MEDIKA d.d.

AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

CONTENT

Operating result in 2014

The consolidated income of the Medika Group ('the Group') for the year 2014 amounts to HRK 2,285,866 thousand, HRK 3,821 thousand more than the actual consolidated income for the prior year. Operating profit on a consolidated basis amounts to HRK 67,679 thousand, which is 15.8 % above the last year's figure.

Consolidated profit before tax amounts to HRK 63,691 thousand and consolidated net profit amounts to HRK 61,347 thousand, 43.7 percent above the actual 2013 result.

The Management Board of the Company adopted a decision to reinvest HRK 61,294 thousand of the total profit, which is also the amount by which the share capital will be increased and then registered in 2015. The increase will be effected by increasing the nominal per-share value, without changing the current relationship of the shareholders' rights, i.e. the shareholders will be allocated shares with a higher nominal amount proportionate to their shares before the share capital increase.

Analysed by business segments (note 6 in financial statements), 58.6% of total consolidated income was generated through "pharmacies" segment, of which 14.3% from own pharmacies, and 23.6% through "hospitals" segment. Compared with the prior year, the share of the "pharmacies" segment revenue in the total consolidated income decreased by 3.8 %, whereas no significant change can be observed in the share of the "hospitals" segment revenue.

Total consolidated assets amount to HRK 1,892,491 thousand, a decrease of 3.4% in comparison to prior year. In the current year, non-current assets account for a larger share than in the prior year, and the share of current assets decreased. The higher share of non-current assets is mostly due to additions in the categories of property and equipment resulting from investments in a new business centre in Osijek (note 14). Consolidated current assets comprise 78.4% of total assets. Trade and other receivables are the largest and most significant amount of total assets and have decreased by 9.6% in comparison to prior year. In 2014 two hospital rehabilitations were finalised, and the pharmacies collected the balances receivable from the Croatian Health Insurance Fund in periods shorter than in the previous year. The improved collection resulted in the balance of trade receivables being lower by 19.2 % compared to the beginning of the year (note 18). The proceeds were used to reduce the balances outstanding to suppliers, which were 7.6 % lower than in the prior year (note 25) as well as the level of loan debt, 12.7 % less than in the prior year (note 26). At the same time, the balance of inventories increased 9.6 % versus prior year (note 19) because of closing of consignment warehouses of producers headquartered in EU member states. Namely, before the consignment warehouses were closed, the Company had drawn merchandise from those warehouses based on orders received from customers, which did not affect the level of inventories. Since the closing of the warehouses the Company has been sourcing the merchandise directly from foreign suppliers, which implies less frequent deliveries and larger quantities on stock.

Total consolidated credit indebtedness of the Medika Group is HRK 304,162 thousand, of which HRK 284,064 thousand relates to short-term loans (loans and finance lease), while the remainder in the amount of HRK 20,098 thousand relates to long-term loans and finance lease (note 26).

The equity ratio is 25 %, which means that 25 % of the total non-consolidated assets are financed from own sources of funds.

Consolidated financial results are presented in the statement of comprehensive income on page 7 of the financial statements.

The vision of company development

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.

The development strategy of Zdravstvena ustanova Prima is to expand the pharmacy network throughout the territory of the Republic of Croatia.

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). These subsidiaries are wholly owned by ZU Ljekarne Prima Pharme.

During 2014, Elvira Štimac (Opatija) was merged into ZU Ljekarne Prima Pharme. ZU Ljekarne Hermed (Sisak) was bought and merged in the year 2014.

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 the receivables represent, directly or indirectly, amounts owed by state institutions, their collection should not be regarded as probable of default risk. However, this represents additional funding requirements and with it higher 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 Group arises from short-term and long-term borrowings. Borrowings at variable rates expose the Group to cash-flow interest rate risk. Borrowings at fixed rates expose the Group to the interest-rate fair value risk.

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

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, 4 March 2015

Jasminko Herceg
Director

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ZAGREB, Capraška

MEDIKA d.d.

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 7 to 56 were authorised by the Management Board on 4 March 2015 for issue to the Supervisory Board and are signed below to signify this.

Signed on behalf of the Management Board on 4 March 2015:

Jasminko Herceg
Director

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ZAGREB Čapraška

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

We have audited the accompanying consolidated financial statements of Medika d.d., Zagreb ("Group") which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the Group'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 Group'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.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2014, and 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.

Other legal and regulatory requirements

The management is also responsible for the preparation of the Annual Report in accordance with the requirements of the Croatian Accounting Law.

Our responsibility is to issue an opinion on the consistency of the Annual Report with the financial statements based on our audit. Our procedures have been conducted in accordance with the International Standards on Auditing and limited solely to assessing of whether information disclosed in the Annual Report and presented in the financial statements is consistent, in all material respects, with the relevant financial statements. We have not audited any data or information other than the financial information obtained from the financial statements and accounting ledgers. We believe that the performed audit provides a reasonable basis for our audit opinion.

In our opinion, the financial information presented in the Annual Report is consistent, in all material respects, with the aforementioned financial statements as of 31 December 2014.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 7 March 2014.

Deloitte d.o.o.

