

MEDIKA d.d.

**AUDITOR'S REPORT AND
SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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Management report

Medika d.d. ('the Company') generated in 2015, on a non-consolidated basis, revenue in the amount of HRK 2,385,579 thousand, which is HRK 188,442 thousand more than the actual non-consolidated revenue in the prior year. The non-consolidated operating profit amounts to HRK 53,498 thousand, which is 19.8% less than the actual prior-year figure.

The non-consolidated pre-tax profit amounts to HRK 55,633 thousand, and the non-consolidated net profit amounts to HRK 45,233 thousand, 26.4% less the actual 2014 result.

The Management Board of the Company adopted a decision to reinvest HRK 8,262 thousand of the total profit, which is also the amount by which the share capital will be increased and then registered in 2016. The increase will be carried out 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) 52.3% of the total non-consolidated income was generated in pharmacies, 4.6% less than in the prior year. At the same time, 27.5% of the total non-consolidated income was generated by hospitals, 2.9% more than the actual prior-year figure.

Total non-consolidated assets amount to HRK 1,847,384 thousand and rose 2.5% from the prior year-end. In the current year, non-current and current assets respectively account for a larger share than in the prior year. 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 86.2% of the total assets. Trade and other receivables are the most significant item of the total non-consolidated assets and increased 4.5% compared to the prior year. At the same time, the balance of inventories increased by 2.0% versus prior year.

The total loan debt on a non-consolidated basis amounts to HRK 341,609 thousand, of which short-term borrowings and finance leases amount to HRK 322,156 thousand and long-term borrowings and finance lease obligations amount to HRK 19,453 thousand (note 26).

The equity ratio is 23%, which means that 23% 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 on page 7 of the financial statements.

Expected future development of the Company

The Company will continue with its core business: distribution of medicinal products and medical devices 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. At the beginning of 2015 new business center was completed and started to operate. This investment provided appropriate and quality warehouse facilities with all the auxiliary premises in accordance with regulations and standards. By increasing the storage capacity, preconditions for further development of business in Slavonia, and thus the development of the whole Medika were created.

Treasury shares

Medika d.d. currently owns 1,035 treasury shares, which represents 3.43% of shares issued.

Subsidiaries and associates

Medika d.d. has subsidiaries Zdravstvena ustanova Ljekarne Prima Pharme, registered in Zagreb and Put stinica d.o.o., registered in Zagreb. Both subsidiaries are fully owned by Medika d.d.

Zdravstvena ustanova Ljekarne Prima Pharme has the following subsidiaries: Zdravstvena ustanova Ljekarne Delonga (Okrug Gornji), Zdravstvena ustanova Ljekarne Ines Škoko (Zagreb), Zdravstvena ustanova Ljekarne Atalić (Osijek) and Ljekarna Mirela Klunić (Pula). All the subsidiaries are fully owned by ZU Ljekarne Prima Pharma.

During 2015 Ljekarna Mira Kožul was acquired and merged into ZU Ljekarne Prima Pharme.

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

Risks

The most significant market risk for Medika d.d. is the long collection period for receivables, especially HZZO (Croatian State Health Insurance) and HZZO related receivables. Therefore, a significant amount of working capital is not available, which strongly affects the cash flows of Medika d.d. and 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 medicinal products on the HZZO list and the HZZO administrative approach in determining prices and margins on medicinal products represent a further risk. To lower this risk, Company has focused on expanding the lines of products that are not limited by law in respect of the price of the product.

Currency risk represents a significant financial risk. Part of inventories are purchased on foreign markets, giving rise to the exchange rate risk, mainly in relation to the euro. There is no currency risk regarding loans because all loans are in Croatian currency Kuna.

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.

ANNUAL REPORT (CONTINUED)

The Company has part of its assets that generate revenues from interests and these revenues and cash flow from business activities are dependent on market interest rates fluctuations.

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 have going-concern issues and risks regarding the collection of receivables.

Corporate governance code

As an entity listed on the official market of the Zagreb Stock Exchange, Medika d.d. applies the corporate governance code of 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

Management Board has one member: Mr. Jasminko Herceg, Director.

The members of the Supervisory Board of the Company are as follows: Mrs. Ružica Vadić, president, Mr. Damjan Možina, vice president, members: Mr. Nikica Gabrić, Mr. Mihael Furjan, Mr. Mate Perković, Mr. Oleg Uskoković and Mr. Ante Turković.

Zagreb, 15 March 2016


Jasminko Herceg
Director

1 Medika d.d.
ZAGREB, Capraška 1

STATEMENT OF MANAGEMENT AND SUPERVISORY BOARD'S 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. The Management Board has a general responsibility for taking such steps which are reasonably available to it in order 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 of its annual report on the Company together with the annual financial statements to the Supervisory Board, 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 the Management Board on 15 March 2016 for issue to the Supervisory Board and are signed below to signify this.

Signed on behalf of the Management Board on 15 March 2016

Jasminko Herceg
Director

Medika d.d.
ZAGREB, Capraška 1

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

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 2015, 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.

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Board Members: Branislav Vrtačnik, Eric Daniel Olcott, Marina Tonžetić, Juraj Moravek, Dražen Nimčević and John Jozef H. Ploem; Bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR1024840081100240905.

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Independent auditor's report to the shareholders of Medika d.d., Zagreb (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 2015, 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.

