MEDIKA d.d.

AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 DECEMBER 2016

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Management Report

In 2016 the Medika Group. (the "Group") generated a consolidated revenue in the amount of HRK 2,654,703 thousand, HRK 171,578 thousand above the prior year's figure. The consolidated operating profit amounts to HRK 66,606 thousand, which is 23.3% more than in the prior year.

The consolidated profit before tax amounts to HRK 67,513 thousand, and the consolidated net profit amounts to HRK 55,516 thousand, which is by 23.0% more than the 2015 figure.

The Management of Medika (the "Company") has adopted a decision to reinvest a HRK 4,529 thousand of the profit, which is the amount by which an increase in the Company's share capital will be registered in 2017. The share capital increase will be carried out by increasing the nominal value of the shares, which means that existing shareholder rights will not change, i.e. that the shares with the increased nominal value per share will belong to the shareholders in proportion to their previous participation in the share capital.

By analysing the individual operating segments (note 6 to the financial statements), 53.7% of the total consolidated revenue was generated by pharmacies, 13.2% of which by own pharmacies. At the same time, 28.6% of the total consolidated revenue was generated from hospitals. Compared with the prior year, the share of pharmacies in the total consolidated revenue decreased by 0.4%, whereas the share of hospitals increased by 2.2.% of the total consolidated revenue.

Total consolidated assets amount to HRK 2,155,963 thousand, representing an increase of 11.4% from the prior year. In the current year the share of non-current assets in the total consolidated assets is by 2% lower than in the prior year (mainly because of a decrease in intangible assets), whereas current assets increased by 14.8%, accounting for 80.9% of the total assets. Trade and other receivables represent the most significant item of the total consolidated assets and increased by 15.0% from the prior year. In addition, inventories rose 4.0% compared with the prior year.

The total consolidated loan debt amounts to HRK 515,213 thousand, comprising HRK 499,049 thousand of short-term loans and finance lease obligations and HRK 16,164 thousand of long-term borrowings and finance lease obligations (note 26).

The equity-to-assets ratio is 21%, showing that 21% of the total consolidated assets are funded from own sources.

The consolidated performance is presented in the statement of comprehensive income on page 13 of the financial statements.

Expected future development of the Group

The Company will maintain the distribution of medicinal products and medical devices as its principal activity and boost the operations involving those products that constitute the Company's core business.

Zdravstvene ustanove Ljekarne Prima Pharme has a strategy to expand its pharmacy network all over the territory of the Republic of Croatia.

Treasury shares

Medika d.d. currently holds 1,302 treasury shares, representing 4.31% of the total number of shares.

Subsidiary and associate entities

The Company is the sole owner of its subsidiaries Zdravstvena ustanova (ZU) Ljekarne Prima Pharme and Primus nekretnine d.o.o. (2015: Put stinica d.o.o., Zagreb)

ZU Ljekarne Prima Pharme has the following fully owned subsidiaries: ZU Ljekarne Delonga and ZU Ljekarne Ines Škoko; it also has an associate, ZU Ljekarne Jagatić, in which it holds a share of 49 percent. In 2016 ZU Ljekarne Atalić and Ljekarna Mirela Klunić were merged into ZU Ljekarne Prima Pharme.

The following pharmacies were acquired and merged into ZU Ljekarne Prima Pharme in 2016: Ljekarna Smilja Bagat, Ljekarna Mirija Bohunicki and Ljekarna Maja Mučaji. In addition, in 2016, ZU Ljekarne Prima Pharme founded and sold ZU Ljekarne Diabpharm and acquired and sold ZU Ljekarne Galla.

A statutory merger of Put stinica d.o.o. with Primus nekretnine d.o.o. took place, and the company was renamed to Primus nekretnine d.o.o.

Related parties

The company with the majority of voting rights, i.e. the parent company Auctor d.o.o. (2015: Mavota d.o.o.), holds an ownership interest of 47.38%, i.e. 49.52% voting shares.

In 2016 Mavota d.o.o. was merged into Adria holding d.o.o., and Adria holding was merged into Auctor d.o.o.

Pliva Hrvatska d.o.o., Zagreb, has an ownership interest of 25.32% and 26.46% of the voting rights in the Company. Given the ownership interest and the volume of transactions with the Company, Pliva Hrvatska d.o.o. has a significant influence on the current operations of the Company.

Risks

Credit risk

The most significant market risk for the Group is the long collection period for trade receivables, especially those HZZO (Croatian State Health Insurance) and HZZO related receivables. Therefore, a significant amount of the Group's working capital is not available, which strongly affects the cash flow of the Group 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 is reflected through additional funding requirements and with it additional operating expenses.

Credit risk arises primarily from trade receivables. The risk is higher when dealing with pharmacies, which are exposed to the going-concern risk unlike hospitals, which, albeit with extended collection periods, are not exposed to the risk of default and the going-concern risk.

Price risk

A continuing decrease in the prices of prescription medicinal products on the HZZO list and the HZZO administrative approach in determining the prices and margins represents another risk of the Gruop. To lower this risk, the Group has focused on expanding the lines of products that are not limited by law in respect of the price of the product.

Risks (continued)

Foreign exchange risk

Foreign exchange (currency) risk is a significant financial risk. The Group generates most of its revenue on the domestic market and in Croatian kuna (HRK). However, purchases are partly made on foreign markets, which gives rise to the risk of exposure to changes in foreign exchange rates mostly against the euro. All loans are kuna-denominated; hence, there is no exposure to foreign exchange risk.

Interest rate risk

The Group's interest rate risk arises from its short-term and long-term borrowings at variable rates, which expose the Group to cash-flow interest rate risk. Fixed-rate borrowings expose the Group to the interest-rate fair value risk.
A part of the Group's assets are interest-bearing, as a result of which its revenue and operating cash flows depend on fluctuations in market interest rates.

Corporate Governance Statement

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, which is published on the website of the Zagreb Stock Exchange. In the business year 2016 the Company substantially complied with and adopted the recommendations specified in the Code. Minor departures from the individual recommendations provided in the Code are explained in the questionnaire the Company publishes on the Zagreb Stock Exchange website and on its own website and submits to the CFSSA.

The key components of the internal control and risk management system in the area of financial reporting include the following:

- an appropriate organisational structure at all levels, with appropriate segregation of duties and defined levels of powers;
- internal controls integrated into business processes and activities;
- a comprehensive set of accounting policies and procedures governing the preparation of annual report in accordance with International Accounting Standards and International Financial Reporting Standards adopted by the European Union.

The Company is not involved in any mutual-shareholding relationship 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.

Corporate governance

Medika is a Croatian joint-stock company based on the dualistic governance model and its governing bodies are the following:

- General Assembly
- Supervisory Board
- Management

General Assembly
The General Assembly decides in the matters specified by the law and the Company's Statute which it also adopts, as well as on the increase and decrease of share capital, election and revocation of the Supervisory Board members, it provides note of release to the members of the Management and the Supervisory Board, appoints the external auditor and performs other duties in accordance with the law and the Company's Statute.
Supervisory Board

The Supervisory Board oversees the management of the Company's affairs. To this end, it reviews and examines the business records, accounts and documentation of the Company. The Supervisory Board appoints members of the Management and provides its consent with certain Management decisions, such as strategic plans, business plans, financial statements and major investments. The Supervisory Board submits its report on the supervision over the management of the Company's affairs to the General Assembly to which it also presents decision proposals for adoption. The Supervisory Board consists of seven members. Ordinary Supervisory Board meetings usually take place on a quarterly basis. The Supervisory Board may decide on matters, i.e. cast vote by telephone. The term of office of the Supervisory Board members is governed by the Company's statute and expires at the closing of the General Assembly meeting in which approvals of action are granted for the third business year following, but excluding, the year of election.

The members of the Supervisory Board are as follows: Ružica Vađić, President, Mr Damjan Možina, Vice Chairman; Members: Mr Nikica Gabrić, Mr Mihael Furjan, Mr Oleg Uskoković, Mr Ante Turković and Mrs gđa Sanja Palić.

Management
Management defines business plans and controls the implementation, co-ordinates the activities of individual organisational units of the Company and their alignment with the current requirements and business plans, reports to the Supervisory Board about the operational developments and activities, profitability and efficiency, significant transactions and events as well as other matters specified in the Statute.

The Management of Medika has one member: Mr Jasminko Herceg, Director, representing the Company and managing its affairs solely.

Audit Committee
The Audit Committee has been established by decision of the Supervisory Board. The activities of the Audit Committee are governed by the Companies Act, the Accounting Act and other regulations. The term of office of the Audit Committee members coincides with the term of office for the Supervisory Board.

The members of the Audit Committee are as follows: Ružica Vađić, President, Mr Oleg Uskoković and Mr Dalibor Briški.

Zagreb, 13 March 2017

Jasminko Herceg
Director

3 Medika d.d.
ZAGREB Capraška 1

STATEMENT OF THE RESPONSIBILITIES OF THE MANAGEMENT AND SUPERVISORY BOARD

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

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

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

The financial statements set out on pages 13 to 66 were authorised by the Management for submission to the Supervisory Board on 13 March 2017, in witness whereof they have been signed below.

Signed on behalf of the Management on 13 March 2017 by:

Jasminko Herceg
Director

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ZAGREB, Capraška 1

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Medika d.d.:

Report on the audit of the annual financial statements

Opinion

We have audited the accompanying annual financial statements of the Medika d.d. Group (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditing and International Standards on Auditing (ISAs). Our responsibilities under those standards are described further in the *Auditor's Responsibilities for the Audit of the Annual Financial Statements* section of our Independent Auditor's Report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a basis for a separate opinion on these matters.