Branislav Vrtačnik, President of the Management Board and Certified Auditor

Zagreb, 4 March 2015

MEDIKA d.d.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

(all amounts are expressed in thousands of HRK)	Note	2014	2013
Revenue	5, 6	2,285,866	2,282,045
Cost of trade goods sold	6	(2,039,783)	(2,023,040)
Staff costs	7	(108,629)	(104,811)
Marketing and promotion expenses	8	(9,382)	(9,245)
Depreciation and amortisation	14, 15	(12,030)	(15,679)
Other operating expenses	9	(50,458)	(66,858)
Other gains / (losses) – net	10	2,095	(3,948)
Operating profit		**67,679**	**58,464**
Finance income	11	7,765	1,786
Finance expenses	11	(12,512)	(15,549)
Finance costs – net		(4,747)	(13,763)
Share of profits in associates	16	759	645
Profit before tax		**63,691**	**45,346**
Income tax	12	(2,344)	(2,649)
Profit for the year		**61,347**	**42,697**
Other comprehensive income		-	-
Total comprehensive income		**61,347**	**42,697**
Earnings per share:			
- basic/diluted (*in HRK*)	13	**2,112.57**	**1,487.08**

The consolidated financial statements set out on pages 7 to 56 were approved by the Management Board of the Company in Zagreb on 4 March 2015.

Jasminko Herceg
Director

Medika d.d.
ZAGREB Capraška

The accompanying notes on pages 12 to 56 form an integral part of these consolidated financial statements.

MEDIKA d.d.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2014

(all amounts are expressed in thousands of HRK)	Note	As at 31 December 2014	2013
ASSETS			
Non-current assets			
Property and equipment	14	169,412	155,426
Intangible assets	15	187,875	188,718
Investment in associates	16	39,442	39,368
Deferred tax asset	27	1,167	988
Trade and other receivables	18	10,772	14,631
		408,668	399,131
Current assets			
Inventories	19	262,172	239,143
Trade and other receivables	18	1,131,809	1,248,975
Income tax receivable		8,741	5,184
Cash and cash equivalents	20	81,101	66,594
		1,483,823	1,559,896
Total assets		**1,892,491**	**1,959,027**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	115,238	74,476
Reserve for reinvested profit	22	61,294	40,762
Reserves	23	67,278	67,278
Retained earnings	24	238,760	238,707
		482,570	421,223
Non-current liabilities			
Borrowings	26	20,098	12,816
Deferred tax liability	27	16,000	15,790
Provisions	28	891	800
		36,989	29,406
Current liabilities			
Trade and other payables	25	1,086,985	1,170,564
Borrowings	26	284,064	335,750
Provisions	28	1,883	2,084
		1,372,932	1,508,398
Total equity and liabilities		**1,892,491**	**1,959,027**

The accompanying notes on pages 12 to 56 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

(all amounts are expressed in thousands of HRK)	Note	Share capital	Reserve for reinvested profit	Reserves	Retained earnings	Total
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**
As at 1 January 2014		**74,476**	**40,762**	**67,278**	**238,707**	**421,223**
Total comprehensive income						
Profit for the year		-	-	-	61,347	61,347
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	**61,347**	**61,347**
Transactions with owners recognized directly in equity						
Increase of share capital	21	40,762	(40,762)	-	-	-
Transfer	22	-	61,294	-	(61,294)	-
Transactions with owners recognized directly in equity		**40,762**	**20,532**	-	**(61,294)**	-
As at 31 December 2014		**115,238**	**61,294**	**67,278**	**238,760**	**482,570**

The accompanying notes on pages 12 to 56 form an integral part of these consolidated financial statements.

MEDIKA d.d.

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2014

(all amounts expressed in thousands of HRK)	Note	2014	2013
Profit for the year		**61,347**	**42,697**
Adjustments for:			
Income tax	12	2,344	2,649
Depreciation and amortisation	14, 15	12,030	15,679
Impairment of trade and other receivables, net	9, 18	(11,792)	5,242
Goodwill impairment	9, 15	2,871	-
Inventory impairment	19	6,231	5,080
Unrealised foreign exchange differences		1,769	(933)
Change in provisions	28	(110)	730
Gains on sale of tangible assets	10	(79)	(222)
Impairment of property and equipment	9, 14	1,840	162
Buildings write-off	10, 14	805	5,522
Impairment of intangible assets	15	235	304
Interest income	11	(7,765)	(1,786)
Interest expense	11	12,476	15,368
Share of (profit) from associates	16	(759)	(645)
Changes in:			
Inventories		(28,542)	(26,079)
Trade and other receivables		226,233	165,365
Trade and other payables		(90,189)	(111,021)
Cash generated from operating activities		**188,945**	**118,112**
Interest paid		(12,100)	(15,788)
Income tax paid		(5,889)	(6,435)
Cash flows from operating activities		**170,956**	**95,889**
Cash flows from investing activities			
Purchase of property and equipment		(24,673)	(10,969)
Proceeds from sale of property and equipment		364	800
Purchase of intangible assets	15	(1,085)	(934)
Acquisition of subsidiary, net of cash acquired	31	(3,606)	(1,955)
Proceeds from the repayment of loans given		71,781	12,483
Loans given		(159,930)	(52,420)
Interest received		6,691	1,679
Cash paid for shares in subsidiaries	16	(205)	-
Dividend received	16	890	459
Cash flows from investing activities		**(109,773)**	**(50,857)**

The accompanying notes on pages 12 to 56 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW (continued)

FOR THE YEAR ENDED 31 DECEMBER 2014

(all amounts expressed in thousands of HRK)	Note	2014	2013
Cash flows from financing activities			
Repayment of borrowings		(303,737)	(274,452)
Proceeds from borrowings		258,886	281,000
Repayment of finance lease		(1,825)	(2,871)
Acquisition of treasury shares	21	-	(1,681)
Cash flows from financing activities		**(46,676)**	**1,996**
Net increase in cash and cash equivalents		**14,507**	**47,028**
Cash and cash equivalents at beginning of year		66,594	19,566
Cash and cash equivalents at end of year	20	**81,101**	**66,594**

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:

Subsidiaries:

	2014	2013
- 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 Elvira Štimac, Opatija (acquired and merged in 2014)	-	100%
- Zdravstvena ustanova Ljekarne Hermed, Sisak (acquired and merged in 2014)	-	-
- Ljekarna Ksenija Gabrić (acquired and merged in 2013)	-	-

Associates:

	2014	2013
- Zdravstvena ustanova Ljekarne Jagatić, Zagreb (from November 2008)	49%	49%
- Zdravstvena ustanova Sv. Kuzma i Damjan (established and sold in 2013)	-	-
- Litmus d.o.o., Zagreb (established in August 2012)	41.53%	41.53%

As at 31 December 2014, 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.

