exchange. The corporate governance is published on the web site of the Zagreb Stock Exchange.

The Company has not entered into joint venture, and it does not have securities with special rights nor securities with restriction to vote. There are no cases in which financial rights from securities are separated from ownership of those securities.

Management and Supervisory Board

Management has one member: Mr. Jasminko Herceg, member of the Management Board.

Supervisory Board of the company during the year were as follows: Mr. Mate Perković, president, Mr. Damjan Možina, vice-president, and members: Mr. Matko Bolanča, Mr. Tomislav Gnjidić, Mr. Zlatko Dunković, Mr. Nikica Gabrić and Mrs. Ružica Vađić.

Zagreb, 8 March 2013

Jasminko Herceg
Member of the Management Board

3 Medika d.d
ZAGREB Capraška

STATEMENT OF MANAGEMENT AND SUPERVISORY BOARD RESPONSIBILITIES

Management is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and of the results of its operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps which are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Management is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

Management is responsible for the submission to the Supervisory Board of its annual report on the Company together with the annual financial statements, 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 6 to 45 were authorised by Management on 8 March 2013 for issue to the Supervisory Board and are signed below to signify this.

By order of the Management Board

Jasminko Herceg
Member of the Management Board

3 Medika d.d.
ZAGREB Capraška 1

Independent auditor's report to the shareholders of Medika d.d.

We have audited the accompanying separate financial statements of Medika d.d. ("the Company"), which comprise the separate statement of financial position as at 31 December 2012, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2012, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Croatia d.o.o

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

KPMG Croatia
1 d.o.o.
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb

8 March 2013

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

(all amounts are expressed in thousands of HRK)	Note	2012	2011
Revenues	5, 6	2,151,570	2,083,586
Cost of trade goods sold	6	(1,976,151)	(1,910,199)
Staff costs	7	(57,626)	(59,250)
Marketing and promotion expenses	8	(7,059)	(10,030)
Depreciation and amortisation	13, 14	(13,182)	(14,562)
Other operating expenses	9	(45,261)	(42,634)
Other gains / (losses) – net	10	(1,454)	(7,235)
Operating profit		**50,837**	**39,676**
Finance costs – net	11	(14,368)	(21,904)
Profit before tax		**36,469**	**17,772**
Income tax	12	(2,040)	(5,327)
Profit for the year		**34,429**	**12,445**
Other comprehensive income		-	-
Total comprehensive income		**34,429**	**12,445**

The financial statements set out on pages 6 to 45 were approved by the Management Board of the Company in Zagreb on 8 March 2013.

Jasminko Herceg
Member of the Management Board

Medika d.d.
ZAGREB Capraška 1

The accompanying notes on pages from 11 to 45 form an integral part of these financial statements.

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

(all amounts are expressed in thousands of HRK)	Note	As at 31 December 2012	2011
ASSETS			
Non-current assets			
Property and equipment	13	151,251	148,383
Intangible assets	14	23,749	26,212
Investments in subsidiaries and associates	15	59,148	60,000
Deferred tax assets	26	557	457
Trade and other receivables	17	15,829	206
		250,534	235,258
Current assets			
Inventories	18	186,905	185,872
Trade and other receivables	17	1,421,434	1,300,928
Receivables for income tax		3,578	1,712
Cash and cash equivalents	19	15,343	35,577
		1,627,260	1,524,089
Total assets		**1,877,794**	**1,759,347**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	37,439	37,848
Reserve for reinvested profit	21	33,817	-
Reserves	22	67,278	67,278
Retained earnings	23	204,888	204,276
		343,422	309,402
Non-current liabilities			
Borrowings	25	121,935	11,151
Provisions	27	441	420
		122,376	11,571
Current liabilities			
Trade and other payables	24	1,263,821	1,092,404
Borrowings	25	146,794	344,562
Provisions	27	1,381	1,408
		1,411,996	1,438,374
Total equity and liabilities		**1,877,794**	**1,759,347**

The accompanying notes on pages from 11 to 45 form an integral part of these financial statements.

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

(all amounts are expressed in thousands of HRK)	Note	Share capital	Reserve for reinvested profit	Reserves	Retained earnings	Total
At 1 January 2011		**43,879**	**-**	**62,730**	**196,673**	**303,282**
Total comprehensive income						
Profit for the year		-	-	-	12,445	12,445
Other comprehensive income		-	-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**12,445**	**12,445**
Transactions with owners recognized directly in equity						
Release of treasury shares	20	1,995	-	-	-	1,995
Acquisition of own shares	20	(8,026)	-	-	-	(8,026)
Payment of dividend	23	-	-	-	(294)	(294)
Transfer	22	-	-	4,548	(4,548)	-
Transactions with owners recognized directly in equity		**(6,031)**	**-**	**4,548**	**(4,842)**	**(6,325)**
At 31 December 2011		**37,848**	**-**	**67,278**	**204,276**	**309,402**
At 1 January 2012		**37,848**	**-**	**67,278**	**204,276**	**309,402**
Total comprehensive income						
Profit for the year		-	-	-	34,429	34,429
Other comprehensive income		-	-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**34,429**	**34,429**
Transactions with owners recognized directly in equity						
Transfer	21	-	33,817	-	(33,817)	-
Release of treasury shares	20	1,815	-	-	-	1,815
Acquisition of own shares	20	(2,224)	-	-	-	(2,224)
Transactions with owners recognized directly in equity		**(409)**	**33,817**	**-**	**(33,817)**	**(409)**
At 31 December 2012		**37,439**	**33,817**	**67,278**	**204,888**	**343,422**

The accompanying notes on pages from 11 to 45 form an integral part of these financial statements.

UNCONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2012

(all amounts expressed in thousands of HRK)	Note	2012	2011
Cash flows from operating activities:			
Profit for the year		**34,429**	**12,445**
Adjustments for:			
Income tax	12	2,040	5,327
Depreciation and amortisation	13, 14	13,182	14,562
Impairment of receivables	9	5,634	3,617
Inventory impairment	18	3,988	3,788
Unrealised foreign exchange differences		(1,676)	3,104
Change in provisions		(6)	(739)
Gain on disposal of property and equipment	10	(607)	(365)
Impairment of property and equipment	9, 13	240	-
Intangible assets disposal	14	-	6
Impairment loss on remeasurement of investment	9, 15	1,302	-
Interest expense	11	15,861	17,279
Expenses from bills of exchange discount	11	-	1,504
Interest income	5	(533)	(311)
Changes in:			
Inventories		(5,021)	30,624
Trade and other receivables		(160,731)	(180,498)
Trade and other payables		155,973	81,712
Cash flows generated from operating activities		**64,075**	**(7,945)**
Interest paid		(17,206)	(17,738)
Income tax paid		(4,152)	(7,644)
Cash flows from operating activities		**42,717**	**(33,327)**
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets	13, 14	(10,815)	(1,876)
Proceeds from sale of property, plant and equipment		1,051	430
Proceeds from repayment of loans given		4,284	3,031
Investment in subsidiary	15	(450)	(428)
Loans given		(9,803)	(1,030)
Interest received		533	311
Cash flows from investing activities		**(15,200)**	**438**

The accompanying notes on pages from 11 to 45 form an integral part of these financial statements.

UNCONSOLIDATED STATEMENT OF CASH FLOW (continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(all amounts expressed in thousands of HRK)	**Note**	**2012**	**2011**
Cash flows from financing activities:			
Repayment of borrowings		(286,622)	(157,930)
Proceeds from borrowings		243,198	210,583
Repayment of finance lease		(2,103)	(2,352)
Acquisition of own shares	20	(2,224)	(8,026)
Dividend paid		-	(378)
Cash flows from financing activities		**(47,751)**	**41,897**
Net (decrease) / increase in cash and cash equivalents		**(20,234)**	**9,008**
Cash and cash equivalents at beginning of year		35,577	26,569
Cash and cash equivalents at end of year	19	**15,343**	**35,577**

The accompanying notes on pages from 11 to 45 form an integral part of these financial statements.

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 domiciled in Zagreb, Capraška 1.

As at 31 December 2012, the Company's shares were listed on official market on the Zagreb Stock Exchange. Shareholder structure is shown in note 20.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

These financial statements are a translation of the official statutory financial statements prepared in Croatian.

The preparation of financial statements in conformity with 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 unconsolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 8 March 2013. 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 non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2012 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been released and are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Segment reporting

A business segment is an integral part of the business entity that engages in business activities from which revenues can be realized, by which costs are incurred and for which there are separate financial information. Its operating results are regularly reviewed and evaluated 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 presentation currency

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

(b) Transactions and balances

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 at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary assets and positions, which are stated at historical cost, are not translated into functional currency using new foreign exchange rates.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into functional currency at foreign exchange rates ruling at the dates at which the values were determined.

2.4 Investments in subsidiaries and associates

(a) Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. In Company's financial statements, these investments are stated using historical cost less impairment losses, if any.

(b) Associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. In Company's financial statements, these investments are stated using historical cost less impairment losses, if any.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property and equipment

Property and equipment are included in the statement of financial position at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are 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 the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and assets under construction are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives. Depreciation is calculated for each asset until the asset is fully depreciated or to its residual values if significant.

The estimated useful lives are as follows:

Buildings	10 - 40 years
Equipment	2 - 20 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.7).

Gains and losses on disposals 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 an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Company allocates goodwill to each business segment in which it operates.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Licences

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (5 to 10 years).

2.7 Impairment of non-financial assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets

The Company classifies its financial assets as trade and other receivables. The classification depends on the purpose for which the financial assets were 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 maturities greater than 12 months after the reporting date. These are classified as non-current assets.

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

The Company assesses at each reporting date whether there is indication for financial assets to be impaired. Impairment testing of trade and other receivables is described in note 2.11.

2.9 Leases

The Company leases certain property and equipment. Leases of property and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments. 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. The property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases where the significant portion of risks and rewards of ownership are not retained by the Company are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.10 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs attributable to the purchase of goods and is calculated based on the average purchase price. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. At each reporting date, the Company examines if there are damaged and/or obsolete inventories. With respect to differences identified, a provision is made for such inventories against cost of trade goods sold.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and loan receivables

Trade and loan receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is 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 in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity.

Where the Company purchases its equity share capital (treasury shares), the consideration paid, 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. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.14 Trade payables

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

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Income tax

The current income tax charge is calculated on the basis of the tax law enacted at the reporting date in Croatia. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets and liabilities are determined using tax rates (and laws) 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 income tax liability is settled.

Deferred tax assets are recognised 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) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Company makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. 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-employment benefits.

(b) Long-term employee benefits

The Company recognises a liability for long-term employee benefits (jubilee awards and termination benefits) evenly over the period the jubilee award/termination benefit is earned based on actual years of service. The long-term employee benefit liability includes assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate. Termination benefits and jubilee awards 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 considerations where contractually obliged or where there is a past practice that has created a constructive obligation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits (continued)

(c) Short-term employee benefits (continued)

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

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

2.18 Provisions

Provisions for costs are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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 one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures 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 shown as interest expense.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below.

(a) Sales of goods

Income from the wholesale of goods is recognised when the Company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Products are sold with volume discounts and customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specified in the sales contracts, net of estimated volume discounts and returns at the time of sale.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Revenue recognition (continued)

(b) Sales of services

Service revenue mainly relates to revenue from consignment commissions and is recognised when the goods are taken from the consignment warehouse and when a calculation of the consignment service provided is prepared for the owner of the goods.

(c) Interest income

Interest income arising from fixed-term bank deposits and given loans is recognised on a time-proportion basis using the effective interest method.

2.20 Finance expenses

Finance expenses comprise interest expense on borrowings, impairment losses recognised on financial assets, and foreign exchange losses. All borrowing costs are recognised in profit or loss using the effective interest method.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2.22 Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the statement of financial position on a net basis. Where a provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the receivable, including VAT.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Company does not have a written risk management programme, however, overall risk management in respect of these risks is carried out by the Company's Finance department.

