MEDIKA d.d.

AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2013

CONTENT

Operating result in 2013

In the year 2013, Medika Group realized consolidated revenue in the amount of HRK 2,283,831 thousand, an increase of 1,9% . Consolidated operating profit amounts to HRK 60,250 thousand which is a HRK 7,317 thousand decrease in comparison to prior year.

Consolidated profit before tax amounts to HRK 45,346 thousand and consolidated net profit HRK 42,697 thousand, which is a decrease of HRK 5,573 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 40,762 thousand, which will be registered during 2014 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.

If analysing operating business segments (note 6 in financial statements), 62.3% of total consolidated income was generated through "pharmacies" segment, of which 14.5% from own pharmacies, and 23.7% through "hospitals" segment. In comparison to prior year, the "pharmacies" and "hospitals" segment remained at the same level.

Total consolidated assets amount to HRK 1,959,027 thousand, a decrease of 2.9% in comparison to prior year. Consolidated current assets comprise 79.6% of total assets. Trade and other receivables are the largest and most significant amount of total assets and have decreased by 9.0% in comparison to prior year. In June 2013 was performed the rehabilitation of clinical hospitals and trade receivables recorded significant decline in the first half of the year. In the second half of the year, the inflow was significantly reduced, which along with an increase in sales led to a renewed increase in receivables.
At the same time, inventory increased by 10.4% in comparison to prior year because of increased purchases due to sales growth.

Based on Partnership Agreement, during 2013 the Group founded associate Zdravstvena ustanova Sv. Kuzma i Damjan registred in Zagreb. The Group made an equity contribution by transferring a licence for performing pharmaceutical services and as a result of contribution acquired 49% stake in the newly incorporated institution. The Group sold its share in ZU Sv. Kuzma i Damjan in 2013.

Group's equity to assets ratio shows that 22% of total consolidated assets are financed through own resources.

Total consolidated credit indebtedness of the Medika Group is HRK 348,566 thousand, of which HRK 335,750 thousand relates to short-term loans (loans and finance lease), while the remainder in the amount of HRK 12,816 thousand relates to long-term loans and finance lease (note 26).

Consolidated financial results are presented in the statement of comprehensive income on page 6 of the financial statements.

Subsequent events

There are no events after the reporting date that require adjustment of the financial statements or additional disclosures in the financial statements.

The vision of company development

The business plan of Medika d.d. for 2014 anticipates annual decline of sales of 3%. Considering that Medika's sales decline is expected to be lower than decline of the market, increase in market share is expected. 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.

Construction work on a new business center in Osijek started in 2013. Completion of construction and relocation to a new business center is expected in early 2015. This investment will provide appropriate and quality warehouse facilities with all necessary accompanying premises in accordance with regulations and standards. Increase in storage capacity will create the preconditions for further development of business in Slavonia, and thus the development of the whole Medika.

Treasury shares

During 2013, the Company granted 715 of its treasury shares to key management.

During 2013, the Company acquired 230 of its treasury shares.

Medika d.d. currently owns 1,155 treasury shares, which represents 3,83% 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 has the following subsidiaries: Zdravstvena ustanova Ljekarne Delonga (Okrug Gornji), Zdravstvena ustanova Ljekarne Ines Škoko (Zagreb), Zdravstvena ustanova Ljekarne Atalić (Osijek) and Ljekarna Elvira Štimac (Opatija). These subsidiaries are wholly owned by ZU Ljekarne Prima Pharme.

During 2013, Ljekarna Alagić (Split), Zdravstvena ustanova Ljekarne Čaić (Bošnjaci) and Ljekarna Ksenija Gabrić (Zagreb) were merged into ZU Ljekarne Prima Pharme. In 2013 ZU Ljekarne Prima Pharme established the associate Zdravstvena ustanovu Sv. Kuzma i Damjan which is sold it in the same year.

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's 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 medications. To lower this risk, Medika has focused on increasing the lines of 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. A portion of loans from commercial banks are settled with foreign currency clause.

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, Director.

Supervisory Board of the company during the year were as follows: Mr. Mate Perković, president, Mr. Damjan Možina, vice-president, and members: Mr. Tihomir Orešković, Mr. Oleg Uskoković, Mr. Hrvoje Volarić, Mr. Nikica Gabrić and Mrs. Ružica Vađić.

Zagreb, 7 March 2014

Jasminko Herceg
Director

Medika d.d.
ZAGREB, Capraška 1

STATEMENT OF MANAGEMENT AND SUPERVISORY BOARD'S RESPONSIBILITIES

The Management Board is required to prepare the consolidated financial statements for each financial year which give a true and fair view of the financial position of the Group 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. The Management Board has the responsibility of taking steps which are reasonably available to it in order to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Management Board 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 consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

The financial statements set out on pages 6 to 51 were authorised by the Management Board on 7 March 2014 for issue to the Supervisory Board and are signed below to signify this.

By order of the Management Board

Jasminko Herceg
Director

Medika d.d.
ZAGREB Capraška

KPMG

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

We have audited the accompanying consolidated financial statements of Medika d.d. ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated 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 Consolidates Financial Statements

Management is responsible for the preparation and fair presentation of these consolidates financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

KPMG Croatia d.o.o.

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

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

7 March 2014

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.

MEDIKA d.d.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts are expressed in thousands of HRK)	Note	2013	2012
Revenues	5, 6	2,283,831	2,242,224
Cost of trade goods sold	6	(2,023,040)	(1,993,901)
Staff costs	7	(104,811)	(102,718)
Marketing and promotion expenses	8	(9,245)	(7,339)
Depreciation and amortisation	14, 15	(15,679)	(16,206)
Other operating expenses	9	(66,858)	(62,762)
Other (losses) / gains – net	10	(3,948)	8,269
Operating profit		**60,250**	**67,567**
Finance costs – net	11	(15,549)	(16,579)
Share of profits in associates	16	645	623
Profit before tax		**45,346**	**51,611**
Income tax	12	(2,649)	(3,341)
Profit for the year		**42,697**	**48,270**
Other comprehensive income		-	-
Total comprehensive income		**42,697**	**48,270**
Earnings per share:			
- basic/diluted (*in HRK*)	13	**1,487.08**	**1,687.47**

The consolidated financial statements set out on pages 6 to 51 were approved by the Management Board of the Company in Zagreb on 7 March 2014.

