

MEDIKA d.d.

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

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Management Report

In 2016 Medika d.d. (the "Company") generated a non-consolidated revenue in the amount of HRK 2,544,907 thousand, which is by HRK 159,328 thousand higher than the prior year's non-consolidated revenue. The non-consolidated operating profit amounts to HRK 62,533 thousand, which is by 16.9% higher than the prior year's figure.

Profit before tax on a non-consolidated basis amounts to HRK 62,970 thousand, and the non-consolidated net profit amounts to HRK 50,704 thousand, which is by 12.1% more than the 2015 figure.

The Management of 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), 51.7% of the total non-consolidated income was generated by pharmacies, 0.5% less than in the prior year. At the same time, 29.8% of the total non-consolidated income was generated from hospitals, 2.3% higher than in the prior year.

Total non-consolidated assets amount to HRK 2,058,171 thousand, representing an increase of 11.4% from the prior year. In the current year the share of non-current assets in the total non-consolidated assets remained almost the same as in the prior year, whereas current assets increased by 13.4%, accounting for 87.7% of the total assets. Trade and other receivables represent the most significant item of the total non-consolidated assets and increased by 12.7% from the prior year. In addition, inventories rose 5.2% compared with the prior year.

The total non-consolidated loan debt amounts to HRK 489,648 thousand, comprising HRK 477,148 thousand of short-term loans and finance lease obligations and HRK 12,500 thousand of long-term borrowings and finance lease liabilities (note 26).

The equity-to-assets ratio is 20%, showing that the Company finances 20% of its total assets from own sources.

The non-consolidated performance is presented in the statement of comprehensive income on page 12 of the financial statements.

Expected future development of the Company

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.

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 Company is the long collection period for trade receivables, especially those HZZO (Croatian State Health Insurance) and HZZO related receivables. Therefore, a significant amount of working capital is not available, which strongly affects the cash flow of Medika d.d. and timely settlement of its liabilities. As the receivables represent, directly or indirectly, amounts owed by state institutions, their collection should not be regarded as probable of default risk. However, this 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 is a further risk. To lower this risk, the Company 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 Company generates most of its revenue on the domestic market and in the 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 Company's interest rate risk arises from its short-term and long-term borrowings at variable rates, which expose the Company to cash-flow interest rate risk. Fixed-rate borrowings expose the Company to the interest-rate fair value risk.

A part of the Company's assets are interest-bearing assets, 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

ANNUAL REPORT (continued)

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: Mrs Ružica Vadić, Chairwoman, 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 Audit Committee consists of the following members: Mrs Ružica Vadić, President, Mr Oleg Uskoković and Mr Dalibor Briški.

Zagreb, 13 March 2017

Jasminko Herceg
Director



STATEMENT OF THE RESPONSIBILITIES OF THE MANAGEMENT AND SUPERVISORY BOARD

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

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

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

The financial statements set out on pages 12 to 59 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 financial statements

Opinion

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

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

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INDEPENDENT AUDITOR'S REPORT (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 for 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 separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Complexity of revenue <i>Refer to Notes 5 and 6 to the separate financial statements on pages 35 to 37.</i>	
<p>Revenue is an important measure used to evaluate the performance of a company. There is a risk that revenue is presented in amounts higher than actually generated by the Company.</p> <p>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 Company's information system.</p> <p>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</p>	<p>Our audit approach included both controls testing and substantive procedures, which are the following:</p> <ul style="list-style-type: none">• 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)

Valuation of trade receivables

Refer to Note 18 to the separate financial statements on pages 45 to 48.

A significant market risk for the Company 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 1,352,334 thousand, and the impairment provisions recognised for bad receivables amount to HRK 16,657 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 Company 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.

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.



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 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 Article 21 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 Management Report for the year 2016 has been prepared, in all material respects, in accordance with Article 21 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 of the Accounting Act, and includes also the information from Article 22, paragraph 1, point 2, 5, 6 and 7 of the same Act.

Based on the knowledge and understanding of the Company'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 preparation and approval of annual financial statements

Management is responsible for the preparation and fair presentation of the 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 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 Company'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 Company 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 Company.

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



INDEPENDENT AUDITOR'S REPORT (continued)

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent 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 Company'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 Company'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 an entity 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.



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.

