MEDIKA d.d.

AUDITOR'S REPORT AND SEPARATE FINANCIAL STATEMENTS 31 DECEMBER 2014

CONTENT

Operating result in 2014

Medika d.d. ('the Company') generated, on a non-consolidated basis, revenue in the amount of HRK 2,197,137 thousand, which is HRK 6,555 thousand more than the actual non-consolidated revenue in the prior year. The non-consolidated operating profit amounts to HRK 66,745 thousand, which is 19.5 percent more than the actual prior-year figure.

The non-consolidated pre-tax profit amounts to HRK 63,172 thousand, and the non-consolidated net profit amounts to HRK 61,468 thousand, 48.4 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 to the financial statements) 56.9% of the total non-consolidated income was generated in pharmacies, 3.9 percent less than in the prior year. At the same time, 24.6% of the total non-consolidated income was generated by hospitals, without the share of the total non-consolidated income not having changed significantly compared with the prior year.

Total non-consolidated assets amount to HRK 1,802,502 thousand and fell 3.4% from the prior year-end. 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). Current non-consolidated assets represent 86.3 percent of the total assets. Trade and other receivables are the most significant item of the total non-consolidated assets and decreased 8.1 percent compared with the 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 16.8% compared to the beginning of the year (note 18). The proceeds were used to reduce the balances outstanding to suppliers, which were 7.8% lower than in the prior year (note 25) as well as the level of loan debt, 12.6% less than in the prior year (note 26). At the same time, the balance of inventories increased 8.6% 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.

The total loan debt on a non-consolidated basis amounts to HRK 276,915 thousand, of which short-term borrowings and finance leases amount to HRK 259,450 thousand and long-term borrowings and finance lease obligations amount to HRK 17,465 thousand (note 26).

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

The non-consolidated operating result is presented in the statement of comprehensive income set out on page 7 of the financial statements.

Development outlooks

The Company will continue with its core business: distribution of pharmaceuticals and medical products and enhance the development activities involving products that represent the core business of the firm.

Construction work on a new business center in Osijek started last year. Completion of construction and relocation to the new business center is expected at the end of the first quarter of 2015. This investment will provide appropriate and quality warehouse facilities with all the auxiliary premises in accordance with regulations and standards. By increasing the storage capacity, prerequisites for developing the business in Slavonia will develop further and with it the development of the whole Medika.

Treasury shares

The share portfolio of Medika d.d. consists of 1,155 shares, i.e. 3.83% of the total number of shares.

Subsidiaries and associates

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

Zdravstvena ustanova Ljekarne Prima Pharma has the following pharma subsidiaries: Zdravstvenu ustanova Ljekarne Delonga (Okrug Gornji), Zdravstvena ustanova Ljekarne Ines Škoko (Zagreb), and Zdravstvena ustanova Ljekarne Atalić (Osijek). All the companies are fully owned by ZU Ljekarne Prima Pharma.

In 2014 ZU Ljekarne Prima Pharma merged into Ljekarna Elvira Štimac (Opatija), and ZU Ljekarne Hermed (Sisak) was acquired and merged.

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

Risks

The most significant market risk for Medika d.d. is the long collection period for receivables, especially those from HZZO (Croatian State Health Insurance). Therefore, a significant amount of working capital is not available, which strongly affects the cash flows of Medika d.d. and its timely settlement of its liabilities. As the receivables represent, directly or indirectly, amounts owed by state institutions, their collection should not be regarded as probable of default risk. However, this represents additional funding requirements and with it additional operating expenses.

A continuing decrease in the price of prescription medication on the HZZO list and the HZZO administrative approach in determining prices and margins on medications represent a further risk. To lower this risk, Medika has focused on expanding the lines of products the prices of which are not subject to limitations imposed by the applicable legislation.

Currency risk represents a significant financial risk. Most inventories are purchased on foreign markets, giving rise to the exchange rate risk, mainly in relation to the euro.

The Company's interest rate risk arises from its short-term and long-term borrowings. Variable-rate borrowings expose the Group to cash-flow interest rate risk, and fixed-rate borrowings expose it to the interest-rate fair value risk.

Credit risk arises mainly from trade receivables. Credit risk is higher when dealing with pharmacies, which have more potential going concern issues. Hospitals, with longer collection periods, do not bear the risk of default and have no going-concern issues.

Corporate governance code

As an entity listed on the Zagreb Stock Exchange, Medika d.d. applies the corporate governance code adopted by the CFSSA (Croatian Financial Services Supervisory Agency) and the Zagreb Stock Exchange. The corporate governance code 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 Boards

The Management of Medika consists of one member: Mr. Jasminko Herceg, Director.

The members of the Supervisory Board of the Company are as follows: Mr. Mate Perković, president; Mr. Damjan Možina, vice-president; 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 1

STATEMENT OF MANAGEMENT AND SUPERVISORY BOARD RESPONSIBILITIES

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

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

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

The financial statements set out on pages 7 to 51 were authorised by Management 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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Independent auditor's report to the shareholders of Medika d.d.

We have audited the accompanying separate financial statements of Medika d.d., Zagreb ("Company") which comprise the separate statement of financial position as at 31 December 2014, the separate statement of comprehensive income, the separate statement of changes in equity and the separate 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 Company'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 Company'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 separate financial statements present fairly, in all material respects, the separate financial position of the Company as at 31 December 2014, and its separate financial performance and its separate 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 separate financial statements of the Company for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those separate 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.