Jasminko Herceg
Director

Medika d.d. ZAGREB Capraška

The accompanying notes on pages 11 to 51 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

(all amounts are expressed in thousands of HRK)	Note	As at 31 December 2013	2012
ASSETS			
Non-current assets			
Property and equipment	14	155,426	159,679
Intangible assets	15	188,718	190,019
Investment in associates	16	39,368	39,182
Deferred tax asset	27	988	1,031
Trade and other receivables	18	14,631	16,479
		399,131	406,390
Current assets			
Inventories	19	239,143	216,553
Trade and other receivables	18	1,248,975	1,371,586
Income tax receivable		5,184	3,784
Cash and cash equivalents	20	66,594	19,566
		1,559,896	1,611,489
Total assets		**1,959,027**	**2,017,879**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	74,476	37,439
Reserve for reinvested profit	22	40,762	33,817
Reserves	23	67,278	67,278
Retained earnings	24	238,707	236,772
		421,223	375,306
Non-current liabilities			
Borrowings	26	12,816	136,977
Deferred tax liability	27	15,790	15,342
Provisions	28	800	679
		29,406	152,998
Current liabilities			
Trade and other payables	25	1,170,564	1,293,518
Income tax liabilities		-	485
Borrowings	26	335,750	194,097
Provisions	28	2,084	1,475
		1,508,398	1,489,575
Total equity and liabilities		**1,959,027**	**2,017,879**

The accompanying notes on pages 11 to 51 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts are expressed in thousands of HRK)	Note	Share capital	Reserve for reinvested profit	Reserves	Retained earnings	Total
As at 1 January 2012		**37,848**	**-**	**67,278**	**222,319**	**327,445**
Total comprehensive income						
Profit for the year		-	-	-	48,270	48,270
Other comprehensive income		-	-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**48,270**	**48,270**
Transactions with owners recognized directly in equity						
Transfer	22	-	33,817	-	(33,817)	-
Release of treasury shares	21	1,815	-	-	-	1,815
Acquisition of own shares	21	(2,224)	-	-	-	(2,224)
Transactions with owners recognized directly in equity		**(409)**	**33,817**	**-**	**(33,817)**	**(409)**
As at 31 December 2012		**37,439**	**33,817**	**67,278**	**236,772**	**375,306**
As at 1 January 2013		**37,439**	**33,817**	**67,278**	**236,772**	**375,306**
Total comprehensive income						
Profit for the year		-	-	-	42,697	42,697
Other comprehensive income		-	-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**42,697**	**42,697**
Transactions with owners recognized directly in equity						
Increase of share capital	21	33,817	(33,817)	-	-	-
Transfer	22	-	40,762	-	(40,762)	-
Release of treasury shares	21	4,901	-	-	-	4,901
Acquisition of own shares	21	(1,681)	-	-	-	(1,681)
Transactions with owners recognized directly in equity		**37,037**	**6,945**	**-**	**(40,762)**	**3,220**
As at 31 December 2013		**74,476**	**40,762**	**67,278**	**238,707**	**421,223**

The accompanying notes on pages 11 to 51 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts expressed in thousands of HRK)	Note	2013	2012
Profit for the year		**42,697**	**48,270**
Adjustments for:			
Income tax	12	2,649	3,341
Depreciation and amortisation	14, 15	15,679	16,206
Impairment of receivables	9	5,242	5,771
Inventory impairment	19	5,080	5,155
Unrealised foreign exchange differences		(933)	(1,809)
Change in provisions	28	730	82
Gains on sale of tangible assets	10	(222)	(600)
Impairment of property and equipment	9, 14	162	240
Property write-off		5,522	
Impairment of intangible assets	15	304	-
Interest income		(1,560)	(569)
Interest expense	11	15,368	18,069
Share of (profit) / loss from associates	16	(645)	(623)
Gain on disposal of subsidiary	10	-	(7,470)
Changes in:			
Inventories		(26,079)	(6,497)
Trade and other receivables		165,139	(170,406)
Trade and other payables		(111,021)	166,356
Cash generated from operating activities		**118,112**	**75,516**
Interest paid		(15,788)	(19,344)
Income tax paid		(6,435)	(5,005)
Cash flows from operating activities		**95,889**	**51,167**
Cash flows from investing activities			
Purchase of property and equipment		(10,969)	(9,738)
Proceeds from sale of property and equipment		800	1,264
Purchase of intangible assets	15	(934)	(14,599)
Acquisition of subsidiary, net of cash acquired	31	(1,955)	(5,888)
The effect of disposal of subsidiary	32	-	(172)
Proceeds from the repayment of loans given		12,483	4,284
Loans given		(52,420)	(9,803)
Interest received		1,679	569
Cash paid for shares in subsidiaries	16	-	(450)
Dividend received	16	459	748
Cash flows from investing activities		**(50,857)**	**(33,785)**

The accompanying notes on pages 11 to 51 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW (continued)

FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts expressed in thousands of HRK)	Note	2013	2012
Cash flows from financing activities			
Repayment of borrowings		(274,452)	(313,138)
Proceeds from borrowings		281,000	279,198
Repayment of finance lease		(2,871)	(2,231)
Acquisition of own shares	21	(1,681)	(2,224)
Cash flows from financing activities		**1,996**	**(38,395)**
Net increase / (decrease) in cash and cash equivalents		**47,028**	**(21,013)**
Cash and cash equivalents at beginning of year		19,566	40,579
Cash and cash equivalents at end of year	20	**66,594**	**19,566**

The accompanying notes on pages 11 to 51 form an integral part of these consolidated 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 and its subsidiaries (together "the Group") is the wholesale and retail distribution of pharmaceutical products. The Company headquarters is in Zagreb, Capraška 1.

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

	2013	2012
- Zdravstvena ustanova Ljekarne Prima Pharme, Split	100%	100%
- Zdravstvena ustanova Ljekarne Delonga, Okrug Gornji (from May 2007)	100%	100%
- Zdravstvena ustanova Ljekarne Ines Škoko, Zagreb (from March 2011)	100%	100%
- Zdravstvena ustanova Ljekarne Atalić, Osijek (from June 2011)	100%	100%
- Ljekarna Alagić, Split (from August 2012)	-	100%
- Zdravstvena ustanova Ljekarne Čaić, Bošnjaci (from October 2012)	-	100%
- Ljekarna Elvira Štimac, Opatija (from July 2013)	100%	-
- Ljekarna Ksenija Gabrić (acquired and merged in 2013)	-	-
- Zdravstvena ustanova Ljekarne Jagatić, Zagreb (from November 2008)	49%	49%
- Zdravstvena ustanova Sv. Kuzma i Damjan (established and sold in 2013)	-	-
- Primus nekretnine d.o.o., Zagreb (disposed in 2012)	-	-
- Litmus d.o.o., Zagreb (established in August 2012)	41,53%	41,53%

As at 31 December 2013, the Company's shares were listed on the official market on the Zagreb Stock Exchange. The shareholder structure is shown in note 21.

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

Consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). Consolidated 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 consolidated 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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

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 2013, 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 Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group 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 Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Inter-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated, but considered if an impairment indicator of the asset transferred exists. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

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

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

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated 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 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 at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary assets and items that are measured at foreign currency historical cost are not retranslated at new 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.

2.5 Property and equipment

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

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 Group 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 Group 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 Group 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property and equipment (continued)

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.

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group'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 Group 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 pharmaceutical service licences are capitalised by the amount for which future economic benefits are expected. These licences are amortized over their estimated useful life of 5 to an infinite lifetime. Recoverable amount is estimated on an annual basis.

(c) Software

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).