A handwritten signature in blue ink, appearing to read "M. 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

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

<i>(All amounts are expressed in thousands of HRK)</i>	Notes	2016	2015
Revenue	5, 6	2,544,907	2,385,579
Cost of goods sold	6	(2,362,362)	(2,221,428)
Staff expenses	7	(60,566)	(58,966)
Marketing and promotion expenses	8	(8,629)	(9,632)
Depreciation and amortisation	14, 15	(11,288)	(9,848)
Other operating expenses	9	(42,987)	(37,758)
Other gains – net	10	3,458	5,551
Profit from operations		62,533	53,498
Financial income	11	14,822	14,813
Financial expenses	11	(14,385)	(12,678)
Net financial gain		437	2,135
Profit before tax		62,970	55,633
Income tax	12	(12,266)	(10,400)
Profit for the year		50,704	45,233
Other comprehensive income for the year		-	-
Total comprehensive income for the year		50,704	45,233
Earnings per share			
– basic and diluted (in HRK and lipa)	13	1,748.11	1,552.48

The notes on pages 17 to 59 form an integral part of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

<i>(All amounts are expressed in thousands of HRK)</i>	Notes	At 31 December	
		2016	2015
ASSETS			
Non-current assets			
Property and equipment	14	168,599	166,798
Intangible assets	15	15,734	16,465
Investments in subsidiaries and associates	16	59,999	59,249
Deferred tax assets	27	446	729
Trade and other receivables	18	7,428	11,073
		<u>252,206</u>	<u>254,314</u>
Current assets			
Inventories	19	245,761	233,707
Trade and other receivables	18	1,479,385	1,307,704
Income tax receivable		725	2,571
Cash and cash equivalents	20	80,094	49,088
		<u>1,805,965</u>	<u>1,593,070</u>
Total assets		<u>2,058,171</u>	<u>1,847,384</u>
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	162,276	165,410
		<u>417,264</u>	<u>419,161</u>
Non-current liabilities			
Borrowings	26	12,500	19,453
Provisions	28	684	803
		<u>13,184</u>	<u>20,256</u>
Current liabilities			
Trade and other payables	25	1,149,227	1,085,549
Borrowings	26	477,148	322,156
Provisions	28	1,348	262
		<u>1,627,723</u>	<u>1,407,967</u>
Total equity and liabilities		<u>2,058,171</u>	<u>1,847,384</u>

The notes on pages 17 to 59 form an integral part of these financial statements.

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

<i>(All amounts are expressed in thousands of HRK)</i>	Notes	Share capital	Reserve for re- invested profit	Reserves	Retained earnings	Total
Balance at 1 January 2015		115,238	61,294	67,278	205,709	449,519
Comprehensive income for the year						
Profit for the year		-	-	-	45,233	45,233
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	45,233	45,233
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	24	-	-	-	(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	165,410	419,161
Balance at 1 January 2016		178,211	8,262	67,278	165,410	419,161
Comprehensive income for the year						
Profit for the year		-	-	-	50,704	50,704
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	50,704	50,704
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	162,276	417,264

The notes on pages 17 to 59 form an integral part of these financial statements.

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

<i>(All amounts are expressed in thousands of HRK)</i>	Notes	2016	2015
Cash flows from operating activities:			
Profit for the year		50,704	45,233
Adjusted by:			
Income tax	12	12,266	10,400
Depreciation and amortisation	14, 15	11,288	9,848
Impairment of trade and other receivables, net	9	3,838	404
Value adjustment on inventories	19	8,252	7,559
Unrealised foreign exchange differences		(593)	(791)
Changes in provisions		967	(669)
Gain on disposal of tangible assets	10	29	(328)
Impairment of intangible assets	15	23	1
Interest expense	11	14,463	12,741
Interest income	11	(14,822)	(14,813)
Changes:			
Increase in inventories		(20,306)	(12,088)
Increase in trade and other receivables		(233,040)	(18,052)
Increase in trade and other payables		64,502	11,666
(Decrease)/increase in dividends payable	25/ii/	(12)	11
Cash generated from operations		(102,441)	51,122
Interest paid		(14,735)	(12,807)
Income taxes paid		(10,287)	(4,707)
Cash flows from operating activities		(127,463)	33,608
Cash flows from investing activities:			
Purchases of property, equipment and intangible assets	14, 15	(11,700)	(8,155)
Proceeds from the sale of property and equipment		809	380
Proceeds from repayment of given loans		457,242	237,664
Investment in subsidiary	16	(100)	-
Given loans		(396,850)	(277,010)
Interest received		14,810	14,650
Cash flows from investing activities		64,211	(32,471)

The notes on pages 17 to 59 form an integral part of these financial statements.

MEDIKA d.d., Zagreb**SEPARATE 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		(437,660)	(157,965)
Proceeds from borrowings		587,000	219,712
Repayment of finance leases		(2,470)	(3,314)
Dividends paid		(49,128)	(77,270)
Release of treasury shares	21	1,040	1,679
Purchase of treasury shares	21	(4,524)	-
Cash flows from financing activities		94,258	(17,158)
Net increase / (decrease) in cash and cash equivalents		31,006	(16,021)
Cash and cash equivalents at the beginning of the year		49,088	65,109
Cash and cash equivalents at the end of the year	20	80,094	49,088

The notes on pages 17 to 59 form an integral part of these financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 1 – GENERAL INFORMATION

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

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 financial statements. The accounting policies have been consistently applied to all the years presented in these financial statements, except where stated otherwise.