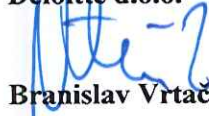
Other legal and regulatory requirements

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 2015.

Deloitte d.o.o.



Branislav Vrtacnik

President of the Management Board and Certified Auditor



Marina Tonžetić

Member of the Management Board and Certified Auditor

Zagreb, 15 March 2016

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

<i>(all amounts are expressed in thousands of HRK)</i>	Note	2015	2014
Revenue	5, 6	2,385,579	2,197,137
Cost of trade goods sold	6	(2,221,428)	(2,028,075)
Staff costs	7	(58,966)	(58,231)
Marketing and promotion expenses	8	(9,632)	(9,192)
Depreciation and amortisation	14, 15	(9,848)	(9,736)
Other operating expenses	9	(37,758)	(27,271)
Other gains – net	10	5,551	2,113
Operating profit		53,498	66,745
Finance income	11	14,813	7,633
Finance expenses	11	(12,678)	(11,206)
Finance gains / (losses) – net		2,135	(3,573)
Profit before tax		55,633	63,172
Income tax	12	(10,400)	(1,704)
Profit for the year		45,233	61,468
Other comprehensive income		-	-
Total comprehensive income		45,233	61,468
Earnings per share			
-basic/diluted (in HRK and lipa)	13	1,552.48	2,116.74

The financial statements set out on pages 7 to 51 were approved by the Management Board of the Company in Zagreb on 15 March 2016.

Jasminko Herceg¹
 Director

Medika d.d.
 ZAGREB, Capraška 1

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

SEPARATE STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2015

<i>(all amounts are expressed in thousands of HRK)</i>	Note	As at 31 December	
		2015	2014
ASSETS			
Non-current assets			
Property and equipment	14	166,798	160,984
Intangible assets	15	16,465	17,635
Investments in subsidiaries and associates	16	59,249	59,353
Deferred tax assets	27	729	532
Trade and other receivables	18	11,073	8,543
		<u>254,314</u>	<u>247,047</u>
Current assets			
Inventories	19	233,707	229,178
Trade and other receivables	18	1,307,704	1,253,005
Income tax receivable		2,571	8,163
Cash and cash equivalents	20	49,088	65,109
		<u>1,593,070</u>	<u>1,555,455</u>
Total assets		<u>1,847,384</u>	<u>1,802,502</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	178,211	115,238
Reserve for reinvested profit	22	8,262	61,294
Reserves	23	67,278	67,278
Retained earnings	24	165,410	205,709
		<u>419,161</u>	<u>449,519</u>
Non-current liabilities			
Borrowings	26	19,453	17,465
Provisions	28	803	563
		<u>20,256</u>	<u>18,028</u>
Current liabilities			
Trade and other payables	25	1,085,549	1,074,334
Borrowings	26	322,156	259,450
Provisions	28	262	1,171
		<u>1,407,967</u>	<u>1,334,955</u>
Total equity and liabilities		<u>1,847,384</u>	<u>1,802,502</u>

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

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Share capital	Reserve for reinvested profit	Reserves	Retained earnings	Total
As 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		-	-	-	61,468	61,468
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	205,709	449,519
As at 1 January 2015		115,238	61,294	67,278	205,709	449,519
Total comprehensive income						
Profit for the year		-	-	-	45,233	45,233
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	45,233	45,233
Transactions with owners recognized directly in equity						
Increase of share capital	21	61,294	(61,294)	-	-	-
Release of treasury shares	21	1,679	-	-	-	1,679
Dividend payout	24	-	-	-	(77,270)	(77,270)
Transfer	22	-	8,262	-	(8,262)	-
Transactions with owners recognized directly in equity		62,973	(53,032)	-	(85,532)	(75,591)
As at 31 December 2015		178,211	8,262	67,278	165,410	419,161

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

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

<i>(all amounts expressed in thousands of HRK)</i>	Note	2015	2014
Cash flows from operating activities:			
Profit for the year		45,233	61,468
Adjustments for:			
Income tax	12	10,400	1,704
Depreciation and amortisation	14, 15	9,848	9,736
Impairment of trade and other receivables, net	9	404	(12,189)
Inventory impairment	19	7,763	5,622
Unrealised foreign exchange differences		(791)	1,752
Change in provisions	28	(669)	(223)
Gain on disposal of property and equipment	10	(328)	(97)
Impairment of property and equipment	9, 14	-	1,840
Buildings write-off	10, 14	-	805
Intangible assets disposal	15	1	152
Interest expense	11	12,741	11,186
Interest income	11	(14,813)	(7,633)
Changes in:			
Increase in inventories		(12,292)	(23,710)
(Increase) / decrease in trade and other receivables		(18,053)	212,455
Increase / (decrease) in trade and other payables		11,667	(86,170)
Increase in dividend payables		11	-
Cash flows generated from operating activities		51,122	176,698
Interest paid		(12,807)	(10,791)
Income tax paid		(4,707)	(5,546)
Cash flows from operating activities		33,608	160,361
Cash flows from investing activities:			
Purchase of property and equipment and intangible assets	14, 15	(8,155)	(23,915)
Proceeds from sale of property, plant and equipment		380	355
Proceeds from repayment of loans given		237,664	71,781
Investment in subsidiary	16	-	(205)
Loans given		(277,010)	(159,930)
Interest received		14,650	6,559
Cash flows from investing activities		(32,471)	(105,355)