Key audit matter	***How our audit addressed the key audit matter***
Complexity of revenue *Refer to Notes 5 and 6 to the consolidated financial statements on pages 36 to 38.*	
Revenue is an important measure used to evaluate the performance of a group. There is a risk that revenue is presented in amounts higher than actually generated by the Group. Revenue is recognised 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 of goods are recognized based on the contractually agreed prices less any contractually agreed discounts and returns. The transactions are mainly processed automatically in the Group's information system. Given the high level of reliance on the information system and the potential effects of inaccurately accounted for revenue transactions and revenue transactions that did not occur, we have concluded that revenue is a key audit matter addressed in our audit	Our audit approach included both controls testing and substantive procedures, which are the following: • We evaluated the relevant IT system and the design and operational effectiveness of controls over capturing and recording of revenue transactions. In doing so, we involved our IT specialists to assist in the audit of the automated controls. • By applying substantive testing, we have assessed the occurrence of revenue recorded. • By substantive testing we have assessed that only contractually agreed discounts were approved to the customers. The discounts are mostly calculated automatically by the IT system, and we involved our IT specialists to assist in the audit of automated controls over the discount calculation and booking.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

<table>
<tr><th colspan="2">Valuation of trade receivables
Refer to Note 18 to the consolidated financial statements on pages 49 to 51.</th></tr>
<tr><td>A significant market risk for the Group is the long collection period for receivables, especially because the majority of the customers are health institutions whose funding depends on HZZO (the Croatian State Health Insurance).

As at 31 December 2016 the gross balance of trade receivables amounts to HRK 1,250,352 thousand, and the impairment provisions recognised for bad receivables amount to HRK 16,980 thousand.

Trade receivables are recognised initially at fair value and subsequently at amortised cost, which is determined using the effective interest method, less any impairment losses. A provision for impairment of trade receivables is recognised whenever there is objective evidence that the Group will not be able to recover the amount receivable.

Because of the significant amount of trade receivables recognised in the statement of financial position, the Management estimates the recoverability of receivables based on an analysis of individual categories of this type of assets taking into account the following: the ageing analysis of trade receivables and the financial position of customers, which are compared against the collection history for each individual customer. The estimated recoverable amount of trade receivables represents the present value of estimated future cash flows, discounted at the annual effective interest rate.

Because of the significance, complexity and potential considerable effect of the judgements on the financial statements and the high balance of trade receivables, this is one of the key matters addressed in our audit.</td><td>As part of our audit, we performed the following substantive procedures:

• We have gained an understanding of the entity's process of calculating and recognising impairment of trade receivables. We have also reviewed, in detail, the ageing analysis of trade receivables to assess the specific amount of provisions for each individual customer;
• We have gained an understanding of the entity's processes of calculating estimated future cash flows and discounting those cash flows. In addition, we assessed the reasonableness of the discount rate applied and other assumptions made.</td></tr>
</table>

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INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

<table>
<tr><th colspan="2">Valuation of goodwill and the related intangible assets (pharmacy licences)
Refer to Note 15 to the consolidated financial statements on pages 45 to 46.</th></tr>
<tr><td>Goodwill and the related intangible assets (pharmacy licences) comprise 8.4% of the total assets of the Group. These assets have been recognised in the consolidated statement of financial position as a consequence of the acquisitive nature of the Group.
As required by the applicable accounting standards, management conducts annual impairment tests to assess the recoverability of the carrying amount of goodwill and the related intangible assets which relate to pharmacy licences.

The estimate is performed using discounted cash flow models. As disclosed in note 15, there are a number of key sensitive judgements made in determining the inputs into these models which include:

• revenue growth (including market developments and volume growth),
• operating margins, and
• the discount rates applied in the future cash flow projections.

Accordingly, the impairment test of these assets is considered to be a key audit matter.</td><td>In performing the impairment tests of goodwill and the related intangible assets (pharmacy licences), we focused on the key assumptions made by management. We have engaged internal specialists to assist with validating assumptions applied to calculate the discount rates and other key assumptions used in the model.

Our audit procedures included:

• critically evaluating whether the model used by management to calculate the value in use of the individual cash generating units complies with the requirements of IAS 36 "Impairment of Assets.";
• assessing the assumptions underlying the calculation of the discount rates and recalculating these rates;
• analysing the future cash flows projections applied in the models to determine whether they are reasonable and supportable given the current macroeconomic climate and expected future performance of the cash generating units;
• assessing the accuracy of management's projections by comparing the projected cash flows, including the assumptions relating to revenue growth rates and operating margins, against historical performance.</td></tr>
</table>

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INDEPENDENT AUDITOR'S REPORT (continued)

Other Information

Other information is the responsibility of the Management. Such other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report.

Our opinion on the annual financial statements does not cover the other information.

With respect to our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Group's Management Report and the Corporate Governance Statement, which are included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examining whether the Management Report includes required disclosures as set out in Articles 21 and 24 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1. Information included in the other information is, in all material respects, consistent with the accompanying annual financial statements for the year,
2. The Group's Management Report for the year 2016 has been prepared, in all material respects, in accordance with Articles 21 and 24 of the Accounting Act,
3. Corporate Governance Statement has been prepared, in all material aspects, in accordance with the Article 22, paragraph 1, points 3 and 4 and Article 24 of the Accounting Act, and includes also the information from Article 22, paragraph 1, points 2, 5, 6 and 7, and Article 24, paragraph 2 of the same Act.

Based on the knowledge and understanding of the Group's operations and the environment in which it operates we gained during our audit of the annual financial statements, we have not identified any material misstatement in the other information. We have nothing to report to you in this respect.

Responsibilities of the Management and Supervisory Board for the annual financial statements

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

In preparing the accompanying annual financial statements, Management is responsible for assessing the the Group's ability to continue as a going concern, including, where appropriate, whether the use of the going concern basis of accounting is appropriate. The use of the going concern basis of accounting is appropriate unless Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Management and Supervisory Board are responsible for overseeing the financial reporting process established by the Group.

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INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements in the context of the applicable financial reporting framework. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. Our conclusions are based on the audit evidence obtained until the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Annual Financial Statements (continued)

From the matters communicated with those charged with governance, we are required to determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless a law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Marina Tonžetić.

Marina Tonžetić,

Certified Auditor and member of the Board

Deloitte d.o.o.

Zagreb, 13 March 2017

Radnička cesta 80
10 000 Zagreb
Republic of Croatia

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts are expressed in thousands of HRK)	**Notes**	**2016**	**2015**
Revenue	5, 6	2,654,703	2,483,125
Cost of goods sold	6	(2,390,677)	(2,241,827)
Staff expenses	7	(111,970)	(108,107)
Marketing and promotion expenses	8	(8,843)	(9,769)
Depreciation and amortisation	14, 15	(13,860)	(12,099)
Other operating expenses	9	(67,128)	(63,795)
Other gains – net	10	4,381	6,488
Profit from operations		**66,606**	**54,016**
Financial income	11	14,859	14,881
Financial expenses	11	(15,188)	(13,600)
Net financial gain/(loss)		**(329)**	**1,281**
Share in the profit of associates	16	1,236	896
Profit before tax		**67,513**	**56,193**
Income tax	12	(11,997)	(11,059)
Profit for the year		**55,516**	**45,134**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**55,516**	**45,134**
Earnings per share			
– basic and diluted (in HRK and lipa)	13	**1,914.01**	**1,549.08**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

(All amounts are expressed in thousands of HRK)	Notes	At 31 December 2016	2015
ASSETS			
Non-current assets			
Property and equipment	14	191,786	191,254
Intangible assets	15	188,121	193,206
Investments in associates	16	21,318	21,120
Deferred tax assets	27	1,524	1,824
Trade and other receivables	18	8,865	12,690
		411,614	420,094
Current assets			
Inventories	19	277,023	266,292
Trade and other receivables	18	1,382,356	1,196,573
Income tax receivable		461	2,047
Cash and cash equivalents	20	84,509	54,903
		1,744,349	1,519,815
Total assets		**2,155,963**	**1,939,909**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	183,181	178,211
Reserve for reinvested profit	22	4,529	8,262
Reserves	23	67,278	67,278
Retained earnings	24	200,040	198,362
		455,028	452,113
Non-current liabilities			
Borrowings	26	16,164	19,453
Deferred tax liabilities	27	15,923	17,475
Provisions	28	952	1,217
		33,039	38,145
Current liabilities			
Trade and other payables	25	1,167,342	1,103,824
Borrowings	26	499,049	344,821
Provisions	28	1,505	1,006
		1,667,896	1,449,651
Total equity and liabilities		**2,155,963**	**1,939,909**

The notes on pages 18 to 66 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts are expressed in thousands of HRK)	Notes	Share capital	Reserve for re-invested profit	Reserves	Retained earnings	Total
Balance at 1 January 2015		**115,238**	**61,294**	**67,278**	**238,760**	**482,570**
Comprehensive income for the year						
Profit for the year		-	-	-	45,134	45,134
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	**45,134**	**45,134**
Transactions with owners recognised directly in equity						
Increase in share capital	21	61,294	(61,294)	-	-	-
Release of treasury shares	21	1,679	-	-	-	1,679
Dividends paid		-	-	-	(77,270)	(77,270)
Transfers	22	-	8,262	-	(8,262)	-
Total transactions with owners recognised directly in equity		**62,973**	**(53,032)**	-	**(85,532)**	**(75,591)**
Balance at 31 December 2015		**178,211**	**8,262**	**67,278**	**198,362**	**452,113**
Balance at 1 January 2016		**178,211**	**8,262**	**67,278**	**198,362**	**452,113**
Comprehensive income for the year						
Profit for the year		-	-	-	55,516	55,516
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	**55,516**	**55,516**
Transactions with owners recognised directly in equity						
Increase in share capital	21	8,454	(8,262)	-	(192)	-
Release of treasury shares	21	1,040	-	-	-	1,040
Purchase of treasury shares	21	(4,524)	-	-	-	(4,524)
Dividends paid	24	-	-	-	(49,117)	(49,117)
Transfers	22	-	4,529	-	(4,529)	-
Total transactions with owners recognised directly in equity		**4,970**	**(3,733)**	-	**(53,838)**	**(52,601)**
Balance at 31 December 2016		**183,181**	**4,529**	**67,278**	**200,040**	**455,028**

