MEDIKA d.d.

AUDITOR'S REPORT AND UNCONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2013

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

CONTENT

Operating result in 2013

Medika d.d. ("the Company") in 2013 realized unconsolidated revenue in the amount of HRK 2,192,142 thousand, an increase of 2.0%. Unconsolidated operating profit amounts to HRK 57,408 thousand which is a 12.9% increase in comparison to prior year.

Unconsolidated profit before tax amounts to HRK 43,850 thousand and unconsolidated net profit HRK 41,409 thousand, which is an increase of 20.3% 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.

When analysing operating segments (note 6 in financial statements), 60.8% of total unconsolidated income was generated through the "pharmacies" segment, and 24.7% through the "hospitals" segment. In comparison to prior year, the "pharmacies" and "hospitals" segment remained at the same level.

Total unconsolidated assets amount to HRK 1,865,347 thousand, a decrease of 0.7% in comparison to prior year. Unconsolidated current assets comprise 87.2% of total assets. Trade and other receivables are the largest and most significant amount of total unconsolidated assets and have decreased by 4.3% in comparison to prior year. In June 2013 the rehabilitation of clinical hospitals was performed and trade receivables recorded significant decline in the first half of the year. In the second half of the year, the cash 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 12.9% in comparison to prior year because of increased purchases due to sales growth.

Equity to assets ratio is 21% which means that 21% of total unconsolidated assets are financed through own resources.

Total unconsolidated indebtedness exposure is HRK 316,771 thousand, of which HRK 311,133 thousand relates to short-term loans and finance leases, while the remainder of HRK 5,638 thousand relates to long-term loans and finance leases (note 25).

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

The vision of company development

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

In 2013 construction work on a new business center in Osijek started. 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 has 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 itself has 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) have been merged into ZU Ljekarne Prima Pharme. In 2013 ZU Ljekarne Prima Pharme established the associate Zdravstvena ustanovu Sv. Kuzma i Damjan and 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 d.d. operations is a continuous decrease in the price of prescription medication on the HZZO list and the HZZO administrative approach in determining prices and margins of medication. To lower this risk, Medika d.d. has focused on increasing products which are not limited by law in respect of the price of the product.

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

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

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

Corporate governance code

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

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

Management and Supervisory Board

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

Supervisory Board of the company during the year were as follows: Mr. Mate Perković, president, Mr. Damjan Možina, vice-president, and members: Mr. 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 RESPONSIBILITIES

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

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

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

The financial statements set out on pages 6 to 45 were authorised by Management on 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 separate financial statements of Medika d.d. ("the Company"), which comprise the unconsolidated statement of financial position as at 31 December 2013, the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

KPMG Croatia d.o.o.

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

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
5

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.

UNCONSOLIDATED 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	2,192,142	2,149,310
Cost of trade goods sold	6	(2,006,052)	(1,976,151)
Staff costs	7	(57,033)	(57,626)
Marketing and promotion expenses	8	(9,030)	(7,059)
Depreciation and amortisation	13, 14	(13,306)	(13,182)
Other operating expenses	9	(45,342)	(45,261)
Other (losses) / gains – net	10	(3,971)	806
Operating profit		**57,408**	**50,837**
Finance costs – net	11	(13,558)	(14,368)
Profit before tax		**43,850**	**36,469**
Income tax	12	(2,441)	(2,040)
Profit for the year		**41,409**	**34,429**
Other comprehensive income		-	-
Total comprehensive income		**41,409**	**34,429**

The financial statements set out on pages 6 to 45 were approved by the Management Board of the Company in Zagreb on 7 March 2014.

Jasminko Herceg
Director

Medika d.d. ZAGREB

UNCONSOLIDATED 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	13	146,572	151,251
Intangible assets	14	19,640	23,749
Investments in subsidiaries and associates	15	59,148	59,148
Deferred tax assets	26	441	557
Trade and other receivables	17	12,089	15,829
		237,890	250,534
Current assets			
Inventories	18	211,090	186,905
Trade and other receivables	17	1,360,473	1,421,434
Income tax receivable		4,236	3,578
Cash and cash equivalents	19	51,658	15,343
		1,627,457	1,627,260
Total assets		**1,865,347**	**1,877,794**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	74,476	37,439
Reserve for reinvested profit	21	40,762	33,817
Reserves	22	67,278	67,278
Retained earnings	23	205,535	204,888
		388,051	343,422
Non-current liabilities			
Borrowings	25	5,638	121,935
Provisions	27	516	441
		6,154	122,376
Current liabilities			
Trade and other payables	24	1,158,568	1,263,821
Borrowings	25	311,133	146,794
Provisions	27	1,441	1,381
		1,471,142	1,411,996
Total equity and liabilities		**1,865,347**	**1,877,794**

MEDIKA d.d.