SEPARATE 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	2,197,137	2,190,582
Cost of trade goods sold	6	(2,028,075)	(2,006,052)
Staff costs	7	(58,231)	(57,033)
Marketing and promotion expenses	8	(9,192)	(9,030)
Depreciation and amortisation	14, 15	(9,736)	(13,306)
Other operating expenses	9	(27,271)	(45,342)
Other losses / (gains) – net	10	2,113	(3,971)
Operating profit		**66,745**	**55,848**
Finance income	11	7,633	1,560
Finance expenses	11	(11,206)	(13,558)
Finance cost – net		**(3,573)**	**(11,998)**
Profit before tax		**63,172**	**43,850**
Income tax	12	(1,704)	(2,441)
Profit for the year		**61,468**	**41,409**
Other comprehensive income		-	-
Total comprehensive income		**61,468**	**41,409**
Earnings per share -basic/diluted (in HRK)	13	**2,116.74**	**1,442.22**

The financial statements set out on pages 7 to 51 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 from 12 to 51 form an integral part of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 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	160,984	146,572
Intangible assets	15	17,635	19,640
Investments in subsidiaries and associates	16	59,353	59,148
Deferred tax assets	27	532	441
Trade and other receivables	18	8,543	12,089
		247,047	237,890
Current assets			
Inventories	19	229,178	211,090
Trade and other receivables	18	1,253,005	1,360,473
Income tax receivable		8,163	4,236
Cash and cash equivalents	20	65,109	51,658
		1,555,455	1,627,457
Total assets		**1,802,502**	**1,865,347**
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	205,709	205,535
		449,519	388,051
Non-current liabilities			
Borrowings	26	17,465	5,638
Provisions	28	563	516
		18,028	6,154
Current liabilities			
Trade and other payables	25	1,074,334	1,158,568
Borrowings	26	259,450	311,133
Provisions	28	1,171	1,441
		1,334,955	1,471,142
Total equity and liabilities		**1,802,502**	**1,865,347**

The accompanying notes on pages from 12 to 51 form an integral part of these financial statements.

MEDIKA d.d.

SEPARATE 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
At 1 January 2013		**37,439**	**33,817**	**67,278**	**204,888**	**343,422**
Total comprehensive income						
Profit for the year		-	-	-	41,409	41,409
Other comprehensive income		-	-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**41,409**	**41,409**
Transactions with owners recognized directly in equity						
Increase of share capital	21	33,817	(33,817)	-	-	-
Transfer	22	-	40,762	-	(40,762)	-
Release of treasury shares	21	4,901	-	-	-	4,901
Acquisition of treasury shares	21	(1,681)	-	-	-	(1,681)
Transactions with owners recognized directly in equity		**37,037**	**6,945**	**-**	**(40,762)**	**3,220**
At 31 December 2013		**74,476**	**40,762**	**67,278**	**205,535**	**388,051**
At 1 January 2014		**74,476**	**40,762**	**67,278**	**205,535**	**388,051**
Total comprehensive income						
Profit for the year		-	-	-	61,468	61,468
Other comprehensive income		-	-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**61,648**	**61,648**
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)**	**-**
At 31 December 2014		**115,238**	**61,294**	**67,278**	**205,709**	**449,519**

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

(all amounts expressed in thousands of HRK)	Note	2014	2013
Cash flows from operating activities:			
Profit for the year		**61,468**	**41,409**
Adjustments for:			
Income tax	12	1,704	2,441
Depreciation and amortisation	14, 15	9,736	13,306
Impairment of trade and other receivables, net	9	(12,189)	3,977
Inventory impairment	19	5,925	4,777
Unrealised foreign exchange differences		1,752	(1,149)
Change in provisions		(223)	135
Gain on disposal of property and equipment	10	(97)	(199)
Impairment of property and equipment	9, 14	1,840	-
Buildings write off	10, 14	805	5,522
Intangible assets disposal	15	152	1
Interest expense	11	11,186	13,491
Interest income	11	(7,633)	(1,560)
Changes in:			
Inventories		(24,013)	(28,962)
Trade and other receivables		214,785	100,652
Trade and other payables		(86,170)	(83,580)
Cash flows generated from operating activities		**179,028**	**70,261**
Interest paid		(10,791)	(13,882)
Income tax paid		(5,546)	(4,698)
Cash flows from operating activities		**162,691**	**51,681**
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets	14, 15	(23,915)	(10,603)
Proceeds from sale of property, plant and equipment		355	761
Proceeds from repayment of loans given		71,781	12,483
Investment in subsidiary	16	(205)	-
Loans given		(159,930)	(52,420)
Interest received		4,229	1,679
Cash flows from investing activities		**(107,685)**	**(48,100)**

The accompanying notes on pages from 12 to 51 form an integral part of these financial statements.