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

MEDIKA d.d., Zagreb**SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2015**

<i>(all amounts expressed in thousands of HRK)</i>	Note	2015	2014
Cash flows from financing activities:			
Repayment of borrowings		(157,965)	(298,667)
Proceeds from borrowings		219,712	258,886
Repayment of finance lease		(3,314)	(1,774)
Dividend payout		(77,270)	-
Release of treasury shares		1,679	-
Cash flows from financing activities		(17,158)	(41,555)
Net (decrease) / increase in cash and cash equivalents		(16,021)	13,451
Cash and cash equivalents at beginning of year		65,109	51,658
Cash and cash equivalents at end of year	20	49,088	65,109

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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 headquarters is in Zagreb, Capraška 1.

As at 31 December 2015, the Company’s shares were listed on 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

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 15 March 2016. 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 2015 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 2015, 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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 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 prevailing 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, if any.

(b) Associates

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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 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 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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 measured at amortised cost using effective interest rate method.

The Company assesses at each reporting date whether there is indication for financial assets to be impaired. Impairment testing of trade and loan 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 transferred to 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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 weighted 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 charged to cost of trade goods sold.

2.11 Trade and loan receivables

Trade and loan receivables are initially recognized at fair value and subsequently measured at amortized cost using effective interest method, less an allowance for impairment. A provision for impairment of receivables is made whenever there is objective evidence that the Company will not be able to collect all due receivables according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of 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.

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. When 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, unused annual leave 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 item included in the same class of obligations may be small.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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 as described below.

(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 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 contracted 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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 basic earnings per share (EPS) 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (which includes exchange rate risk, the fair value interest rate risk and the cash flow interest rate 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 dynamic 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 kuna (HRK). However, 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 kuna with as many existing foreign suppliers as possible so as to minimise the risk arising from transactions with foreign suppliers.

As at 31 December 2015 (notes 18, 20, 25, 26), if the EURO had weakened/strengthened against the HRK by 1.0% against the HRK (2014: 0.74%), with all other variables held constant, the profit after tax for the reporting period would have been HRK 3,026 thousand higher/lower (2014: HRK 2,127 thousand), mainly as a result of foreign exchange gains/losses on translation of EURO-denominated trade payables .

(ii) Cash flow and fair value interest rate risk

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.

As at 31 December 2015, if the effective interest rate on borrowings (issued at variable rate) had been 0.10% higher/lower on an annual level (2014: 0.60%), the profit after tax for the reporting period would have been HRK 161 thousand kuna lower/higher (2014: HRK 1,361 thousand).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Company's exposure to credit risk is influenced mainly by current assets which comprise cash, trade and other receivables.. The Company has no significant concentrations of credit risk. The Company's sale policies 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. 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 Division performs regular (monthly) monitoring of the available sources of cash, and performs payments on a daily basis in accordance with priority lists received from heads of 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 2015 the Company had available cash in the amount of HRK 49,088 thousand and another HRK 106,100 thousand of free credit lines available at demand for liquidity risk management.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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.

<i>(in thousands of HRK)</i>	Less than 1 month	More than 2 months and less than 1 year	Between 1-3 years	Over 3 years	Total
At 31 December 2015					
Trade and other payables	281,680	803,869	-	-	1,085,549
Borrowings	31,223	293,600	20,083	356	345,262

<i>(in thousands of HRK)</i>	Less than 1 month	More than 2 months and less than 1 year	Between 1-3 years	Over 3 years	Total
At 31 December 2014					
Trade and other payables	195,799	878,535	-	-	1,074,334
Borrowings	4,116	258,817	17,640	1,190	281,763

During 2016, the Company will settle trade and other liabilities according to the collection of receivables which depends on liquidity of the whole healthcare system.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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:

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Total equity (capital and reserves)	419,161	449,519
Total assets	<u>1,847,384</u>	<u>1,802,502</u>
Equity to assets ratio	<u>23%</u>	<u>25%</u>

In 2015, the ratio has decreased in comparison to 2014 showing that 23% of the Company's total assets are financed from own resources. In accordance with the stated, 77% of assets is financed from other resources (2014: 75%)

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 Company for similar financial instruments.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on 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 annual effective interest rate of 3.80% (2014: 3.98%). Should actual collections be less than Management estimates, the Company would be required to record additional impairment expense.

As at 31 December 2015, if the assessment of the amount of uncollectible receivables had been 1% lower/higher, with all other variables held constant, profit after tax for the reporting period would have been HRK 438 thousand higher/lower than the one recorded (2014: HRK 130 thousand). The effect in the hospital segment would be HRK 258 thousand (2014: HRK 70 thousand), in the pharmacy segment HRK 70 thousand (2014: HRK 30 thousand) and in the segment 'other' HRK 110 thousand (2014: HRK 31 thousand).

Useful life of property and equipment

Determining the useful life of assets is based upon the historical experience in comparison with similar assets, taking into consideration predictable changes in economic environment and factors related to the industry in which the Company operates. Adequacy of predicted useful life is evaluated once per year, or whenever there is an indication of significant changes in the assumptions.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 5 – REVENUE

	2015	2014
	<i>(in thousands of HRK)</i>	
Revenue from sales	2,111,185	1,920,924
Revenue from sales and other revenue-related parties (note 32)	263,809	265,861
Other revenue	10,585	10,352
	2,385,579	2,197,137

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 Pharne with its subsidiaries).