UNCONSOLIDATED 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
At 1 January 2012		**37,848**	**-**	**67,278**	**204,276**	**309,402**
Total comprehensive income						
Profit for the year		-	-	-	34,429	34,429
Other comprehensive income		-	-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**34,429**	**34,429**
Transactions with owners recognized directly in equity						
Transfer	21	-	33,817	-	(33,817)	-
Release of treasury shares	20	1,815	-	-	-	1,815
Acquisition of treasury shares	20	(2,224)	-	-	-	(2,224)
Transactions with owners recognized directly in equity		**(409)**	**33,817**	**-**	**(33,817)**	**(409)**
At 31 December 2012		**37,439**	**33,817**	**67,278**	**204,888**	**343,422**
At 1 January 2013		**37,439**	**33,817**	**67,278**	**204,888**	**343,422**
Total comprehensive income						
Profit for the year		-	-	-	41,409	41,409
Other comprehensive income		-	-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**41,409**	**41,409**
Transactions with owners recognized directly in equity						
Increase of share capital	20	33,817	(33,817)	-	-	-
Transfer	21	-	40,762	-	(40,762)	-
Release of treasury shares	20	4,901	-	-	-	4,901
Acquisition of treasury shares	20	(1,681)	-	-	-	(1,681)
Transactions with owners recognized directly in equity		**37,037**	**6,945**	**-**	**(40,762)**	**3,220**
At 31 December 2013		**74,476**	**40,762**	**67,278**	**205,535**	**388,051**

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

UNCONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts expressed in thousands of HRK)	Note	2013	2012
Cash flows from operating activities:			
Profit for the year		**41,409**	**34,429**
Adjustments for:			
Income tax	12	2,441	2,040
Depreciation and amortisation	13, 14	13,306	13,182
Impairment of receivables	9	3,977	5,634
Inventory impairment	18	4,777	4,826
Unrealised foreign exchange differences		(1,149)	(1,676)
Change in provisions		135	(6)
Gain on disposal of property and equipment	10	(199)	(607)
Impairment of property and equipment	9, 13	-	240
Building write off	13	5,522	-
Intangible assets disposal	14	1	-
Impairment loss on remeasurement of investment	9, 15	-	1,302
Interest expense	11	13,491	15,861
Interest income	5	(1,560)	(533)
Changes in:			
Inventories		(28,962)	(5,859)
Trade and other receivables		100,652	(160,731)
Trade and other payables		(83,580)	155,973
Cash flows generated from operating activities		**70,261**	**64,075**
Interest paid		(13,882)	(17,206)
Income tax paid		(4,698)	(4,152)
Cash flows from operating activities		**51,681**	**42,717**
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets	13, 14	(10,603)	(10,815)
Proceeds from sale of property, plant and equipment		761	1,051
Proceeds from repayment of loans given		12,483	4,284
Investment in subsidiary	15	-	(450)
Loans given		(52,420)	(9,803)
Interest received		1,679	533
Cash flows from investing activities		**(48,100)**	**(15,200)**

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

UNCONSOLIDATED STATEMENT OF CASH FLOWS (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		(223,800)	(286,622)
Proceeds from borrowings		261,000	243,198
Repayment of finance lease		(2,785)	(2,103)
Acquisition of treasury shares	20	(1,681)	(2,224)
Cash flows from financing activities		**32,734**	**(47,751)**
Net increase / (decrease) in cash and cash equivalents		**36,315**	**(20,234)**
Cash and cash equivalents at beginning of year		15,343	35,577
Cash and cash equivalents at end of year	19	**51,658**	**15,343**

NOTE 1 – GENERAL INFORMATION

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

As at 31 December 2013, the Company's shares were listed on official market on the Zagreb Stock Exchange. Shareholder structure is shown in note 20.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

The Company has issued these unconsolidated financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 7 March 2014. In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2013 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been released and are not yet effective for the year ended 31 December 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 Company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Segment reporting

A business segment is an integral part of the business entity that engages in business activities from which revenues can be realized, by which costs are incurred and for which there are separate financial information. Its operating results are regularly reviewed and evaluated by chief operating decision maker of the business entity in order to decide on resources to be allocated to the segment.