The notes on pages 18 to 66 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts are expressed in thousands of HRK)	Notes	2016	2015
Profit for the year		**55,516**	**45,134**
Adjusted by:			
Income tax	12	11,997	11,059
Depreciation and amortisation	14, 15	13,860	12,099
Impairment of trade and other receivables, net	9, 18	3,810	548
Impairment of intangible assets	9, 15	3,129	5,793
Value adjustment on inventories	19	8,546	7,804
Unrealised foreign exchange differences		(624)	(831)
Changes in provisions	28	234	(551)
Gain on disposal of tangible assets	10	(116)	(380)
Disposal of tangible and intangible assets	14, 15	1,453	118
Interest income	11	(14,859)	(14,881)
Interest expense	11	15,296	13,699
Transfer of (profit) of associate	16	(1,236)	(896)
Changes:			
Decrease in inventories		(18,969)	(10,744)
Increase in trade and other receivables		(237,152)	(22,580)
Increase in trade and other payables		62,994	7,784
(Decrease) / increase in dividends payable		(12)	11
Cash generated from operations		**(96,133)**	**53,186**
Interest paid		(15,539)	(13,799)
Income taxes paid		(11,897)	(4,938)
Cash flows from operating activities		**(123,569)**	**34,449**
Cash flows from investing activities			
Purchases of property and equipment		(12,159)	(8,783)
Proceeds from the sale of property and equipment		960	380
Purchases of intangible assets	15	(2,591)	(2,447)
Acquisition of subsidiary, net of cash acquired	30	(7,911)	(3,515)
Disposing of branch, net of disposed cash	31	(779)	-
Proceeds from repayment of given loans		458,797	237,664
Given loans		(396,200)	(277,010)
Interest received		14,860	14,699
Share of profit from associates received	16	1,038	855
Effect of disposal of associate company, net of disposed cash		-	(824)
Cash flows from investing activities		**56,015**	**(38,981)**

The notes on pages 18 to 66 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts are expressed in thousands of HRK)	Notes	2016	2015
Cash flows from financing activities			
Repayments of borrowings		(440,253)	(162,447)
Proceeds from borrowings		592,495	219,712
Repayment of finance leases		(2,470)	(3,340)
Purchase of treasury shares	21	(4,524)	-
Release of treasury shares	21	1,040	1,679
Dividends paid		(49,128)	(77,270)
Cash flows from financing activities		**97,160**	**(21,666)**
Net increase / (decrease) in cash and cash equivalents		**29,606**	**(26,198)**
Cash and cash equivalents at the beginning of the year		54,903	81,101
Cash and cash equivalents at the end of the year	20	**84,509**	**54,903**

NOTE 1 – GENERAL INFORMATION

Medika d.d. (hereinafter: "the Company") is a joint stock company incorporated in Croatia. The principal activity of the Company and its subsidiaries (together "the Group") is the wholesale and retail distribution of pharmaceutical products. The Company is headquartered in Zagreb, Capraška 1.

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

Subsidiaries:

	2016	2015
Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb	100%	100%
- Zdravstvena ustanova Ljekarne Delonga, Okrug Gornji (since May 2007)	100%	100%
- Zdravstvena ustanova Ljekarne Ines Škoko, Zagreb (since March 2011)	100%	100%
- Zdravstvena ustanova Ljekarne Atalić, Osijek (merged in October 2016)	-	100%
- Ljekarna Mirela Klunić, Pula (merged in July 2016)	-	100%
- Ljekarna Smilja Bagat, Split (acquired and merged in 2016)	-	-
- Ljekarna Maja Mučaji, Zadar (acquired and merged in 2016)	-	-
- Ljekarna Mirija Bohunicki, Medulin (acquired and merged in 2016)	-	-
- Zdravstvena ustanova Ljekarne Galla, Varaždin (bought and sold in 2016)	-	-
- Zdravstvena ustanova Ljekarne Diabpharm, Zagreb (founded and sold in 2016)	-	-
Primus nekretnine d.o.o., Zagreb (2015: Put stinica d.o.o., Zagreb)	100%	100%

Associates:

	2016	2015
Zdravstvena ustanova Ljekarne Jagatić, Zagreb (since November 2008)	49%	49%

As at 31 December 2016, the Company's shares were listed on the official market of the Zagreb Stock Exchange. The ownership structure of the Company is shown in note 21.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards issued by the International Accounting Standards Board as well as new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union are effective in the current reporting period:

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** – Investment Entities: Applying the Consolidation Exception – issued by IASB on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016);

- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations – adopted by the European Union 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 "Presentation of Financial Statements"** – Disclosure Initiative – adopted by the European Union on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** – Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the European Union on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** – Agriculture: Bearer Plants –adopted by the European Union on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 19 "Employee Benefits"** – Defined Benefit Plans: Employee Contributions – adopted by the European Union on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- **Amendments to IAS 27 "Separate Financial Statements"** – Equity Method in Separate Financial Statements – adopted by the European Union on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to various standards "Improvements to IFRSs from the 2010-2012 Cycle"** resulting from the annual IFRS improvement project (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the European Union on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015),

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Initial application of new amendments to the existing standards effective for the current reporting period (continued)

- **Amendments to various standards "Improvements to IFRSs from the 2012-2014 Cycle"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19, and IAS 34) primarily with a view to removing inconsistencies and clarifying wording – adopted by the European Union on 15 December 2015 (applicable to annual periods beginning on or after 1 January 2016).

The adoption of the amended and revised Standards and Interpretations has not lead to any material changes in the Company's financial statements.

Amendments to the existing standards issued by IASB and adopted by the European Union, but not yet effective

At the date of authorisation of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the European Union (EU) are not yet effective:

- **IFRS 9 "Financial Instruments"**, adopted by the EU on 22 December 2016 (effective for annual periods beginning on or after 1 January 2018).

- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

New Standards and amendments to the existing Standards issued by IASB, but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use by the EU as of 13 March 2017 (the effective dates stated below are for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016); – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Standards and amendments to the existing Standards issued by IASB but not yet adopted by the EU (continued)

- **Amendments to IFRS 4 "Insurance contracts"** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time).

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IAS 7 "Statements of Cash Flows"** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 12 "Income Taxes"** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to various standards "Improvements to IFRSs from the 2014-2016 Cycle"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The Company anticipates that the adoption of the new standards and the amendments to the existing standards will have no material impact on its financial statements in the period of initial application.

At the same time, the hedge accounting issue involving financial assets and financial liabilities remains unregulated, as the principles have not yet been endorsed by the EU.

As assessed by the Company, the adoption of hedge accounting under **IAS 39 "Financial instruments: Recognition and Measurement"** to financial assets and financial liabilities at the reporting date would not have a significant impact on the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(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. A subsidiary is consolidated when the Company obtains control over the subsidiary and ceases when the Company loses control over it. Such investments are presented in these financial statements at cost less any impairment losses, if any.

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

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless there are indications that a transferred asset may be impaired. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policy adopted by the Group.

(b) Associates

Companies are considered to be associates of the Group if the Group holds between 20% and 50% of the voting power in a company, i.e. in which it has a significant influence, but not control. Such investments are presented in the financial statements of the Group at cost less any impairment losses.

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

Unrealised gains from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the relevant associate. Unrealised losses are also eliminated unless there are indications that an asset exchanged in the transaction may be impaired. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Operating segment reporting

An operating segment is an integral part of a business entity that engages in business activities from which revenues can be realized that give rise to expenses and for which there are separate financial statements as well as the operating results of which are regularly reviewed by chief operating decision maker of the business entity in order to decide on resources to be allocated to the segment.

2.4 Foreign currencies

(a) Functional and reporting currency

Items included in the financial statements of each individual member of the Group are presented in the currency of the primary economic environment in which the Group member operates (their functional currency). The consolidated financial statements are presented in the Croatian kuna, which is both the functional and reporting currency of the Group and all its members, 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 of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary assets and items denominated in foreign currencies that are measured at historical cost are not retranslated.

Foreign-currency denominated non-monetary assets and liabilities measured at historical cost are translated to the functional currency using the exchange rate list in effect at the transaction dates.

2.5 Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes costs directly attributable to the acquisition of an asset.

Subsequent expenditure is 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 asset will flow to the Group, and the cost of the asset can be measured reliably. The carrying amount of a replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss for the financial period in which they are incurred.

Land and assets under development are not depreciated. Depreciation of other assets is provided using the straight-line method so as to write down the cost of an asset over its estimated useful life. Depreciation is provided on an individual asset basis until the asset is fully written off or written down to its residual value if significant.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

The estimated useful life is as follows:

Buildings	10-40 years
Equipment	2-20 years

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

If the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount (note 2.7).

Gains and losses arisen on disposal are determined by comparing the proceeds with carrying amount, and are recognised within "Other gains – net" in profit or loss.