(a) Market risk

(i) Foreign exchange risk

The Company's sales are predominantly realised on the domestic market in Croatian kuna (HRK). The Company's purchase of goods is predominantly realised on the foreign market. The Company is therefore exposed to foreign exchange risk arising from various changes in foreign exchange rates mainly linked to the EUR, which may have an impact on future operating results and cash flows.

At 31 December 2012 (notes 17, 19, 24, 25), if the EURO had weakened/strengthened by 1.56% (2011: 1.35%) against the HRK, with all other variables held constant, the profit after tax for the reporting period would have been HRK 5,004 thousand higher/lower (2011: HRK 5,580 thousand), mainly as a result of foreign exchange gains/losses on translation of EURO-denominated trade payables.

(ii) Cash flow and fair value interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from the borrowings. Borrowings issued 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 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.

At 31 December 2012, if the effective interest rate on borrowings (issued at variable rate) had been 0.20% higher/lower on an annual level (2011: 1.32%), the profit after tax for the reporting period would have been HRK 2,255 thousand lower/higher (2011: HRK 3,540 thousand).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Current assets, which potentially subject the Company to concentrations of credit risk primarily include cash, trade receivables and other receivables. The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales of products are 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. Pharmacies present higher credit risk since they have potential going concern issue. On the other hand, collection period for hospitals is longer, but there are no impairment indications, namely, there is no going concern issue. Other customers are not significant because of dispersion on large number of customers, individually small balances and Company's strict measures of collection of outstanding debts and delivery of goods. The Company insures part of the trade receivables by bills of exchange and promissory notes. Detailed credit risk analysis is shown under notes 16 and 17.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Company aims to maintain flexibility in funding by keeping committed credit lines available. The Finance department regularly, monthly, monitors available cash resources. The Commission Board in charge of monitoring the Company's liquidity prepares a payment plan on a monthly basis, and makes decisions on a daily basis with respect to payments, in accordance with the priority list received from managers who are in charge of the purchase of specific groups of products. Most of the customers are either state-owned or state-dependant hence the Company's liquidity risk is dependent upon the state.

The table below analyses financial liabilities of the Company according to contracted maturities. The amounts stated below represent undiscounted cash flows.

(in thousands of HRK)	Less than 1 year	Between 1-3 years	Over 3 years	Total
31 December 2012				
Trade and other payables	1,263,821	-	-	1,263,821
Borrowings	164,122	29,809	102,356	296,287

(in thousands of HRK)	Less than 1 year	Between 1-3 years	Over 3 years	Total
31 December 2011				
Trade and other payables	1,092,404	-	-	1,092,404
Borrowings	354,535	8,760	-	363,295

During 2013, the Company will settle trade and other liabilities according to the collection of receivables which depends on liquidity of the whole healthcare system.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

The Company monitors capital on the basis of the self-financing ratio in financial statements, which should not move below the threshold of 15%. This ratio is calculated as the proportion of total equity and total assets.

The equity to assets ratio is as follows:

	2012	**2011**
	(in thousands of HRK)	
Total equity (capital and reserves)	343,422	309,402
Total assets	1,877,794	1,759,347
Equity to assets ratio	**18%**	**18%**

In 2012, the ratio remained at the same level in comparison to 2011 showing that 18% of the Company's total assets are financed from own resources. In accordance with the stated, 82% of assets is financed from other resources.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Company is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical 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 related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Assumptions to determine amount of provisions of trade receivables

Due to the significance of the amount of trade receivables recorded in the statement of financial position, Management estimates the likelihood of the collection of trade receivables based on an analysis of individual categories of such assets. Factors taken into consideration by Management include: ageing analysis of trade receivables and the financial position of customers compared to the collection history with the customer. The estimated recoverable amount of trade receivables represents the present value of estimated future cash flows, discounted at the effective interest rate of 4.99% per year (2011: 5.73%). Should actual collections be less than management estimates, the Company would be required to record additional impairment expense.

At 31 December 2012, if the assessment of the amount of uncollectible receivables and overdue in total receivables had been 1% lower/higher, with all other variables held constant, profit after tax for the reporting period would have been HRK 1,327 thousand higher/lower than the one recorded (2011: HRK 1,888 thousand). The effect in the hospital segment would be HRK 879 thousand (2011: HRK 1,485 thousand), in the pharmacy segment HRK 169 thousand (2011: HRK 112 thousand) and in the segment 'other' HRK 279 thousand (2011: HRK 291 thousand).

NOTE 5 – REVENUES

	2012	2011
	(in thousands of HRK)	
Revenue from sales	2,139,032	2,074,317
Other revenues	12,538	9,269
	2,151,570	**2,083,586**

Other revenues include interest income in the amount of HRK 533 thousand (2011: HRK 311 thousand)

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 previous year.

The Company monitors revenues and gross profit through distribution channels:

1. Pharmacies, which are for the purpose of reporting, divided into the following categories:
    - county pharmacies
    - private pharmacies
    - self-owned pharmacies (subsidiary ZU Ljekarne Prima Pharme with its subsidiaries).

The company operates with approximately 440 pharmacies and medical institutions.

2. Hospitals, which are by the Regulation on conditions for the classification of hospitals passed as a part of health system reform started in 2011, divided into the following categories:
    - national hospitals
    - county hospitals with regional significance
    - county hospitals
    - local hospitals

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

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

Transactions between segments do not exist. The Company applies the same accounting policies in all segments.