2.3 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

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

2.4 Investments in subsidiaries and associates

(a) Subsidiaries

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

(b) Associates

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property and equipment

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

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

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

The estimated useful lives are as follows:

Buildings	10 - 40 years
Equipment	2 - 20 years

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

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

Gains and losses on disposals are determined by comparing the proceeds with carrying amount, and are recognised within 'other gains – net' in the income statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.

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

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

(b) Licences

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

2.7 Impairment of non-financial assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets

The Company classifies its financial assets as trade and other receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

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

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

2.9 Leases

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

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

2.10 Inventories

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and loan receivables

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

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'other operating expenses'.

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

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity.

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

2.14 Trade payables

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

2.15 Borrowings

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Income tax

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

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

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

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

2.17 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Long-term employee benefits

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

(c) Short-term employee benefits

The Company recognises a provision for bonuses, unused annual leave and other considerations where contractually obliged or where there is a past practice that has created a constructive obligation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits (continued)

(c) Short-term employee benefits (continued)

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

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

2.18 Provisions

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

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

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

2.19 Revenue recognition

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

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

(a) Sales of goods

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Revenue recognition (continued)

(b) Sales of services

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

(c) Interest income

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

2.20 Finance expenses

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

2.21 Dividend distribution

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

2.22 Value added tax

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

At 31 December 2013 (notes 17, 19, 24, 25), if the EURO had weakened/strengthened by 0.93% (2012: 1.56%) against the HRK, with all other variables held constant, the profit after tax for the reporting period would have been HRK 2,488 thousand higher/lower (2012: HRK 5,004 thousand), mainly as a result of foreign exchange gains/losses on translation of EURO-denominated trade payables.

(ii) Cash flow and fair value interest rate risk

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

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

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

At 31 December 2013, if the effective interest rate on borrowings (issued at variable rate) had been 0.28% higher/lower on an annual level (2012: 0.20%), the profit after tax for the reporting period would have been HRK 2,183 thousand lower/higher (2012: HRK 2,255 thousand).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

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

(c) Liquidity risk

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

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

(in thousands of HRK)	Less than 1 year	Between 1-3 years	Over 3 years	Total
31 December 2013				
Trade and other payables	1,158,568	-	-	1,158,568
Borrowings	315,360	5,780	-	321,140

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

During 2014, the Company will settle trade and other liabilities according to the collection of receivables which depends on liquidity of the whole healthcare system. The Company 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 Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

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

The equity to assets ratio is as follows:

	2013	2012
	(in thousands of HRK)	
Total equity (capital and reserves)	388,051	343,422
Total assets	1,865,347	1,877,794
Equity to assets ratio	**21%**	**18%**

In 2013, the ratio has increased in comparison to 2012 showing that 21% of the Company's total assets are financed from own resources. In accordance with the stated, 79% of assets is financed from other resources.

3.3 Fair value estimation

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

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

Assumptions to determine amount of provisions of trade receivables

Due to the significance of the amount of trade receivables recorded in the statement of financial position, Management estimates the likelihood of the collection of trade receivables based on an analysis of individual categories of such assets. Factors taken into consideration by Management include: ageing analysis of trade receivables and the financial position of customers compared to the collection history with the customer. The estimated recoverable amount of trade receivables represents the present value of estimated future cash flows, discounted at the effective interest rate of 4.60% per year (2012: 4.99%). Should actual collections be less than management estimates, the Company would be required to record additional impairment expense.

At 31 December 2013, if the assessment of the amount of uncollectible receivables and overdue in total receivables had been 1% lower/higher, with all other variables held constant, profit after tax for the reporting period would have been HRK 3,068 thousand higher/lower than the one recorded (2012: HRK 1,327 thousand). 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	2,181,513	2,139,032
Other income	10,629	10,278
	2,192,142	**2,149,310**

Other income include interest income in the amount of HRK 1,560 thousand (2012: HRK 533 thousand)

NOTE 6 – SEGMENT INFORMATION

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

The Company monitors revenues and gross profit through distribution channels:

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

The company operates with approximately 440 pharmacies and medical institutions.