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 2014, 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 investments in subsidiaries are presented in these financial statements at the cost method less any impairment losses.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 and all members of the Group 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 and impairment. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property and equipment (continued)

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.

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.

Separately recognized goodwill is tested annually for impairment, or whenever there are indications of impairment, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash generating units, or groups of cash generating units, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

All gains and losses from fair value adjustments are recognized in profit or loss.

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

(b) Licences

Cost incurred by the Group in obtaining pharmacy operation licences, without which no pharmacy activities can be performed, are capitalised to the extent that future economic activities are probable. These licences are amortized over their 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).

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets

The Group classifies its financial assets as trade and other receivables, except investments in subsidiaries and associates (note 2.2). The classification depends on the purpose for which the financial assets 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.

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

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

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 obsolete inventories and for all such inventories a provision is made 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Financial liabilities

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

(a) Trade payables

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

(b) Borrowings

Borrowings are recognised initially at fair value, less transaction costs. Borrowings are subsequently stated at amortized cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the statement of profit or loss over the period of the borrowings on an effective interest basis.

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

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

2.15 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 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.

(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.

2.17 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 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.

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.

2.19 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.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are included in the cost of that asset until such time the asset becomes substantially ready for its intended use or sale.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 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.

2.21 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.

2.22 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 pharmaceuticals wholesale industry in the Republic of Croatia is highly influenced by the state which plays its role by imposing strict legislation and the health system funding. As the dynamics of funding by the state is beyond control or prediction and given the inability to predict financial market trends, the overall risk management of the Group is focused on minimising or eliminating the potential adverse impact on the Group's financial position. Risk management within the Group is the responsibility of the Finance Division of the Company that, in cooperation with other divisions within the Company, identifies, assesses the risks and proposes risk protection measures.

(a) Market risk

(i) Foreign exchange risk

The Group's sales are predominantly realised on the domestic market in Croatian kuna (HRK). However, the Group's purchases part of goods on the foreign markets, which exposes it to the currency risk arising from changes in foreign exchange rates mostly against the euro, which may affect future operating results and cash flows. The Finance Division of the Company seeks to minimise the foreign exchange risk by reducing the balance of foreign-currency denominated financial liabilities. These mainly comprise borrowings that are almost entirely denominated in the Croatian kuna and foreign exchange risk exposure arising from borrowings is not significant. The Finance Division reduced, in cooperation with the Purchase Division, the foreign exchange risk arising from liabilities owed to foreign suppliers by agreeing the Croatian kuna as the payment currency. It is the tendency in the future to agree payments in Croatian kunas with as many existing foreign suppliers as possible so as to minimise the risk arising from transactions with foreign suppliers.

As at 31 December 2014, if the EURO had weakened/strengthened against the HRK by 0.74% (2013: 0.93%), with all other variables held constant, the profit after tax for the reporting period would have been HRK 2,169 thousand higher/lower (2013: HRK 2,574 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 2014, if the effective interest rate on borrowings (issued at variable rate) had been 0.60% higher/lower on an annual level (2013: 0.28%), the profit after tax for the reporting period would have been HRK 1,361 thousand lower/higher (2013: HRK 2,139 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 insufficient level of funding from period to period is a direct consequence of the dynamics of payments received from the State in settling the State's liabilities concerning the health system. Where the payment periods are extended by the State, the Company agrees extended payment deadlines with its suppliers. Any shortfall is covered using lines of credit available at commercial banks. At 31 December 2014 the Company had available cash in the amount of HRK 163,250 thousand from the credit lines, and in February 2015 another HRK 84,000 thousand of credit lines were agreed. In addition, the cash account balance at 31 December 2014 amounted to HRK 51,101 thousand, and the balance of units in cash funds was HRK 30,000, which both represent amounts available at call for the purpose of liquidity risk management.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

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 month	More than 2 months and less than 1 year	Between 1-3 years	Over 3 years	Total
31 December 2014					
Trade and other payables	206,680	880,305			1,086,985
Borrowings	4,586	283,662	20,302	1,190	309,740

(in thousands of HRK)	Less than 1 month	More than 2 months and less than 1 year	Between 1-3 years	Over 3 years	Total
31 December 2013					
Trade and other payables	168,068	1,002,496	-	-	1,170,564
Borrowings	2,723	338,299	8,713	-	349,735

During 2015, the Group will settle trade and other liabilities according to the collection of receivables which depends on liquidity of the whole healthcare system.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

The 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 equity to assets ratio is as follows:

	2014	2013
	(in thousands of HRK)	
Total equity (capital and reserves)	482,570	421,223
Total assets	1,892,491	1,959,027
Equity to assets ratio	**25%**	**22%**

In 2014, the ratio has increased in comparison to 2013 showing that 25% of the Group's total assets are financed from own resources. In accordance with the stated, 75% of assets is financed from other resources.

3.3 Fair value measurement

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 3.98% (2013: 4.60 %). Should actual collections be less than management estimates, the Group would be required to record additional impairment expense.