2.6 Intangible assets

(a) Goodwill

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

Separately recognised 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 is allocated from the acquisition date, to each of the acquirer's cash generating units, or groups of cash generating units, expected to benefit from the synergies of the combination. Each such unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Any gain or loss on remeasurement at fair value is included in profit or loss.

Gains and losses on disposal of a business include the carrying amount of goodwill relating to that business.

(b) Licences

Cost incurred by the Group in obtaining pharmacy operation licences, without which no pharmacy activities can be performed, are capitalised to the extent that future economic activities are probable. These licences are amortized over their useful life estimated in the range from 5 years to an infinite lifetime. Impairment review is made on an annual basis.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets (continued)

(c) Software

Software licences are capitalised based on the cost of purchase and costs incurred in bringing software into a working condition for its intended use. The cost is amortised over the useful life of the assets, which ranges from 5 to 10 years.

(d) Other rights

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

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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 determined as the difference between the carrying amount of an asset and its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use. For the purpose 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 have suffered an impairment loss are reviewed for possible reversal of the loss at each reporting date.

2.8. Financial assets

The Group classifies its financial assets as trade and other receivables, except investments in subsidiaries and associates (note 2.2). The classification depends on the purpose for which the financial assets are 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 those with maturities greater than 12 months after the reporting date, which are classified as non-current assets.

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

At each reporting date the Group performs a review to identify any objective evidence that a financial asset may be impaired. Impairment testing of trade and other receivables is described in note 2.11.

The Company derecognises 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 recognises 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 collateralised borrowing for the proceeds received.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

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 recognised in profit or loss.

2.9 Leases

The Group leases certain property and equipment. Leases of property and equipment where the Group bears all the risks and rewards of ownership are classified as financial leases. Financial leases are capitalised at the inception of the lease by reference to the lower of the fair value of the leased property or the present value of the minimum lease payment. 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. Property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases under which the Group does not bear all the significant risks and rewards of ownership are classified as operating leases. Payments under operating leases are recognised in the income statement over the term of the underlying lease.

2.10 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs attributable to the purchase of goods and is calculated based on the weighted average purchase price. Net realisable value represents the estimated selling price in the ordinary course of business less all variable selling costs. 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 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. Impairment is made whenever there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, the probability of bankruptcy proceedings at the debtor, or default or delinquency in payment are considered objective evidence of impairment. The amount of the impairment allowance is calculated for each debtor individually as the difference between the carrying value of the amount receivable and the present value of estimated future cash flows, discounted at the effective interest rate. The impairment losses on receivables are recognised in profit or loss 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, demand deposits with banks and other short-term highly liquid instruments with original maturities of up to three months.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Share capital

The share capital consists of ordinary shares.

The consideration paid for purchased treasury shares, 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.

2.14 Financial liabilities

Financial liabilities recognized by the Group 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 the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

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

2.15 Income tax

Current tax is determined on the basis of the tax laws in effect in the Republic of Croatia at the balance sheet date. From time to time, the Management reviews individual items declared in the tax returns where such items might be subject to various tax interpretations and considers forming provisions, where necessary, based on the amount expected to be paid to the Tax Administration.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Income tax (continued)

Deferred taxes are determined using the balance sheet liability method. They arise on temporary differences between the tax base of an asset or a liability and in the amounts they are reported in the financial statements. However, no deferred tax is recognised on the initial recognition of assets and liabilities in a transaction other than a business combination that does not affect neither the accounting nor the taxable profit (tax loss) at the time of the transaction. Deferred tax assets and liabilities are determined using tax rates 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 tax liability is settled.

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

2.16 Employee benefits

(a) Obligations in respect of retirement and other post-employment benefits

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

(b) Long-term employee benefits

The Group recognises 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 obligation 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 reporting date are discounted to their present value.

(c) Short-term employee benefits

The Group recognises a provision for bonuses, unused annual leave and other 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 Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Provisions

Provisions are recognised if the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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.

Provisions are measured at the present value of the expenditure 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 presented as interest expense.

2.18 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for products, goods or services sold in the regular course of operations. Revenues are stated net of value added tax, estimated returns, discounts and rebates.

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

(a) Sales of goods

Goods wholesale revenue is 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 recognised based on the price from the underlying sales contract, less any discounts agreed in the underlying contract.

Retail product and merchandise sales are recognised upon the sale to the customer. Retail sales are usually in cash or by credit card. The revenue recognised includes credit card fees payable for the transaction. Such fees are included in other operating expenses.

(b) Service revenue

Revenue from services is recognized in the period when the services are rendered. Service revenue mainly relates to rental (lease) income.

(c) Financial income

Financial income represents interest income earned on term deposits with banks and on given loans and is recognised on a time proportion basis using effective interest rate method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Finance expenses

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

2.20 Dividends payable

Dividends payable to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved in the General Meeting of the Company's shareholders.

2.21 Value-added tax (VAT)

The Tax Authorities require that VAT is settled on a net basis. VAT on sale and purchase transactions is recognised in the statement of financial position on a net basis. Where an amount receivable is impaired, the impairment loss is recognised in the gross amount of the receivable, i.e. including VAT.

2.22 Earnings per share

The Company presents basic earnings per share (EPS) for its ordinary shares. Basic earnings per share are determined by dividing the profit or loss for the year from ordinary shares by the weighted average number of ordinary shares during the year.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to various financial risks: market risk (foreign exchange risk, fair value interest rate risk, interest rate cash flow risks and investment in securities risk), credit risk and liquidity risk. The pharmaceuticals wholesale and pharmacy 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 Group is focused on minimising or eliminating the potential adverse impact on the Group's financial position. Risk management within the Group is the responsibility of the Finance Division that, in cooperation with other divisions within the Group, identifies, assesses the risks and proposes risk protection measures.

(a) Market risk

(i) Foreign exchange risk

The Group generates most of its revenue on the domestic market and in Croatian kuna (HRK). However, the Group 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, which are almost entirely denominated in the Croatian kuna, and hence the exposure to the foreign exchange risk is insignificant. The Finance Division has 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 2016 (notes 18, 20, 25, 26), if the euro would weaken/strengthen against the Croatian kuna by 1.0% (2015: 1.0%), with all other variables held constant, the net profit for the reporting period would have been HRK 3,027 thousand higher/lower (2015: HRK 3,047 thousand higher/lower), mainly as a result of foreign exchange gains/losses on translation of euro-denominated trade payables.

(iii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from its borrowings. which expose the Group to cash-flow interest rate risk. Fixed-rate borrowings expose the Group to the interest-rate fair value risk.

The Group does not use derivative instruments to actively hedge its cash flow and fair value interest rate risk exposure. However, it 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 2016, if the effective interest rate on borrowings (issued at variable rate) would be 0.10% higher/lower on an annual level (2015: 0.10%), the net profit for the reporting period would be HRK 221 thousand lower/higher (2015: HRK 181 thousand).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Current assets that expose the Group to credit risk consist mainly of cash, trade and other receivables. The Group has no significant concentrations of credit risk. The Group has sales policies in place to ensure that the sale is 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. A higher credit risk is found among pharmacies since they have a potential going concern issue. On the other hand, collection period for hospitals is longer, but there is no risk that the receivables will not be recovered, i.e. there is no going concern issue. Other customers are not significant because of dispersion over a large number of customers and individually small balances. The Group secures the recovery of a part of the trade receivables with bills of exchange and promissory notes. A detailed credit risk analysis is presented in 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 Group to maintain flexibility in funding, by ensuring availability of the agreed credit lines. The Finance Division monitors the available sources of cash regularly. Customers consist largely of those owned by, or dependent of the Republic of Croatia. Hence, the liquidity risk level also depends on the state. The insufficient level of cash 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 2016 the balance of cash and cash equivalents amounts to HRK 84,509 thousand, and the Group had free credit lines in the amount of HRK 39,460 thousand available at demand for liquidity risk management purposes.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses financial liabilities of the Group by contractual maturities. The amounts presented below represent undiscounted cash flows.

(in thousands of HRK)	Less than 1 month	2 months to 1 year	Between 1 and 3 years	Over 3 years	Total
31 December 2016					
Trade and other payables	295,886	871,456	-	-	1,167,342
Borrowings	161,637	339,521	16,464	171	517,793

(in thousands of HRK)	Less than 1 month	2 months to 1 year	Between 1 and 3 years	Over 3 years	Total
31 December 2015					
Trade and other payables	212,827	890,997	-	-	1,103,824
Borrowings	31,642	316,299	20,083	356	368,380

In 2017 the Group will settle trade and other liabilities according to the collection of receivables which depends on the liquidity of the entire healthcare system.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

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

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

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

The equity-to-total assets ratio is as follows:

	2016	2015
	(in thousands of HRK)	
Total liabilities and equity	455,028	452,113
Total assets	2,155,963	1,939,909
Equity to assets ratio	**21%**	**23%**

In 2016 the ratio decreased from 2015 showing that 21% of the Group's total assets are financed from its own resources. In accordance with the stated, 79 percent of the assets is financed from other resources (2015: 77%).

3.3 Fair value measurement

The nominal amounts of trade receivables, net of impairment provision, and trade payables are assumed to approximate their fair values.

NOTE 4 – KEY ACCOUNTING ESTIMATES

The Group makes estimates that are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the 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 for determining the amount of provisions for trade receivables

Due to the significance of the amount of trade receivables recognised in the statement of financial position, the Management estimates the probability of recovering trade receivables based on an analysis of individual categories of such assets. Factors taken into consideration by the Management include: ageing analysis of trade receivables and the comparison of the financial position of customers against the collection history for an individual customer. The estimated recoverable amount of trade receivables represents the present value of estimated future cash inflows, discounted at the annual effective interest rate of 2.88% (2015: 3.80%). Should actual amounts recovered be lower than the actual estimates made by the Management estimates, the Group would be required to recognise an additional impairment charge.