(d) Other rights

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.8 Financial assets

The Group 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 measured at amortised cost using effective interest rate method.

The Group assesses at each reporting date whether there is indication for financial asset or a group of financial assets to be impaired. Impairment testing of given loans and receivables is described in note 2.11.

2.9 Leases

The Group leases certain property and equipment. Leases of property, plant and equipment, where the Group 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, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life or the lease term.

Leases where the significant portion of risks and rewards of ownership are not transferred to the Group 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.

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 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 Group examines if there are damaged and/or expired inventories. With respect to differences identified, a provision is made for such inventories against cost of trade goods sold.

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 receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of 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 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.

When 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 asset and liability 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 Group 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 Group does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any other post-employment benefits.

(b) Long-term employee benefits

The Group recognises a liability for long-term employee benefits (jubilee awards and termination benefits as defined by the collective bargaining agreement) 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits (continued)

(c) Short-term employee benefits

The Group 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.

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

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

2.18 Provisions

Provisions for costs are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The amount of provision increases in each period to reflect the passage of time. This increase is 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 Group's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

The Group 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 Group's activities as described below.

(a) Sale of goods

Income from the wholesale of goods is recognised when the Group 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)

(a) Sale of goods (continued)

Income from the retail sales of goods is recognised when the Group sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in other operating expenses.

(b) Sale 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, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets and foreign currency 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 debtor, including VAT.

2.23 Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and equity securities risk) credit risk and liquidity risk. The Group does not have a written risk management programme, and did not use derivative financial instruments to actively hedge financial risks. However, overall risk management in respect of these risks is carried out by the Group's Finance department.

(a) Market risk

(i) Foreign exchange risk

The Group's sales are predominantly realised on the domestic market in Croatian kuna (HRK). However, the Group's purchase of goods is predominantly realised on the foreign market. Furthermore, a part of the borrowings is linked to foreign currencies. The Group 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.

As at 31 December 2013, if the EURO had weakened/strengthened against the HRK by 0.93% (2012: 1.56%), with all other variables held constant, the profit after tax for the reporting period would have been HRK 2,574 thousand higher/lower (2012: HRK 5,311 thousand), mainly as a result of foreign exchange gains/losses on translation of EURO-denominated trade payables and liabilities and loans and borrowings.

(ii) Cash flow and fair value interest rate risk

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

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

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

As at 31 December 2013, if the effective interest rate on borrowings (issued at variable rate) had been 0.28% higher/lower on an annual level (2012: 1.56%), the profit after tax for the reporting period would have been HRK 2,139 thousand lower/higher by HRK 2,139 thousand (2012: HRK 3,032 thousand).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Group's exposure to credit risk is influenced mainly by current assets which comprise cash, trade and other receivables. The Group does not have a significant concentration of credit risk. Group's sales policies ensure that sale is done towards customers with adequate credit history. As for the credit exposure, customers are divided 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. The majority of receivables are either financially dependent or owned by the State causing the Group, from perspective of credit risk exposure, also to be dependent on the State. Other customers are not significant because of dispersion on large number of customers, individually small balances and Group's strict measures of collection of outstanding debts and delivery of goods. The Group insures part of the trade receivables by bills of exchange and promissory notes. Detailed credit risk analysis is shown under notes 17 and 18.

(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 Group aims to maintain flexibility in funding by keeping committed credit lines available. The Finance department regularly – monthly monitors available cash resources. The Commission in charge of monitoring the Group's liquidity prepares a payment plan on a monthly basis, and carries out payments on a daily basis, in accordance with the priority list received from managers who are in charge of the purchase of specific groups of products. The majority of debtors are either financially dependent or owned by the State so the Group is also dependent on the State on the liquidity risk side.

The table below analyses financial liabilities of the Group 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 2013				
Trade and other payables	1,170,564	-	-	1,170,564
Borrowings	341,022	8,713	-	349,735

(in thousands of HRK)	Less than 1 year	Between 1-3 years	Over 3 years	Total
31 December 2012				
Trade and other payables	1,293,518	-	-	1,293,518
Borrowings	212,594	36,168	111,956	360,718

During 2014, the Group will settle trade and other liabilities according to the collection of receivables which depends on liquidity of the whole healthcare system. The Group is currently involved in negotiations with local banks regarding the refinancing of a part of current debt to non-current.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group'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 Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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

The self-financing ratio is as follows:

	2013	2012
	(in thousands of HRK)	
Total equity (capital and reserves)	421,223	375,306
Total assets	1,959,027	2,017,879
Self-financing ratio	**22%**	**19%**

In 2013, the ratio has increased in comparison to 2012 showing that 22% of the Group's total assets are financed from own resources. In accordance with the stated, 78% 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 Group 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 Group 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 Group 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 Group 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 materiality 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 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 annual effective interest rate of 4.60% (2012: 4.99 %). Should actual collections be less than management estimates, the Group would be required to record additional impairment expense.

As at 31 December 2013, if the amount of uncollectible receivables in total receivables past due had been 1% lower/higher, with all other variables held constant, profit after tax for the reporting period would have been HRK 3.068 thousand higher/lower than the one recorded (2012: HRK 1.327 thousand), i.e., the effect in the hospital segment would be HRK 2.777 thousand (2012: HRK 879 thousand), in the pharmacy segment HRK 134 thousand (2012: HRK 169 thousand) and in the segment 'other' HRK 157 thousand (2012: HRK 279 thousand).

NOTE 5 - REVENUES

	2013	2012
	(in thousands of HRK)	
Revenue from sales	2,271,769	2,229,932
Other revenues	12,062	12,292
	2,283,831	**2,242,224**

Other revenues include interest income in the amount of HRK 1,786 thousand (2012: HRK 569 thousand)

NOTE 6 – BUSINESS SEGMENT INFORMATION

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

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

The wholesale distribution channel consists of:

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

The Group operates with approximately 440 pharmacies and health 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 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.)

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

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 and The Group apply the same accounting policies for all segments.

NOTE 6 – BUSINESS SEGMENT INFORMATION (continued)

The results of the stated segments for the year ended 31 December 2013 are as follows:

	Wholesale			Retail	
(in thousands of HRK)	Pharmacies	Hospitals	Other	Self-owned pharmacies	Total
Revenue from sales	1,062,224	541,142	308,429	329,803	2,241,598
Other revenue	447	1	9,774	1,254	11,476
Revenue from sales and other revenue from related parties (note 35)	30,083	-	674	-	30,757
Total revenues	**1,092,754**	**541,143**	**318,877**	**331,057**	**2,283,831**
Cost of trade goods sold	(999,076)	(494,648)	(272,960)	(256,356)	(2,023,040)
Segment results	**93,678**	**46,495**	**45,917**	**74,701**	**260,791**
Operating expenses					(200,541)
Operating profit					**60,250**
Finance costs - net					(15,549)
Share of profits in associates					645
Profit before tax					**45,346**
Income tax					(2,649)
Profit for the year					**42,697**

NOTE 6 – BUSINESS SEGMENT INFORMATION (continued)