As at 31 December 2014, 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 163 thousand higher/lower than the one recorded (2013: HRK 3,061 thousand), i.e., the effect in the hospital segment would be HRK 87 thousand (2013: HRK 2,777 thousand), in the pharmacy segment HRK 37 thousand (2013: HRK 119 thousand) and in the segment 'other' HRK 39 thousand (2013: HRK 165 thousand).

NOTE 5 - REVENUE

	2014	2013
	(in thousands of HRK)	
Revenue from sales	2,272,470	2,271,769
Other revenue	13,396	10,276
	2,285,866	**2,282,045**

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 2014 are as follows:

	Wholesale			Retail	
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Self-owned pharmacies**	**Total**
Revenue from sales	985,535	539,699	395,690	322,790	2,243,714
Other revenue	30	13	10,309	3,044	13,396
Revenue from sales and other revenue from related parties (note 35)	28,415	-	341	-	28,756
Total revenues	**1,013,980**	**539,712**	**406,340**	**325,834**	**2,285,866**
Cost of trade goods sold	(910,757)	(515,479)	(365,215)	(248,332)	(2,039,783)
Segment results	**103,223**	**24,233**	**41,125**	**77,502**	**246,083**
Operating expenses					(178,404)
Operating profit					**58,464**
Finance income					7,765
Finance costs					(12,512)
Finance costs - net					(4,747)
Share of profits in associates					759
Profit before tax					**63,691**
Income tax					(2,344)
Profit for the year					**61,347**

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	16	1	6,859	2,814	9,690
Revenue from sales and other revenue from related parties (note 35)	30,083	-	674	-	30,757
Total revenues	**1,092,323**	**541,143**	**315,962**	**332,617**	**2,282,045**
Cost of trade goods sold	(999,076)	(494,648)	(272,960)	(256,356)	(2,023,040)
Segment results	**93,247**	**46,495**	**43,002**	**76,261**	**259,005**
Operating expenses					(200,541)
Operating profit					**60,250**
Finance income					1,786
Finance costs					(15,549)
Finance costs - net					(13,763)
Share of profits in associates					645
Profit before tax					**45,346**
Income tax					(2,649)
Profit for the year					**42,697**

The segment trade receivables at 31 December 2014 are as follows:

	Wholesale			**Retail**	
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Self-owned pharmacies**	**Total**
Trade receivables (note 18 /ii/)	363,345	426,364	94,691	89,248	973,648

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

	Wholesale			**Retail**	
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Self-owned pharmacies**	**Total**
Trade receivables (note 18 /ii/)	462,733	536,482	68,599	118,715	1,186,529

NOTE 7 – STAFF COSTS

	2014	2013
	(in thousands of HRK)	
Net salaries	55,971	54,850
Tax and surtax	10,530	18,409
Contributions from and on salaries /i/	30,341	20,689
Termination benefits	691	458
Employee transportation costs	1,861	3,478
Other employee benefits /ii/	4,009	2,958
Management bonuses	5,226	3,969
	108,629	**104,811**

As at 31 December 2014, the Group had 759 employees (2013: 739 employees).

/i/ In 2014, pension contributions calculated by the Group for payment to mandatory pension funds amounted to HRK 16,440 thousand (2013: HRK 16,217 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

	2014	2013
	(in thousands of HRK)	
Entertainment	2,618	2,276
Marketing	1,969	2,826
Donations	4,795	4,143
	9,382	**9,245**

NOTE 9 – OTHER OPERATING EXPENSES

	2014	2013
	(in thousands of HRK)	
Impairment of trade receivables (note 18/ii/)	(11,792)	5,242
Impairment of goodwill (note 15)	2,871	-
Maintenance of assets, security services and insurance	11,715	11,096
Materials and energy consumed	13,280	13,419
Rental expenses	12,762	12,163
Taxes and contributions irrespective of results	3,800	3,041
Professional training and consultancy services	6,141	6,041
Bank charges and payment transaction costs	2,917	3,532
Telephone, postal and utility services	2,395	2,599
Impairment of property and equipment (note 14)	1,840	162
Other expenses	4,529	9,563
	50,458	**66,858**

NOTE 10 – OTHER GAINS / (LOSSES) / – NET

	2014	2013
	(in thousands of HRK)	
Gains on sale of property and equipment (net)	79	222
Buildings write-off (note14)	(805)	(5,522)
Net foreign exchange gains – trade and other receivables	(222)	(126)
Net foreign exchange gains – cash and cash equivalents	3,105	1,463
Net foreign exchange (losses)/gains – trade payables and other liabilities	(62)	15
	2,095	**(3,948)**

NOTE 11 – FINANCE COSTS – NET

	2014	2013
	(in thousands of HRK)	
Finance income		
Interest income	7,692	1,786
Interest income – related parties (note 35)	73	-
	7,765	**1,786**

NOTE 11 – FINANCE COSTS – NET (continued)

Finance expenses	2014	2013
	(in thousands of HRK)	
Interest expense:		
Bank borrowings and finance lease	(12,476)	(15,368)
	(12,476)	**(15,368)**
Foreign exchange gains / (losses) – net		
Positive foreign exchange differences	54	215
Negative foreign exchange differences	(90)	(396)
	(36)	(181)
	(12,512)	**(15,549)**

NOTE 12 – INCOME TAX

	2014	2013
	(in thousands of HRK)	
Current tax	2,523	2,835
Deferred tax (note 27)	(179)	(186)
	2,344	**2,649**

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

	2014	2013
	(in thousands of HRK)	
Profit before taxation	**63,691**	**45,346**
Income tax (20%)	13,006	9,069
Income non assessable and tax incentives	66	(526)
Expenses not deductible	1,563	2,408
Tax incentive for reinvested profit (note 22)	(12,259)	(8,152)
Losses for which deferred tax asset is not recognised	-	23
Tax losses utilised	(32)	(130)
Temporary tax differences for which deferred tax is not recognised	-	(43)
Income tax	**2,344**	**2,649**
Effective tax rate	3.68%	5.84%

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 Authority. For a determined amount of tax payable the Group made the provision (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 29,039 is the result of releasing treasury shares in June and December and acquiring treasury shares in September and October 2014.