NOTE 6 – SEGMENT INFORMATION (continued)

The results of the stated segments for the year ended 31 December 2012 are as follows:

(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Total**
Revenue from sales	1,061,858	526,586	297,104	1,885,548
Other revenue	-	-	11,995	11,995
Revenue from sales and other revenue from related parties	253,595	-	432	254,027
Total revenues	**1,315,453**	**526,586**	**309,531**	**2,151,570**
Cost of trade goods sold	(1,223,755)	(479,451)	(272,945)	(1,976,151)
Segment results	**91,698**	**47,135**	**36,586**	**175,419**
Operating expenses				(124,582)
Operating profit				**50,837**
Finance costs - net				(14,368)
Profit before tax				**36,469**
Income tax				(2,040)
Profit for the year				**34,429**

The results of the stated segments for the year ended 31 December 2011 are as follows:

(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Total**
Revenue from sales	1,039,542	533,366	263,944	1,836,852
Other revenue	-	-	8,574	8,574
Revenue from sales and other revenue from related parties	237,857	-	303	238,160
Total revenues	**1,277,399**	**533,366**	**272,821**	**2,083,586**
Cost of trade goods sold	(1,190,532)	(483,395)	(236,272)	(1,910,199)
Segment results	**86,867**	**49,971**	**36,549**	**173,387**
Operating expenses				(133,711)
Operating profit				**39,676**
Finance costs - net				(21,904)
Profit before tax				**17,772**
Income tax				(5,327)
Profit for the year				**12,445**

NOTE 6 – SEGMENT INFORMATION (continued)

The segment trade receivables at 31 December 2012 are as follows:

(in thousands of HRK)	Pharmacies	Hospitals	Other	Total
Trade receivables (note 17/ii/)	784,634	540,116	82,438	1,407,188

The segment trade receivables at 31 December 2011 are as follows:

(in thousands of HRK)	Pharmacies	Hospitals	Other	Total
Trade receivables (note 17/ii/)	620,429	538,912	136,511	1,295,852

NOTE 7 – STAFF COSTS

	2012	2011
	(in thousands of HRK)	
Net salaries	28,618	28,922
Tax and surtax	5,826	5,836
Contributions from and on salaries /i/	15,116	15,831
Termination benefits	445	310
Employee transportation costs	1,777	1,634
Other employee benefits /ii/	1,736	2,455
Management bonuses	4,108	4,262
	57,626	**59,250**

As at 31 December 2012, the Company had 356 employees (2011: 356 employees).

/i/ In 2012, pension contributions recorded by the Company for payment to mandatory pension funds amounted to HRK 8,355 thousand (2011: HRK 8,408 thousand).

/ii/ Other employee benefits relate to accruals for unused vacation days, business trip expenses, aids, awards, etc.

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	2012	2011
	(in thousands of HRK)	
Entertainment	2,031	3,818
Marketing	2,092	1,492
Donations	2,922	4,720
Marketing expenses – related parties (note 31)	14	-
	7,059	**10,030**

NOTE 9 – OTHER OPERATING EXPENSES

	2012	2011
	(in thousands of HRK)	
Impairment of trade receivables (note 17/ii/)	5,634	3,617
Materials and energy consumed	9,579	9,093
Maintenance of assets, security services and insurance	8,604	8,941
Telephone, postal and utility services	1,488	1,445
Taxes and contributions (not income tax based)	3,281	4,943
Professional training and consultancy services	4,041	3,967
Bank charges and payment transaction costs	2,648	1,905
Rent expense	2,959	2,310
Control and analysis services	2,282	2,452
Fair valuation of investments (note 15 and note 31)	1,302	
Impairment of property and equipment (note 13)	240	-
Other expenses	3,203	3,961
	45,261	**42,634**

NOTE 10 – OTHER GAINS / (LOSSES) – NET

	2012	2011
	(in thousands of HRK)	
Gains on sale of property and equipment (net)	607	365
Net foreign exchange losses	(2,061)	(7,600)
	(1,454)	**(7,235)**

NOTE 11 – FINANCE COSTS - NET

	2012	2011
	(in thousands of HRK)	
Interest expense		
Bank borrowings and finance lease	(15,861)	(17,279)
Expenses from bills of exchange discount	-	(1,504)
	(15,861)	(18,783)
Foreign exchange gains / (losses) – net		
Foreign exchange gains	3,645	2,361
Foreign exchange losses	(2,152)	(5,482)
	1,493	(3,121)
	(14,368)	**(21,904)**

NOTE 12 – INCOME TAX

	2012	2011
	(in thousands of HRK)	
Current tax	2,140	5,281
Deferred tax (note 26)	(100)	46
	2,040	**5,327**

Reconciliation of Company's tax expense as per income statement and legal tax rate is shown below:

	2012	2011
	(in thousands of HRK)	
Profit before taxation	**36,469**	**17,772**
Income tax at 20%	7,294	3,554
Income non-assessable and tax incentives	(23)	(14)
Tax incentives for reinvested profit (note 21)	(6,763)	-
Expenses not deductible	1,532	1,787
Income tax	**2,040**	**5,327**
Effective tax rate	5.59%	29.97%

In accordance with 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, which may give rise to a potential material liability in this respect.

NOTE 13 – PROPERTY AND EQUIPMENT

(all amounts are expressed in thousands of HRK)	Land	Buildings	Equipment	Assets under construction	Total
At 31 December 2010					
Cost	15,995	152,786	78,332	3,020	250,133
Accumulated depreciation	-	(36,132)	(59,885)	-	(96,017)
Carrying amount	**15,995**	**116,654**	**18,447**	**3,020**	**154,116**
Year ended 31 December 2011					
Opening carrying amount	15,995	116,654	18,447	3,020	154,116
Additions	-	-	11	4,195	4,206
Transfer	-	260	4,367	(4,627)	-
Disposals	-	-	(65)	-	(65)
Depreciation	-	(3,815)	(6,059)	-	(9,874)
Closing carrying amount	15,995	113,099	16,701	2,588	148,383
At 31 December 2011					
Cost	15,995	153,046	78,250	2,588	249,879
Accumulated depreciation	-	(39,947)	(61,549)	-	(101,496)
Carrying amount	**15,995**	**113,099**	**16,701**	**2,588**	**148,383**
Year ended 31 December 2012					
Opening carrying amount	15,995	113,099	16,701	2,588	148,383
Additions	-	-	4	12,103	12,107
Transfer	-	47	5,667	(5,714)	-
Disposals	-	-	(444)	-	(444)
Impairment (note 9)	-	(240)	-	-	(240)
Depreciation	-	(3,816)	(4,739)	-	(8,555)
Closing carrying amount	15,995	109,090	17,189	8,977	151,251
At 31 December 2012					
Cost	15,995	153,087	79,318	8,977	257,377
Accumulated depreciation	-	(43,997)	(62,129)	-	(106,126)
Carrying amount	**15,995**	**109,090**	**17,189**	**8,977**	**151,251**

Assets under construction mostly relate to property in Osijek where the Company plans to build a new distribution center.