2.1 Basis of preparation

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

The preparation of 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 Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

The Company has issued these separate financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. The Company has also prepared consolidated financial statements for the Company and its subsidiaries (“the Group”) in accordance with IFRS, which were approved by the Management on 13 March 2017. In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. Users of these separate financial statements should read them together with the Group’s consolidated financial statements as at and for the year ended 31 December 2016 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

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**, adopted in the European Union on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),

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 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),
- **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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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),
- **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).

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 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 “Statement 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 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.

2.3 Foreign currencies

(a) Functional and reporting currency

Items included in the Company's financial statements are presented in the currency of the primary economic environment in which the Company operates (its functional currency). The financial statements are presented in the Croatian kuna (HRK), which is both the functional and reporting currency of the Company, 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.

2.4 Investments in subsidiaries and associates

(a) Subsidiaries

Subsidiaries are all companies (including structured entities) controlled by the Company. Control is achieved when the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. 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.

(b) Associates

Associates are companies in which the Company has between 20% and 50% of the voting rights, i.e. in which it has a significant influence, but not control. Such investments are presented in these financial statements at cost less any impairment losses, if any.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 item will flow to the Company, and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognised. All other repairs and maintenance are charged to the income statement for the financial period in which they are incurred.

Land and assets under construction 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.

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 Company 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 Company 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 the income statement.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Company'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 Company 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) 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.

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets

The Company classifies its financial assets as trade and other receivables, except investments in subsidiaries and associates (note 2.4). The classification depends on the purpose for which the financial assets 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 Company performs a review to identify any objective evidence that a financial asset may be impaired. Impairment testing of trade and loan 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.

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 Company leases certain property and equipment. Leases of property and equipment where the Company 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 equipment, 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 Company 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs attributable to the purchase of goods and is calculated based on the weighted average purchase price. Net realisable value 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. An impairment allowance is made for receivables whenever there is objective evidence that the Company will not be able to collect all due receivables according to the original terms of the receivables.

Significant financial difficulties of the debtor, 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 asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The impairment losses on trade receivables are recognised in the income statement within "Other operating expenses".

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

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits with banks and other short-term highly liquid instruments with original maturities of up to three months.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Financial liabilities

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

(a) Trade payables

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

(b) Borrowings

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

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

The Company derecognises financial liabilities when, and only when, the Company'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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits

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

In the normal course of business the Company 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 Company does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Company is not obliged to provide any other post-retirement benefits.

(b) Long-term employee benefits

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

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

2.17 Provisions

Provisions are recognised if the Company 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Provisions (continued)

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 comprises the fair value of the consideration received or receivable for the sale of products, goods and services in the ordinary course of the Company's business. Revenues are stated net of value added tax, estimated returns, discounts and rebates. The Company recognises revenue when the amount of the revenue can be measured reliably, when future economic benefits will flow into the Company and when the specific criteria for all the Company's activities as described below 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.

(b) Service revenue

Service revenue is recognized in the accounting period in which service is performed. 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.

2.19 Finance expense

Finance expenses comprise interest expense accrued on borrowings, impairment losses recognised on financial assets, and foreign exchange losses. Borrowing costs are recognised in income statement 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Company's activities expose it to a variety of financial risks: market risk (which includes foreign exchange rate risk, the fair value interest rate risk, the cash flow interest rate risk and investment in securities risk), credit risk and liquidity risk. The pharmaceuticals wholesale industry in the Republic of Croatia is highly influenced by the state which plays its role by imposing strict legislation and the health system funding. As the dynamic of funding by the state is beyond control or prediction and given the inability to predict financial market trends, the overall risk management of the Company is focused on minimising or eliminating the potential adverse impact on the Company's financial position. Risk management within the Company is the responsibility of the Finance Division that, in cooperation with other divisions within the Company, identifies, assesses the risks and proposes risk protection measures.

(a) Market risk

(i) Foreign exchange risk

The Company generates most of its revenue on the domestic market and in Croatian kuna (HRK). However, the Company purchases a part of goods on foreign markets, which exposes it to the currency risk arising from changes in foreign exchange rates mostly against the euro, which may affect future operating results and cash flows. The Finance Division of the Company seeks to minimise the foreign exchange risk by reducing the balance of foreign-currency denominated financial liabilities. This mainly relates to borrowings, which are entirely denominated in the Croatian kuna and hence do not give rise to any foreign exchange risk exposure. 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 3,026 thousand higher/lower), mainly as a result of foreign exchange gains/losses on translation of euro-denominated trade payables.

(ii) Cash flow and fair value interest rate risk

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

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

As at 31 December 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 209 thousand lower/higher (2015: HRK 161 thousand).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Current assets that expose the Company to credit risk consist mainly of cash, trade and other receivables. The Company has no significant concentrations of credit risk. The Company 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 Company 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 Company 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 80,094 thousand, and the Company 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 Company by contractual maturities. The amounts presented below represent undiscounted cash flows.