(all amounts expressed in thousands of HRK)	Note	2014	2013
Cash flows from financing activities:			
Repayment of borrowings		(298,667)	(223,800)
Proceeds from borrowings		258,886	261,000
Repayment of finance lease		(1,774)	(2,785)
Acquisition of treasury shares	21	-	(1,681)
Cash flows from financing activities		**(41,555)**	**32,734**
Net increase in cash and cash equivalents		**13,451**	**36,315**
Cash and cash equivalents at beginning of year		51,658	15,343
Cash and cash equivalents at end of year	20	**65,109**	**51,658**

NOTE 1 – GENERAL INFORMATION

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

As at 31 December 2014, the Company's shares were listed on official market on the Zagreb Stock Exchange. 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

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

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

The Company has issued these separate financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 4 March 2015. In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2014 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

New standards and interpretations not yet adopted

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Segment reporting

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

2.3 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

2.4 Investments in subsidiaries and associates

(a) Subsidiaries

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

(b) Associates

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property and equipment

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

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

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

The estimated useful lives are as follows:

Buildings	10 - 40 years
Equipment	2 - 20 years

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

(a) Goodwill

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

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 Company 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 disposal of a business include the carrying amount of goodwill relating to that entity.

(b) 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).

2.7 Impairment of non-financial assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets

The Company classifies its financial assets as trade and other receivables, except investments in subsidiaries and associates (note 2.4). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

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

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

The Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a 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 recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

2.9 Leases

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

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

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 Company 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

Significant financial difficulties of the debtor, the probability of bankruptcy proceedings at the debtor, or default or delinquency in payment are considered objective evidence of impairment. The amount of the impairment loss is determined separately for each debtor as the difference between the carrying amount and the recoverable amount and represents the present value of expected cash flow discounted using the effective interest rate. The impairment losses on trade receivables are recognized in the income statement within 'Other operating expenses'.

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

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

2.12 Cash and cash equivalents

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

2.13 Share capital

Ordinary shares are classified as equity.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Financial liabilities

Financial liabilities recognized by the Company are trade payables and borrowings.

(a) Trade payables

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

(b) Borrowings

Borrowings are recognised initially at fair value, less transaction costs. Borrowings are subsequently stated at amortized cost. Any difference between 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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

The Company derecognizes financial liabilities when, and only when, the Company'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 assets and liabilities are determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

(b) Long-term employee benefits

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

(c) Short-term employee benefits

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

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

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

2.17 Provisions

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Provisions (continued)

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

2.18 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 Company's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

The Company recognizes revenue when the amount of the revenue can be measured reliably, when future economic benefits will flow into the Company and when the specific criteria for all the Company's activities described below are met.

(a) Sales of goods

Goods sales are recognized when the goods are delivered to, and accepted by the customer and when the collectability of the receivables is relatively certain. Goods are sold at the agreed volume discounts, with the right of the customers to return faulty goods. Sales revenue is recognized based on the price from the underlying sales contract, less any estimated discounts and returns.

(b) Sales of services

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

(c) Interest income

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

2.19 Finance expenses

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

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 receivable, including VAT.

2.22 Earnings per share

The Company presents the basic earnings per share for its ordinary shares. Earnings per share are calculated by dividing the profit or loss for the year attributable to ordinary shares by the weighted number of ordinary shares outstanding during the period.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks, including the effects of changes in market risk (which includes exchange rate risk, the fair value interest rate risk and the cash flow interest rate risk), credit risk and liquidity. 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 schedule of funding by the state is beyond control or prediction and given the inability to predict financial market trends, the overall risk management of the Company is focused on minimising or eliminating the potential adverse impact on the Company's financial position. Risk management within the Company is the responsibility of the Finance Division that, in cooperation with other divisions within the Company, identifies, assesses the risks and proposes risk protection measures.

(a) Market risk

(i) Foreign exchange risk

The Company generates most of its revenue on the domestic market and in Croatian kunas. The Company purchases a part of goods on foreign markets, which exposes it to the currency risk arising from changes in foreign exchange rates mostly against the euro, which may affect future operating results and cash flows. The Finance Division of the Company seeks to minimise the foreign exchange risk by reducing the balance of foreign-currency denominated financial liabilities. This mainly relates to borrowings that are entirely denominated in the Croatian kuna, which does not give rise to any foreign exchange risk exposure. 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.

Compared to the balance at 31 December 2014 (notes 18, 20, 25, 26), if the euro would decrease/increase 0.74% against the Croatian kuna (2013: 0.93%), assuming all other indicators remain unchanged, the net profit for the reporting period would be HRK 2,127 thousand higher/lower (2013: HRK 2,488 thousand), mainly as a result of gains/losses on translation of the euro-denominated trade payables.

(ii) Cash flow and fair value interest rate risk

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

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

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

At 31 December 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 2,183 thousand).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Current assets, which potentially subject the Company to concentrations of credit risk primarily include cash, trade receivables and other receivables. The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history. With respect to credit risk exposure, customers are grouped into three categories: pharmacies, hospitals and other customers. Pharmacies present higher credit risk since they have potential going concern issue. On the other hand, collection period for hospitals is longer, but there are no impairment indications, namely, there is no going concern issue. Other customers are not significant because of dispersion on large number of customers, individually small balances and Company's strict measures of collection of outstanding debts and delivery of goods. The Company insures part of the trade receivables by bills of exchange and promissory notes. Detailed credit risk analysis is shown under notes 17 and 18.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and ensuring availability of funding by entering into adequate credit lines as well as the ability to settle all liabilities. It is the objective of the Company to maintain flexibility in funding, by ensuring availability of the agreed credit lines. The Finance Divisions perform regular (monthly) monitoring of the available sources of cash, and performs payments on a daily basis in accordance with priority lists received from individual lines of products. Customers consist largely of those owned by, or dependent of the Republic of Croatia. Hence, liquidity risk level also depends on the state. The insufficient level of funding from period to period is a direct consequence of the schedule of payments received from the State in settling the State's liabilities concerning the health system. Where the payment periods are extended by the State, the Company agrees extended payment deadlines with its suppliers. Any shortfall is covered using lines of credit available at commercial banks. At 31 December 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 35,109 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)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