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

	Wholesale			Retail	
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Self-owned pharmacies**	**Total**
Revenue from sales	1,061,858	526,586	297,104	316,346	2,201,894
Other revenue	-	-	9,875	2,392	12,267
Revenue from sales and other revenue from related parties (note 35)	27,771	-	292	-	28,063
Total revenues	**1,089,629**	**526,586**	**307,271**	**318,738**	**2,242,224**
Cost of trade goods sold	(991,353)	(479,451)	(272,945)	(250,152)	(1,993,901)
Segment results	**98,276**	**47,135**	**34,326**	**68,586**	**248,323**
Operating expenses					(180,756)
Operating profit					**67,567**
Finance costs - net					(16,579)
Share of profits in associates					623
Profit before tax					**51,611**
Income tax					(3,341)
Profit for the year					**48,270**

The segment trade receivables at 31 December 2013 are as follows:

	Wholesale			Retail	
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Self-owned parmacies**	**Total**
Trade receivables (note 18 /ii/)	462,733	536,482	67,088	118,715	1,185,018

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

	Wholesale			Retail	
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Self-owned parmacies**	**Total**
Trade receivables (note 18 /ii/)	594,772	540,116	83,013	137,179	1,355,080

NOTE 7 – STAFF COSTS

	2013	2012
	(in thousands of HRK)	
Net salaries	54,850	53,710
Tax and surtax	18,409	17,671
Contributions from and on salaries /i/	20,689	20,858
Termination benefits	458	597
Employee transportation costs	3,478	3,248
Other employee benefits /ii/	2,958	2,526
Management bonuses	3,969	4,108
	104,811	**102,718**

As at 31 December 2013, the Group had 739 employees (2012: 724 employees).

/i/ In 2013, pension contributions calculated by the Group for payment to mandatory pension funds amounted to HRK 16,217 thousand (2012: HRK 15,765 thousand).

/ii/ Other employee benefits relate to provision for accrual for unused annual leave, business trip expenses, aids, awards etc.

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	2013	2012
	(in thousands of HRK)	
Entertainment	2,276	2,144
Marketing	2,826	2,270
Donations	4,143	2,925
	9,245	**7,339**

NOTE 9 – OTHER OPERATING EXPENSES

	2013	2012
	(in thousands of HRK)	
Impairment of trade receivables (note 18/ii/)	5,242	5,771
Maintenance of assets, security services and insurance	11,096	10,810
Materials and energy consumed	13,419	12,741
Rental expenses	12,163	11,259
Taxes and contributions irrespective of results	3,041	3,331
Professional training and consultancy services	6,041	5,016
Bank charges and payment transaction costs	3,532	4,127
Telephone, postal and utility services	2,599	2,625
Impairment of property and equipment (note 14)	162	240
Other expenses	9,563	6,842
	66,858	**62,762**

NOTE 10 – OTHER (LOSSES) / GAINS – NET

	2013	2012
	(in thousands of HRK)	
Gain on disposal of subsidiary (note 32)	-	7,470
Gains on sale of property and equipment (net)	222	600
Write-off buildings (note14)	(5,522)	-
Net foreign exchange losses	1,352	199
	(3,948)	**8,269**

NOTE 11 – FINANCE COSTS - NET

	2013	2012
	(in thousands of HRK)	
Interest expense:		
Bank borrowings and finance lease	(15,368)	(18,069)
	(15,368)	**(18,069)**
Foreign exchange gains / (losses) – net		
Foreign exchange gains	215	3.694
Foreign exchange losses	(396)	(2.204)
	(181)	1.490
	(15.549)	**(16.579)**

NOTE 12 – INCOME TAX

	2013	2012
	(in thousands of HRK)	
Current tax	2,835	3,437
Deferred tax (note 27)	(186)	(96)
	2,649	**3,341**

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

	2013	2012
	(in thousands of HRK)	
Profit before taxation	**45,346**	**51,611**
Income tax (20%)	9,069	10,322
Income non assessable and tax incentives	(526)	(1,976)
Expenses not deductible	2,408	1,725
Tax exemption for reinvested profit (note 22)	(8,152)	(6,763)
Losses for which deferred tax asset is not recognised	23	101
Tax losses utilised	(130)	-
Temporary tax differences for which deferred tax is not recognised	(43)	(68)
Income tax	**2,649**	**3,341**
Effective tax rate	5.84%	6.47%

In accordance with local regulations, the Tax Authority may at any time inspect the Group'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. Tax Authority conducted a tax inspection in one member of the Group over the operations in 2011, and issued Resolution determining an additional tax liability. Member of the Group filed a complaint against the decision and the subject is at the appeal with the higher body of the Tax Autority. For a determined amount of tax payable the Group made the provision (note 9 and note 28).

NOTE 13 – EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit of the Group by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares. Average number of shares in amount of 28,712 is the result of releasing treasury shares in June and December and acquiring treasury shares in September and October 2013.

	2013	2012
Net profit attributable to shareholders *(in thousands of HRK)*	42,697	48,270
Weighted average number of ordinary shares excluding treasury shares	28,712	28,605
Basic/diluted earnings per share *(in HRK)*	**1,487.08**	**1,687.47**

NOTE 14 – PROPERTY AND EQUIPMENT

(all amounts are expressed in thousands of HRK)	Land	Buildings	Equipment	Assets under construction and prepayments	Total
As at 31 December 2011					
Cost	16,516	177,212	113,689	2,750	310,167
Accumulated depreciation	-	(50,245)	(93,166)	-	(143,411)
Net book amount	**16,516**	**126,967**	**20,523**	**2,750**	**166,756**
For year ended 31 December 2012					
Opening net book amount	16,516	126,967	20,523	2,750	166,756
Additions	-	-	1,096	12,103	13,199
Acquisition of subsidiary (note 31)	-	-	51	-	51
Transfer from assets under construction	-	47	5,667	(5,714)	-
Disposals	-	-	(664)	-	(664)
Impairment	-	(240)	-	-	(240)
Disposal of subsidiary (note 32)	(521)	(8,517)	(17)	-	(9,055)
Depreciation	-	(4,235)	(6,133)	-	(10,368)
Closing net book amount	15,995	114,022	20,523	9,139	159,679
As at 31 December 2012					
Cost	15,995	159,230	96,155	9,139	280,519
Accumulated depreciation	-	(45,208)	(75,632)	-	(120,840)
Net book amount	**15,995**	**114,022**	**20,523**	**9,139**	**159,679**
For year ended 31 December 2013					
Opening net book amount	15,995	114,022	20,523	9,139	159,679
Additions	-	46	777	10,146	10,969
Acquisition of subsidiary (note 31)	-	-	151	-	151
Transfer from intangible assets	-	907	294	-	1,201
Transfer from assets under construction	-	134	979	(1,113)	-
Disposals	-	-	(578)	-	(578)
Impairment	-	-	-	(162)	(162)
Write-off (note 10)	-	(2,872)	-	(2,650)	(5,522)
Depreciation	-	(3,970)	(6,342)	-	(10,312)
Closing net book amount	15,995	108,267	15,804	15,360	155,426
As at 31 December 2013					
Cost	15,995	156,619	94,482	15,360	282,456
Accumulated depreciation	-	(48,352)	(78,678)	-	(127,030)
Net book amount	**15,995**	**108,267**	**15,804**	**15,360**	**155,426**

NOTE 14 – PROPERTY AND EQUIPMENT (continued)

Assets under construction mostly relates to property in Osijek where the Company plans to build a new distribution centre. Based on demolition of existing buildings in 2013 on the site of the new distribution centre, HRK 5,522 thousand of buildings' net book value was written off.