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

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

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

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

NOTE 6 – SEGMENT INFORMATION (continued)

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

(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Total**
Revenue from sales	1,062,224	541,142	308,429	1,911,795
Other income	447	1	9,774	10,222
Revenue from sales and other income from related parties (note 32)	269,451	-	674	270,125
Total revenues	**1,332,122**	**541,143**	**318,877**	**2,192,142**
Cost of trade goods sold	(1,238,444)	(494,648)	(272,960)	(2,006,052)
Segment results	**93,678**	**46,495**	**45,917**	**186,090**
Operating expenses				(128,682)
Operating profit				**57,408**
Finance costs - net				(13,558)
Profit before tax				**43,850**
Income tax				(2,441)
Profit for the year				**41,409**

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

(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Total**
Revenue from sales	1,061,858	526,586	297,104	1,885,548
Other income	-	-	9,710	9,710
Revenue from sales and other income from related parties (note 32)	253,595	-	457	254,052
Total revenues	**1,315,453**	**526,586**	**307,271**	**2,149,310**
Cost of trade goods sold	(1,223,755)	(479,451)	(272,945)	(1,976,151)
Segment results	**91,698**	**47,135**	**34,326**	**173,159**
Operating expenses				(122,322)
Operating profit				**50,837**
Finance costs - net				(14,368)
Profit before tax				**36,469**
Income tax				(2,040)
Profit for the year				**34,429**

NOTE 6 – SEGMENT INFORMATION (continued)

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

(in thousands of HRK)	Pharmacies	Hospitals	Other	Total
Trade receivables (note 17/ii/)	691,835	536,482	67,154	1,295,471

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

(in thousands of HRK)	Pharmacies	Hospitals	Other	Total
Trade receivables (note 17/ii/)	784,590	540,116	82,413	1,407,119

NOTE 7 – STAFF COSTS

	2013	2012
	(in thousands of HRK)	
Net salaries	28,586	28,618
Tax and surtax	5,784	5,826
Contributions from and on salaries /i/	14,799	15,116
Termination benefits	429	445
Employee transportation costs	1,871	1,777
Other employee benefits /ii/	1,595	1,736
Management bonuses	3,969	4,108
	57,033	**57,626**

As at 31 December 2013, the Company had 359 employees (2012: 356 employees).

/i/ In 2013, pension contributions recorded by the Company for payment to mandatory pension funds amounted to HRK 8,311 thousand (2012: HRK 8,355 thousand).

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

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	2013	2012
	(in thousands of HRK)	
Entertainment	2,158	2,031
Marketing	2,580	2,092
Donations	4,143	2,922
Marketing expenses – related parties (note 32)	149	14
	9,030	**7,059**

NOTE 9 – OTHER OPERATING EXPENSES

	2013	2012
	(in thousands of HRK)	
Impairment of trade receivables (note 17/ii/)	3,977	5,634
Materials and energy consumed	10,107	9,579
Maintenance of assets, security services and insurance	8,761	8,604
Telephone, postal and utility services	1,389	1,488
Taxes and contributions (not income tax based)	3,034	3,281
Professional training and consultancy services	5,209	4,041
Bank charges and payment transaction costs	2,151	2,648
Rent expense	3,438	2,959
Control and analysis services	1,925	2,282
Fair valuation of investments (note 15 and note 32)	-	1,302
Impairment of property and equipment (note 13)	-	240
Other expenses	5,351	3,203
	45,342	**45,261**

NOTE 10 – OTHER (LOSSES) / GAINS – NET

	2013	2012
	(in thousands of HRK)	
Gains on sale of property and equipment (net)	199	607
Building write off (note 13)	(5,522)	-
Net foreign exchange gains	1,352	199
	(3,971)	**806**

NOTE 11 – FINANCE COSTS - NET

	2013	2012
	(in thousands of HRK)	
Interest expense		
Bank borrowings and finance lease	(13,491)	(15,861)
	(13,491)	(15,861)
Foreign exchange gains / (losses) – net		
Foreign exchange gains	107	3,645
Foreign exchange losses	(174)	(2,152)
	(67)	1,493
	(13,558)	**(14,368)**

NOTE 12 – INCOME TAX

	2013	2012
	(in thousands of HRK)	
Current tax	2,325	2,140
Deferred tax (note 26)	116	(100)
	2,441	**2,040**