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 6 – BUSINESS SEGMENT INFORMATION (continued)

The results of the stated segments for the year ended 31 December 2015 are as follows:

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Other	Total
Revenue from sales	983,521	656,372	471,292	2,111,185
Revenue from sales and other revenue from related parties (note 32)	263,419	-	390	263,809
Other revenue	99	3	10,483	10,585
Total revenues	1,247,039	656,375	482,165	2,385,579
Cost of trade goods sold	(1,150,006)	(638,422)	(433,000)	(2,221,428)
Segment results	97,033	17,953	49,165	164,151
Operating expenses				(110,653)
Operating profit				53,498
Finance income				14,813
Finance expenses				(12,678)
Finance gains - net				2,135
Profit before tax				55,633
Income tax				(10,400)
Profit for the year				45,233

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 6 – BUSINESS SEGMENT INFORMATION (continued)

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

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Other	Total
Revenue from sales	985,535	539,699	395,690	1,920,924
Revenue from sales and other revenue from related parties (note 32)	265,520	-	341	265,861
Other revenue	30	13	10,309	10,352
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 losses - net				(3,573)
Profit before tax				63,172
Income tax				(1,704)
Profit for the year				61,468

The segment trade receivables at 31 December 2015 are as follows:

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Other	Total
Trade receivables (note 18/ii/)	481,832	526,918	101,567	1,110,317

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

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Other	Total
Trade receivables (note 18/ii/)	573,035	426,364	94,690	1,094,089

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 7 – STAFF COSTS

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Contributions from and on salaries /i/	15,622	15,512
Net salaries	31,765	28,520
Tax and surtax	4,157	5,708
Management bonuses	2,977	5,226
Employee transportation costs	1,962	1,861
Termination benefits	245	155
Other employee benefits /ii/	2,238	1,249
	<u>58,966</u>	<u>58,231</u>

As at 31 December 2015, the Company had 399 employees (2014: 370 employees),

/i/ In 2015, pension contributions recorded by the Company for payment to mandatory pension funds amounted to HRK 8,659 thousand (2014: HRK 8,321 thousand),

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

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Donations	4,931	4,791
Representation expenses	2,624	2,523
Marketing	2,077	1,878
	<u>9,632</u>	<u>9,192</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 9 – OTHER OPERATING EXPENSES

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Materials and energy consumed	10,384	10,151
Maintenance of assets, security services and insurance	9,079	9,188
Professional training and consultancy services	5,629	5,014
Rental expenses	3,383	3,436
Taxes and contributions (not income tax based)	2,969	3,005
Bank charges and payment transaction costs	1,339	1,655
Telephone, postal and utility services	1,130	1,115
Control and analysis services	522	762
Impairment of trade and other receivables (note 18)	404	(12,189)
Impairment of property and equipment (note 14)	-	1,840
Other expenses	2,919	3,294
	<u>37,758</u>	<u>27,271</u>

NOTE 10 – OTHER GAINS– NET

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Net foreign exchange (losses)/gains– trade payables and other liabilities	5,562	(62)
Gains on sale of property and equipment (net)	328	97
Buildings write off (note 14)	-	(805)
Net foreign exchange losses – trade and other receivables	(100)	(222)
Net foreign exchange gains – cash and cash equivalents	(239)	3,105
	<u>5,551</u>	<u>2,113</u>

NOTE 11 – FINANCE GAINS / (LOSSES) - NET

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Finance income		
Interest income	14,807	7,560
Interest income – related parties (note 32)	6	73
	<u>14,813</u>	<u>7,633</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 11 – FINANCE GAINS / (LOSSES) - NET (continued)

Finance expenses	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Interest expense		
Bank loans and finance lease	(12,741)	(11,186)
	<u>(12,741)</u>	<u>(11,186)</u>
Foreign exchange gains / (losses) – net		
Positive foreign exchange differences	114	46
Negative foreign exchange differences	(51)	(66)
	<u>63</u>	<u>(20)</u>
	<u>(12,678)</u>	<u>(11,206)</u>

NOTE 12 – INCOME TAX

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Current tax	10,597	1,795
Deferred tax (note 27)	(197)	(91)
	<u>10,400</u>	<u>1,704</u>

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

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Profit before taxation	55,633	63,172
Income tax at 20%	11,127	12,635
Non-taxable income and tax incentives	(983)	(416)
Tax incentives for reinvested profit (note 22)	(1,652)	(12,259)
Expenses not deductible	1,908	1,744
Income tax	<u>10,400</u>	<u>1,704</u>
Effective tax rate	<u>18,69%</u>	<u>2,70%</u>

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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 29,136, as the Company had transactions involving its treasury shares during 2015.