As at 31 December 2016, if the assessed irrecoverable amount of receivables would be 1% lower/higher, with all other variables held constant, the net profit for the reporting period would be HRK 861 thousand higher/lower than reported (2015: HRK 438 thousand higher/lower than reported), and the effect in the hospital segment would be HRK 625 thousand (2015: HRK 258 thousand), in the pharmacy segment HRK 132 thousand (2015: HRK 70 thousand) and in the segment 'Others' HRK 104 thousand (2015: HRK 110 thousand).

Useful life of property and equipment

Determining the useful lives of assets is based on historical experience with similar assets as well as anticipated changes in the economic environment and factors relating to the industry in which the Group operates. The useful life is reviewed annually or whenever there are indications of significant changes in the underlying assumptions.

NOTE 5 – REVENUE

	2016	2015
	(in thousands of HRK)	
Sales revenue	2,604,938	2,439,113
Sales and other revenue – related parties (note 33)	31,453	29,040
Other income	18,312	14,972
	2,654,703	**2,483,125**

NOTE 6 – SEGMENT INFORMATION

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

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

The wholesale distribution channel consists of:

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

2. Hospitals, which are divided for the reporting purposes into the following categories:
   - clinical hospitals
   - county hospitals
   - other hospitals

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

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

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

There are no transactions between the segments. The Company and the Group apply the same accounting policies in all the segments.

NOTE 6 – SEGMENT INFORMATION (continued)

The segments' results for the year ended 31 December 2016 are as follows:

	Wholesale			Retail	Total
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Others**	**Own pharmacies**	
Sales revenue	1,044,482	759,495	453,558	347,403	2,604,938
Other income	185	111	14,981	3,035	18,312
Sales and other revenue – related parties (note 33)	31,142	-	311	-	31,453
Total income	**1,075,809**	**759,606**	**468,850**	**350,438**	**2,654,703**
Cost of goods sold	(996,074)	(709,651)	(416,557)	(268,395)	(2,390,677)
Segment result	**79,735**	**49,955**	**52,293**	**82,043**	**264,026**
Operating expenses					(197,420)
Profit from operations					**66,606**
Financial income					14,859
Financial expenses					(15,188)
Net financial loss					**(329)**
Share in the profit of associates					1,236
Profit before tax					**67,513**
Income tax					(11,997)
Profit for the year					**55,516**

NOTE 6 – SEGMENT INFORMATION (continued)

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

	Wholesale			Retail	
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Others**	**Own pharmacies**	**Total**
Sales revenue	983,521	656,372	471,292	327,928	2,439,113
Other income	99	3	10,483	4,387	14,972
Sales and other revenue – related parties (note 33)	28,656	-	384	-	29,040
Total income	**1,012,276**	**656,375**	**482,159**	**332,315**	**2,483,125**
Cost of goods sold	(916,327)	(638,422)	(433,000)	(254,078)	(2,241,827)
Segment result	**95,949**	**17,953**	**49,159**	**78,237**	**241,298**
Operating expenses					(187,282)
Profit from operations					**54,016**
Financial income					14,881
Financial expenses					(13,600)
Net financial gain					**1,281**
Share in the profit of associates					896
Profit before tax					**56,193**
Income tax					(11,059)
Profit for the year					**45,134**

The analysis of trade receivables by the segments at 31 December 2016 is as follows:

	Wholesale			Retail	
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Others**	**Own pharmacies**	**Total**
Trade receivables (note 18/ii/)	372,320	688,095	82,143	90,814	1,233,372

The analysis of trade receivables by the segments at 31 December 2015 is as follows:

	Wholesale			Retail	
(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Others**	**Own pharmacies**	**Total**
Trade receivables (note 18/ii/)	300,952	526,918	101,639	68,681	998,190

NOTE 7 - STAFF EXPENSES

	2016	2015
	(in thousands of HRK)	
Net salaries	59,825	58,491
Contributions from and on salaries /i/	31,444	30,824
Taxes and surtaxes	9,102	9,117
Awards to employees	3,920	2,517
Employee transportation costs	3,734	1,962
Other employee benefits /ii/	3,155	4,896
Termination benefits	790	300
	111,970	**108,107**

At 31 December 2016, there were 784 persons employed at the Group (2015: 800 employees).

/i/ Pension contributions recognised by the Group as payable to mandatory pension funds in respect of 2016 amount to HRK 17,249 thousand (2015: HRK 16,743 thousand).

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

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	2016	2015
	(in thousands of HRK)	
Donations	4,776	4,966
Entertainment	2,073	2,671
Marketing	1,994	2,132
	8,843	**9,769**

NOTE 9 – OTHER OPERATING EXPENSES

	2016	2015
	(in thousands of HRK)	
Maintenance of assets, security services and property insurance	12,627	11,613
Rental costs	12,485	12,483
Materials and energy	12,430	13,390
Professional training and consultancy services	6,390	6,649
Taxes and contributions independent of the results	4,204	3,764
Impairment of trade and other receivables, net (note 18)	3,810	548
Impairement of intangible assets (note 15)	3,129	5,793
Bank and payment operation charges	2,616	2,486
Telephone, postal and utility services	2,176	2,144
Litigation provisions (note 28)	1,098	-
Other expenses	6,163	4,925
	67,128	**63,795**

NOTE 10 – OTHER GAINS – NET

	2016	2015
	(in thousands of HRK)	
Net foreign exchange gains – trade and other payables	4,019	5,562
Gain on disposal of an associate	-	886
Gain on disposal of a subsidiary (note 31)	779	-
Gains from the sale of property and equipment (net)	116	380
Net foreign exchange losses – trade and other receivables	(106)	(100)
Net foreign exchange losses – cash and cash equivalents	(427)	(240)
	4,381	**6,488**

NOTE 11 - NET FINANCIAL GAINS

	2016	2015
	(in thousands of HRK)	
Financial income		
Interest income	14,859	14,878
Interest income – related parties (note 33)	-	3
	14,859	**14,881**

NOTE 11 - NET FINANCIAL GAINS / (LOSSES) (continued)

Financial expenses	**2016**	**2015**
	(in thousands of HRK)	
Interest expense:		
Bank loans and finance leases	(15,296)	(13,699)
	(15,296)	**(13,699)**
Foreign exchange gains / (losses) – net		
Foreign exchange gains	110	158
Foreign exchange losses	(2)	(59)
	108	99
	(15,188)	**(13,600)**

NOTE 12 – INCOME TAX

	2016	**2015**
	(in thousands of HRK)	
Current tax	13,327	11,716
Deferred tax (note 27)	(1,330)	(657)
	11,997	**11,059**

Reconciliation of the Group's tax expense as per income statement and the tax at the statutory tax rate is presented in the table below:

	2016	**2015**
	(in thousands of HRK)	
Profit before taxation	**67,513**	**56,193**
Income tax at the rate of 20%	13,504	11,239
Effect of non-taxable income and tax incentives	(1,662)	(1,039)
Effect of tax non-deductible expenses	1,597	1,952
Tax incentives for reinvested profit (note 22)	(906)	(1,652)
Impairment losses on intangible assets that are not deductible	626	1,158
Effect of previously unrecognised and unused tax losses and deductible temporary differences now recognised	360	(599)
Effect of tax rate change on previously recognised temporary differences	(1,522)	-
Income tax	**11,997**	**11,059**
Effective tax rate	17.77%	19.68%

Under the local regulations, the Tax Authority may at any time inspect the books and records of the Group companies 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 Tax Authority audited the operations of one member of the Group in 2011 and issued a resolution imposing an additional tax liability (note 28).

NOTE 13 – EARNINGS PER SHARE

Earnings per share are determined, by dividing the Group'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 29,005, as the Company had transactions involving its treasury shares in 2016.

	2016	**2015**
Net profit attributable to the shareholders *(in thousands of HRK)*	55,516	45,134
Weighted average number of shares (excluding treasury shares)	29,005	29,136
Basic / diluted earnings per share *(in HRK and lipa)*	**1,914.01**	**1,549.08**

NOTE 14 – PROPERTY AND EQUIPMENT

(All amounts are expressed in thousands of HRK)	**Land**	**Buildings**	**Equip-ment**	**Assets under construction and prepayments**	**Total**
Balance at 31 December 2014					
Cost	15,995	156,998	98,739	35,251	306,983
Accumulated depreciation	-	(52,252)	(83,479)	(1,840)	(137,571)
Carrying amount	**15,995**	**104,746**	**15,260**	**33,411**	**169,412**
For the year ended 31 December 2015					
Opening carrying amount	15,995	104,746	15,260	33,411	169,412
Additions	-	-	931	14,242	15,173
Acquisition of a subsidiary (note 30)	-	-	29		29
Foundation of an associate company	6,994	9,598	10	-	16,602
Transfer from assets under construction	2,238	26,756	16,456	(45,450)	-
Disposals	-		(117)	-	(117)
Depreciation for the year	-	(4,428)	(5,417)	-	(9,845)
Closing carrying amount	25,227	136,672	27,152	2,203	191,254
Balance at 31 December 2015					
Cost	25,227	195,230	112,861	4,205	337,523
Accumulated depreciation and impairement	-	(58,558)	(85,709)	(2,002)	(146,269)
Carrying amount	**25,227**	**136,672**	**27,152**	**2,203**	**191,254**
For the year ended 31 December 2016					
Opening carrying amount	25,227	136,672	27,152	2,203	191,254
Additions	-	6	889	12,783	13,678
Acquisition of a subsidiary (note 30)	-	-	61	-	61
Foundation of a subsidiary (note 31)	-	(878)	(70)	-	(948)
Transfer from assets under construction	-	1,451	3,856	(5,307)	-
Disposals	-	-	(219)	(625)	(844)
Depreciation for the year	-	(4,898)	(6,517)	-	(11,415)
Closing carrying amount	25,227	132,353	25,152	9,054	191,786
Balance at 31 December 2015					
Cost	25,227	195,739	109,040	9,054	339,060
Accumulated depreciation	-	(63,386)	(83,888)	-	(147,274)
Carrying amount	**25,227**	**132,353**	**25,152**	**9,054**	**191,786**

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 amount of HRK 143,437 thousand as at 31 December 2016 (2015: HRK 147,788 thousand).