	2014	2013
Net profit attributable to shareholders *(in thousands of HRK)*	61,347	42,697
Weighted average number of ordinary shares excluding treasury shares	29,039	28,712
Basic/diluted earnings per share *(in HRK)*	**2,112.57**	**1,487.08**

NOTE 14 – PROPERTY AND EQUIPMENT

(all amounts are expressed in thousands of HRK)	Land	Buildings	Equipment	Assets under construction and prepayments	Total
At 31 December 2012					
Cost	15,995	159,230	96,155	9,139	280,519
Accumulated depreciation	-	(45,208)	(75,632)	-	(120,840)
Carrying amount	**15,995**	**114,022**	**20,523**	**9,139**	**159,679**
For year ended 31 December 2013					
Opening carrying 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 (note 9)	-	-	-	(162)	(162)
Write-off (note 10)	-	(2,872)	-	(2,650)	(5,522)
Depreciation	-	(3,970)	(6,342)	-	(10,312)
Closing carrying amount	15,995	108,267	15,804	15,360	155,426
At 31 December 2013					
Cost	15,995	156,619	94,482	15,360	282,456
Accumulated depreciation	-	(48,352)	(78,678)	-	(127,030)
Carrying amount	**15,995**	**108,267**	**15,804**	**15,360**	**155,426**
For year ended 31 December 2014					
Opening carrying amount	**15,995**	**108,267**	**15,804**	**15,360**	**155,426**
Additions	-	-	1,073	24,883	25,956
Acquisition of subsidiary (note 31)	-	-	3	-	3
Transfer from intangible assets	-	-	3	-	3
Transfer from assets under construction	-	380	3,807	(4,187)	-
Disposals	-	-	(285)	-	(285)
Impairment (note 9)	-	-	-	(1,840)	(1,840)
Write-off (note 10)	-	-	-	(805)	(805)
Depreciation	-	(3,901)	(5,145)	-	(9,046)
Closing carrying amount	15,995	104,746	15,260	33,411	169,412
At 31 December 2014					
Cost	15,995	156,998	98,739	33,411	305,143
Accumulated depreciation	-	(52,252)	(83,479)	-	(135,731)
Carrying amount	**15,995**	**104,746**	**15,260**	**33,411**	**169,412**

NOTE 14 – PROPERTY AND EQUIPMENT (continued)

Assets under development comprise mainly capitalised work on the construction of an item of property in Osijek as the Group's new distribution and storage centre. The construction included demolition of the existing facilities on the site of the new distribution and storage centre. As a result, construction works with a net book value of HRK 805 thousand were written off (2013: HRK 5,522 thousand).

Revolving loans and finance lease liabilities (note 26) have been secured by pledges over property, plant and equipment with a carrying value of HRK 120,782 thousand as at 31 December 2014 (2013: HRK 118,068 thousand).

In 2014 the Group capitalized the costs of a borrowing raised for the purpose of a new business centre in the amount of HRK 506 thousand.

Delivery and personal vehicles under finance lease are as follows:

	2014	2013
	(in thousands of HRK)	
Cost – capitalised finance lease	7,235	11,171
Accumulated depreciation	(4,211)	(7,489)
Carrying amount	**3,024**	**3,682**

NOTE 15 – INTANGIBLE ASSETS

(all amounts are expressed in thousands of HRK)	Goodwill	Licences, software and other rights	Asset under construction	Total
At 31 December 2012				
Cost	69,067	161,125	1,431	231,623
Accumulated amortisation and impairment	-	(41,604)	-	(41,604)
Carrying amount	**69,067**	**119,521**	**1,431**	**190,019**
For the year ended 31 December 2013				
Opening carrying 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 carrying 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)
Carrying amount	**71,933**	**114,947**	**1,838**	**188,718**
For the year ended 31 December 2013				
Opening carrying amount	71,933	114,947	1,838	188,718
Acquisition of subsidiary (note 31)	3,114	1,051	-	4,165
Additions	50	725	310	1,085
Transfer	-	91	(91)	-
Transfer to property and equipment	-	(3)	-	(3)
Impairment (note 9)	(2,871)	-	-	(2,871)
Disposal	-	(85)	(150)	(235)
Amortisation	-	(2,984)	-	(2,984)
Closing carrying amount	72,226	113,742	1,907	187,875
At 31 December 2014				
Cost	75,097	162,693	1,907	236,826
Accumulated amortisation and impairment	(2,871)	(48,951)	-	(48,951)
Carrying amount	**72,226**	**113,742**	**1,907**	**187,875**

NOTE 15 – INTANGIBLE ASSETS (continued)

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

Licences

Licences for performing pharmaceutical services with indefinite useful life at the reporting date amount to HRK 108,289 thousand (2013: HRK 107,238 thousand). Without licences for performing pharmaceutical services it is not possible to perform pharmaceutical business itself.

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 7.72%, 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.

	2014	2013
	(in thousands of HRK)	
As at 1 January	39,368	39,182
Investment in ZU Sv. Kuzma i Damjan (note 32)	-	2,664
Investment in Litmus d.o.o.	205	-
Receipts from associate	(890)	(459)
Disposal of associate ZU Sv. Kuzma i Damjan	-	(2,664)
Share of profits	759	645
As at 31 December	**39,442**	**39,368**

During 2014 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 32). Group's share was 49%. Share in ZU Sv. Kuzma i Damjan was sold in 2013.