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

	2013	2012
	(in thousands of HRK)	
Profit before taxation	**43,850**	**36,469**
Income tax at 20%	8,770	7,294
Non-taxable income and tax incentives	(81)	(23)
Tax incentives for reinvested profit	(8,152)	(6,763)
Non-deductible expenses	1,904	1,532
Income tax	**2,441**	**2,040**
Effective tax rate	5.57%	5.59%

In accordance with local regulations, the Tax Authority may at any time inspect the Company's books and records within 3 years following the end of the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTE 13 – PROPERTY AND EQUIPMENT

(all amounts are expressed in thousands of HRK)	Land	Buildings	Equipment	Assets under construction and prepayments	Total
At 31 December 2011					
Cost	15,995	153,046	78,250	2,588	249,879
Accumulated depreciation	-	(39,947)	(61,549)	-	(101,496)
Carrying amount	**15,995**	**113,099**	**16,701**	**2,588**	**148,383**
Year ended 31 December 2012					
Opening carrying amount	15,995	113,099	16,701	2,588	148,383
Additions	-	-	4	12,103	12,107
Transfer	-	47	5,667	(5,714)	-
Disposals	-	-	(444)	-	(444)
Impairment (note 9)	-	(240)	-	-	(240)
Depreciation	-	(3,816)	(4,739)	-	(8,555)
Closing carrying amount	15,995	109,090	17,189	8,977	151,251
At 31 December 2012					
Cost	15,995	153,087	79,318	8,977	257,377
Accumulated depreciation	-	(43,997)	(62,129)	-	(106,126)
Carrying amount	**15,995**	**109,090**	**17,189**	**8,977**	**151,251**
Year ended 31 December 2013					
Opening carrying amount	15,995	109,090	17,189	8,977	151,251
Additions	-	-	10	10,142	10,152
Transfer	-	134	979	(1,113)	-
Disposals	-	-	(562)	-	(562)
Write off (note 10)	-	(2,872)	-	(2,650)	(5,522)
Depreciation	-	(3,810)	(4,937)	-	(8,747)
Closing carrying amount	15,995	102,542	12,679	15,356	146,572
At 31 December 2013					
Cost	15,995	149,523	76,927	15,356	257,801
Accumulated depreciation	-	(46,981)	(64,248)	-	(111,229)
Carrying amount	**15,995**	**102,542**	**12,679**	**15,356**	**146,572**

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 25) have been secured by pledges over property, plant and equipment with a carrying value of HRK 104,609 thousand as at 31 December 2013 (2012: HRK 130,043 thousand).

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

	2013	**2012**
	(in thousands of HRK)	
Cost – capitalised finance lease	10,992	11,355
Accumulated depreciation	(7,332)	(4,831)
Carrying amount	**3,660**	**6,524**

NOTE 14 – INTANGIBLE ASSETS

(all amounts are expressed in thousands of HRK)	Licences	Goodwill	Assets under construction	Total
At 31 December 2011				
Cost	31,681	11,930	119	43,730
Accumulated amortisation	(17,518)	-	-	(17,518)
Carrying amount	**14,163**	**11,930**	**119**	**26,212**
Year ended 31 December 2012				
Opening carrying amount	14,163	11,930	119	26,212
Additions	-	-	2,164	2,164
Transfer	852	-	(852)	-
Disposals	-	-	-	-
Amortisation	(4,627)	-	-	(4,627)
Closing carrying amount	10,388	11,930	1,431	23,749
At 31 December 2012				
Cost	32,505	11,930	1,431	45,866
Accumulated amortisation	(22,117)	-	-	(22,117)
Carrying amount	**10,388**	**11,930**	**1,431**	**23,749**
Year ended 31 December 2013				
Opening carrying amount	10,388	11,930	1,431	23,749
Additions	-	-	451	451
Transfer	45	-	(45)	-
Disposal	(1)	-	-	(1)
Amortisation	(4,559)	-	-	(4,559)
Closing carrying amount	5,873	11,930	1,837	19,640
At 31 December 2013				
Cost	32,368	11,930	1,837	46,135
Accumulated amortisation	(26,495)	-	-	(26,495)
Carrying amount	**5,873**	**11,930**	**1,837**	**19,640**

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

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

Impairment test of goodwill and licences with indefinite useful life

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

NOTE 15 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	% holding in 2013	% holding in 2012	2013	2012
			(in thousands of HRK)	
ZU Ljekarne Prima Pharme, Split	100%	100%	40.000	40,000
Litmus d.o.o., Zagreb /i/	41.53%	41.53%	19.148	19,148
			59.148	**59,148**