Revolving loans and finance lease liabilities (note 26) have been secured by pledges over property, plant and equipment with a carrying value of HRK 106,859 thousand as at 31 December 2013 (2012: HRK 135,067 thousand).

Delivery and personal vehicles under finance lease are as follows:

	2013	2012
	(in thousands of HRK)	
Cost – capitalised finance lease	11,171	11,728
Accumulated depreciation	(7,489)	(5,112)
Net book amount	**3,682**	**6,616**

NOTE 15 – INTANGIBLE ASSETS

(all amounts are expressed in thousands of HRK)	Goodwill	Licences, software and other rights	Asset under construction	Total
As at 31 December 2011				
Cost	61,373	149,356	119	210,848
Accumulated amortisation and impairment	-	(35,766)	-	(35,766)
Net book amount	**61,373**	**113,590**	**119**	**175,082**
For the year ended 31 December 2012				
Opening net book amount	61,373	113,590	119	175,082
Acquisition of subsidiary (note 31)	7,588	1,038	-	8,626
Additions	106	12,329	2,164	14,599
Transfer	-	852	(852)	-
Investment in subsidiary (note 16)	-	(2,450)	-	(2,450)
Amortisation	-	(5,838)	-	(5,838)
Closing net book amount	69,067	119,521	1,431	190,019
At 31 December 2012				
Cost	69,067	161,125	1,431	231,623
Accumulated amortisation and impairment	-	(41,604)	-	(41,604)
Net book amount	**69,067**	**119,521**	**1,431**	**190,019**
For the year ended 31 December 2013				
Opening net book amount	69,067	119,521	1,431	190,019
Acquisition of subsidiary (note 31)	4,248	3,437	-	7,685
Additions	-	487	447	934
Transfer	-	40	(40)	-
Transfer to property and equipment	-	(1,201)	-	(1,201)
Transfer to other assets	-	(519)	-	(519)
Impairment	-	(303)	-	(303)
Investment in subsidiary (note 32)	(1,382)	(1,147)	-	(2,529)
Disposal	-	(1)	-	(1)
Amortisation	-	(5,367)	-	(5,367)
Closing net book amount	71,933	114,947	1,838	188,718
At 31 December 2013				
Cost	71,933	161,918	1,838	235,689
Accumulated amortisation and impairment	-	(46,971)	-	(46,971)
Net book amount	**71,933**	**114,947**	**1,838**	**188,718**

NOTE 15 – INTANGIBLE ASSETS

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

Licences

Licences for performing pharmaceutical services with indefinite useful life at the reporting date amount to HRK 107,238 thousand (2012: HRK 107,021 thousand).

Impairment test of goodwill and licences with indefinite useful life

The Group calculated recoverable amount using value-in-use method. Value-in-use cash flow projections were based on 5 year business plan approved by Management. Discount rates of 8.42%, growth rate of 1%-5% and income tax rate of 20% were applied when discounting projected cash flow. Recoverable amount exceeds carrying amount.

NOTE 16 – INVESTMENTS IN ASSOCIATES

The Group holds 49% share in the associate Zdravstvena ustanova Ljekarne Jagatić, which was acquired in 2008 and 41.53% share in Litmus d.o.o. which was acquired in 2012.

	2013	2012
	(in thousands of HRK)	
As at 1 January	39,182	17,709
Investment in ZU Sv. Kuzma i Damjan (note 15)	2,664	-
Investment in Litmus d.o.o.	-	19,148
Increase in investment in ZU Ljekarne Jagatić	-	2,450
Receipts from associate	(459)	(748)
Disposal of associate ZU Sv. Kuzma i Damjan	(2,664)	-
Share of profits	645	623
As at 31 December	**39,368**	**39,182**

During 2013 the Group established associate Zdravstvena ustanova Sv. Kuzma i Damjan by contribution of one licence for performing pharmaceutical services valued at HRK 2,664 thousand (note 15). Group's share was 49%. Share in ZU Sv. Kuzma i Damjan was sold in 2013.

Investment in Litmus d.o.o. arose as a result of the incorporation agreement under which 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 investment in Primus nekretnine d.o.o. at HRK 18,698 thousand. In Additionally, the Company made a cash contribution in the amount of HRK 450 thousand, thereby acquiring the total share of 41.53% in Litmus d.o.o. As a result of incorporation Litmus d.o.o., net assets of Primus nekretnine d.o.o. in the amount of HRK 11,228 thousand were disposed of, resulting in realised gain on disposal in the amount of HRK 7,470 thousand (note 10). The effects of the disposal of subsidiary and incorporation the associate are shown in detail in note 32.

In 2012 an increase in investment in ZU Ljekarne Jagatić was made by contribution of one pharmaceutical licence valued at HRK 2,450 thousand (note 15).

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

(in thousands of HRK)	Assets	Liabilities	Revenue	Gain / (loss) – net
As at 31 December 2013				
ZU Ljekarne Jagatić	27,499	19,887	45,201	1,905
Litmus d.o.o.	45,341	256	1,765	(695)
Total	**72,840**	**20,143**	**46,966**	**1,210**

(in thousands of HRK)	Assets	Liabilities	Revenue	Gain / (loss) – net
As at 31 December 2012				
ZU Ljekarne Jagatić	29,802	22,546	44,508	1,549
Litmus d.o.o.	46,050	270	735	(327)
Total	**75,852**	**22,816**	**45,243**	**1,222**

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY

	2013	2012
	(in thousands of HRK)	
Financial assets - category: Loans given and receivables		
Loans given and receivables (note 18/v/)	1,254,113	1,382,866
Cash and cash equivalents (note 20)	66,594	19,566
	1,320,707	**1,402,432**

	2013	2012
Financial liabilities - category: Other liabilities	*(in thousands of HRK)*	
Trade payables (note 25)	1,149,802	1,272,960
Other liabilities (note 25)	20,762	20,558
Total debt (note 26)	348,566	331,074
	1,519,130	**1,624,592**

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

	2013	2012
	(in thousands of HRK)	
Hospitals	93,910	154,145
Pharmacies	314,399	337,095
HZZO	75,089	135,272
Other	40,620	39,707
At 31 December	**524,018**	**666,219**