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

	2016	2015
	(in thousands of HRK)	
Cost – capitalised finance lease	12,427	10,896
Accumulated depreciation	(6,201)	(3,442)
Carrying amount	**6,226**	**7,454**

NOTE 15 – INTANGIBLE ASSETS

(All amounts are expressed in thousands of HRK)	Goodwill	Licences, software and other rights	Assets under construction	Total
Balance at 31 December 2014				
Cost	75,097	162,693	1,907	239,697
Accumulated depreciation and impairment	(2,871)	(48,951)	-	(51,822)
Carrying amount	**72,226**	**113,742**	**1,907**	**187,875**
For the year ended 31 December 2015				
Opening carrying amount	**72,226**	**113,742**	**1,907**	**187,875**
Acquisition of a subsidiary (note 30)	988	7,373	-	8,361
Foundation of a subsidiary		2,571		2,571
Additions	-	709	1,738	2,447
Transfer from assets under construction	-	1,766	(1,766)	-
Impairment (note 9)	(3,694)	(2,099)	-	(5,793)
Disposals	-	(1)	-	(1)
Amortisation for the year	-	(2,254)	-	(2,254)
Closing carrying amount	69,520	121,807	1,879	193,206
Balance at 31 December 2015				
Cost	76,085	176,665	1,879	254,629
Accumulated amortisation and impairment	(6,565)	(54,858)	-	(61,423)
Carrying amount	**69,520**	**121,807**	**1,879**	**193,206**
For the year ended 31 December 2016				
Opening carrying amount	**69,520**	**121,807**	**1,879**	**193,206**
Additions	931	791	869	2,591
Transfers	-	416	(416)	-
Acquisition of a subsidiary (note 30)	-	7,036	-	7,036
Foundation of a subsidiary (note 31)	-	(7,685)	-	(7,685)
Disposals	-	(3)	(1,450)	(1,453)
Impairment (note 9)	(2,788)	(341)	-	(3,129)
Amortisation for the year	-	(2,445)	-	(2,445)
Closing carrying amount	67,663	119,576	882	188,121
Balance at 31 December 2016				
Cost	77,016	167,318	882	245,216
Accumulated amortisation and impairment	(9,353)	(47,742)	-	(57,095)
Carrying amount	**67,663**	**119,576**	**882**	**188,121**

NOTE 15 – INTANGIBLE ASSETS (continued)

Licences

At the reporting date, pharmacy licences with an indefinite useful life amount in total to HRK 112,499 thousand (2015: HRK 113,562 thousand). Pharmacy activities cannot be undertaken without pharmacy licences.

Impairment test of goodwill and licences with indefinite useful life

The Group calculated recoverable amount using value-in-use method. Value-in-use cash flow projections were based on a 7-year business plan approved by Management and Director. For the purposes of the cash flow projections, a discount rate of 9.71%, a growth rate of 1-3.5% and a terminal growth rate of 2.5% were applied. The recoverable amount exceeds the carrying amount. As a result of impairment test performed in 2016, an impairment loss with respect of goodwill and licences was recognised in the amount of HRK 3,129 thousand (2015: HRK 5,793 thousand).

NOTE 16 – INVESTMENTS IN ASSOCIATES

The Group holds a 49-percent share in the associate Zdravstvena ustanova Ljekarne Jagatić, which was acquired in 2008.

	2016	2015
	(in thousands of HRK)	
Balance at 1 January	21,120	39,442
Share of profit received	(1,038)	(855)
Disposal of the investment in Litmus d.o.o.	-	(18,363)
Share of profits	1,236	896
Balance at 31 December	**21,318**	**21,120**

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

(All amounts are expressed in thousands of HRK)	Assets	Liabilities	Revenue	Net gain / (loss)
Balance at 31 December 2016				
ZU Ljekarne Jagatić	28,036	18,457	50,016	2,522
Total	**28,036**	**18,457**	**50,016**	**2,522**

(All amounts are expressed in thousands of HRK)	Assets	Liabilities	Revenue	Net gain / (loss)
Balance at 31 December 2015				
ZU Ljekarne Jagatić	23,870	14,695	46,605	2,354
Total	**23,870**	**14,695**	**46,605**	**2,354**

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY

	2016	2015
	(in thousands of HRK)	
Financial assets - category: Loans and receivables		
Loans and receivables (note 18/v/)	1,378,358	1,201,735
Cash and cash equivalents (note 20)	84,509	54,903
	1,462,867	**1,256,638**

	2016	2015
	(in thousands of HRK)	
Financial liabilities - category: Other liabilities		
Trade payables (note 25/i/)	1,140,797	1,076,624
Other payables (note 25/ii/)	26,545	27,200
Total borrowings (note 26)	515,213	364,274
	1,682,555	**1,468,098**

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.

	2016	2015
	(in thousands of HRK)	
Pharmacies	273,958	242,854
Hospitals	128,292	137,782
HZZO	35,602	36,422
Others	57,296	70,241
Balance at 31 December	**497,148**	**487,299**

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2016	2015
	(in thousands of HRK)	
Non-current receivables:		
Given loans /i/	7,417	10,818
Trade receivables /ii/	878	1,197
Long-term deposits	570	675
	8,865	12,690
Current receivables:		
Trade receivables /ii/	1,232,494	996,993
Other current receivables /iii/	12,293	6,853
Given loans /iv/	131,117	183,088
Given loans – current portion of non-current receivables /i/	6,452	9,639
	1,382,356	1,196,573
	1,391,221	**1,209,263**

/i/ Given loans, as reported in the statement of financial position as at 31 December, are as follows:

	Effective interest rate	2016	2015
		(in thousands of HRK)	
Loans given to pharmacies	4.0%-8.0%	12,056	10,800
Given loans - other	4.0%-8.0%	1,813	9,657
Total non-current receivables, including current portion		13,869	20,457
Current portion of non-current receivables		(6,452)	(9,639)
		7,417	**10,818**

The fair value of long-term receivables approximates their carrying amounts since the contractually agreed interest rates are equal to market rates.

The maturity of long-term loans is as follows:

	2016	2015
	(in thousands of HRK)	
Between 1 and 2 years	3,980	6,053
Between 2 and 5 years	3,437	4,765
	7,417	**10,818**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	2016	2015
	(in thousands of HRK)	
Domestic trade receivables	1,232,475	996,520
Trade receivables – related parties (note 33)	16,096	13,348
Foreign trade receivables	1,781	1,672
	1,250,352	1,011,540
Impairment allowance on trade receivables	(16,980)	(13,350)
	1,233,372	**998,190**

Maturity analysis of receivables:

	2016	2015
	(in thousands of HRK)	
Not yet due	497,148	487,299
0-180 days past due	502,081	382,084
181-360 days past due	194,010	104,818
Over 360 days past due	57,113	37,339
	1,250,352	**1,011,540**

Movements in impairement allowance for trade receivables:

	2016	2015
	(in thousands of HRK)	
Balance at 1 January	13,350	14,086
Increase / (decrease) (note 9)	3,801	608
Amounts written-off	(171)	(1,344)
Balance at 31 December	**16,980**	**13,350**

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

	2016	2015
	(in thousands of HRK)	
HRK	1,388,319	1,198,083
EUR	2,804	11,006
DKK	98	174
	1,391,221	**1,209,263**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	2016	2015
	(in thousands of HRK)	
VAT receivable not yet recognised	3,349	3,030
Prepaid expenses	2,081	2,778
Others	6,863	1,045
	12,293	**6,853**

/iv/ Given loans, as reported in the statement of financial position as at 31 December, are as follows:

	Effective interest rate	2016	2015
		(in thousands of HRK)	
Given loans	4.0%-7.5%	132,415	184,377
		132,415	184,377
Impairment allowance		(1,298)	(1,289)
		131,117	**183,088**

Movements in impairement allowance for loan receivables:

	2016	2015
	(in thousands of HRK)	
Balance at 1 January	1,289	1,432
Increase / (decrease) (note 9)	9	(60)
Amounts written off	-	(83)
Balance at 31 December	**1,298**	**1,289**

/v/ Financial assets by category include the following:

	2016	2015
	(in thousands of HRK)	
Given cash loans	138,475	198,761
Given commodity loans	6,511	4,784
Trade receivables	1,233,372	998,190
	1,378,358	**1,201,735**

Of the total cash loans given, HRK 130,984 thousand (2015: HRK 181,050 thousand) relate to loans given to a single business partner.

The commodity loans given relate to trade receivables past 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

	2016	2015
	(in thousands of HRK)	
Trade goods	255,059	246,491
Trade goods – related parties (note 33)	19,030	14,987
Prepayments made	2,440	4,254
Materials	494	560
	277,023	**266,292**

In 2016 the Group recognised an allowance in the amount of HRK 8,546 thousand (2015: HRK 7,804 thousand) as an expense, which relates to damaged and expired inventories and is included in the cost of goods sold.