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

NOTE 16 – FINANCIAL INSTRUMENTS BY CATEGORY

	2013	2012
	(in thousands of HRK)	
Financial assets - category: Loans given and receivables		
Loans given and receivables (note 17/v/)	1,364,425	1,432,474
Cash and cash equivalents (note 19)	51,658	15,343
	1,416,083	**1,447,817**
Financial liabilities - category: Other liabilities		
Trade payables (note 24/i/)	1,145,291	1,251,932
Other payables (note 24/ii/)	13,277	11,889
Total debt (note 25)	316,771	268,729
	1,475,339	**1,532,550**

NOTE 16 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

	2013	2012
	(in thousands of HRK)	
Pharmacies	407,381	424,420
Hospitals	93,910	154,145
Other	38,623	37,906
At 31 December	**539,914**	**616,471**

NOTE 17 – TRADE AND OTHER RECEIVABLES

	2013	2012
	(in thousands of HRK)	
Non-current receivables:		
Loans given /i/	11,741	15,507
Long term deposits	348	322
	12,089	15,829
Current receivables:		
Trade receivables /ii/	1,295,471	1,407,119
Other current receivables /iii/	7,789	4,467
Loans given /iv/	53,933	5,194
Loans given – current portion of non-current receivables /i/	3,280	4,654
	1,360,473	1,421,434
	1,372,562	**1,437,263**

/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 - other	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)
		11,741	**15,507**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

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

The maturity of long-term loans is as follows:

	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**

/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	1,082,212	1,227,977
Foreign trade receivables	3,050	2,352
Trade receivables – related parties (note 32)	246,516	209,948
	1,331,778	1,440,277
Provision for trade receivables	(36,307)	(33,158)
	1,295,471	**1,407,119**

The ageing structure of receivables overdue is as follows:

	2013	2012
	(in thousands of HRK)	
0-180 days	500,260	589,610
181-360 days	121,425	157,218
Over 360 days	166,662	77,047
	788,347	**823,875**

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

	2013	2012
	(in thousands of HRK)	
At 1 January	33,158	27,995
Increase (note 9)	3,977	5,634
Write off	(828)	(471)
At 31 December	**36,307**	**33,158**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

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

	2013	2012
	(in thousands of HRK)	
HRK	1,361,736	1,426,506
EUR	10,826	10,757
	1,372,562	**1,437,263**

/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	2,680
Other	2,812	1,787
	7,789	**4,467**

/iv/ Current 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	4.0%-8.5%	53,933	5,194
		53,933	5,194
Impairment		-	-
		53,933	**5,194**

/v/ Financial assets by category include the following:

	2013	2012
	(in thousands of HRK)	
Cash loans given	59,897	10,073
Cash loans given – related parties (note 32)	121	-
Commodity loans given	8,936	15,282
Trade receivables	1,295,471	1,407,119
	1,364,425	**1,432,474**

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

NOTE 18 – INVENTORIES

	2013	2012
	(in thousands of HRK)	
Trade goods	198,692	174,009
Trade goods – related parties (note 32)	11,153	11,111
Advances given	1,149	1,686
Office supplies	96	99
	211,090	**186,905**

In 2013, the Company tested for damaged and obsolete inventories. With respect to differences identified, a provision was made for such inventories, which amounted to HRK 4,777 thousand (2012: HRK 4,826 thousand) and which was included in cost of trade goods sold.

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

NOTE 19 – CASH AND CASH EQUIVALENTS

	2013	2012
	(in thousands of HRK)	
Current account in HRK	31,575	15,217
Foreign currency account	76	115
Cash in hand	7	11
Investment in cash fund (note 32)	20,000	-
	51,658	**15,343**

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

NOTE 20 – 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)*		
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)
At 31 December 2012	**30,194**	**60,388**	**(15,406)**	**(7,543)**	**37,439**
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
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 21.

The ownership structure of the Company as at 31 December 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%
Tresury shares	1,155	3.83%	1,640	5.43%
Individuals	2,035	6.74%	1,553	5.15%
Other legal entities	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 21 – 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 considering that decision was made with the consent of Supervisory Board at its meeting held at 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 22 – RESERVES

(in thousands of HRK)	**Legal reserves**	**Reserves for treasury shares**	**Total**
At 31 December 2011	**7,278**	**60,000**	**67,278**
Changes during the year	-	-	-
At 31 December 2012	**7,278**	**60,000**	**67,278**
Changes during the year	-	-	-
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 is committed to build up legal reserves to a minimum of 5% of the profit for the year until the legal together with share premium reserve reached 5% of the share capital. Revaluation and legal reserves are not distributable.