Revolving loans and finance lease liabilities (note 25) have been secured by pledges over property, plant and equipment with a carrying value of HRK 130,043 thousand as at 31 December 2012 (2011: HRK 132,495 thousand).

Delivery and personal vehicles under a finance lease are as follows:

	2012	2011
	(in thousands of HRK)	
Cost – capitalised finance lease	11,355	10,312
Accumulated depreciation	(4,831)	(5,026)
Carrying amount	**6,524**	**5,286**

NOTE 14 – INTANGIBLE ASSETS

(all amounts are expressed in thousands of HRK)	Licences	Goodwill	Assets under construction	Total
At 31 December 2010				
Cost	31,799	11,930	150	43,879
Accumulated amortisation	(13,135)	-	-	(13,135)
Carrying amount	**18,664**	**11,930**	**150**	**30,744**
Year ended 31 December 2011				
Opening carrying amount	18,664	11,930	150	30,744
Additions	-	-	162	162
Transfer	193	-	(193)	-
Disposals	(6)	-	-	(6)
Amortisation	(4,688)	-	-	(4,688)
Closing carrying amount	14,163	11,930	119	26,212
At 31 December 2011				
Cost	31,681	11,930	119	43,730
Accumulated amortisation	(17,518)	-	-	(17,518)
Carrying amount	**14,163**	**11,930**	**119**	**26,212**
Year ended 31 December 2012				
Opening carrying amount	14,163	11,930	119	26,212
Additions	-	-	2,164	2,164
Transfer	852	-	(852)	-
Disposal	-	-	-	-
Amortisation	(4,627)	-	-	(4,627)
Closing carrying amount	10,388	11,930	1,431	23,749
At 31 December 2012				
Cost	32,505	11,930	1,431	45,866
Accumulated amortisation	(22,117)	-	-	(22,117)
Carrying amount	**10,388**	**11,930**	**1,431**	**23,749**

Assets under construction mostly relate to connection rights for distribution center in Osijek where the Company plans to build a new distribution center.

Impairment test of goodwill and licences with indefinite useful life

The Company calculated recoverable amount using value-in-use method. Value-in-use cash flow projections were based on 5 year business plan approved by management. Discount rates of 8.63%, growth rate from 1%-4% and income tax rate of 20% were applied when discounting projected cash flow. Recoverable amount exceeds carrying amount.

NOTE 15 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	% holding in 2012	% holding in 2011	2012	2011
			(in thousands of HRK)	
ZU Ljekarne Prima Pharme, Split	100%	100%	40,000	40,000
Primus nekretnine d.o.o., Zagreb /i/	-	100%	-	20,000
Litmus d.o.o., Zagreb /ii/	41.53%	-	19,148	-
			59,148	**60,000**

/i/ In May 2009, the Company established Primus nekretnine d.o.o ("the Subsidiary"). The Subsidiary was established with the purpose of property management. Prior to establishment, equity capital amounted to HRK 20 thousand. The Company increased the share capital of the Subsidiary to HRK 20 million. Recapitalization resulted through the addition of assets (real estate in Split) in the amount of HRK 19,407 thousand and the inflow of cash in the amount of HRK 573 thousand of which HRK 428 thousand was paid in 2011.

/ii/ In accordance with the incorporation agreement of Litmus d.o.o., the Company invested its ownership interest in Primus nekretnine d.o.o. into the share capital of Litmus d.o.o. An independent valuer estimated the value of Primus nekretnine d.o.o. at HRK 18,698 thousand. As a result of this, the Company recognized an impairment loss of HRK 1,302 thousand (note 9). In addition, the Company increased the capital of Litmus d.o.o. by cash of HRK 450 thousand, thereby acquiring the total share of 41.53% in Litmus d.o.o.

NOTE 16 – FINANCIAL INSTRUMENTS BY CATEGORY

	2012	2011
	(in thousands of HRK)	
Financial assets - category: Loans given and receivables		
Loans given and receivables (note 17/v/)	1,432,474	1,297,014
Cash and cash equivalents (note 19)	15,343	35,577
	1,447,817	**1,332,591**
Financial liabilities - category: Other liabilities		
Trade payables (note 24/i/)	1,251,932	1,080,575
Other payables (note 24/ii/)	11,889	11,829
Total debt (note 25)	268,729	355,713
	1,532,550	**1,448,117**

NOTE 16 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The credit quality of financial assets that are neither over-due nor impaired can be assessed by reference to historical information about counterparty default rates. The credit quality of financial assets that are neither over-due nor impaired is monitored based on the customers' exposure to credit risk:

	2012	2011
	(in thousands of HRK)	
Pharmacies	424,420	387,403
Hospitals	154,145	248,248
Other	37,906	51,071
At 31 December	**616,471**	**686,722**

NOTE 17 – TRADE AND OTHER RECEIVABLES

	2012	2011
	(in thousands of HRK)	
Non-current receivables:		
Loans given /i/	15,507	206
Long term deposits	322	-
	15,829	206
Current receivables:		
Trade receivables /ii/	1,407,188	1,295,852
Other current receivables /iii/	4,467	4,120
Loans given /iv/	5,169	521
Loans given – current portion of non-current receivables /i/	4,610	435
	1,421,434	1,300,928
	1,437,263	**1,301,134**

/i/ Loans given recorded in the statement of financial position as at 31 December are as follows:

	Effective interest rate	2012	2011
		(in thousands of HRK)	
Loans given to pharmacies	4.0-5.0%	7,468	641
Loans given - other	6.0%	12,649	-
Total non-current receivables, including current portion		20,117	641
Current portion of non-current receivables		(4,610)	(435)
		15,507	**206**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

The fair value of long-term loans approximates the carrying amounts since the stated interest rates reflect market rates.