Based on the founder's decision of 4 June 2014, the share capital of Litmus d.o.o. was increased, by increasing the existing equity shares through a cash contribution. The share capital was increased by HRK 500 thousand, of which HRK 205 thousand were paid in by the Company. The Commercial Court in Zagreb issued on 1 July 2014 a decision on the registration of the share capital increase. Following the share capital increase, the equity share of Medika d.d. in Litmus d.o.o. has remained unchanged at 41.53 %.

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 2014				
ZU Ljekarne Jagatić	26,866	18,303	45,004	2,177
Litmus d.o.o.	44,918	75	1,620	(741)
Total	**71,784**	**18,378**	**46,624**	**1,436**

(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**

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY

	2014	2013
	(in thousands of HRK)	
Financial assets - category: Loans given and receivables		
Loans given and receivables (note 18/v/)	1,133,021	1,254,113
Cash and cash equivalents (note 20)	81,101	66,594
	1,214,122	**1,320,707**

	2014	2013
Financial liabilities - category: Other liabilities	*(in thousands of HRK)*	
Trade payables (note 25)	1,062,852	1,149,802
Other liabilities (note 25)	24,133	20,762
Total debt (note 26)	304,162	348,566
	1,391,147	**1,519,130**

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:

	2014	2013
	(in thousands of HRK)	
Hospitals	114,102	93,910
Pharmacies	254,663	314,399
HZZO	46,758	75,089
Other	61,255	40,620
At 31 December	**476,778**	**524,018**

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2014	2013
	(in thousands of HRK)	
Non-current receivables:		
Loans given /i/	8,288	11,741
Trade receivables /ii/	1,530	1,878
Long-term deposits	954	1,012
	10,772	14,631
Current receivables:		
Trade receivables /ii/	972,118	1,184,651
Other current receivables /iii/	8,605	8,481
Loans given /i/,/iv/	146,698	52,563
Loans given-current maturity of non-current receivables /i/	4,388	3,280
	1,131,809	1,248,975
	1,142,581	**1,263,606**

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

	Effective interest rate	2014	2013
		(in thousands of HRK)	
Loans given to pharmacies	5.0%-8.0%	2,969	4,585
Loans given - other	4.0%-8.0%	9,707	10,436
Total non-current receivables, including current portion		12,676	15,021
Current portion of non-current receivables		(4,388)	(3,280)
Total non-current receivables		**8,288**	**11,741**

The maturity of long-term loans is as follows:

	2014	2013
	(in thousands of HRK)	
Between 1 and 2 years	3,930	4,818
Between 2 and 5 years	4,358	6,923
	8,288	**11,741**

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:

	2014	2013
	(in thousands of HRK)	
Domestic trade receivables	969,471	1,202,618
Foreign trade receivables	2,820	3,050
Trade receivables – related parties (note 35)	15,443	17,414
	987,734	1,223,082
Impairment of trade receivables	(14,086)	(36,553)
	973,648	**1,186,529**

The ageing structure of receivables is as follows:

	2014	2013
	(in thousands of HRK)	
Undue	479,045	523,954
0-180 days	416,455	421,759
181-360 days	63,012	107,509
Over 360 days	29,222	169,860
	987,734	**1,223,082**

Movements of impairment of trade receivables are as follows:

	2014	2013
	(in thousands of HRK)	
As at 1 January	36,553	31,338
Increase (note 9)	(11,713)	6,821
Write off	(10,754)	(1,606)
As at 31 December	**14,086**	**36,553**

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

	2014	2013
	(in thousands of HRK)	
HRK	1,131,578	1,252,780
EUR	11,003	10,826
	1,142,581	**1,263,606**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	2014	2013
	(in thousands of HRK)	
VAT receivable	4,810	4,977
Prepaid expenses	2,397	920
Other	1,398	2,584
	8,605	**8,481**

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

	Effective interest rate	2014	2013
		(in thousands of HRK)	
Loans given – other	4.0%-8.5%	148,130	54,074
		148,130	54,074
Impairment		(1,432)	(1,511)
		146,698	**52,563**

Movements in the impairment of given loans:

	2014	2013
	(in thousands of HRK)	
Loans given – other	1,511	3,109
Increase (note 9)	(79)	(1,579)
Write off	-	(19)
As at 31 December	**1,432**	**1,511**

/v/ Financial assets by category include the following:

	2014	2013
	(in thousands of HRK)	
Cash loans given	155,623	60,038
Cash loan given – related parties (note 35)	-	121
Commodity loans given	3,751	7,425
Trade receivables	973,648	1,186,529
	1,133,022	**1,254,113**

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

NOTE 19 – INVENTORIES

	2014	2013
	(in thousands of HRK)	
Trade goods	229,484	224,301
Trade goods – related parties (note 35)	27,425	13,233
Advances given	4,726	1,188
Material and office supplies	537	421
	262,172	**239,143**

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 6,231 thousand in 2014 (2013: HRK 5,080 thousand) and which is reported as decrease in the cost of goods sold.

Inventories of HRK 100 million are pledged as security for payment of the loan (note 26).