NOTE 23 – RETAINED EARNINGS

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

NOTE 24 – TRADE AND OTHER PAYABLES

	2013	2012
	(in thousands of HRK)	
Trade payables /i/	1,145,291	1,251,932
Other payables /ii/	13,277	11,889
	1,158,568	**1,263,821**

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

	2013	2012
	(in thousands of HRK)	
Trade payables – domestic	533,086	543,045
Trade payables – foreign	489,250	543,519
Due to related parties (note 32)	122,955	165,368
	1,145,291	**1,251,932**

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

	2013	2012
	(in thousands of HRK)	
HRK	784,888	829,380
EUR	346,376	408,976
DKK	13,773	13,417
Other currencies	254	159
	1,145,291	**1,251,932**

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

	2013	2012
	(in thousands of HRK)	
Salaries to employees	4,615	5,612
Unused annual leave	1,913	1,852
Other taxes and contributions	30	50
Dividend payable	1	1
Liabilities for VAT	5,751	1,263
Other	967	3,111
	13,277	**11,889**

NOTE 25 – BORROWINGS

	2013	2012
	(in thousands of HRK)	
Long-term borrowings:		
Long-term loan /i/	3,333	118,000
Finance lease /iii/	2,305	3,935
	5,638	**121,935**
Short-term borrowings:		
Short-term loans /ii/	309,537	144,061
Finance lease /iii/	1,596	2,733
	311,133	**146,794**
Total borrowings	**316,771**	**268,729**

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

/ii/ Short-term loans relate to financing from various banks for the purpose of maintaining an adequate level of working capital. 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 13). Lease liabilities are effectively secured since the lessor has the right to take over the subject of the lease if the Company does not settle these liabilities.

The gross finance lease liability is as follows:

	2013	2012
	(in thousands of HRK)	
Up to one year	1,725	2,974
Between 1 and 5 years	2,426	4,183
Future financing costs	(250)	(489)
Carrying value of finance lease liability	**3,901**	**6,668**

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

	2013	2012
	(in thousands of HRK)	
Up to one year	1,596	2,733
Between 1 and 5 years	2,305	3,935
	3,901	**6,668**

NOTE 25 – BORROWINGS (continued)

The maturity of long-term borrowings is as follows:

	2013	2012
	(in thousands of HRK)	
Between 1 and 2 years	4,337	19,627
Between 2 and 5 years	1,301	102,308
	5,638	**121,935**

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

	2013		2012	
	HRK %	**EUR** %	**HRK** %	**EUR** %
Long-term borrowings				
Finance lease	-	4.08%-7.73%	-	4.10%-7.73%
Long-term loans	4.90%	-	5.32%	-
Short-term borrowings				
Short-term loans	4.40%-5.20%	-	3.98%-5.66%	-

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

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

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

	2013	2012
Borrrowings with variable interest rate	*(in thousands of HRK)*	
Up to 3 months	-	-
3 - 12 months	214,771	172,609
Over 1 year	-	-
	214,771	**172,609**
Borrowings with fixed interest rates		
Loans with fixed interest rates	102,000	96,120
	102,000	**96,120**
Total borrowings	**316,771**	**268,729**

As the loans in the amount of HRK 102,000 bear fixed interest rate, there is no exposure to interest rate changes.

NOTE 25 – BORROWINGS (continued)

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

	2013	2012
	(in thousands of HRK)	
HRK	312,870	262,061
EUR	3,901	6,668
	316,771	**268,729**

Loans received are secured by mortgages over Company's buildings (note 13), inventories (note 18), bills of exchange and promissory notes.

NOTE 26 – DEFERRED INCOME TAX

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

Deferred tax assets

(in thousands of HRK)	Inventory impairment	Provision for employee benefits	Total
At 1 January 2012	**351**	**106**	**457**
Tax charged to the income statement	-	-	-
Tax credited to the income statement	96	4	100
At 31 December 2012	**447**	**110**	**557**
At 1 January 2013	**447**	**110**	**557**
Tax charged to the income statement	(137)	-	(137)
Tax credited to the income statement	-	21	21
At 31 December 2013	**310**	**131**	**441**

Deferred tax liability

The Company has no deferred tax liability.