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2013	2012
	(in thousands of HRK)	
Non-current receivables:		
Loans given /i/	11,741	15,507
Trade receivables /ii/	1,878	-
Long-term deposits	1,012	972
	14,631	16,479
Current receivables:		
Trade receivables /ii/	1,183,140	1,355,080
Other current receivables /iii/	8,481	4,227
Loans given /i/,/iv/	54,074	7,625
Loans given-current maturity of non-current receivables /i/	3,280	4,654
	1,248,975	1,371,586
	1,263,606	**1,388,065**

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

	Effective interest rate	2013	2012
		(in thousands of HRK)	
Loans given to pharmacies	5.0-8.0%	4,585	7,512
Loans given to others	4.0%-8.0%	10,436	12,649
Total non-current receivables, including current portion		15,021	20,161
Current portion of non-current receivables		(3,280)	(4,654)
Total non-current receivables		**11,741**	**15,507**

The maturity of long-term loans is as follows:

	2013	2012
	(in thousands of HRK)	
Between 1 and 2 years	4,818	4,135
Between 2 and 5 years	6,923	11,372
	11,741	**15,507**

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

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	2013	2012
	(in thousands of HRK)	
Domestic trade receivables	1,202,497	1,367,044
Foreign trade receivables	3,050	2,353
Trade receivables – related parties (note 35)	17,535	20,130
	1,223,082	1,389,527
Impairment of trade receivables	(38,064)	(34,447)
	1,185,018	**1,355,080**

The ageing structure of receivables past due is as follows:

	2013	2012
	(in thousands of HRK)	
0-180 days	421,759	540,890
181-360 days	107,509	139,298
Over 360 days	169,860	80,267
	699,128	**760,455**

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

	2013	2012
	(in thousands of HRK)	
As at 1 January	34,447	29,531
Increase (note 9)	5,242	5,771
Written off	(1,625)	(855)
As at 31 December	**38,064**	**34,447**

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

	2013	2012
	(in thousands of HRK)	
HRK	1,252,780	1,385,880
EUR	10,826	2,185
	1,263,606	**1,388,065**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	2013	2012
	(in thousands of HRK)	
VAT receivable	4,977	2,688
Prepaid expenses	920	1,060
Other	2,584	479
	8,481	**4,227**

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

	Effective interest rate	2013	2012
		(in thousands of HRK)	
Loans given – other	4.0%-8.5%	54,074	7,625
		54,074	7,625
Impairment		-	-
		54,074	**7,625**

/v/ Financial assets by category include the following:

	2013	2012
	(in thousands of HRK)	
Cash loans given	60,038	12,504
Cash loan given – related parties (note 35)	121	-
Commodity loans given	8,936	15,282
Trade receivables	1,185,018	1,355,080
	1,254,113	**1,382,866**

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

NOTE 19 – INVENTORIES

	2013	2012
	(in thousands of HRK)	
Trade goods	224,301	199,056
Trade goods – related parties (note 35)	13,233	15,253
Advances given	1,188	1,842
Office supplies	421	402
	239,143	**216,553**

Inventories are stated at the lower of cost or net realisable sales value. At each reporting date, damaged and expired inventories are tested. With respect to differences identified, a provision is made for such inventories, which amounted to HRK 5,080 thousand in 2013 (2012: HRK 5,155 thousand) and which is included in cost of trade goods sold.

Inventories of HRK 100 million are pledged as security for payment of the loan.

NOTE 20 – CASH AND CASH EQUIVALENTS

	2013	2012
	(in thousands of HRK)	
Current account	46,440	19,405
Foreign currency account	128	127
Cash in hand and cheques	26	34
Investment in cash fund (note 35)	20,000	-
	66,594	**19,566**

Cash on HRK and foreign currency accounts are held with business banks in Croatia. Cash includes cheques with maturity less than three months.

NOTE 21 – SHARE CAPITAL

As at 31 December 2013, the Company's share capital amounted to HRK 94,205,280 (2012: HRK 60,388,000) distributed among 30,194 shares (2012: 30,194 shares). The nominal value per share is HRK 3,120 (2012: 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)*		
As 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 treasury shares /ii/	-	-	(2,224)	-	(2,224)
As at 31 December 2012	**30,194**	**60,388**	**(15,406)**	**(7,543)**	**37,439**
As at 1 January 2013	30,194	60,388	(15,406)	(7,543)	37,439
Release of treasury shares \i\	-	-	6,601	(1,700)	4,901
Acquisition of treasury shares \ii\	-	-	(1,681)	-	(1,681)
Increase of share capital /iii/	-	33,817	-	-	33,817
As at 31 December 2013	**30,194**	**94,205**	**(10,486)**	**(9,243)**	**74,476**

\i\ During 2013, the Company granted 715 of its treasury shares (2012: 252 treasury shares) to key management.

\ii\ During 2013, the Company redeemed a total of 230 of its treasury shares (2012: 308 treasury shares).

\iii\ The share capital was increased based on the decision of the General Assembly held on 16 May 2013. The Commercial Court in Zagreb issued a decision on the registration of the increase of share capital on 5 July 2013. The share capital was increased from reserve for reinvested profit in the amount of HRK 33,817 thousand. The distribution of this amount in future periods may result in tax obligations given it is based on a tax incentive as discussed in the note 22.

The ownership structure of the Company is as follows:

	2013		2012	
	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%
Treasury shares	1,155	3,83%	1,640	5,43%
Domestic natural persons	2,035	6,74%	1,553	5,15%
Other businesses	1,438	4,76%	1,435	4,75%
Total	**30,194**	**100%**	**30,194**	**100%**

As at 31 December 2013 Mavota d.o.o. owned 14,306 shares, which represents 49.3% (2012: 50.1%) of shares with voting rights taking into account non-voting treasury shares.

NOTE 22 – RESERVE FOR REINVESTED PROFIT

During 2013 the Company realised profit before tax of HRK 43,850 thousand (2012: 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 40,762 thousand (2012: HRK 33,817 thousand), which will be registered during 2014 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 8,152 thousand (2012: 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 12 December 2013.

Pursuant to the above, HRK 40,762 thousand (2012: 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 2014, 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 8,152 thousand (2012: HRK 6,763 thousand), plus interests.

NOTE 23 – RESERVES

(in thousands of HRK)	**Legal reserves**	**Reserves for treasury shares**	**Total**
As at 31 December 2011	**7.278**	**60.000**	**67.278**
Changes during the year	-	-	-
As at 31 December 2012	**7.278**	**60.000**	**67.278**
Changes during the year	-	-	-
As at 31 December 2013	**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, as a Group member, 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 reach 5% of the share capital. Revaluation and legal reserves are not distributable.

NOTE 24 – RETAINED EARNINGS

Other reserves in the amount of HRK 31,796 thousand (2012: HRK 31,796 thousand) form part of retained earnings.