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

(in thousands of HRK) **At 31 December 2014**	**Up to one month**	**2 months to 1 year**	**Between 1 and 3 years**	**After 3 years**	**Total**
Trade and other payables	195,799	878,535	-	-	1,074,334
Borrowings	4,116	258,817	17,640	1,190	281,763

(in thousands of HRK) **At 31 December 2013**	**Up to one month**	**2 months to 1 year**	**Between 1 and 3 years**	**After 3 years**	**Total**
Trade and other payables	155,645	1,002,923	-	-	1,158,568
Borrowings	2,209	313,151	5,780	-	321,140

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

The Company monitors capital on the basis of the self-financing ratio in financial statements. 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)	449,519	388,051
Total assets	1,802,502	1,865,347
Equity to assets ratio	**25%**	**21%**

In 2014, the ratio has increased in comparison to 2013 showing that 25% of the Company'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 nominal value of trade receivables, net of impairment allowance, and of trade payables approximate their fair values.

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

Assumptions to determine amount of provisions of trade receivables

Due to the significance of the amount of trade receivables recorded in the statement of financial position, Management estimates the likelihood of the collection of trade receivables based on an analysis of individual categories of such assets. Factors taken into consideration by Management include: ageing analysis of trade receivables and the financial position of customers compared to the collection history with the customer. The estimated recoverable amount of trade receivables represents the present value of estimated future cash flows, discounted at the effective interest rate of 3.98% per year (2013: 4.60%). Should actual collections be less than management estimates, the Company would be required to record additional impairment expense.

At 31 December 2014, if the assessment of the amount of uncollectible receivables and overdue in total receivables had been 1% lower/higher, with all other variables held constant, profit after tax for the reporting period would have been HRK 163 thousand higher/lower than the one recorded (2013: HRK 1,327 thousand). 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 126 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	2,186,040	2,181,513
Other revenue	11,097	9,069
	2,197,137	**2,190,582**

NOTE 6 – BUSINESS SEGMENT INFORMATION

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

The Company monitors revenues and gross profit through distribution channels:

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

The company operates with approximately 440 pharmacies and medical institutions.

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

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

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

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

NOTE 6 – BUSINESS SEGMENT INFORMATION (continued)

The results of the stated segments for the year ended 31 December 2014 are as follows:

(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Total**
Revenue from sales	985,535	539,699	395,690	1,920,924
Other income	30	13	10,309	10,352
Revenue from sales and other income from related parties (note 33)	265,520	-	341	265,861
Total revenues	**1,251,085**	**539,712**	**406,340**	**2,197,137**
Cost of trade goods sold	(1,147,381)	(515,479)	(365,215)	(2,028,075)
Segment results	**103,704**	**24,233**	**41,125**	**169,062**
Operating expenses				(102,317)
Operating profit				**66,745**
Finance income				7,633
Finance expenses				(11,206)
Finance cost - net				**(3,573)**
Profit before tax				**63,172**
Income tax				(1,704)
Profit for the year				**61,468**

NOTE 6 – BUSINESS SEGMENT INFORMATION (continued)

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

(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Total**
Revenue from sales	1,062,224	541,142	308,429	1,911,795
Other income	16	1	8,645	8,662
Revenue from sales and other income from related parties (note 33)	269,451	-	674	270,125
Total revenues	**1,331,691**	**541,143**	**317,748**	**2,190,582**
Cost of trade goods sold	(1,238,444)	(494,648)	(272,960)	(2,006,052)
Segment results	**93,247**	**46,495**	**44,788**	**184,530**
Operating expenses				(128,682)
Operating profit				**55,848**
Finance income				1,560
Finance expenses				(13,558)
Finance cost - net				**(11,998)**
Profit before tax				**43,850**
Income tax				(2,441)
Profit for the year				**41,409**

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

(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Total**
Trade receivables (note 18/ii/)	579,131	426,958	101,623	1,107,712

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

(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Total**
Trade receivables (note 18/ii/)	701,616	548,800	81,362	1,331,778

NOTE 7 – STAFF COSTS

	2014	2013
	(in thousands of HRK)	
Net salaries	28,520	28,586
Tax and surtax	5,708	5,784
Contributions from and on salaries /i/	15,512	14,799
Termination benefits	155	429
Employee transportation costs	1,861	1,871
Other employee benefits /ii/	1,249	1,595
Management bonuses	5,226	3,969
	58,231	**57,033**

As at 31 December 2014, the Company had 370 employees (2013: 359 employees),

/i/ In 2014, pension contributions recorded by the Company for payment to mandatory pension funds amounted to HRK 8,321 thousand (2013: HRK 8,311 thousand),

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

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	2014	2013
	(in thousands of HRK)	
Entertainment	2,523	2,158
Marketing	1,878	2,580
Donations	4,791	4,143
Marketing expenses – related parties (note 33)	-	149
	9,192	**9,030**