NOTE 27 – PROVISIONS

(in thousands of HRK)	**Employee benefits**	**Legal disputes**	**Total**
At 31 December 2012	**860**	**962**	**1,822**
Non-current	441	-	441
Current	419	962	1,381
At 1 January 2013	**860**	**962**	**1,822**
Additional provisions	203	-	203
Used during the year	(68)	-	(68)
At 31 December 2013	**995**	**962**	**1,957**
Non-current	516	-	516
Current	479	962	1,441

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.

NOTE 28 – CONTINGENCIES

The Company issued guarantees for borrowings of its subsidiary in the total amount of HRK 31,623 thousand (2012: HRK 61,148 thousand).

The stated contingencies are not recorded in the statement of financial position as at 31 December 2013, as Management estimates that the liabilities of these subsidiaries will not become the obligations of the Parent Company, since all business transaction of these subsidiaries are under absolute control of the Parent Company.

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

NOTE 29 – OPERATING LEASE

Contractual rents on operating lease are as follows:

	2013	2012
	(in thousands of HRK)	
Up to one year	1,631	1,549
Between 1 and 5 years	1,813	1,352
Contractual rents on operating lease	**3,444**	**2,901**

NOTE 30 – CONTRACTUAL OBLIGATIONS

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

NOTE 31 – SUBSEQUENT EVENTS

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

NOTE 32 – RELATED PARTY TRANSACTIONS

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

Related parties include:

	2013	2012
1. Subsidiaries of the Company:		
Zdravstvena ustanova Ljekarne Prima Pharme, Split	100%	100%
2. Associate of the Company:		
Litmus d.o.o., Zagreb	41.53%	41.53%
3. Subsidiaries of Zdravstvena ustanova Ljekarne Prima Pharme, Split:		
Zdravstvena ustanova Ljekarne Delonga, Okrug Gornji	100%	100%
Zdravstvena ustanova Ljekarne Atalić, Osijek	100%	100%
Zdravstvena ustanova Ljekarne Ines Škoko, Zagreb	100%	100%
Ljekarna Vesna Alagić, Split	-	100%
Zdravstvena ustanova Ljekarne Čaić, Bošnjaci	-	100%
Ljekarna Elvira Štimac, Opatija	100%	-
Ljekarna Ksenija Gabrić, Zagreb (acquired and merged in 2013)	-	-
4. 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)	-	-

NOTE 32 – RELATED PARTY TRANSACTIONS (continued)

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

6. 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.

7. 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.

8. 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.

Balances and items resulting from these transactions are as follows:

(in thousands of HRK)	Note	2013	2012
Trade and other receivables			
Subsidiaries of the Company		207,711	164,527
Subsidiaries of Zdravstvena ustanova Ljekarne Prima Pharme		21,391	25,291
Associate of ZU Ljekarne Prima Pharme		17,359	19,907
Subsidiary of Litmus d.o.o., Zagreb		121	-
Pliva Hrvatska d.o.o., Zagreb		55	223
	17	246,637	209,948
Inventories			
Pliva Hrvatska d.o.o., Zagreb		11,153	11,111
	18	11,153	11,111
Cash and cash equivalents			
Other related parties		20,000	-
	19	20,000	-
Trade payables			
Subsidiaries of the Company		46	52
Associate of the Company		-	135
Subsidiaries of Zdravstvena ustanova Ljekarne Prima Pharme		187	-
Pliva Hrvatska d.o.o., Zagreb		122,722	165,181
	24	122,955	165,368
Revenue from sales and other income			
Subsidiaries of the Company		206,166	189,882
Associate of the Company		5	-
Subsidiaries of Zdravstvena ustanova Ljekarne Prima Pharme		33,202	35,942
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	432
	6	270,125	254,052

NOTE 32 – RELATED PARTY TRANSACTIONS (continued)

(in thousands of HRK)	Note	2013	2012
Marketing and promotion expenses			
Subsidiaries of the Company		149	14
	8	149	14
Other expenses			
Loss on fair valuation of investments		-	(1,302)
	9	-	(1,302)
Purchase of products			
Pliva Hrvatska d.o.o., Zagreb		187,040	177,080
		187,040	177,080
Key management compensation – salaries and bonuses for four members		7,307	6,873
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 forming the associate in 2012 on financial position and the operations of the Company is shown in note 15.

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

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