NOTE 25 – TRADE AND OTHER PAYABLES

	2013	2012
	(in thousands of HRK)	
Trade payables /i/	1,149,802	1,272,960
Other payables /ii/	20,762	20,558
	1,170,564	**1,293,518**

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

	2013	2012
	(in thousands of HRK)	
Trade payables – domestic	537,830	564,125
Trade payables – foreign	489,250	543,519
Due to related parties (note 35)	122,722	165,316
	1,149,802	**1,272,960**

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

	2013	2012
	(in thousands of HRK)	
HRK	789,399	850,408
EUR	346,376	408,976
DKK	13,773	13,417
Other currencies	254	159
	1,149,802	**1,272,960**

NOTE 25 – TRADE AND OTHER PAYABLES (continued)

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

	2013	2012
	(in thousands of HRK)	
Salaries to employees	8,393	9,303
Liabilities for the purchase of new subsidiaries (note 31)	2,161	3,640
Unused annual leave	2,008	1,947
Other taxes and contributions	34	54
VAT payable	5,751	1,263
Dividend payable	1	1
Other	2,414	4,350
	20,762	**20,558**

NOTE 26 – BORROWINGS

	2013	2012
	(in thousands of HRK)	
Long-term borrowings:		
Loans/i/	10,457	132,968
Finance lease /iii/	2,359	4,009
	12,816	**136,977**
Short-term borrowings:		
Loans/ii/	334,131	191,275
Finance lease /iii/	1,619	2,822
	335,750	**194,097**
Total borrowings	**348,566**	**331,074**

/i/ Long-term loans relate to financing from various banks for the purpose of maintaining an adequate level of working capital. Long-term loans consist of one loan denominated in EUR with a variable interest rate and and a maturity of 2 – 3 years and one loan denominated in Croatian kuna (HRK) with a maturity of two 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. No leases were agreed in 2013. In 2012 leases were agreed at an interest rate of 4.00%. 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 14). 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.

NOTE 26 – BORROWINGS (continued)

The gross finance lease liability is as follows:

	2013	2012
	(in thousands of HRK)	
Up to one year	1,751	3,070
Between 1 and 5 years	2,483	4,260
Future financing costs	(256)	(499)
Net book value of finance lease liability	**3,978**	**6,831**

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

	2013	2012
	(in thousands of HRK)	
Up to one year	1,619	2,822
Between 1 and 5 years	2,359	4,009
	3,978	**6,831**

The maturity of long-term borrowings is as follows:

	2013	2012
	(in thousands of HRK)	
Between 1 and 2 years	8,890	25,251
Between 2 and 5 years	3,926	111,373
Over 5 years	-	353
	12,816	**136,977**

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

	2013		2012	
	HRK	**EUR**	**HRK**	**EUR**
	%	**%**	**%**	**%**
Long-term borrowings				
Loans	4.90%	-	5.32%	4.47%-7.32%
Finance lease	-	4.08%-7.73%	-	4.10%-7.73%
Short-term borrowings				
Loans	4.40%-5.20%	-	3.93%-5.92%	-

NOTE 26 – BORROWINGS (continued)

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

	2013	2012
Borrrowings with variable interest rate	*(in thousands of HRK)*	
Up to 3 months	1,225	-
3 - 12 months	238,163	198,340
Over 1 year	7,178	36,614
	246,566	**234,954**
Borrowings with fixed interest rates		
Loans with fixed interest rates	102,000	96,120
	102,000	**96,120**
Total borrowings	**348,566**	**331,074**

As the loan´s interest rate in amount of HRK 102,000 is fixed, there is no exposure to interest rate changes.

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

The carrying amount of the Group's borrowings was translated from the following currencies:

	2013	2012
	(in thousands of HRK)	
HRK	324,587	299,606
EUR	23,979	31,468
	348,566	**331,074**

Loans received are secured by mortgages over Group's buildings (note 14), inventories (note 19), bills of exchange and promissory notes.

NOTE 27 – DEFERRED INCOME TAX

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

Deferred tax asset

(in thousands of HRK)	Inventory impairment	Impairment of receivables	Provision for employee benefits	Transfer of property in the Group	Total
As at 1 January 2012	765	-	154	1,747	2,666
Tax charged to the income statement	-	-	-	(12)	(12)
Tax credited to the income statement	86	-	22	-	108
Tax at disposal of subsidiary	-	-	-	(1,731)	(1,731)
As at 31 December 2012	**851**	**-**	**176**	**4**	**1,031**
As at 1 January 2013	**851**	**-**	**176**	**4**	**1,031**
Tax charged to the income statement	(156)	-	-	(2)	(158)
Tax credited to the income statement	-	83	32	-	115
As at 31 December 2013	**659**	**83**	**208**	**2**	**988**

Deferred tax liability

(in thousands of HRK)	Acquisition of subsidiary - licences
As at 1 January 2012	**15.134**
Tax arising on acquisition of subsidiary	208
As at 31 December 2012	**15.342**
As at 1 January 2013	**15.342**
Tax arising on acquisition of subsidiary	677
Tax at disposal of license	(229)
As at 31 December 2013	**15.790**

The deferred tax liability arose at the acquisition of the subsidiary as a result of the temporary difference arising from the measurement of assets and liabilities of subsidiaries in consolidation at fair values, while the tax base of assets and liabilities remained at the level of expense. The resulting deferred tax liability affected the increase in goodwill (note 15).

NOTE 28 – PROVISIONS

(in thousands of HRK)	Employee benefits	Legal disputes	Other provisions	Total
As at 31 December 2012	**1,192**	**962**	-	**2,154**
Non-current	679	-	-	679
Current	513	962	-	1,475
As at 1 January 2013	**1,192**	**962**	-	**2,154**
Additional provisions	285	-	543	828
Used during the year	(98)	-	-	(98)
As at 31 December 2013	**1,379**	**962**	**543**	**2,884**
Non-current	800	-	-	800
Current	579	962	543	2,084

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

On the basis of lawyer's and Management's estimation of probability of losing the dispute, the Company has not made additional provisions.

Other provisions

Other provisions include provisions for tax liabilities based on the Resolution of Tax Authority (note 9 and note 12).

NOTE 29 – COMMITMENTS

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 two disputes for which provision was made in amount of HRK 962 thousand (note 28).

NOTE 30 – OPERATING LEASE

The Group rents vehicles and office space under non-cancellable operating lease contracts.

Lease periods are between 1 and 6 years.

Contractual rents on operating lease are as follows:

	2013	2012
	(in thousands of HRK)	
Up to one year	5,564	8,098
Between 1 and 5 years	7,029	8,149
Over 5 years	348	-
Contractual rents on operating lease	**12,941**	**16,247**

NOTE 31 – ACQUISITION OF SUBSIDIARIES

Acquisition of Health Institutions

In 2013, the Group acquired 100% ownership over two pharmacies (2012: one health institutions and one pharmacy) for an amount of HRK 4,215 thousand (2012: HRK 9,944 thousand).

From the date of acquisition to the reporting date, the Company generated revenues on the basis of newly acquired subsidiaries in the amount of HRK 4,866 thousand (2012.: HRK 1,075 thousand) and profit in the amount of HRK 346 thousand (2012.: HRK 42 thousand).