The maturity of long-term loans is as follows:

	2012	2011
	(in thousands of HRK)	
Between 1 and 2 years	4,135	100
Between 2 and 5 years	11,372	106
	15,507	**206**

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

	2012	2011
	(in thousands of HRK)	
Domestic trade receivables	1,228,046	1,146,628
Foreign trade receivables	2,352	2,610
Trade receivables – related parties (note 31)	209,948	174,609
	1,440,346	1,323,847
Provision for trade receivables	(33,158)	(27,995)
	1,407,188	**1,295,852**

The ageing structure of receivables overdue is as follows:

	2012	2011
	(in thousands of HRK)	
0-180 days	589,610	415,166
181-360 days	157,218	97,761
Over 360 days	77,047	124,198
	823,875	**637,125**

Movements in the provision for impairment of trade receivables are as follows:

	2012	2011
	(in thousands of HRK)	
At 1 January	27,995	24,615
Increase (note 9)	5,634	3,617
Write off	(471)	(237)
At 31 December	**33,158**	**27,995**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

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

	2012	2011
	(in thousands of HRK)	
HRK	1,435,078	1,298,236
EUR	2,185	2,898
	1,437,263	**1,301,134**

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

	2012	2011
	(in thousands of HRK)	
VAT receivable	2,680	2,168
Other	1,787	1,952
	4,467	**4,120**

/iv/ Loans given recorded in the statement of financial position as at 31 December are as follows:

	2012	2011
	(in thousands of HRK)	
Loans given	5,169	1,090
	5,169	1,090
Impairment	-	(569)
	5,169	**521**

/v/ Financial assets by category include the following:

	2012	2011
	(in thousands of HRK)	
Cash loans given	10,004	1,162
Commodity loans given	15,282	-
Trade receivables	1,407,188	1,295,852
	1,432,474	**1,297,014**

Commodity loans given relate to trade receivables due that have been reprogrammed and the payment has been agreed in future periods.

NOTE 18 – INVENTORIES

	2012	2011
	(in thousands of HRK)	
Trade goods	174,009	158,255
Trade goods – related parties (note 31)	11,111	24,902
Advances given	1,686	2,600
Office supplies	99	115
	186,905	**185,872**

In 2012, the Company tested for damaged and obsolete inventories. With respect to differences identified, a provision was made for such inventories, which amounted to HRK 3,988 thousand (2011: HRK 3,788 thousand) and which was included in cost of trade goods sold.

NOTE 19 – CASH AND CASH EQUIVALENTS

	2012	2011
	(in thousands of HRK)	
Current account in HRK	15,217	35,512
Foreign currency account	115	52
Cash in hand	11	13
	15,343	**35,577**

Cash on HRK and foreign currency accounts are held with business banks in Croatia.

NOTE 20 – SHARE CAPITAL

As at 31 December 2012, the Company's share capital amounted to HRK 60,388,000 distributed among 30,194 shares. The nominal value per share is HRK 2,000. All issued shares are fully paid.

	Number of shares	Share capital	Treasury shares	Capital profit/ (loss)	Total
	(in number of shares)		*(in thousands of HRK)*		
At 1 January 2011	30,194	60,388	(12,250)	(4,259)	43,879
Release of treasury shares	-	-	4,600	(2,605)	1,995
Acquisition of own shares	-	-	(8,026)	-	(8,026)
At 31 December 2011	**30,194**	**60,388**	**(15,676)**	**(6,864)**	**37,848**
At 1 January 2012	30,194	60,388	(15,676)	(6,864)	37,848
Release of treasury shares \i\	-	-	2,494	(679)	1,815
Acquisition of own shares \ii\	-	-	(2,224)	-	(2,224)
At 31 December 2012	**30,194**	**60,388**	**(15,406)**	**(7,543)**	**37,439**

\i\ In June 2012, the Company granted 252 of its treasury shares (2011: 285 treasury shares) to key management.

\ii\ During 2012, the Company redeemed a total of 308 of its treasury shares (2011: 1,110 treasury shares).

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

	2012		2011	
	Number of shares	%	Number of shares	%
Mavota 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%
Tresury shares	1,640	5.43%	1,584	5.25%
Individuals	1,553	5.15%	1,575	5.22%
Other legal entities	1,435	4.75%	1,469	4.86%
Total	**30,194**	**100%**	**30,194**	**100%**

As at 31 December 2012 Mavota d.o.o. owned 14,306 shares, which represents 50.1% of shares with voting rights taking into account non-voting treasury shares.

NOTE 21 – RESERVE FOR REINVESTED PROFIT

During 2012 the Company realised profit before tax of HRK 36,469 thousand. The Management of the Company adopted a decision to reinvest profits for the purpose of long-term goals of encouraging investment in the amount of HRK 33,817 thousand, which will be registered during 2013 as an increase of the Company's share capital. Increase of share capital will be carried out by increasing the nominal value of the shares, which means that existing shareholder rights will not change, and will belong to the shareholders in proportion to their previous participation in the share capital.

In accordance with the applicable tax regulations, the Company recognised the amount of reinvested profit amount as a tax incentive resulting in a decrease in current tax expense in the amount of HRK 6,763 thousand.

It should be noted that the decision to reinvest profits and consequent increase of share capital is subject to final approval by the General Assembly.

The Management of the Company believes it is certain that the above stated increase in share capital from reinvested profits will be approved by the General Assembly due to the approval of the Supervisory Board on 11 December 2012.