<i>(in thousands of HRK)</i>	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	280,376	868,851	-	-	1,149,227
Borrowings	161,419	317,329	12,654	171	491,573

<i>(in thousands of HRK)</i>	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	281,680	803,869	-	-	1,085,549
Borrowings	31,223	293,600	20,083	356	345,262

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

The Company's objectives when managing capital are to safeguard the Company'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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the self-financing ratio in 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:

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Total liabilities and equity	417,264	419,161
Total assets	<u>2,058,171</u>	<u>1,847,384</u>
Equity to assets ratio	<u>20%</u>	<u>23%</u>

The 2016 ratio decreased from the one in 2015 and shows that the Company finances 20 percent of its total assets from own sources. Consequently, 80 percent of the assets are financed from sources other than owner's equity (2015: 77%).

3.3 Fair value measurement

The nominal amount value of trade receivables less impairment allowance and of trade payables are assumed to approximate their fair values.

NOTE 4 – KEY ACCOUNTING ESTIMATES

The Company 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 Company 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 Company 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

The determination of the useful life of the assets is based on past experience involving similar assets, as well as on forecast changes in the economic environment and industry-specific factors. The adequacy of the useful life estimates is reviewed once a year, or whenever there is an indication of significant changes in the underlying assumptions.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 5 – REVENUE

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Sales revenue	2,257,534	2,111,185
Sales and other revenue – related parties (note 32)	272,096	263,809
Other income	15,277	10,585
	<u>2,544,907</u>	<u>2,385,579</u>

NOTE 6 – SEGMENT INFORMATION

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

The Company monitors revenues and gross profit by distribution channels:

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

The Company 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 applies the same accounting policies in all the segments.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 6 – SEGMENT INFORMATION (continued)

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

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Others	Total
Sales revenue	1,044,483	759,495	453,557	2,257,535
Sales and other revenue – related parties (note 32)	271,757	-	339	272,096
Other income	185	111	14,980	15,276
Total income	1,316,425	759,606	468,876	2,544,907
Cost of goods sold	(1,236,154)	(709,651)	(416,557)	(2,362,362)
Segment result	80,271	49,955	52,319	182,545
Operating expenses				(120,012)
Profit from operations				62,533
Financial income				14,822
Financial expenses				(14,385)
Net financial gain				437
Profit before tax				62,970
Income tax				(12,266)
Profit for the year				50,704

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 6 – SEGMENT INFORMATION (continued)

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

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

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

<i>(in thousands of HRK)</i>	Pharmacies	Hospitals	Others	Total
Trade receivables (note 18/ii/)	565,371	688,095	82,211	1,335,677

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 7 - STAFF EXPENSES

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Net salaries	30,932	31,765
Contributions from and on salaries /i/	16,291	15,622
Taxes and surtaxes	4,875	4,157
Management bonuses	3,760	2,977
Employee transportation costs	1,995	1,962
Other employee benefits /ii/	1,979	2,238
Termination benefits	734	245
	<u>60,566</u>	<u>58,966</u>

At 31 December 2016 the Company had 399 employees (31 December 2015: 399 employees).

/i/ Pension contributions recognised by the Company as payable to mandatory pension funds in respect of 2016 amount to HRK 8,884 thousand (2015: HRK 8,659 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

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Donations	4,759	4,931
Entertainment	2,014	2,624
Marketing	1,856	2,077
	<u>8,629</u>	<u>9,632</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 9 – OTHER OPERATING EXPENSES

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Materials and energy	9,477	10,384
Maintenance of assets, security services and property insurance	9,218	9,079
Professional training and consultancy services	5,134	5,629
Other expenses	3,901	1,836
Impairment of trade and other receivables, net (note 18)	3,838	404
Taxes and contributions independent of the results	3,113	2,969
Rental costs	3,004	3,383
Bank and payment operation charges	1,505	1,339
Telephone, postal and utility services	1,189	1,130
Litigation provisions (note 28)	1,098	-
Road tolls and transportation costs	1,006	1,083
Control and analysis services	494	522
Other expenses – related parties (note 32)	10	-
	<u>42,987</u>	<u>37,758</u>

NOTE 10 – OTHER GAINS – NET

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Net foreign exchange gains – trade and other payables	4,020	5,562
Net (losses) / gains on disposal of property and equipment	(29)	328
Net foreign exchange losses – trade and other receivables	(106)	(100)
Net foreign exchange losses – cash and cash equivalents	(427)	(239)
	<u>3,458</u>	<u>5,551</u>

NOTE 11 - NET FINANCIAL GAINS

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Financial income		
Interest income	14,804	14,807
Interest income – related companies (note 32)	18	6
	<u>14,822</u>	<u>14,813</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 11 - NET FINANCIAL GAINS (continued)

Financial expenses	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Interest expense		
Bank loans and finance leases	(14,463)	(12,741)
	<u>(14,463)</u>	<u>(12,741)</u>
Foreign exchange gains – net		
Foreign exchange gains	78	114
Foreign exchange losses	-	(51)
	<u>78</u>	<u>63</u>
	<u>(14,385)</u>	<u>(12,678)</u>