	2015	2014
Net profit attributable to the shareholders <i>(in thousands of HRK)</i>	45,233	61,468
Weighted average number of ordinary shares excluding treasury shares	29,136	29,039
Basic / diluted earnings per share <i>(in HRK and lipa)</i>	1,552.48	2,116.74

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 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 from assets under construction	-	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	35,251	279,745
Accumulated depreciation	-	(50,705)	(66,216)	(1,840)	(118,761)
Carrying amount	15,995	99,199	12,379	33,411	160,984
For year ended 31 December 2015					
Opening carrying amount	15,995	99,199	12,379	33,411	160,984
Additions	-	-	-	14,236	14,236
Transfer from assets under construction	2,238	26,756	16,456	(45,450)	-
Disposals	-	-	(52)	-	(52)
Depreciation	-	(4,179)	(4,191)	-	(8,370)
Closing carrying amount	18,233	121,776	24,592	2,197	166,798
At 31 December 2015					
Cost	18,233	176,660	92,248	4,001	291,142
Accumulated depreciation	-	(54,884)	(67,656)	(1,804)	(124,344)
Carrying amount	18,233	121,776	24,592	2,197	166,798

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 14 – PROPERTY AND EQUIPMENT (CONTINUED)

Loans and finance lease liabilities (note 26) have been secured by pledges over property and equipment with a carrying value of HRK 138,234 thousand as at 31 December 2015 (2014: HRK 118,607 thousand).

In 2015, the Company capitalised the costs of borrowings in the amount of HRK 342 thousand (2014: HRK 506 thousand) raised for investing in a new business centre.

Delivery vehicles and fork lift under a finance lease are as follows:

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Cost – capitalised finance lease	10,896	7,056
Accumulated depreciation	<u>(3,442)</u>	<u>(4,032)</u>
Carrying amount	<u>7,454</u>	<u>3,024</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 15 – INTANGIBLE ASSETS

(all amounts are expressed in thousands of HRK)

	Licences	Goodwill	Assets under construction	Total
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 from assets under construction	91	-	(91)	-
Disposals	(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
For the year ended 31 December 2015				
Opening carrying amount	3,799	11,930	1,906	17,635
Additions	-	-	309	309
Transfer from assets under construction	1,766	-	(1,766)	-
Disposal	(1)	-	-	(1)
Amortisation	(1,478)	-	-	(1,478)
Closing carrying amount	4,086	11,930	449	16,465
At 31 December 2015				
Cost	33,959	11,930	449	46,338
Accumulated amortisation	(29,873)	-	-	(29,873)
Carrying amount	4,086	11,930	449	16,465

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

Impairment test of goodwill

The Company calculated recoverable amount using value-in-use method. Value-in-use cash flow projections were based on 5 year business plan approved by Management. Discount rate of 8.83%, growth rate of 1-2% and income tax rate of 20% were applied when discounting projected cash flow. Recoverable amount exceeds carrying amount.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 16 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	<u>% holding in 2015</u>	<u>% holding in 2014</u>	<u>2015</u>	<u>2014</u>
			<i>(in thousands of HRK)</i>	
ZU Ljekarne Prima Pharme, Zagreb	100%	100%	40,000	40,000
Litmus d.o.o., Zagreb /i/	-	41.53%	-	19,353
Put stinica d.o.o., Zagreb /ii/	100%	-	19,249	-
			<u>59,249</u>	<u>59,353</u>

/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%.

/ii/ Based on the decision of the Commercial Court in Zagreb there a statutory change of separation with foundation has been made for Litmus d.o.o. which resulted in foundation of a new company Put stinica d.o.o. in which the Company had 41.53% share. Based on the contract of replacement of shares the Company transferred to company Laguna Novigrad d.o.o. share in Litmus d.o.o. in exchange for share in Put stinica d.o.o. and after the transaction the Company acquired 100% share in company Put stinica d.o.o. Estimated value of the company Put stinica d.o.o. was HRK 19,249 thousand.

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Financial assets - category: Loans given and receivables		
Loans given and receivables (note 18/v/)	1,312,253	1,253,463
Cash and cash equivalents (note 20)	49,088	65,109
	<u>1,361,341</u>	<u>1,318,572</u>
Financial liabilities - category: Other liabilities		
Trade payables (note 25/i/)	1,066,469	1,056,147
Other payables (note 25/ii/)	19,080	18,187
Total debt (note 26)	341,609	276,915
	<u>1,427,158</u>	<u>1,351,249</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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:

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Pharmacies	334,426	348,824
Hospitals	137,782	114,102
Other	65,968	59,313
At 31 December	<u>538,176</u>	<u>522,239</u>

NOTE 18 – TRADE AND OTHER RECEIVABLES

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Non-current receivables:		
Loans given /i/	10,818	8,288
Long term deposits	255	255
	<u>11,073</u>	<u>8,543</u>
Current receivables:		
Trade receivables /ii/	1,110,317	1,094,089
Other current receivables /iii/	6,269	7,830
Loans given /iv/	181,479	146,698
Loans given – current portion of non-current receivables /i/	9,639	4,388
	<u>1,307,704</u>	<u>1,253,005</u>
	<u>1,318,777</u>	<u>1,261,548</u>

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

	<u>Effective interest rate</u>	<u>2015</u>	<u>2014</u>
		<i>(in thousands of HRK)</i>	
Loans given to pharmacies	4,0%-8,0%	10,800	2,969
Loans given - other	4,0%-8,0%	9,657	9,707
Total non-current receivables, including current portion		20,457	12,676
Current portion of non-current receivables		<u>(9,639)</u>	<u>(4,388)</u>
		<u>10,818</u>	<u>8,288</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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:

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	6,053	3,930
Between 2 and 5 years	4,765	4,358
	<u>10,818</u>	<u>8,288</u>