NOTE 9 – OTHER OPERATING EXPENSES

	2014	2013
	(in thousands of HRK)	
Impairment of trade and other receivables (note 18)	(12,189)	3,977
Materials and energy consumed	10,151	10,107
Maintenance of assets, security services and insurance	9,188	8,761
Telephone, postal and utility services	1,175	1,389
Taxes and contributions (not income tax based)	3,005	3,034
Professional training and consultancy services	5,014	5,209
Bank charges and payment transaction costs	1,655	2,151
Rent expense	3,436	3,438
Control and analysis services	762	1,925
Impairment of property and equipment (note 14)	1,840	-
Other expenses	3,234	5,351
	27,271	**45,342**

NOTE 10 – OTHER GAINS / (LOSSES) – NET

	2014	2013
	(in thousands of HRK)	
Gains on sale of property and equipment (net)	97	199
Buildings write off (note 14)	(805)	(5,522)
Net foreign exchange losses – 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
	2,113	**(3,971)**

NOTE 11 – FINANCE COSTS - NET

	2014	2013
	(in thousands of HRK)	
Finance income		
Interest income	7,560	1,560
Interest income – related parties (note 33)	73	-
	7,633	**1,560**

NOTE 11 – FINANCE COSTS - NET (continued)

Finance expenses	2014	2013
	(in thousands of HRK)	
Interest expense		
Bank loans and finance lease	(11,186)	(13,491)
	(11,186)	(13,491)
Foreign exchange gains / (losses) – net		
Positive foreign exchange differences	46	107
Negative foreign exchange differences	(66)	(174)
	(20)	(67)
	(11,206)	**(13,558)**

NOTE 12 – INCOME TAX

	2014	2013
	(in thousands of HRK)	
Current tax	1,795	2,325
Deferred tax (note 27)	(91)	116
	1,704	**2,441**

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

	2014	2013
	(in thousands of HRK)	
Profit before taxation	**63,172**	**43,850**
Income tax at 20%	12,635	8,770
Non-taxable income and tax incentives	(416)	(81)
Tax incentives for reinvested profit (note 22)	(12,259)	(8,152)
Expenses not deductible	1,744	1,904
Income tax	**1,704**	**2,441**
Effective tax rate	2.70%	5.57%

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

NOTE 13 – EARNINGS PER SHARE

Earnings per share are determined, by dividing the Company's net profit by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares redeemed and held by the Company as treasury shares. The weighted average number of shares was 29,039, as the Company had no transactions involving its treasury shares during 2014.

	2014	2013
Net profit attributable to the shareholders *(in thousands of HRK)*	61,468	41,409
Weighted average number of ordinary shares excluding treasury shares	29,039	28,712
Basic / diluted earnings per share *(in HRK)*	**2,116.74**	**1,442.22**

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	153,087	79,318	8,977	257,377
Accumulated depreciation	-	(43,997)	(62,129)	-	(106,126)
Carrying amount	**15,995**	**109,090**	**17,189**	**8,977**	**151,251**
For year ended 31 December 2013					
Opening carrying amount	15,995	109,090	17,189	8,977	151,251
Additions	-	-	10	10,142	10,152
Transfer	-	134	979	(1,113)	-
Disposals	-	-	(562)	-	(562)
Write-off (note 10)	-	(2,872)	-	(2,650)	(5,522)
Depreciation	-	(3,810)	(4,937)	-	(8,747)
Closing carrying amount	15,995	102,542	12,679	15,356	146,572
At 31 December 2013					
Cost	15,995	149,523	76,927	15,356	257,801
Accumulated depreciation	-	(46,981)	(64,248)	-	(111,229)
Carrying amount	**15,995**	**102,542**	**12,679**	**15,356**	**146,572**
For year ended 31 December 2014					
Opening carrying amount	15,995	102,542	12,679	15,356	146,572
Additions	-	-	5	24,883	24,888
Transfer	-	381	3,802	(4,183)	-
Disposals	-	-	(258)	-	(258)
Write-off (note 10)	-	-	-	(805)	(805)
Impairment (note 9)	-	-	-	(1,840)	(1,840)
Depreciation	-	(3,724)	(3,849)	-	(7,573)
Closing carrying amount	15,995	99,199	12,379	33,411	160,984
At 31 December 2014					
Cost	15,995	149,904	78,595	33,411	277,905
Accumulated depreciation	-	(50,705)	(66,216)	-	(116,921)
Carrying amount	**15,995**	**99,199**	**12,379**	**33,411**	**160,984**

NOTE 14 – PROPERTY AND EQUIPMENT (continued)

Assets under construction mostly relates to property in Osijek where the Company plans to build a new distribution centre. Based on demolition of existing buildings in 2014 on the site of the new distribution centre, HRK 805 thousand of buildings' net book value was 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 118,607 thousand as at 31 December 2014 (2013: HRK 115,976 thousand).

In 2014, the Company capitalised the costs of borrowings in the amount of HRK 506 thousand raised for investing in a new business centre.