NOTE 12 – INCOME TAX

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Current tax	11,983	10,597
Deferred tax liability (note 27)	283	(197)
	<u>12,266</u>	<u>10,400</u>

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

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Profit before taxation	62,970	55,633
Income tax at the rate of 20%	12,595	11,127
Effect of non-taxable income and tax incentives	(1,218)	(786)
Tax incentives for reinvested profit (note 22)	(906)	(1,652)
Effect of tax non-deductible expenses	1,512	1,908
Effect of previously unrecognised and unused tax losses and deductible temporary differences now recognised	234	(197)
Effect of tax rate change on previously recognised temporary differences	49	-
Income tax	<u>12,266</u>	<u>10,400</u>
Effective tax rate	<u>19.48%</u>	<u>18.69%</u>

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 13 – EARNINGS PER SHARE

Earnings per share are determined, by dividing the Company's net profit by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares redeemed and held by the Company as treasury shares. The weighted average number of shares was 29,005 as the Company had transactions involving its treasury shares in 2016.

	2016	2015
Net profit attributable to the shareholders <i>(in thousands of HRK)</i>	50,704	45,233
Weighted average number of shares (excluding treasury shares)	29,005	29,136
Basic / diluted earnings per share <i>(in HRK and lipa)</i>	1,748.11	1,552.48

NOTE 14 – PROPERTY AND EQUIPMENT

<i>(All amounts are expressed in thousands of HRK)</i>	Land	Buildings	Equipment	Assets under construction and prepayments	Total
Balance at 31 December 2014					
Cost	15,995	149,904	78,595	35,251	279,745
Accumulated depreciation and impairment	-	(50,705)	(66,216)	(1,840)	(118,761)
Carrying amount	15,995	99,199	12,379	33,411	160,984
For the year ended 31 December 2015					
Opening carrying amount	15,995	99,199	12,379	33,411	160,984
Additions	-	-	-	14,236	14,236
Transfer from assets under construction	2,238	26,756	16,456	(45,450)	-
Disposals and retirements	-	-	(52)	-	(52)
Depreciation for the year	-	(4,179)	(4,191)	-	(8,370)
Closing carrying amount	18,233	121,776	24,592	2,197	166,798
Balance at 31 December 2015					
Cost	18,233	176,660	92,884	4,037	291,814
Accumulated depreciation and impairment	-	(54,884)	(68,292)	(1,840)	(125,016)
Carrying amount	18,233	121,776	24,592	2,197	166,798
For the year ended 31 December 2016					
Opening carrying amount	18,233	121,776	24,592	2,197	166,798
Additions	-	-	4	12,561	12,565
Transfer from assets under construction	-	1,451	3,628	(5,079)	-
Disposals and retirements	-	-	(213)	(625)	(838)
Depreciation for the year	-	(4,438)	(5,488)	-	(9,926)
Closing carrying amount	18,233	118,789	22,523	9,054	168,599
Balance at 31 December 2016					
Cost	18,233	178,110	89,357	9,054	294,754
Accumulated depreciation and impairment	-	(59,321)	(66,834)	-	(126,155)
Carrying amount	18,233	118,789	22,523	9,054	168,599

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

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 141,441 thousand as at 31 December 2016 (2015: HRK 145,688 thousand).

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 15 – INTANGIBLE ASSETS

(All amounts are expressed in thousands of HRK)

	<u>Licences</u>	<u>Goodwill</u>	<u>Assets under development</u>	<u>Total</u>
Balance at 31 December 2014				
Cost	32,304	11,930	1,906	46,140
Accumulated amortisation	(28,505)	-	-	(28,505)
Carrying amount	3,799	11,930	1,906	17,635
For the year ended 31 December 2015				
Opening carrying amount	3,799	11,930	1,906	17,635
Additions	-	-	309	309
Transfers	1,766	-	(1,766)	-
Disposals	(1)	-	-	(1)
Amortisation	(1,478)	-	-	(1,478)
Closing carrying amount	4,086	11,930	449	16,465
Balance at 31 December 2015				
Cost	33,959	11,930	449	46,338
Accumulated amortisation	(29,873)	-	-	(29,873)
Carrying amount	4,086	11,930	449	16,465
For the year ended 31 December 2016				
Opening net book amount	4,086	11,930	449	16,465
Additions	-	-	654	654
Transfers	415	-	(415)	-
Disposals	(3)	-	(20)	(23)
Amortisation	(1,362)	-	-	(1,362)
Closing carrying amount	3,136	11,930	668	15,734
Balance at 31 December 2016				
Cost	34,067	11,930	668	46,665
Accumulated amortisation	(30,931)	-	-	(30,931)
Carrying amount	3,136	11,930	668	15,734