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

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Domestic trade receivables	927,322	879,759
Trade receivables – related parties (note 32)	194,229	225,133
Foreign trade receivables	1,672	2,820
	<u>1,123,223</u>	<u>1,107,712</u>
Impairment of trade receivables	(12,906)	(13,623)
	<u>1,110,317</u>	<u>1,094,089</u>

The ageing structure of receivables is as follows:

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Undue	538,177	522,239
0-180 days	442,967	492,997
181-360 days	104,776	63,326
Over 360 days	37,303	29,150
	<u>1,123,223</u>	<u>1,107,712</u>

Movements in the impairment of trade receivables are as follows:

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
As at 1 January	13,623	34,796
Increase / (decrease) (note 9)	464	(12,110)
Write off	(1,181)	(9,063)
As at 31 December	<u>12,906</u>	<u>13,623</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
HRK	1,307,597	1,250,315
EUR	11,006	11,003
DKK	174	230
	<u>1,318,777</u>	<u>1,261,548</u>

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

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
VAT receivable	2,860	4,810
Prepaid expenses	2,691	2,140
Other	718	880
	<u>6,269</u>	<u>7,830</u>

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

	<u>Effective interest rate</u>	<u>2015</u>	<u>2014</u>
		<i>(in thousands of HRK)</i>	
Loans given - other	4.0%-8.0%	182,768	148,130
		182,768	148,130
Impairment of loans given		(1,289)	(1,432)
		<u>181,479</u>	<u>146,698</u>

Movements in impairment of given loans:

	<u>2015</u>	<u>2014</u>
	<i>(in HRK'000)</i>	
Balance at 1 January	1,432	1,511
Decrease (note 9)	(60)	(79)
Write off	(83)	-
At 31 December	<u>1,289</u>	<u>1,432</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/v/ Financial assets by category include the following:

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Trade receivables	1,110,317	1,094,089
Cash loans given	196,988	155,623
Commodity loans given	4,784	3,751
Cash loans given – related parties (note 32)	164	-
	<u>1,312,253</u>	<u>1,253,463</u>

Of the total amount of cash loans given HRK 181,050 thousand (2014: HRK 146,061 thousand) refers to loans given to one business partner.

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

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Trade goods	217,119	203,240
Trade goods – related parties (note 32)	12,191	21,122
Advances given	4,254	4,688
Material and office supplies	143	128
	<u>233,707</u>	<u>229,178</u>

In 2015 the Company reviewed its inventories to identify any damaged or obsolete inventories and recognized an allowance in the amount of HRK 7,763 thousand (2014: HRK 5,622 thousand), which is reported in the cost of goods sold.

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 20 – CASH AND CASH EQUIVALENTS

	2015	2014
	<i>(in thousands of HRK)</i>	
Current account in HRK	48,710	34,912
Foreign currency account	370	190
Cash in hand	8	7
Investment in cash fund (note 32)	-	30,000
	49,088	65,109

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

NOTE 21 – SHARE CAPITAL

As at 31 December 2015, the Company's share capital amounted to HRK 196,261,000 (2014: HRK 134,967,180) distributed among 30,194 shares (2014: 30,194 shares). The nominal value per share is HRK 6,500 (2014: HRK 4,470). All issued shares are fully paid.

	Number of shares <i>(in number of shares)</i>	Share capital	Treasury shares <i>(in thousands of HRK)</i>	Capital profit/ (loss)	Total
At 1 January 2014	30,194	94,205	(10,486)	(9,243)	74,476
Increase of share capital \i\	-	40,762	-	-	40,762
At 31 December 2014	30,194	134,967	(10,486)	(9,243)	115,238
At 1 January 2015	30,194	134,967	(10,486)	(9,243)	115,238
Release of treasury shares \ii\	-	-	1,089	590	1,679
Increase of share capital \iii\	-	61,294	-	-	61,294
At 31 December 2015	30,194	196,261	(9,397)	(8,653)	178,211

\i\ 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.

\ii\ During 2015, the Company granted 120 of its treasury shares to key management,

\iii\ The share capital was increased based on the decision of the General Assembly held on 30 June 2015. The Commercial Court in Zagreb issued a decision on the registration of the increase of share capital on 23 October 2015. The share capital was increased from reserve for reinvested profit in the amount of HRK 61,294 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 21 – SHARE CAPITAL (continued)

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

	2015		2014	
	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	1,035	3,43%	1,155	3,83%
Individuals	2,231	7,39%	2,211	7,32%
Other legal entities	1,362	4,51%	1,262	4,18%
Total	30,194	100%	30,194	100%

As at 31 December 2015 Mavota d.o.o. owned 14,306 shares, which represents 49.06% (2014: 49.26%) of shares with voting rights taking into account non-voting treasury shares.