Pursuant to the above, HRK 33,817 thousand relates to the amount of profit that will be reinvested and registered as an increase in the Company's share capital and as such is not considered distributable to the shareholders and is disclosed as a 'reserve for reinvested profit'. If the share capital increase is not registered by 31 October 2013, which is period of six months from the expiry of the deadline for filing income tax returns defined by tax authorities, in which the Company must submit proof of the implementation of the share capital increase in the amount of reinvested profit, the tax incentive will be reversed, resulting in a tax expense of HRK 6,763 thousand, plus interests.

NOTE 22 – RESERVES

(in thousands of HRK)	**Legal reserves**	**Reserves for treasury shares**	**Total**
At 31 December 2010	**2,730**	**60,000**	**62,730**
Changes during the year	4,548	-	4,548
At 31 December 2011	**7,278**	**60,000**	**67,278**
Changes during the year	-	-	-
At 31 December 2012	**7,278**	**60,000**	**67,278**

Legal reserves amount to HRK 7,278 thousand. The legal reserve is required under Croatian law according to which the Company is committed to build up legal reserves to a minimum of 5% of the profit for the year until the legal together with share premium reserve reached 5% of the share capital. Revaluation and legal reserves are not distributable.

NOTE 23 – RETAINED EARNINGS

Other reserves in the amount of HRK 31,796 thousand (2011: HRK 31,796 thousand) form part of retained earnings.

In July 2011, the Company paid out the dividend for 2010 in accordance with the decision of the General Assembly. The dividend per share was HRK 10.00.

NOTE 24 – TRADE AND OTHER PAYABLES

	2012	2011
	(in thousands of HRK)	
Trade payables /i/	1,251,932	1,080,575
Other payables /ii/	11,889	11,829
	1,263,821	**1,092,404**

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

	2012	2011
	(in thousands of HRK)	
Trade payables – domestic	543,045	472,761
Trade payables – foreign	543,519	478,510
Due to related parties (note 31)	165,368	129,304
	1,251,932	**1,080,575**

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

	2012	2011
	(in thousands of HRK)	
HRK	829,380	700,631
EUR	408,976	372,010
DKK	13,417	7,868
Other currencies	159	66
	1,251,932	**1,080,575**

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

	2012	2011
	(in thousands of HRK)	
Salaries to employees	5,612	5,126
Unused annual leave	1,852	1,903
Other taxes and contributions	50	85
Dividend payable	1	1
Liabilities for VAT	1,263	1,310
Other	3,111	3,404
	11,889	**11,829**

NOTE 25 – BORROWINGS

	2012	2011
	(in thousands of HRK)	
Long-term borrowings:		
Long-term loan /i/	118,000	7,800
Finance lease /iii/	3,935	3,351
	121,935	**11,151**
Short-term borrowings:		
Short-term loans /ii/	144,061	342,551
Finance lease /iii/	2,733	2,011
	146,794	**344,562**
Total borrowings	**268,729**	**355,713**

/i/ Long-term loan relates to financing from bank for the purpose of maintaining an adequate level of working capital. The loan bears variable interest rate and has a maturity of three years.

/ii/ Short-term loans relate to financing from various banks for the purpose of maintaining an adequate level of working capital and they are denominated in Croatian kuna (HRK). Loans have maturities ranging from two months to one year, part of loans bear fixed interest rates.

/iii/ Long-term finance lease liabilities relate to the purchase of delivery vehicles. Leases in 2012 were agreed at an interest rate of 4.00% (2011: 4.45%-4.48%). The lease liabilities are repayable within four and five years and they are secured by a pledge over all vehicles subject to the finance lease (note 13). Lease liabilities are effectively secured since the lessor has the right to take over the subject of the lease if the Company does not settle these liabilities.

The gross finance lease liability is as follows:

	2012	2011
	(in thousands of HRK)	
Up to one year	2,974	2,239
Between 1 and 5 years	4,183	3,509
Future financing costs	(489)	(386)
Carrying value of finance lease liability	**6,668**	**5,362**

The net book value of the finance lease liability is as follows:

	2012	2011
	(in thousands of HRK)	
Up to one year	2,733	2,011
Between 1 and 5 years	3,935	3,351
	6,668	**5,362**

NOTE 25 – BORROWINGS (continued)

The maturity of long-term borrowings is as follows:

	2012	2011
	(in thousands of HRK)	
Between 1 and 2 years	19,627	9,897
Between 2 and 5 years	102,308	1,254
	121,935	**11,151**

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

	2012		2011	
	HRK %	EUR %	HRK %	EUR %
Long-term borrowings				
Finance lease	-	4.10%-7.73%	-	4.67%-7.88%
Long-term loans	5.32%	-	3.80%-7.75%	-
Short-term borrowings				
Short-term loans	3.98%-5.66%	-	7.20%-7.55%	4.85%-5.87%

The carrying amount of liabilities for finance leases approximate their fair value.

The carrying amount of short-term borrowings approximate their fair value.

The exposure of the Company's borrowings to interest rate changes and the contractual repricing dates at the reporting date are as follows:

	2012	2011
	(in thousands of HRK)	
Up to 3 months	-	-
3 - 12 months	172,609	347,913
1 - 3 years	96,120	7,800
	268,729	**355,713**

Borrowings in the amount of HRK 96,120 thousand are shown and are repayable within a period of 1 to 3 years. As the loan's interest rate is fixed, there is no exposure to interest rate changes.

NOTE 25 – BORROWINGS (continued)

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

	2012	2011
	(in thousands of HRK)	
HRK	262,061	197,806
EUR	6,668	157,907
	268,729	**355,713**

Loans received are secured by mortgages over Company's buildings (note 13), bills of exchange and promissory notes.

NOTE 26 – DEFERRED INCOME TAX

Deferred tax assets and the deferred tax liability are measured at the actual tax rate of 20% in accordance with income tax regulations.

Deferred tax assets

(in thousands of HRK)	Inventory impairment	Provision for employee benefits	Total
At 1 January 2011	**404**	**99**	**503**
Tax charged to the income statement	(53)	-	(53)
Tax credited to the income statement	-	7	7
At 31 December 2011	**351**	**106**	**457**
At 1 January 2012	**351**	**106**	**457**
Tax charged to the income statement	-	-	-
Tax credited to the income statement	96	4	100
At 31 December 2012	**447**	**110**	**557**

Deferred tax liability

The Company has no deferred tax liability.