Inventories in the amount of HRK 100,000 thousand (2015: HRK 100,000 thousand) have been pledged as collateral for the borrowings (note 26).

NOTE 20 – CASH AND CASH EQUIVALENTS

	2016	2015
	(in thousands of HRK)	
Domestic currency account balance	84,461	54,509
Foreign currency account balance	27	370
Cash on hand	21	24
	84,509	**54,903**

Cash on kuna and foreign-currency denominated accounts is held with commercial banks in Croatia.

NOTE 21 – SHARE CAPITAL

At 31 December 2016 the share capital of the Company amounts to HRK 204,715,320 thousand (31 December 2015: HRK 196,261,000) and is divided into 30,194 shares (2015: 30,194 shares). The nominal value per share amounts to HRK 6,780 (31 December 2015: HRK 6,500). All issued shares are fully paid in.

	Number of shares	Share capital	Treasury shares	Capital gains/ (losses)	Total
	(pcs)		*(in thousands of HRK)*		
Balance at 1 January 2015	30,194	134,967	(10,486)	(9,243)	115,238
Release of own shares	-	-	1,089	590	1,679
Increase in share capital	-	61,294	-	-	61,294
Balance at 31 December 2015	**30,194**	**196,261**	**(9,397)**	**(8,653)**	**178,211**
Balance at 1 January 2016	30,194	196,261	(9,397)	(8,653)	178,211
Release of treasury shares \i\	-	-	700	340	1,040
Acquisition of treasury shares \ii\	-	-	(4,524)	-	(4,524)
Increase in share capital \iii\	-	8,454	-	-	8,454
Balance at 31 December 2016	**30,194**	**204,715**	**(13,221)**	**(8,313)**	**183,181**

\i\ In 2016 the Company granted 80 treasury shares to its key management (2015: 120 treasury shares).

\i\ In 2016 the Company acquired 347 treasury shares.

\ii\ The share capital was increased based on the decision of the General Assembly held on 30 June 2016. The Commercial Court in Zagreb issued a decision on the registration of the increase of share capital on 29 August 2016. The share capital was increased by a total of HRK 8,454 thousand, of which HRK 8,262 thousand from the reserve for reinvested profit and HRK 192 thousand from earnings retained in prior periods. The distribution of this amount in future periods may result in tax obligations given it is based on a tax incentive, as discussed in note 22.

NOTE 21 – SHARE CAPITAL (continued)

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

	2016		2015	
	Number of shares	%	Number of shares	%
Auctor d.o.o. (2015: 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	1,302	4.31%	1,035	3.43%
Individuals	2,144	7.11%	2,231	7.39%
Other legal persons	1,182	3.91%	1,362	4.51%
Total	**30,194**	**100%**	**30,194**	**100%**

At 31 December 2016 Auctor d.o.o. (31 December 2015: Mavota d.o.o.) held 14,306 shares, which represents 49.52% (2015: 49.06%) of shares with voting rights, taking into account non-voting treasury shares.

In 2016 Mavota d.o.o. was merged into Adria holding d.o.o., and Adria holding was merged into Auctor d.o.o.

NOTE 22 – RESERVE FOR REINVESTED PROFIT

In 2016, the Company generated a profit before tax of HRK 62,970 thousand (2015: HRK 55,633 thousand). The Management of the Company adopted a decision to reinvest profits in the amount of HRK 4,529 thousand (2015: HRK 8,262 thousand), which will be registered in 2017 as an increase of the Company's share capital. The share capital increase will be carried out by increasing the nominal value of the shares, which means that existing shareholder rights will not change, i.e. that the shares with the increased nominal value per share 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 reinvested profit amount (which it utilised to invest in non-current and current assets) as a tax incentive, resulting in a decrease of the current tax by HRK 906 thousand (2015: HRK 1,652 thousand).

The decision on reinvesting the profit and the resulting share capital increase requires final approval by the Company's General Assembly.

In line with the aforesaid, HRK 4,529 thousand (2015: HRK 8,262 thousand) relate to the profit to 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 2017, i.e. within a period of six months from the expiry of the tax return submission deadline specified by the tax legislation during which the Company must submit proof of having increased the share capital by the amount of reinvested profit, the tax incentive will be reversed, resulting in a tax expense of HRK 906 thousand (2015: HRK 1,652 thousand), plus interest.

NOTE 23 – RESERVES

(in thousands of HRK)	**Legal reserve**	**Reserves for treasury shares**	**Total**
Balance at 31 December 2014	**13,954**	**53,324**	**67,278**
Changes during the year	2,038	(2,038)	-
Balance at 31 December 2015	**15,992**	**51,286**	**67,278**
Changes during the year	2,474	(2,474)	-
Balance at 31 December 2016	**18,466**	**48,812**	**67,278**

Legal reserves amount to HRK 18,466 thousand (31 December 2015: HRK 15,992 thousand) and were increased from the reserves of treasury shares based on a decision adopted at the General Assembly held on 30 June 2016.

The legal reserve is required under Croatian law according to which the Company has 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

Included in the retained earning are other reserves in the total amount of HRK 31,796 thousand (2015: HRK 31,796 thousand).

The 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 adopted in its meeting held on 30 June 2016 a decision to distribute dividends from the retained earnings accumulated until 2000 in the amount of HRK 49,117 thousand, which were fully paid until 31 December 2016.

The dividend per share amounted to HRK 1,700.00.

NOTE 25 – TRADE AND OTHER PAYABLES

	2016	2015
	(in thousands of HRK)	
Trade payables /i/	1,140,797	1,076,624
Other payables /ii/	26,545	27,200
	1,167,342	**1,103,824**

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

	2016	2015
	(in thousands of HRK)	
Foreign trade payables	543,412	546,956
Domestic trade payables	464,417	414,883
Trade payables - related parties (note 33)	132,968	114,785
	1,140,797	**1,076,624**

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

	2016	2015
	(in thousands of HRK)	
HRK	753,699	680,672
EUR	374,231	381,575
DKK	12,816	14,185
Other currencies	51	192
	1,140,797	**1,076,624**

NOTE 25 – TRADE AND OTHER PAYABLES (continued)

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

	2016	2015
	(in thousands of HRK)	
VAT payable	9,746	9,280
Salaries payable	8,538	8,922
Liabilities for the purchase of new subsidiaries (note 30)	-	2,262
Unused annual leave	2,215	2,116
Other taxes and contributions payable	112	39
Dividends payable	-	12
Other	5,934	4,569
	26,545	**27,200**

NOTE 26 – BORROWINGS

	2016	2015
	(in thousands of HRK)	
Long-term borrowings:		
Long-term loans /i/	11,897	13,894
Finance lease /iii/	4,267	5,559
	16,164	**19,453**
Short-term borrowings:		
Short-term loans /ii/	496,304	342,339
Finance lease /iii/	2,745	2,482
	499,049	**344,821**
Total borrowings	**515,213**	**364,274**

/i/ The long-term loans relate to financing provided by a commercial bank for investment purposes. The loans are denominated in Croatian kunas (HRK), with a fixed interest rate and a maturity of three years.

/ii/ Short-term loans relate to financing from various banks for working capital purposes. They are denominated in Croatian kunas (HRK), with maturities ranging from one month to nine months. A portion of the loans are with a fixed interest rate.

/iii/ Long-term finance lease liabilities relate to the purchase of delivery vehicles and a fork lift. In 2016 new lease contracts were concluded, with an interest rate of 2.89% (2015: 3.29%-3.66%). The lease liabilities are repayable within four to six years and are secured by a pledge over all the vehicles and the fork lift subject to the finance lease (note 14). Lease liabilities are effectively secured since the lessor has the right to repossess the leased items if the Group ceases to make the payments.

NOTE 26 – BORROWINGS (continued)

The gross finance lease liability is as follows:

	2016	2015
	(in thousands of HRK)	
Up to 1 year	2,929	2,731
Between 1 and 5 years	4,442	5,836
Future financing costs	(359)	(526)
Carrying amount of the finance lease liabilities	**7,012**	**8,041**

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

	2016	2015
	(in thousands of HRK)	
Up to 1 year	2,745	2,483
Between 1 and 5 years	4,267	5,558
	7,012	**8,041**

The long-term portion is due and payable as follows:

	2016	2015
	(in thousands of HRK)	
1 year to 2 years	10,071	10,129
From 2 year to 5 years	6,093	9,324
	16,164	**19,453**

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

	2016		2015	
	HRK %	EUR %	HRK %	EUR %
Long-term borrowings				
Long-term loans	3.33%-3.84%	-	4.33%	3.42%
Finance lease liabilities	-	2.89%-3.70%	-	3.29-4.46%
Short-term borrowings				
Short-term loans	2.70%-3.10%	-	3.35%-4.13%	-

The fair value of the finance lease liabilities approximates their carrying amounts.

The carrying amounts of long-term and short-term borrowings correspond mainly with their fair values.

NOTE 26 – BORROWINGS (continued)

The Company's exposure to changes in the interest rates on the borrowings and the contractual repricing dates at the reporting date is as follows:

	2016	2015
	(in thousands of HRK)	
Variable-rate borrowings		
Up to 3 months	-	57,621
3 to 12 months	284,438	179,240
Over 1 year	-	-
	284,438	**236,861**
Fixed-rate borrowings		
Fixed-rate loans	230,775	127,413
	230,775	**127,413**
Total borrowings	**515,213**	**364,274**

Given that borrowings in the amount of HRK 230,775 thousand bear interest at fixed rates (2015: HRK 127,413 thousand), there is no exposure to interest rate changes.