If the acquisition had occurred on 1 January estimated revenue for the year ended 31 December 2013 would have been HRK 5,476 thousand higher (2012: HRK 12,263 thousand higher), while profit before taxation would have been HRK 1,479 thousand higher (2012: HRK 1,384 thousand higher) than stated. These amounts have been calculated using the Group's accounting policies. Details of the net book value of assets acquired and goodwill determined are as follows:

	2013	2012
	(in thousands of HRK)	
Purchase consideration	**4,215**	**9,944**
- Cash paid	2,054	6,304
- Liabilities for the purchase of subsidiaries	2,161	3,640
Fair value of assets acquired	33	(2,356)
Goodwill (note 15)	**4,248**	**7,588**

Fair value of acquired asset is as follows:

	2013	2012
	(in thousands of HRK)	
Intangible assets (note 15)	3,437	1,038
Property and equipment (note 14)	151	51
Inventory	1,072	1,423
Loans given	1,432	2,197
Trade receivables	2,033	4,895
Cash and cash equivalents	99	416
Deferred tax liability (note 27)	(677)	(208)
Non-current liabilities	-	(1,089)
Current liabilities	(7,580)	(6,367)
Net assets acquired	**(33)**	**2,356**
Purchase consideration paid in cash	2,054	6,304
Cash and cash equivalents acquired	(99)	(416)
Cash used in the acquisition	**1,955**	**5,888**

The Group has allocated the purchase price on identified assets, including intangible asset which was not identified in the statement of financial position in accordance with IAS 38 *Intangible assets*.

The management of the Group identified and fair valued a pharmacy licence as the only form of intangible assets which arises during the acquisition of medical institutions/pharmacies. The assets were fair valued at the acquisition date using net current value of cash flows from use of identified, tangible and intangible assets of the Group that can be directly attributed to them.

NOTE 32 – DISPOSAL OF SUBSIDIARY AND INCORPORATION OF ASSOCIATE

Based on Partnership Agreement in 2013, the Group established associate Zdravstvena ustanova Sv. Kuzma i Damjan based in Zagreb. The Group made an equity contribution by transferring a licence for performing pharmaceutical services and as a result of contribution acquired 49% stake in the newly incorporated institution. The value of the licence at disposal was HRK 1,147 thousand (note 15), and value of the related goodwill HRK 1,382 thousand (note 15). As the Group acquired share in value of HRK 2,664 thousand (note 16), the difference of HRK 135 thousand was recognized in other income. Since the Group had recognized deferred tax liability when the licence was acquired, on disposal of licence deferred tax benefit was recognized in the amount of HRK 229 thousand (note 27). The Group sold its share in ZU Sv. Kuzma i Damjan for HRK 2,664 thousand (note 16).

In accordance with the incorporation agreement of Litmus d.o.o., the Company invested its ownership interest in Primus nekretnine d.o.o. as shown below. An independent valuer estimated the value of Medika's share at HRK 18,698 thousand. As a result of the transaction, the Group realised a gain of HRK 7,470 thousand.

(in thousands of HRK)

Operating result of the subsidiary

	2012
Revenue	-
Expenses	(429)
Operating loss	(429)
Income tax	(16)
Loss after tax	**(445)**

The effect of the disposal of subsidiary on the financial position of the Group

	2012
Property and equipment (note 14)	9,055
Intangible assets (note 15)	-
Deferred tax assets (note 27)	1,731
Trade and other receivables	271
Cash and cash equivalents	172
Trade and other payables	(1)
Net assets	**11,228**

Gain on disposal of subsidiary

	2012
Fair value of shares in associate	18,698
Net assets	(11,228)
Gain on disposal of subsidiary	7,470
Loss after tax	(445)
Gain on disposal of subsidiary	7,470
Net profit on disposal of subsidiary	**7,025**

NOTE 33 - CONTRACTUAL OBLIGATIONS

During 2013 the Group concluded an agreement on construction work for the new distribution warehouse in Osijek. Value of the contract is HRK 24,639 thousand (2012: nil). Also, the Group concluded an agreement on acquisition of new subsidiary in the amount of 3.912 thousand (2012: nil).

NOTE 34 – SUBSEQUENT EVENTS

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

NOTE 35 – RELATED PARTY TRANSACTIONS

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

Related parties include:

	2013	2012
1. Associate:		
Litmus d.o.o., Zagreb	41.53%	41.53%
2. Associate of Zdravstvena ustanova Ljekarne Prima Pharme, Split		
Zdravstvena ustanova Ljekarne Jagatić, Dubec	49%	49%
Zdravstvena ustanova Ljekarne Sv. Kuzma i Damjan, Zagreb (founded and sold in 2013)	-	-

3. Subsidiary of Litmus d.o.o., Zagreb which is 100% owned by Litmus d.o.o.: Primus nekretnine d.o.o., Zagreb

4. The company with majority of voting rights, or a parent company Mavota d.o.o. owns 47.38% of the Company and has 49.26% of shares with voting rights.

5. Pliva Hrvatska d.o.o., Zagreb owns 25.32% of the Company and has 26.33% 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.

6. Other related parties: Auctor d.o.o. as a significant owner of Mavota d.o.o. and Laguna Novigrad d.d. and Auctor Invest d.o.o. who is related party via ultimate owner Auctor d.o.o.

Related party transactions relating to balances in the statement of financial position as at 31 December 2013 and 2012 and transactions in the income statement for years then ended are as follows:

(in thousands of HRK)	Note	2013	2012
Trade receivables			
Associates		17,359	19,907
Subsidiary of Litmus d.o.o., Zagreb		121	-
Pliva Hrvatska d.o.o., Zagreb		55	223
	18	17,535	20,130
Inventories			
Pliva Hrvatska d.o.o., Zagreb		13,233	15,253
	19	13,233	15,253

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

(in thousands of HRK)	Note	2013	2012
Cash and cash equivalents			
Other related parties		20,000	-
	20	20,000	-
Trade payables			
Associate		-	135
Pliva Hrvatska d.o.o., Zagreb		122,722	165,181
	25	122,722	165,316
Revenue from sales and other income			
Associate		5	-
Associate of ZU Ljekarne Prima Pharme		30,083	27,771
Subsidiary of Litmus d.o.o., Zagreb		20	25
Pliva Hrvatska d.o.o., Zagreb		649	267
	6	30,757	28,063
Gain on disposal of subsidiary and incorporation of the associate	16	-	7,470
Purchases			
Pliva Hrvatska d.o.o.. Zagreb		187,040	177,080
Key management compensation - salaries and bonuses for five members		7,860	7,429
Supervisory Board compensation		679	747

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 incorporation the associate on financial position and the operations of the Company is shown in note 16.

During 2012 the Company received and repaid loans in the amount of HRK 16 million from other relatedparties. Interest expense on loans receivable amounted to HRK 181 thousand.

Increase of share in associate ZU Ljekarne Jagatić: An increase of share in 2012 was performed by introducing a pharmaceutical licence, i.e. transferring the licence and corresponding pharmaceutical unit from ZU Ljekarne Prima Pharme to associate ZU Ljekarne Jagatić (note 16).

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