NOTE 22 – RESERVE FOR REINVESTED PROFIT

During 2015, the Company realised profit before tax of HRK 55,633 thousand (2014: HRK 63,172 thousand). The Management of the Company adopted a decision to reinvest profits in the amount of HRK 8,262 thousand (2014: HRK 61,294 thousand), which will be registered during 2016 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 (for which investing in non-current and current assets has been done) as a tax incentive resulting in a decrease in current tax expense in the amount of HRK 1,652 thousand (2014: HRK 12,259 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 8,262 thousand (2014: HRK 61,294 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 2016, 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 1,652 thousand (2014: HRK 12,259 thousand), plus interests.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 23 – RESERVES

<i>(in thousands of HRK)</i>	Legal reserves	Reserves for treasury shares	Total
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
Changes during the year	2,038	(2,038)	-
At 31 December 2015	15,992	51,286	67,278

Legal reserves amount to HRK 15,992 thousand (2014: HRK 13,954 thousand) and were increased from the reserves of own shares based on a decision adopted at the General Assembly held on 30 June 2015.

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 reaches 5% of the share capital. Legal reserves are not distributable.

NOTE 24 – RETAINED EARNINGS

Other reserves in the amount of HRK 31,796 thousand (2014: 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 during the 1990s, which resulted in a high increase of prices.

The General Assembly at the meeting held at 30 June 2015 made a decision about dividend distribution from retained earnings realized until year 2000 in the amount of HRK 77,270 thousand. Until 31 December 2015 there has been payments made in amount of HRK 77,260 thousand.

Dividend per share amounted to HRK 2,650 thousand.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 25 – TRADE AND OTHER PAYABLES

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Trade payables /i/	1,066,469	1,056,147
Other payables /ii/	19,080	18,187
	<u>1,085,549</u>	<u>1,074,334</u>

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

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Trade payables – foreign	546,956	535,689
Trade payables – domestic	404,728	399,170
Due to related parties (note 32)	114,785	121,288
	<u>1,066,469</u>	<u>1,056,147</u>

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

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
HRK	670,517	702,294
EUR	381,575	337,394
DKK	14,185	12,440
Other currencies	192	4,019
	<u>1,066,469</u>	<u>1,056,147</u>

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

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Liabilities for VAT	8,331	5,907
Salaries to employees	4,513	4,361
Unused annual leave	1,866	1,698
Other taxes and contributions	49	21
Dividend payable	12	1
Other	4,309	6,199
	<u>19,080</u>	<u>18,187</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 26 – BORROWINGS

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Long-term borrowings:		
Long-term loan /i/	13,894	15,344
Finance lease /iii/	<u>5,559</u>	<u>2,121</u>
	19,453	17,465
Short-term borrowings:		
Short-term loans /ii/	319,674	258,140
Finance lease /iii/	<u>2,482</u>	<u>1,310</u>
	322,156	259,450
Total borrowings	<u>341,609</u>	<u>276,915</u>

/i/ Long-term loan relates to financing from bank for the investment purpose. The loan is denominated Croatian kuna (HRK) with fixed 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 nine months. One portion of the loans are with fixed interest rate.

/iii/ Long-term finance lease liabilities relate to the purchase of delivery vehicles and fork lift. In 2015 new lease contracts were agreed at an interest rate of 3.29%-3.66% (2014: 3.68%-4.13%). The lease liabilities are repayable within four to six 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:

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Up to one year	2,731	1,419
Between 1 and 5 years	5,836	2,210
Future financing costs	<u>(526)</u>	<u>(198)</u>
Carrying value of finance lease liability	<u>8,041</u>	<u>3,431</u>

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

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Up to one year	2,483	1,310
Between 1 and 5 years	<u>5,558</u>	<u>2,121</u>
	<u>8,041</u>	<u>3,431</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 26 – BORROWINGS (continued)

The maturity of long-term borrowings is as follows:

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	10,129	5,771
Between 2 and 5 years	<u>9,324</u>	<u>11,694</u>
	<u>19,453</u>	<u>17,465</u>

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

	<u>2015</u>		<u>2014</u>	
	<u>HRK</u>	<u>EUR</u>	<u>HRK</u>	<u>EUR</u>
	%	%	%	%
Long-term borrowings				
Long-term loans	4.33%	-	4.93%	-
Finance lease	-	3.29%-4.46%	-	3.90%-4.79%
Short-term borrowings				
Short-term loans	3.35%-4.13%	-	3.73%-4.08%	--

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:

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Borrowings with variable interest rate		
Up to 3 months	40,000	18,333
3 - 12 months	179,240	239,727
Over 1 year	-	-
	<u>219,240</u>	<u>258,060</u>
Borrowings with fixed interest rates		
Loans with fixed interest rates	122,369	18,855
	<u>122,369</u>	<u>18,855</u>
Total borrowings	<u>341,609</u>	<u>276,915</u>

Given that borrowings in the amount of HRK 122,369 thousand bear interest at fixed rates (2014: HRK 18,855 thousand), there is no exposure to interest rate changes.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 26 – BORROWINGS (continued)

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

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
HRK	333,568	273,484
EUR	8,041	3,431
	<u>341,609</u>	<u>276,915</u>

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

<i>(in thousands of HRK)</i>	<u>Inventory impairment</u>	<u>Provision for employee benefits</u>	<u>Total</u>
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	<u>391</u>	<u>141</u>	<u>532</u>
At 1 January 2015	391	141	532
Tax charged to the income statement	-	-	-
Tax credited to the income statement	148	49	197
At 31 December 2015	<u>539</u>	<u>190</u>	<u>729</u>

Deferred tax liability

The Company has no deferred tax liability.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 28 – PROVISIONS