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

	2014	2013
	(in thousands of HRK)	
Cost – capitalised finance lease	7,056	10,992
Accumulated depreciation	(4,032)	(7,332)
Carrying amount	**3,024**	**3,660**

NOTE 15 – INTANGIBLE ASSETS

(all amounts are expressed in thousands of HRK)	Licences	Goodwill	Assets under construction	Total
At 31 December 2012				
Cost	32,505	11,930	1,431	45,866
Accumulated amortisation	(22,117)	-	-	(22,117)
Carrying amount	**10,388**	**11,930**	**1,431**	**23,749**
For the year ended 31 December 2013				
Opening carrying amount	10,388	11,930	1,431	23,749
Additions	-	-	451	451
Transfer	45	-	(45)	-
Disposals	(1)	-	-	(1)
Amortisation	(4,559)	-	-	(4,559)
Closing carrying amount	5,873	11,930	1,837	19,640
At 31 December 2013				
Cost	32,368	11,930	1,837	46,135
Accumulated amortisation	(26,495)	-	-	(26,495)
Carrying amount	**5,873**	**11,930**	**1,837**	**19,640**
For the year ended 31 December 2014				
Opening carrying amount	5,873	11,930	1,837	19,640
Additions	-	-	310	310
Transfer	91	-	(91)	-
Disposal	(2)	-	(150)	(152)
Amortisation	(2,163)	-	-	(2,163)
Closing carrying amount	3,799	11,930	1,906	17,635
At 31 December 2014				
Cost	32,304	11,930	1,906	46,140
Accumulated amortisation	(28,505)	-	-	(28,505)
Carrying amount	**3,799**	**11,930**	**1,906**	**17,635**

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

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

Impairment test of goodwill and licences with indefinite useful life

The Company calculated recoverable amount using value-in-use method. Value-in-use cash flow projections were based on 5 year business plan approved by management. Discount rate of 7.72%, growth rate of 1-2% and income tax rate of 20% were applied when discounting projected cash flow. Recoverable amount exceeds carrying amount.

NOTE 16 – INVESTMENTS IN SUBSIDIARY AND ASSOCIATE

	% holding in 2014	% holding in 2013	2014	2013
			(in thousands of HRK)	
ZU Ljekarne Prima Pharme, Split	100%	100%	40,000	40,000
Litmus d.o.o., Zagreb /i/	41.53%	41.53%	19,353	19,148
			59,353	**59,148**

/i/ Based on the founder's decision dated 4 June 2014, the share capital was increased by increasing the existing shares through cash contributions. The share capital was increased by HRK 500 thousand, of which HRK 205 thousand were paid in by the Company. On 1 July 2014, the Commercial Court in Zagreb issued a decision to register the share capital increase. The equity share of Medika d.d. in Limitus d.o.o. remained unaffected by the increase and amounts to 41.53%.

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/)	1,253,463	1,364,425
Cash and cash equivalents (note 20)	65,109	51,658
	1,318,572	**1,416,083**
Financial liabilities - category: Other liabilities		
Trade payables (note 25/i/)	1,056,147	1,145,291
Other payables (note 25/ii/)	18,187	13,277
Total debt (note 26)	276,915	316,771
	1,351,249	**1,475,339**

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The quality of financial receivables not yet due and not impaired can be assessed based on the historical data about the customers.

The quality of receivables not yet due and not impaired is considered from the aspect of the different credit risk exposures of the debtors:

	2014	2013
	(in thousands of HRK)	
Pharmacies	348,824	407,417
Hospitals	114,102	93,910
Other	59,313	42,096
At 31 December	**522,239**	**543,423**

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2014	2013
	(in thousands of HRK)	
Non-current receivables:		
Loans given /i/	8,288	11,741
Long term deposits	255	348
	8,543	12,089
Current receivables:		
Trade receivables /ii/	1,094,089	1,296,982
Other current receivables /iii/	7,830	7,789
Loans given /iv/	146,698	52,422
Loans given – current portion of non-current receivables /i/	4,388	3,280
	1,253,005	1,360,473
	1,261,548	**1,372,562**

/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)
		8,288	**11,741**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

The maturity of long-term loans is as follows:

	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**

/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	879,759	1,082,212
Foreign trade receivables	2,820	3,050
Trade receivables – related parties (note 33)	225,133	246,516
	1,107,712	1,331,778
Impairment of trade receivables	(13,623)	(34,796)
	1,094,089	**1,296,982**

The ageing structure of receivables is as follows:

	2014	2013
	(in thousands of HRK)	
Undue	522,239	543,423
0-180 days	492,997	500,256
181-360 days	63,326	121,437
Over 360 days	29,150	166,662
	1,107,712	**1,331,778**

Movements in the impairment of trade receivables are as follows:

	2014	2013
	(in thousands of HRK)	
At 1 January	34,796	30,049
(Decrease)/increase (note 9)	(12,110)	5,556
Write off	(9,063)	(809)
At 31 December	**13,623**	**34,796**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	2014	2013
	(in thousands of HRK)	
HRK	1,250,545	1,361,736
EUR	11,003	10,826
	1,261,548	**1,372,562**

/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
Other	3,020	2,812
	7,830	**7,789**

/iv/ Current 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%-10%	148,130	53,933
		148,130	53,933
Impairment of loans given		(1,432)	(1,511)
		146,698	**52,422**

Movements in impairment of given loans:

	2014	2013
	(in HRK'000)	
Balance at 1 January	1,511	3,109
Decrease (note 9)	(79)	(1,579)
Write off	-	(19)
At 31 December	**1,432**	**1,511**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/v/ Financial assets by category include the following:

	2014	2013
	(in thousands of HRK)	
Cash loans given	155,623	59,897
Cash loans given – related parties (note 33)	-	121
Commodity loans given	3,751	7,425
Trade receivables	1,094,089	1,296,982
	1,253,463	**1,364,425**

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	203,240	198,692
Trade goods – related parties (note 33)	21,122	11,153
Advances given	4,688	1,149
Material and office supplies	128	96
	229,178	**211,090**