NOTE 20 – CASH AND CASH EQUIVALENTS

	2014	2013
	(in thousands of HRK)	
Current account in HRK	50,886	46,440
Foreign currency account	190	128
Cash in hand and cheques	25	26
Investment in cash fund (note 35)	30,000	20,000
	81,101	**66,594**

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 2014, the Company's share capital amounted to HRK 134,967,180 (2013: HRK 94,205,280) distributed among 30,194 shares (2013: 30,194 shares). The nominal value per share is HRK 4,470 (2013: HRK 3,120). 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 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**
As at 1 January 2014	30,194	94,205	(10,486)	(9,243)	74,476
Increase of share capital /iii/	-	40,762	-	-	40,762
As at 31 December 2014	**30,194**	**134,967**	**(10,486)**	**(9,243)**	**115,238**

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

\ii\ During 2013, the Company redeemed a total of 230 of its 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.

iv\ The share capital was increased based on the decision of the General Assembly held on 22 May 2014. The Commercial Court in Zagreb issued a decision on the registration of the increase of share capital on 20 June 2014. The share capital was increased from reserve for reinvested profit in the amount of HRK 40,762 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:

	2014		2013	
	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%	1,155	3.83%
Individuals	2,211	7.32%	2,035	6.74%
Other legal entities	1,262	4.18%	1,438	4.76%
Total	**30,194**	**100%**	**30,194**	**100%**

As at 31 December 2014 Mavota d.o.o. owned 14,306 shares, which represents 49.3% (2013: 49.3%) of shares with voting rights taking into account non-voting treasury shares.

NOTE 22 – RESERVE FOR REINVESTED PROFIT

During 2014 the Company realised profit before tax of HRK 63,172 thousand (2013: HRK 43,850 thousand). The Management of the Company adopted a decision to reinvest profits in the amount of HRK 61,294 thousand (2013: 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.

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 12,259 thousand (2013: HRK 8,152 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.

Pursuant to the above, HRK 61,294 thousand (2013: HRK 40,762 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 2015, 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 12,259 thousand (2013: HRK 8,152 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 2013	**7,278**	**60,000**	**67,278**
Changes during the year	6,676	(6,676)	-
As at 31 December 2014	**13,954**	**53,324**	**67,278**

Legal reserves amount to HRK 13,954 thousand (2013: HRK 7,278 thousand) and were increased as a result of a transfer from reserves for treasury shares based on a decision adopted in the General Shareholders' Meeting of the Company held on 22 May 2014.

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 (2013: HRK 31,796 thousand) form part of retained earnings.

Other reserves in the amount of HRK 31,796 thousand relate to reserves arisen as a result of hyperinflation during the 1990s which had given rise to a huge increase in prices.

NOTE 25 – TRADE AND OTHER PAYABLES

	2014	2013
	(in thousands of HRK)	
Trade payables /i/	1,062,852	1,149,802
Other payables /ii/	24,133	20,762
	1,086,985	**1,170,564**

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

	2014	2013
	(in thousands of HRK)	
Trade payables – domestic	405,874	537,830
Trade payables – foreign	535,690	489,250
Due to related parties (note 35)	121,288	122,722
	1,062,852	**1,149,802**

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

	2014	2013
	(in thousands of HRK)	
HRK	708,999	789,399
EUR	337,394	346,376
DKK	12,440	13,773
Other currencies	4,019	254
	1,062,852	**1,149,802**

NOTE 25 – TRADE AND OTHER PAYABLES (continued)

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

	2014	2013
	(in thousands of HRK)	
Salaries to employees	11,202	8,393
Liabilities for the purchase of new subsidiaries (note 31)	-	2,161
Unused annual leave	2,102	2,008
Other taxes and contributions	32	34
Liabilities for VAT	7,310	5,751
Dividend payable	1	1
Other	3,486	2,414
	24,133	**20,762**

NOTE 26 – BORROWINGS

	2014	2013
	(in thousands of HRK)	
Long-term borrowings:		
Loans/i/	17,977	10,457
Finance lease /iii/	2,121	2,359
	20,098	**12,816**
Short-term borrowings:		
Loans/ii/	282,728	334,131
Finance lease /iii/	1,336	1,619
	284,064	**335,750**
Total borrowings	**304,162**	**348,566**

/i/ Long-term loans consist of one loan denominated in EUR with a variable interest rate and a maturity of 2 years and one loan denominated in Croatian kuna (HRK) with a maturity of two years. They are both intended for investment financing, i.e. purchase of new pharmacy units and constructing a new business centre in Osijek.

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

/iii/ Long-term finance lease liabilities relate to the purchase of delivery vehicles. Leases were agreed at an interest rate of 3.98%-6,07%. 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:

	2014	2013
	(in thousands of HRK)	
Up to one year	1,445	1,751
Between 1 and 5 years	2,210	2,483
Future financing costs	(198)	(256)
Net book value of finance lease liability	**3,457**	**3,978**

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

	2014	2013
	(in thousands of HRK)	
Up to one year	1,336	1,619
Between 1 and 5 years	2,121	2,359
	3,457	**3,978**

The maturity of long-term borrowings is as follows:

	2014	2013
	(in thousands of HRK)	
Between 1 and 2 years	8,404	8,890
Between 2 and 5 years	11,694	3,926
	20,098	**12,816**

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

	2014		2013	
	HRK %	EUR %	HRK %	EUR %
Long-term borrowings				
Long-term loans	3.63%-4.93%	-	4.90%	-
Finance lease	-	3.98%-6.07%	-	4.08%-7.73%
Short-term borrowings				
Short-term loans	3.63%-4.93%	-	4.40%-5.20%	-

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:

	2014	2013
Borrowings with variable interest rate	*(in thousands of HRK)*	
Up to 3 months	1,128	1,225
3 - 12 months	281,546	238,163
Over 1 year	2,633	7,178
	285,307	**246,566**
Borrowings with fixed interest rates		
Loans with fixed interest rates	18,855	102,000
	18,855	**102,000**
Total borrowings	**304,162**	**348,566**

As the loan´s interest rate in the amount of HRK 18,855 thousand (2013: HRK 102,000) is fixed, there is no exposure to interest rate changes.