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

Goodwill impairment test

The Company calculated the recoverable amount using value-in-use method. Value-in-use cash flow projections were based on a seven-year business plan approved by the Management. For the purposes of the cash flow projections, a discount rate of 9.71%, a growth rate of 1-2% and a terminal growth rate of 2.50% were applied. The recoverable amount exceeds the carrying amount.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 16 – INVESTMENTS IN SUBSIDIARIES

	Interest in %, 2016	Interest in %, 2015	2016	2015
			<i>(in thousands of HRK)</i>	
ZU Ljekarne Prima Pharne, Split	100%	100%	40,000	40,000
Primus nekretnine d.o.o., Zagreb (2015: Put stinica d.o.o., Zagreb) //	100%	100%	19,999	19,249
			59,999	59,249

// In 2016 the share capital of Put Stinica d.o.o. was increased by an additional cash contribution in the amount of HRK 100 thousand and a contribution in rights in the amount of HRK 650 thousand, and the subsidiary was renamed to Primus nekretnine d.o.o.

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY

	2016	2015
	<i>(in thousands of HRK)</i>	
Financial assets - category: Loans and receivables		
Loans and receivables (note 18/v/)	1,480,439	1,312,253
Cash and cash equivalents (note 20)	80,094	49,088
	1,560,533	1,361,341
Financial liabilities - category: Other liabilities		
Trade payables (note 25/i/)	1,128,794	1,066,469
Other payables (note 25/ii/)	20,433	19,080
Total borrowings (note 26)	489,648	341,609
	1,638,875	1,427,158

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
	<i>(in thousands of HRK)</i>	
Pharmacies	368,815	334,426
Hospitals	128,292	137,782
Others	54,738	65,968
Balance at 31 December	551,845	538,176

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 18 – TRADE AND OTHER RECEIVABLES

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Non-current receivables:		
Given loans /i/	7,276	10,818
Long-term deposits	152	255
	<u>7,428</u>	<u>11,073</u>
Current receivables:		
Trade receivables /ii/	1,335,677	1,110,317
Other current receivables /iii/	6,119	6,269
Given loans /iv/	131,129	181,479
Given loans – current portion of non-current receivables /i/	6,357	9,639
Short-term deposits	103	-
	<u>1,479,385</u>	<u>1,307,704</u>
	<u>1,486,813</u>	<u>1,318,777</u>

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

	Effective interest rate	<u>2016</u>	<u>2015</u>
		<i>(in thousands of HRK)</i>	
Loans given to pharmacies	4.0%-7.0%	12,056	10,800
Given loans - other	2.0%-8.0%	1,577	9,657
Total non-current receivables, including current portion		<u>13,633</u>	<u>20,457</u>
Current portion of non-current receivables		<u>(6,357)</u>	<u>(9,639)</u>
		<u>7,276</u>	<u>10,818</u>

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

The maturity of long-term loans is as follows:

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	3,926	6,053
Between 2 and 5 years	3,350	4,765
	<u>7,276</u>	<u>10,818</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Domestic trade receivables	1,141,311	927,322
Trade receivables – related parties (note 32)	209,242	194,229
Foreign trade receivables	1,781	1,672
	<u>1,352,334</u>	<u>1,123,223</u>
Impairment allowance on trade receivables	(16,657)	(12,906)
	<u>1,335,677</u>	<u>1,110,317</u>

Maturity analysis of receivables:

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Not yet due	551,843	538,177
0-180 days past due	549,413	442,967
181-360 days past due	193,914	104,776
Over 360 days past due	57,164	37,303
	<u>1,352,334</u>	<u>1,123,223</u>

Movements in impairment allowance for trade receivables:

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Balance at 1 January	12,906	13,623
Increase (note 9)	3,829	464
Amounts written off	(78)	(1,181)
Balance at 31 December	<u>16,657</u>	<u>12,906</u>

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

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
HRK	1,483,911	1,307,597
EUR	2,804	11,006
DKK	98	174
	<u>1,486,813</u>	<u>1,318,777</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

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:

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
VAT receivable not yet recognized	3,331	2,860
Prepaid expenses	2,015	2,691
Others	773	718
	<u>6,119</u>	<u>6,269</u>

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

	<u>Effective interest rate</u>	<u>2016</u>	<u>2015</u>
		<i>(in thousands of HRK)</i>	
Given loans	4.0%-7.5%	132,427	182,768
		132,427	182,768
Impairment allowance		(1,298)	(1,289)
		<u>131,129</u>	<u>181,479</u>

Movements in impairment allowance for loan receivables:

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/v/ Financial assets by category include the following:

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Trade receivables	1,335,677	1,110,317
Given cash loans	138,238	196,988
Given commodity loans	6,511	4,784
Cash loans – related parties (note 32)	13	164
	<u>1,480,439</u>	<u>1,312,253</u>

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

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Trade goods	226,725	217,119
Trade goods – related parties (note 32)	16,517	12,191
Prepayments made	2,426	4,254
Materials	93	143
	<u>245,761</u>	<u>233,707</u>

In 2016 the Company recognised an allowance in the amount of HRK 8,252 thousand (2015: HRK 7,559 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 Company's borrowings (note 26).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 20 – CASH AND CASH EQUIVALENTS

	2016	2015
	<i>(in thousands of HRK)</i>	
Domestic currency account balance	80,061	48,710
Foreign currency account balance	28	370
Cash on hand	5	8
	80,094	49,088

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
	<i>(pcs)</i>		<i>(in thousands of HRK)</i>		
Balance at 1 January 2015	30,194	134,967	(10,486)	(9,243)	115,238
Release of treasury 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).