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

	2016	2015
	(in thousands of HRK)	
HRK	508,201	353,609
EUR	7,012	10,665
	515,213	**364,274**

Loans received are secured by registered lien over the Group's property and equipment (note 14), inventories (note 19) as well as bills of exchange and promissory notes.

NOTE 27 – DEFERRED INCOME TAX

Pursuant to the income tax legislation, deferred tax assets and deferred tax liabilities are measured at the actual tax rate of 18%, which is effective as from 1 January 2017.

Deferred tax assets

(in thousands of HRK)	Impairment allowance on inventories	Impairment allowance on receivables	Provisions for employee benefits	Intragroup transfers of property and equipment	Impairment allowance on intangible assets	Total
Balance at 1 January 2015	**857**	**80**	**229**	**1**	**-**	**1,167**
Tax charged to profit or loss	-	(7)	-	-	-	(7)
Tax credited to profit or loss	181	-	63	-	420	664
Balance at 31 December 2015	**1,038**	**73**	**292**	**1**	**420**	**1,824**
Balance at 1 January 2016	**1,038**	**73**	**292**	**1**	**420**	**1,824**
Tax charged to profit or loss	(217)	(8)	(27)	(1)	-	(253)
Tax credited to profit or loss	-	-	-	-	61	61
Effect of change in the tax rate	(31)	(6)	(28)	-	(43)	(108)
Balance at 31 December 2016	**790**	**59**	**237**	**-**	**438**	**1,524**

Deferred tax liabilities

(in thousands of HRK)	Acquisition of a subsidiary – licences
Balance at 1 January 2015	**16,000**
Tax on acquisition of a subsidiary (note 30)	1,475
Balance at 31 December 2015	**17,475**
Balance at 1 January 2016	**17,475**
Tax on acquisition of a subsidiary (note 30)	1,252
Tax on formation of a subsidiary (note 31)	(1,174)
Effect of change in the tax rate	(1,630)
Balance at 31 December 2016	**15,923**

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

NOTE 28 – PROVISIONS

(in thousands of HRK)	Employee benefits	Legal actions	Other provisions	Total
Balance at 31 December 2015	**1,575**	**-**	**648**	**2,223**
Long-term portion	1,217	-	-	1,217
Current portion	358	-	648	1,006
Balance at 1 January 2016	**1,575**	**-**	**648**	**2,223**
Increase	75	1,098	-	1,173
Utilised during the year	(291)	-	(648)	(939)
Balance at 31 December 2016	**1,359**	**1,098**	**-**	**2,457**
Long-term portion	952	-	-	952
Current portion	407	1,098	-	1,505

Employee benefits

This provision comprises estimated long-term employee benefits relating to retirement benefits and jubilee awards, as defined by the Collective Agreement. The non-current portion of the provision relates to the rights estimated to become vested with respect to retirement benefits and jubilee awards that will be paid one year after the date of the statement of financial position. The current portion includes jubilee awards and retirement benefits which will be paid within 12 months after the date of the statement of financial position.

Legal actions

The Group has increased the provisions for legal disputes based on assessment of the attorneys and the Management regarding the probability of losing the disputes (note 9).

Other provisions

Other provisions include provisions for tax liabilities based on the Resolution of Tax Authority (note 12). Following the final judgement and the settlement of the liability, the provision was reversed in 2016.

NOTE 29 – OPERATING LEASES

The Company and the Group rent vehicles and office space under non-cancellable operating lease contracts. The lease term is between 1 year and 6 years.

The contractual rents under the operating leases are as follows:

	2016	2015
	(in thousands of HRK)	
Up to 1 year	6,007	5,968
Between 1 and 5 years	5,474	5,576
After 5years	796	200
Contractual rents under operating leases	**12,277**	**11,744**

NOTE 30 – ACQUISITION OF SUBSIDIARIES

Acquisition of Health Institutions

In 2016, the Group acquired 100% ownership over three pharmacies (2015: 100% ownership over two pharmacies) for a contractual amount of HRK 9,874 thousand (2015: HRK 7,555 thousand).

From the date of acquisition to the reporting date, the Group generated revenues on the basis of the newly acquired subsidiaries in the amount of HRK 5,976 thousand (2015: HRK 2,818 thousand) and profit in the amount of HRK 289 thousand (2015: HRK 498 thousand). The subsidiaries were acquired as of 1 January 2016.

These amounts have been calculated using the Group's accounting policies. The net book value of assets acquired and goodwill determined are as follows:

	2016	2015
	(in thousands of HRK)	
Acquisition cost	**9,874**	**7,555**
- Consideration paid	9,874	5,293
- Liabilities for the purchases of new subsidiaries (note 25/ii/)	-	2,262
Fair value of assets acquired	(9,874)	(6,567)
Goodwill (note 15)	**-**	**988**

The fair value of the acquired assets is as follows:

	2016	2015
	(in thousands of HRK)	
Intangible assets (note 15)	7,036	7,373
Property and equipment (note 14)	61	29
Inventories	1,151	1,180
Given loans	-	1,519
Receivables	2,263	3,409
Cash and cash equivalents	1,963	1,778
Deferred tax liability (note 27)	(1,252)	(1,475)
Current liabilities	(1,348)	(7,246)
Net assets acquired	**9,874**	**6,567**
Purchase consideration paid in cash	9,874	5,293
Cash and cash equivalents acquired	(1,963)	(1,778)
Cash acquired on the acquisition, net of cash consideration paid	**7,911**	**3,515**

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

The Management of the Group identified and fair valued a pharmacy licence as the only form of intangible assets which arises on the acquisition of medical institutions/pharmacies. The assets were fair valued at the acquisition date at the net present value of cash flows from the use of identified tangible and intangible assets of the Group and those directly attributable to them.

NOTE 31 – FORMATION AND DISPOSAL OF SUBSIDIARIES

In 2016 ZU Prima Pharme established a new pharmacy, Zdravstvena ustanova Ljekarne Diabpharm, Zagreb. The pharmacy has been established by paying in the registered capital in the amount of HRK 20 thousand, and the assets transferred to the new institution consist of intangible assets in the amount of HRK 7,685 thousand (note 15), tangible assets in the amount of HRK 948 thousand (note 14), inventories in the amount of HRK 843 thousand and deferred tax liability in the amount of HRK 1,174 thousand (note 27). The total value of the investment amounted to HRK 8,321 thousand. The investment was sold for HRK 9,000 thousand, and the Group generated a gain from the disposal in the amount of HRK 679 thousand (note 10).

In 2016 the Group acquired a share in ZU Ljekarne Galla which it sold generating a gain on the disposal in the amount of HRK 100 thousand (note 10).

NOTE 32 – EVENTS AFTER THE BALANCE SHEET DATE

On 1 January 2017 the Group acquired 100-percent of subsidiary Ljekarna Ana Pantelić, Rijeka.

There are no other subsequent events that would require adjustments to or to be disclosed in the financial statements.

NOTE 33 – RELATED-PARTY TRANSACTIONS

The Group enters into transactions with related parties.

The related parties include:

	2016	2015
1. Associate:		
Litmus d.o.o., Zagreb (until October 2015)	-	-
2. Associate of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb:		
Zdravstvena ustanova Ljekarne Jagatić, Zagreb	49%	49%

3. Primus nekretnine d.o.o., Zagreb: until October 2015 a subsidiary fully owned by associate Litmus d.o.o., Zagreb; since October 2015 a subsidiary fully owned by associate company Put stinica d.o.o.. Primus nekretnine d.o.o. was merged into Put stinica d.o.o. in December 2016.
4. The company with the majority of voting rights, i.e. the parent company Auctor d.o.o. (2015: Mavota d.o.o.), with an ownership interest of 47.38%, i.e. 49.52% of voting rights.
5. Pliva Hrvatska d.o.o., Zagreb, with an ownership interest of 25.32% and 26.46% of the voting rights in the Company. Given the ownership interest and the volume of transactions with the Company, Pliva Hrvatska d.o.o. has significant influence on the current operations of the Company.
6. Other related companies: Auctor d.o.o, a related party of Auctor d.o.o.

Balances resulting from transactions with the related parties and included in the statement of financial position at 31 December 2016 and 2015 as well as the items included in the statement of comprehensive income resulting from these transactions are as follows:

(in thousands of HRK)	Notes	2016	2015
Trade and other receivables			
Trade receivables			
Associate of ZU Ljekarne Prima Pharme		15,831	13,021
Pliva Hrvatska d.o.o.		265	327
	18	16,096	13,348
Inventories			
Pliva Hrvatska d.o.o.		19,030	14,987
	19	19,030	14,987

NOTE 33 – RELATED-PARTY TRANSACTIONS (continued)

(in thousands of HRK)	Notes	2016	2015
Payables to suppliers			
Pliva Hrvatska d.o.o.		132,968	114,785
	25	132,968	114,785
Sales and other income			
Associate		-	4
Associate of ZU Ljekarne Prima Pharme		31,142	28,656
Subsidiary of Litmus d.o.o. / Subsidiary of Put stinica d.o.o.		-	19
Pliva Hrvatska d.o.o.		311	361
	6	31,453	29,040
Financial income			
Subsidiary of Litmus d.o.o. / Subsidiary of Put stinica d.o.o.		-	1
Other related companies		-	2
	11	-	3
Purchase of trade goods			
Pliva Hrvatska d.o.o.		229,445	176,803
		229,445	176,803
Key management compensation – salaries and bonuses for five members		6,072	7,929
Supervisory Board and Audit Committee compensation		525	442

NOTE 34 – APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 13 to 66 were approved by the Management of the Company in Zagreb on 13 March 2017.

Signed on behalf of the Company on 13 March 2017 by:

Jasminko Herceg
Director

Medika d.d.
ZAGREB, Čapraška 1

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