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

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

	2014	2013
	(in thousands of HRK)	
HRK	280,663	324,587
EUR	23,499	23,979
	304,162	**348,566**

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 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 2014	**695**	**83**	**208**	**2**	**988**
As at 1 January 2014	**695**	**83**	**208**	**2**	**988**
Tax charged to the income statement	-	(3)	-	(1)	(4)
Tax credited to the income statement	162	-	21	-	183
As at 31 December 2014	**857**	**80**	**229**	**1**	**1,167**

Deferred tax liability

(in thousands of HRK)	Acquisition of subsidiary - licences
As at 1 January 2013	**15,342**
Tax arising on acquisition of subsidiary (note 31)	677
Tax at disposal of license (note 32)	(229)
As at 31 December 2013	**15,790**
As at 1 January 2014	**15,790**
Tax arising on acquisition of subsidiary	210
As at 31 December 2014	**16,000**

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 2013	**1,379**	**962**	**543**	**2,884**
Non-current	800	-	-	800
Current	579	962	543	2,084
As at 1 January 2014	**1,379**	**962**	**543**	**2,884**
Additional provisions	327	-	56	383
Used during the year	(493)	-		(493)
As at 31 December 2014	**1,213**	**962**	**599**	**2,774**
Non-current	891	-	-	891
Current	322	962	599	1,883

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 12).

NOTE 29 – CONTINGENCIES

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:

	2014	2013
	(in thousands of HRK)	
Up to one year	4,813	5,564
Between 1 and 5 years	5,626	7,029
Over 5 years	129	348
Contractual rents on operating lease	**10,568**	**12,941**

NOTE 31 – ACQUISITION OF SUBSIDIARIES

Acquisition of Health Institutions

In 2014, the Group acquired 100% ownership over one pharmacies (2013: 100% ownership over two pharmacies) for an amount of HRK 3,913 thousand (2013: HRK 4,215 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 6,658 thousand (2013.: HRK 4,866 thousand) and profit in the amount of HRK 117 thousand (2013.: HRK 346 thousand).

If the acquisition had occurred on 1 January estimated revenue for the year ended 31 December 2014 would have been HRK 5,476 thousand higher, while profit before taxation would have been HRK 1,479 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:

	2014	2013
	(in thousands of HRK)	
Purchase consideration	**3,913**	**4,215**
- Cash paid	3,913	2,054
- Liabilities for the purchase of subsidiaries (note 25/ii/)	-	2,161
Fair value of assets acquired	(799)	33
Goodwill (note 15)	**3,114**	**4,248**

Fair value of acquired asset is as follows:

	2014	2013
	(in thousands of HRK)	
Intangible assets (note 15)	1,051	3,437
Property and equipment (note 14)	3	151
Inventory	718	1,072
Loans given	263	1,432
Trade receivables	4,322	2,033
Cash and cash equivalents	307	99
Deferred tax liability (note 27)	(210)	(677)
Non-current liabilities	-	-
Current liabilities	(5,655)	(7,580)
Net assets acquired	**799**	**(33)**
Purchase consideration paid in cash	3,913	2,054
Cash and cash equivalents acquired	(307)	(99)
Cash used in the acquisition	**3,606**	**1,955**

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).

NOTE 33 - CONTRACTUAL OBLIGATIONS

2013 the Group concluded an agreement on construction work for the new distribution warehouse in Osijek. Value of the contract is HRK 25,802 thousand (2013: HRK 24,639 thousand).

In 2014 the Group entered into a contract under which a pharmacy unit from ZU Ljekarne Atalić was to be sold. At 31 December 2014 the unit was discontinued as part of ZU Ljekarne Atalić based on the underlying decision of the Ministry of Health and has been operating as part of a new health institution since 1 January 2015.

NOTE 34 – SUBSEQUENT EVENTS

One of the pharmacy units within ZU Ljekarne Atalić has no longer been operating as a consituent part since 1 January 2015 (note 33).

Pursuant to a decision of the Commercial Court in Zagreb, the registered seat of ZU Ljekarne Prima Pharme has been changed from Put Stinica 2, Split, to Capraška 1, Zagreb.

There were no other events subsequent to the balance sheet date that would require adjustment of, or disclosure in the financial statements.

NOTE 35 – RELATED PARTY TRANSACTIONS

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

Related parties include:

	2014	2013
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 2014 and 2013 and transactions in the income statement for years then ended are as follows:

(in thousands of HRK)	Note	2014	2013
Trade and other receivables			
Trade receivables			
Associate		1	-
Associate of ZU Ljekarne Prima Pharme		15,090	17,359
Subsidiary of Litmus d.o.o., Zagreb		30	
Pliva Hrvatska d.o.o., Zagreb		322	55
	18	15,443	17,414
Given loans			
Associate		-	121
	18	-	121

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

Inventories			
Pliva Hrvatska d.o.o., Zagreb		27,425	13,233
	19	27,425	13,233
Cash and cash equivalents			
Other related parties		30,000	20,000
	20	30,000	20,000
Trade payables			
Pliva Hrvatska d.o.o., Zagreb		121,288	122,722
	25	121.288	122.722
Revenue from sales and other revenue			
Associate		5	5
Associates of ZU Ljekarne Prima Pharme		28,415	30,083
Subsidiary of Litmus d.o.o., Zagreb		25	20
Pliva Hrvatska d.o.o., Zagreb		311	649
	6	28,756	30,757
Financial revenue			
Subsidiary of Litmus d.o.o.		7	-
Other related parties		66	-
	11	**73**	-
Purchase of trade goods			
Pliva Hrvatska d.o.o.. Zagreb		180,642	187,040
		180,642	187,040
Key management compensation - salaries and bonuses for five members		8,700	7,860
Supervisory Board compensation		614	679

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.

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