<i>(in thousands of HRK)</i>	<u>Employee benefits</u>	<u>Legal disputes</u>	<u>Total</u>
At 31 December 2014	772	962	1,734
Non-current	563	-	563
Current	209	962	1,171
At 1 January 2015	<u>772</u>	<u>962</u>	<u>1,734</u>
Additional provisions	502	-	502
Used during the year	(209)	(962)	(1,171)
At 31 December 2015	<u>1,065</u>	<u>-</u>	<u>1,065</u>
Non-current	803	-	803
Current	262	-	262

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 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 22,624 thousand (2014: HRK 27,146 thousand),

The contingent liabilities were not included in the statement of financial position at 31 December 2015. 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. The Company is a defendant in a legal dispute where it is demanded that the decision from the General Assembly meeting held at 30 June 2015 should be declared null and void including the decision regarding dividend distribution. If the Company loses the case a liability would arise in terms of paying court expenses but at the same time it would had receivables for earlier distributed dividend. Based on the estimate of the legal counsellors the amount of receivables for former distributed dividend would surpass several times the liability for court expenses and accordingly aforementioned the Company did not make any provisions regarding this legal dispute. 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 30 – OPERATING LEASE

Contractual rents on operating lease are as follows:

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Up to one year	2,065	1,921
Between 1 and 5 years	<u>2,190</u>	<u>2,900</u>
Contractual rents on operating lease	<u>4,255</u>	<u>4,821</u>

NOTE 31 – SUBSEQUENT EVENTS

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

NOTE 32 – RELATED PARTY TRANSACTIONS

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

Related parties include:

	<u>2015</u>	<u>2014</u>
1. Subsidiaries of the Company:		
Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb	100%	100%
Put stinica d.o.o., Zagreb	100%	-
2. Associate of the Company:		
Litmus d.o.o., Zagreb (until October 2015)	-	41,53%
3. Subsidiaries of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb:		
Zdravstvena ustanova Ljekarne Delonga, Okrug Gornji	100%	100%
Zdravstvena ustanova Ljekarne Atalić, Osijek	100%	100%
Zdravstvena ustanova Ljekarne Ines Škoko, Zagreb	100%	100%
Ljekarna Mirela Klunić (acquired in August 2015)	100%	-
Ljekarna Elvira Štimac, Opatija (merged in March 2014)	-	-
Zdravstvena ustanova Hermed, Sisak (acquired and merged in 2014)	-	-
4. Associate of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb		
Zdravstvena ustanova Ljekarne Jagatić, Dubec	49%	49%

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 32 – RELATED PARTY TRANSACTIONS (continued)

5. Primus nekretnine d.o.o., Zagreb: until October 2015 subsidiary of associate company Litmus d.o.o., Zagreb in which Litmus d.o.o. was the sole owner; from October 2015 associate company of the associate company Put stinica d.o.o. in which the Put stinica d.o.o. is the sole owner.
6. The company with majority of voting rights, or a parent company Mavota d.o.o. owns 47.38% of the Company and has 49.06% of shares with voting rights.
7. Pliva Hrvatska d.o.o., Zagreb owns 25.32% of the Company and has 26.22% of the voting rights. Given the share in the ownership and business transactions with the Company, Pliva Hrvatska d.o.o. 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 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)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Trade and other receivables			
<i>Given loans</i>			
Associate company Put stinica d.o.o.		164	-
	18	164	-
<i>Trade and other receivables</i>			
Subsidiaries of the Company		174,249	193,172
Associate of the Company		-	1
Subsidiaries of ZU Ljekarne Prima Pharme		6,570	16,518
Associate of ZU Ljekarne Prima Pharme		13,021	15,090
Subsidiary of Put stinica d.o.o.		62	30
Pliva Hrvatska d.o.o.		327	322
	18	194,229	225,133
Inventories			
Pliva Hrvatska d.o.o.		12,191	21,122
	19	12,191	21,122
Cash and cash equivalents			
Other related parties		-	30,000
	20	-	30,000
Trade payables			
Pliva Hrvatska d.o.o.		114,785	121,288
	25	114,785	121,288

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 32 – RELATED PARTY TRANSACTIONS (continued)

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>2015</u>	<u>2014</u>
Revenue from sales and other revenue			
Subsidiaries of the Company		206,948	208,349
Associate of the Company		4	5
Subsidiaries of ZU Ljekarne Prima Pharme		27,815	28,756
Associate of ZU Ljekarne Prima Pharme		28,656	28,415
Subsidiary of Litmus d.o.o., Zagreb /		25	25
Subsidiary of Put stinica d.o.o.		361	311
Pliva Hrvatska d.o.o.	5, 6	<u>263,809</u>	<u>265,861</u>
Finance income			
Subsidiary of Litmus d.o.o./		4	7
Subsidiary of Put stinica d.o.o.		2	66
Other related parties	11	<u>6</u>	<u>73</u>
Purchase of trade goods			
Pliva Hrvatska d.o.o., Zagreb		176,803	180,642
		<u>176,803</u>	<u>180,642</u>
Key management compensation – salaries and bonuses for four members		7,284	8,234
Supervisory Board and Audit Committee compensation		442	614

NOTE 33 – AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements set out on pages 7 to 51 were authorised by the Management Board of the Company in Zagreb on 15 March 2016.

Signed on behalf of the Management Board of the Company on 15 March 2016:



 Jasminko Herceg¹
 Director

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 ZAGREB, Capraška 1