In 2014 the Company reviewed its inventories to identify any damaged or obsolete inventories and recognized an allowance in the amount of HRK 5,925 thousand (2013: HRK 4,777 thousand), which is reported as a 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	34,912	31,575
Foreign currency account	190	76
Cash in hand	7	7
Investment in cash fund (note 33)	30,000	20,000
	65,109	**51,658**

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

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)*		
At 1 January 2013	30,194	60,388	(15,406)	(7,543)	37,439
Release of treasury shares \i\	-	-	6,601	(1,700)	4,901
Acquisition of treasury shares \ii\	-	-	(1,681)	-	(1,681)
Increase of share capital \iii\	-	33,817	-	-	33,817
At 31 December 2013	**30,194**	**94,205**	**(10,486)**	**(9,243)**	**74,476**
At 1 January 2014	30,194	94,205	(10,486)	(9,243)	74,476
Increase of share capital \iv\	-	40,762	-	-	40,762
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 10 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.

NOTE 21 – SHARE CAPITAL (continued)

The ownership structure of the Company as at 31 December 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%
Tresury 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 2015 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**
At 31 December 2012	**7,278**	**60,000**	**67,278**
Changes during the year	-	-	-
At 31 December 2013	**7,278**	**60,000**	**67,278**
Changes during the year	6,676	(6,676)	-
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 by the reserves of own shares based on a decision adopted in the General Meeting of Shareholders held on 22 May 2014.

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

NOTE 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 comprise reserves arisen as a result of hyperinflation prevailing in the 1990s, which resulted in a high increase of prices.

NOTE 25 – TRADE AND OTHER PAYABLES

	2014	2013
	(in thousands of HRK)	
Trade payables /i/	1,056,147	1,145,291
Other payables /ii/	18,187	13,277
	1,074,334	**1,158,568**

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

	2014	2013
	(in thousands of HRK)	
Trade payables – domestic	399,170	533,086
Trade payables – foreign	535,689	489,250
Due to related parties (note 33)	121,288	122,955
	1,056,147	**1,145,291**

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

	2014	2013
	(in thousands of HRK)	
HRK	702,294	784,888
EUR	337,394	346,376
DKK	12,440	13,773
Other currencies	4,019	254
	1,056,147	**1,145,291**

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

	2014	2013
	(in thousands of HRK)	
Salaries to employees	7,092	4,615
Unused annual leave	1,698	1,913
Other taxes and contributions	21	30
Dividend payable	1	1
Liabilities for VAT	5,907	5,751
Other	3,468	967
	18,187	**13,277**

NOTE 26 – BORROWINGS

	2014	2013
	(in thousands of HRK)	
Long-term borrowings:		
Long-term loan /i/	15,344	3,333
Finance lease /iii/	2,121	2,305
	17,465	**5,638**
Short-term borrowings:		
Short-term loans /ii/	258,140	309,537
Finance lease /iii/	1,310	1,596
	259,450	**311,133**
Total borrowings	**276,915**	**316,771**

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

/ii/ Short-term loans relate to financing from various banks for the purpose of maintaining an adequate level of working capital. They are denominated in Croatian kuna (HRK). Loans have maturities ranging from one month to one year. All loans bear interest at a variable rate.

/iii/ Long-term finance lease liabilities relate to the purchase of delivery vehicles. In 2014 leases were agreed at an interest rate of 3.68%-4.13%. No leases were agreed in 2013. 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.

The gross finance lease liability is as follows:

	2014	2013
	(in thousands of HRK)	
Up to one year	1,419	1,725
Between 1 and 5 years	2,210	2,426
Future financing costs	(198)	(250)
Carrying value of finance lease liability	**3,431**	**3,901**

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

	2014	2013
	(in thousands of HRK)	
Up to one year	1,310	1,596
Between 1 and 5 years	2,121	2,305
	3,431	**3,901**

NOTE 26 – BORROWINGS (continued)

The maturity of long-term borrowings is as follows:

	2014	2013
	(in thousands of HRK)	
Between 1 and 2 years	5,771	4,337
Between 2 and 5 years	11,694	1,301
	17,465	**5,638**

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

	2014		2013	
	HRK %	EUR %	HRK %	EUR %
Long-term borrowings				
Finance lease	-	3.90%-4.79%	-	4.08%-7.73%
Long-term loans	4.93%	-	4.90%	-
Short-term borrowings				
Short-term loans	3.73%-4.08%	-	4.40%-5.20%	--

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

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

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

	2014	2013
Borrrowings with variable interest rate	*(in thousands of HRK)*	
Up to 3 months	-	-
3 - 12 months	258,060	214,771
Over 1 year	-	-
	258,060	**214,771**
Borrowings with fixed interest rates		
Loans with fixed interest rates	18,855	102,000
	18,855	**102,000**
Total borrowings	**276,915**	**316,771**

Given that borrowings in the amount of HRK 18,885 thousand bear interest at fixed rates (2013: HRK 102,000 thousand), there is no risk to changes of interest rate.