ⁱⁱ In 2016 the Company acquired 347 treasury shares.

ⁱⁱⁱ 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 21 – SHARE CAPITAL (continued)

The ownership structure of the Company as 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 23 – RESERVES

<i>(in thousands of HRK)</i>	Legal reserve	Reserves for treasury shares	Total
Balance at 31 December 2014 years	13,954	53,324	67,278
Changes during the year	2,038	(2,038)	-
Balance at 31 December 2015 years	15,992	51,286	67,278
Changes during the year	2,474	(2,474)	-
Balance at 31 December 2016 years	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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 25 – TRADE AND OTHER PAYABLES

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Trade payables /i/	1,128,794	1,066,469
Other payables /ii/	20,433	19,080
	<u>1,149,227</u>	<u>1,085,549</u>

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

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Foreign trade payables	543,413	546,956
Domestic trade payables	452,413	404,728
Trade payables - related parties (note 32)	132,968	114,785
	<u>1,128,794</u>	<u>1,066,469</u>

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

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
HRK	741,696	670,517
EUR	374,231	381,575
DKK	12,816	14,185
Other currencies	51	192
	<u>1,128,794</u>	<u>1,066,469</u>

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

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
VAT payable	8,771	8,331
Salaries payable	4,563	4,513
Unused annual leave	1,909	1,866
Other taxes and contributions payable	180	49
Dividends payable	-	12
Other	5,010	4,309
	<u>20,433</u>	<u>19,080</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 26 – BORROWINGS

	2016	2015
	<i>(in thousands of HRK)</i>	
Long-term borrowings:		
Long-term loan /i/	8,233	13,894
Finance lease /iii/	4,267	5,559
	12,500	19,453
Short-term borrowings:		
Short-term loans /ii/	474,403	319,674
Finance lease /iii/	2,745	2,482
	477,148	322,156
Total borrowings	489,648	341,609

/i/ The long-term loan relates to financing provided by a commercial bank for investment purposes. The loan is denominated 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 eight 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 Company ceases to make the payments.

The gross finance lease liability is as follows:

	2016	2015
	<i>(in thousands of HRK)</i>	
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
	<i>(in thousands of HRK)</i>	
Up to 1 year	2,743	2,482
Between 1 and 5 years	4,269	5,559
	7,012	8,041

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 26 – BORROWINGS (continued)

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

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
1 year to 2 years	8,238	10,129
From 2 years to 5 years	4,262	9,324
	<u>12,500</u>	<u>19,453</u>

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

	<u>2016</u>		<u>2015</u>	
	<u>HRK</u>	<u>EUR</u>	<u>HRK</u>	<u>EUR</u>
	%	%	%	%
Long-term borrowings				
Long-term loans	3.33%	-	4.33%	-
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.

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:

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Variable-rate borrowings		
Up to 3 months	-	40,000
3 to 12 months	269,400	179,240
Over 1 year	-	-
	<u>269,400</u>	<u>219,240</u>
Fixed-rate borrowings		
Fixed-rate loans	220,248	122,369
	<u>220,248</u>	<u>122,369</u>
Total borrowings	<u>489,648</u>	<u>341,609</u>

Given that borrowings in the amount of HRK 220,248 thousand bear interest at fixed rates (2015: HRK 122,369 thousand), there is no exposure to interest rate changes.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 26 – BORROWINGS (continued)

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

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
HRK	482,636	333,568
EUR	7,012	8,041
	<u>489,648</u>	<u>341,609</u>

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

NOTE 27 – DEFERRED TAX ASSETS

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

<i>(in thousands of HRK)</i>	<u>Impairment allowance on inventories</u>	<u>Provisions for employee benefits</u>	<u>Total</u>
Balance at 1 January 2015	391	141	532
Tax charged to profit or loss	-	-	-
Tax credited to profit or loss	148	49	197
Balance at 31 December 2015	<u>539</u>	<u>190</u>	<u>729</u>
Balance at 1 January 2016	539	190	729
Tax charged to profit or loss	(225)	(9)	(234)
Tax credited to profit or loss	-	-	-
Effect of change in the tax rate	(31)	(18)	(49)
Balance at 31 December 2016	<u>283</u>	<u>163</u>	<u>446</u>

Deferred tax liability

The Company has no deferred tax liability.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 28 – PROVISIONS

<i>(in thousands of HRK)</i>	Employee benefits	Legal disputes	Total
Balance at 31 December 2015	1,065	-	1,065
Long-term portion	803	-	803
Current portion	262	-	262
Balance at 1 January 2016	1,065	-	1,065
Increase	96	1,098	1,194
Utilised during the year	(227)	-	(227)
Balance at 31 December 2016	934	1,098	2,032
Long-term portion	684	-	684
Current portion	250	1,098	1,348

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 disputes

The Company 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).