NOTE 27 – PROVISIONS

(in thousands of HRK)	Employee benefits	Legal disputes	Total
At 31 December 2011	**530**	**1,298**	**1,828**
Non-current	420	-	420
Current	110	1,298	1,408
At 1 January 2012	**530**	**1,298**	**1,828**
Additional provisions	492	-	492
Used during the year	(162)	(336)	(498)
At 31 December 2012	**860**	**962**	**1.822**
Non-current	441	-	441
Current	419	962	1.381

Employee benefits

This provision comprises estimated long-term employee benefits relating to termination benefits and jubilee awards, as defined by the collective bargaining agreement. The non-current portion of the provision relates to estimated acquired rights to termination benefits and jubilee awards that will be paid when one year after the reporting date has expired. The current portion of employee benefits includes jubilee awards and termination benefits which will be paid within 12 months after the reporting date.

Legal disputes

During 2012, the Company used provision for one legal dispute ended in favour of the plaintiff. On the basis of lawyer's and Management's estimation of probability of losing the dispute, the Company has not made additional provisions. During 2012, there were no additional legal disputes.

NOTE 28 – CONTINGENCIES

The Company issued guarantees for borrowings of its subsidiary in the total amount of HRK 61,148 thousand (2011: HRK 39,596 thousand).

The stated contingencies are not recorded in the statement of financial position as at 31 December 2012, as Management estimates that the liabilities of these subsidiaries will not become the obligations of the Parent Company, since all business transaction of these subsidiaries are under absolute control of the Parent Company.

The Company entered into several legal disputes, both as plaintiff and defendant. Based on the opinion of the expert legal counsellor who represents the Company in the stated disputes, Management estimates that no material losses shall arise from these disputes for the Company except for one dispute for which provision was made in amount of HRK 962 thousand (note 27).

NOTE 29 – OPERATING LEASE

Contractual rents on operating lease are as follows:

	2012	2011
	(in thousands of HRK)	
Up to one year	745	662
Between 1 and 5 years	1,352	1,285
Contractual rents on operating lease	**2,097**	**1,947**

NOTE 30 – SUBSEQUENT EVENTS

There are no subsequent events that require financial statements adjustment or additional disclosures in financial statements.

NOTE 31 – RELATED PARTY TRANSACTIONS

The Company enters into transactions with related parties (entities with significant influence under common control).

Related parties include:

	2012	2011
1. Subsidiaries of the Company:		
Zdravstvena ustanova Ljekarne Prima Pharme, Split	100%	100%
Primus nekretnine d.o.o., Zagreb	-	100%
2. Associate of the Company:		
Litmus d.o.o., Zagreb	41.53%	-
3. Subsidiaries of Zdravstvene ustanove Ljekarne Prima Pharme, Split:		
Zdravstvena ustanova Ljekarne Delonga, Okrug Gornji	100%	100%
Zdravstvena ustanova Ljekarne Atalić, Osijek	100%	100%
Ljekarna Dragica Blagus-Vičanović, Strahoninec	-	100%
Zdravstvena ustanova Ljekarne Ines Škoko, Zagreb	100%	100%
Ljekarna Vesna Alagić, Split	100%	-
Zdravstvena ustanova Ljekarne Čaić, Bošnjaci	100%	-
4. Associate of Zdravstvene ustanove Ljekarne Prima Pharme, Split		
Zdravstvena ustanova Ljekarne Jagatić, Dubec	49%	49%

5. The company with majority of voting rights, or a parent company Mavota d.o.o. owns 47.38% of the Company and has 50.1% of shares with voting rights.

6. Pliva Hrvatska d.o.o., Zagreb owns 25.32% of the Company and has 26.78% of the voting rights. Given the share in the ownership and business transactions with the Company, Pliva Hrvatska has significant influence on the current operations of the Company.

7. Other related parties: Auctor d.o.o. as a significant owner of Mavota d.o.o. and Laguna Novigrad d.d.

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

Balances and items resulting from these transactions are as follows:

(in thousands of HRK)	Note	2012	2011
Trade and other receivables			
Subsidiaries of the Company		164,527	139,256
Subsidiaries of Zdravstvene ustanove Ljekarne Prima Pharme		25,291	21,473
Associate of ZU Ljekarne Prima Pharme		19,907	13,835
Pliva Hrvatska d.o.o., Zagreb		223	45
	17	209,948	174,609
Inventories			
Pliva Hrvatska d.o.o., Zagreb		11,111	24,902
	18	11,111	24,902
Trade payables			
Subsidiaries of the Company		52	291
Associate of the Company		135	-
Pliva Hrvatska d.o.o., Zagreb		165,181	129,013
	24	165,368	129,304
Revenue from sales and other income			
Subsidiaries of the Company		189,882	183,627
Subsidiaries of Zdravstvene ustanove Ljekarne Prima Pharme		35,942	29,285
Associate of ZU Ljekarne Prima Pharme		27,771	25,248
Pliva Hrvatska d.o.o., Zagreb		432	-
	6	254,027	238,160
Marketing and promotion expenses			
Subsidiaries of the Company		14	-
	8	14	-
Other expenses			
Loss on fair valuation of investments		(1,302)	-
	9	(1,302)	-
Purchase of products			
Pliva Hrvatska d.o.o., Zagreb		177,080	166,938
		177,080	166,938
Key management compensation – salaries and bonuses for four members		6,873	6,774
Supervisory Board compensation		747	734

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

Incorporation of the associate Litums d.o.o.: The remainder of 58.47% of shares in the newly formed company is owned by Laguna Novigrad d.d. Laguna Novigrad d.d. is a related party through the company Auctor d.o.o. The effect of forming the associate on financial position and the operations of the Company is shown in note 15.

During the year the Company received and repaid loans in the amount of HRK 16 million from other related parties. Interest expense on loans receivable amounted to HRK 181 thousand.

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