NOTE 26 – BORROWINGS (continued)

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

	2014	2013
	(in thousands of HRK)	
HRK	273,484	312,870
EUR	3,431	3,901
	276,915	**316,771**

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

NOTE 27 – DEFERRED INCOME TAX

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

Deferred tax assets

(in thousands of HRK)	Inventory impairment	Provision for employee benefits	Total
At 1 January 2013	**447**	**110**	**557**
Tax charged to the income statement	(137)	-	(137)
Tax credited to the income statement	-	21	21
At 31 December 2013	**310**	**131**	**441**
At 1 January 2014	**310**	**131**	**441**
Tax charged to the income statement	-	-	-
Tax credited to the income statement	81	10	91
At 31 December 2014	**391**	**141**	**532**

Deferred tax liability

The Company has no deferred tax liability.

NOTE 28 – PROVISIONS

(in thousands of HRK)	**Employee benefits**	**Legal disputes**	**Total**
At 31 December 2013	**995**	**962**	**1,957**
Non-current	516	-	516
Current	479	962	1,441
At 1 January 2014	**995**	**962**	**1,957**
Additional provisions	213	-	213
Used during the year	(436)	-	(436)
At 31 December 2014	**772**	**962**	**1,734**
Non-current	563	-	563
Current	209	962	1,171

Employee benefits

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

Legal disputes

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

NOTE 29 – CONTINGENCIES

The Company issued guarantees for borrowings of its subsidiary in the total amount of HRK 27,146 thousand (2013: HRK 31,623 thousand),

The contingent liabilities were not included in the statement of financial position at 31 December 2014. Namely, according to the Management estimates, the liabilities of subsidiaries will not become the liabilities of the parent company as all related-party transactions are controlled by the parent. There are currently no circumstances that would indicate that the Company may be called to settle the liabilities of the subsidiaries.

The Company entered into several legal disputes, both as plaintiff and defendant. Based on the opinion of the expert legal counsellor who represents the Company in the stated disputes, Management estimates that no material losses shall arise from these disputes for the Company except for one dispute for which provision was made in amount of HRK 962 thousand (note 28).

NOTE 30 – OPERATING LEASE

Contractual rents on operating lease are as follows:

	2014	2013
	(in thousands of HRK)	
Up to one year	921	1,631
Between 1 and 5 years	1,949	1,813
Contractual rents on operating lease	**2,870**	**3,444**

NOTE 31 – CONTRACTUAL OBLIGATIONS

During 2013 the Company concluded an agreement on construction work for the new distribution warehouse in Osijek and in 2014 Annex to the contract was made. Value of the contract is HRK 25,802 thousand (2013: 24,639).

NOTE 32 – SUBSEQUENT EVENTS

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

NOTE 33 – RELATED PARTY TRANSACTIONS

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

Related parties include:

	2014	2013
1. Subsidiaries of the Company:		
Zdravstvena ustanova Ljekarne Prima Pharme, Split	100%	100%
2. Associate of the Company:		
Litmus d.o.o., Zagreb	41.53%	41.53%
3. Subsidiaries of Zdravstvena ustanova Ljekarne Prima Pharme, Split:		
Zdravstvena ustanova Ljekarne Delonga, Okrug Gornji	100%	100%
Zdravstvena ustanova Ljekarne Atalić, Osijek	100%	100%
Zdravstvena ustanova Ljekarne Ines Škoko, Zagreb	100%	100%
Ljekarna Elvira Štimac, Opatija (merged in March 2014)	-	100%
Zdravstvena ustanova Hermed, Sisak (acquired and merged in 2014)	-	-
4. Associate of Zdravstvena ustanova Ljekarne Prima Pharme, Split		
Zdravstvena ustanova Ljekarne Jagatić, Dubec	49%	49%
Zdravstvena ustanova Ljekarne Sv. Kuzma i Damjan, Zagreb (founded and sold in 2013)	-	-

NOTE 33 – RELATED PARTY TRANSACTIONS (continued)

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

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

7. Pliva Hrvatska d.o.o., Zagreb owns 25.32% of the Company and has 26.33% of the voting rights. Given the share in the ownership and business transactions with the Company, Pliva Hrvatska has significant influence on the current operations of the Company.

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

Balances and items resulting from these transactions are as follows:

(in thousands of HRK)	Note	2014	2013
Trade and other receivables			
Given loans			
Subsidiary of Litmus d.o.o., Zagreb		-	121
	18	-	121
Trade and other receivables			
Subsidiaries of the Company		193,172	207,711
Associate of the Company		1	-
Subsidiaries of Zdravstvena ustanova Ljekarne Prima Pharme		16,518	21,391
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	225,133	246,516
Inventories			
Pliva Hrvatska d.o.o., Zagreb		21,122	11,153
	19	21,122	11,153
Cash and cash equivalents			
Other related parties		30,000	20,000
	20	30,000	20,000
Trade payables			
Subsidiaries of the Company		-	46
Subsidiaries of Zdravstvena ustanova Ljekarne Prima Pharme		-	187
Pliva Hrvatska d.o.o., Zagreb		121,288	122,722
	25	121,288	122,955

NOTE 33 – RELATED PARTY TRANSACTIONS (continued)

(in thousands of HRK)	Note	2014	2013
Revenue from sales and other revenue			
Subsidiaries of the Company		208,349	206,166
Associate of the Company		5	5
Subsidiaries of Zdravstvena ustanova Ljekarne Prima Pharme		28,756	33,202
Associate 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	265,861	270,125
Finance income			
Subsidiary of Litmus d.o.o., Zagreb		7	-
Other related parties		66	-
	11	73	-
Marketing and promotion expenses			
Subsidiaries of the Company		-	149
	8	-	149
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 four members		8,234	7,307
Supervisory Board compensation		614	679

***