NOTE 29 – CONTINGENT LIABILITIES

The Company is a co-debtor and a guarantor for loans provided to its subsidiaries in the total amount of HRK 25,495 thousand (2015: HRK 22,624 thousand).

The contingent liabilities are not included in the statement of financial position at 31 December 2016. Namely, based on the Management's estimate, the liabilities of the subsidiaries will not become the parent company's obligations, as all transactions of the subsidiaries are under the control by the parent. There are currently no circumstances that would require from the Company to make the payments on behalf of its subsidiaries.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 30 – OPERATING LEASES

The contractual rents under the operating leases are as follows:

	<u>2016</u>	<u>2015</u>
	<i>(in thousands of HRK)</i>	
Up to 1 year	2,081	2,065
Between 1 and 5 years	1,555	2,190
Contractual rents under operating leases	3,636	4,255

NOTE 31 – EVENTS AFTER THE BALANCE SHEET DATE

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

NOTE 32 – RELATED-PARTY TRANSACTIONS

The Company enters into transactions with related parties.

The related parties include:

	<u>2016</u>	<u>2015</u>
1. Subsidiaries:		
Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb	100%	100%
Primus nekretnine d.o.o., Zagreb (2015: Put stinica d.o.o., Zagreb)	100%	100%
2. Associate:		
Litmus d.o.o., Zagreb (until October 2015)	-	-
3. Subsidiaries of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb:		
Zdravstvena ustanova Ljekarne Delonga, Okrug Gornji	100%	100%
Zdravstvena ustanova Ljekarne Atalić, Osijek (merged in October 2016)	-	100%
Zdravstvena ustanova Ljekarne Ines Škoko, Zagreb	100%	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 (acquired and sold in 2016)	-	-
Zdravstvena ustanova Ljekarne Diabpharm, Zagreb (founded and sold in 2016)	-	-
4. Associate of Zdravstvena ustanova Ljekarne Prima Pharme, Zagreb:		
Zdravstvena ustanova Ljekarne Jagatić, Zagreb	49%	49%

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 32 – RELATED-PARTY TRANSACTIONS (continued)

5. 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.
6. 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.
7. 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.
8. 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 resulting from these transactions are as follows:

<i>(in thousands of HRK)</i>	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Trade and other receivables			
<i>Given loans</i>			
Subsidiaries		13	-
Subsidiary of Put stinica d.o.o.		-	164
	18	<u>13</u>	<u>164</u>
<i>Trade receivables</i>			
Subsidiaries		188,568	174,248
Subsidiaries of ZU Ljekarne Prima Pharme		4,578	6,570
Associate of ZU Ljekarne Prima Pharme		15,831	13,021
Subsidiary of Put stinica d.o.o.		-	62
Pliva Hrvatska d.o.o.		265	327
	18	<u>209,242</u>	<u>194,229</u>
Inventories			
Pliva Hrvatska d.o.o.		16,517	12,191
	19	<u>16,517</u>	<u>12,191</u>
Trade payables			
Pliva Hrvatska d.o.o.		132,968	114,785
	25	<u>132,968</u>	<u>114,785</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 32 – RELATED-PARTY TRANSACTIONS (continued)

(in thousands of HRK)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Sales and other income			
Subsidiaries		212,223	206,948
Associate		-	4
Subsidiaries of ZU Ljekarne Prima Parme		28,399	27,815
Associates of ZU Ljekarne Prima Parme		31,142	28,656
Subsidiary of Litmus d.o.o. /		21	25
Subsidiary of Put stinica d.o.o.		311	361
Pliva Hrvatska d.o.o.	5, 6	<u>272,096</u>	<u>263,809</u>
Other expenses			
Subsidiaries		10	-
	9	<u>10</u>	<u>-</u>
Financial income			
Subsidiary of Litmus d.o.o. /		18	4
Subsidiary of Put stinica d.o.o.		-	2
Other related companies	11	<u>18</u>	<u>6</u>
Purchases of trade goods			
Pliva Hrvatska d.o.o.		229,445	176,803
		<u>229,445</u>	<u>176,803</u>
Key management compensation – salaries and bonuses for four members			
		5,258	7,284
Supervisory Board and Audit Committee compensation			
		525	442

NOTE 33 – APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements set out on pages 12 to 59 were approved by the Management of the Company in Zagreb, on 13 March 2017.

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

Jasminko Herceg
Director


Medika d.d.
ZAGREB, Capraška 1
