MEDIKA d.d.

AUDITOR'S REPORT AND UNCONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2010

This version of the financial statements is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the financial statements takes precedence over this translation.

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Operating result in 2010

Medika d.d. ("the Company") realized unconsolidated revenue in the amount of HRK 1,978,680 thousand, an increase of 1.6% in comparison to prior year. Unconsolidated operating profit of HRK 51,755 thousand grew by 27.4%.

Unconsolidated profit before tax amounts to HRK 24,739 thousand and net profit HRK 18,439 thousand, being 19.1% more than in 2009.

If analysing operating segments (note 6 in financial statements), 71.4% of total unconsolidated income was generated through "pharmacies" segment, and 23.0% through "hospitals" segment. In comparison to previous year, the "pharmacies" segment experienced growth of 10.3%.

Total unconsolidated assets amount to HRK 1,618,441 thousand, an increase of 1.2% in comparison to prior year. Unconsolidated current assets comprise 84.7% of total assets. Trade and other receivables remained unchanged in comparison to the previous year.

Equity to assets ratio is 19% which shows that 19% of total unconsolidated assets are financed through own resources.

Total unconsolidated credit indebtedness is in the amount of HRK 298,392 thousand, of which HRK 104,847 thousand relates to short-term loans and finance leases, while the remainder in the amount of HRK 193,545 thousand relates to long-term loans and finance leases (note 24).

Unconsolidated operating results are presented in the statement of comprehensive income, page 7 of the financial statements.

Subsequent events

In February 2011, the loan in the amount of EUR 22,613 thousand was reprogrammed to a lower interest rate. Concurrently, part of the respective loan in the amount of EUR 6,743 thousand was converted to a short-term loan in Croatia kuna, which reduced the Company's currency risk exposure.

The vision of company development

Medika d.d. business plan for next 2011 stipulates annual growth of sales of 1%, with further growth potential in following years. In accordance with the growth of sales, a higher market share is expected. The Company will continue with its core business: distribution of medications and medical products and will strongly develop operations with products that make the core business of the firm.

Number of employees is planned to remain at the current level, with increase of productivity.

Treasury shares

In May 2010, the Company granted 281 of its treasury shares to key management.

In December 2010, the Company released 693 of treasury shares as an interim dividend. The dividend was paid partly in shares and partly in cash (note 20 and 22). Shareholders were given one share for every 40 shares they own and the remainder in cash.

Medika d.d. owns 759 shares, which is 2.51% shares issued.

Subsidiaries and associates

Medika d.d. subsidiaries are Primus Nekretnine d.o.o., registred in Zagreb and Zdravstvena ustanova Ljekarne Prima Pharme, registered in Split. Both subsidiaries are wholly owned by Medika d.d.

Zdravstvena ustanova Ljekarne Prima Pharme has subsidiaries: Zdravstvena ustanova Ljekarne Delonga (Okrug Gornji), Ljekarna Ines Buhač (Zagreb) and Ljekarna Mladenka Čobanov (Šibenik). These subsidiaries are wholly owned by ZU Ljekarne Prima Pharme.

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

Risks

The most significant market risk for Medika d.d. is a long collection period of receivables, especially HZZO and HZZO related receivables. Therefore, a significant amount of working capital is not available with strong influence on cash flows and timely settlement of Medika d.d. liabilities.

As these receivables are either dependent from or owned by State institutions, risk of bad debt is not high. However, this increases the need for additional financing, which increases finance expenses.

Significant risk for Medika d.d. operations is a continuous decrease in the price of prescription medication found on HZZO list and administrative approach in determining prices and margins of medication. To lower this risk, Medika d.d. has focused on increasing products which are not limited by law in respect of the price of the product.

Currency risk is a significant financial risk. Majority of inventories are purchased from foreign suppliers in foreign currencies. One short-term and one long-term loan have exchange rate clauses. The Company does not use financial instruments to protect itself from currency risk.

Interest risk of the Company arises from received short-term and long-term borrowing, with variable interest rate.

Majority of the credit risk relates to trade receivables. Credit risk is higher when dealing with pharmacies, which have potential going concern issue. Hospitals which have longer collection period do not have a collection issue and going concern issue.

Corporate governance

Medika d.d. uses corporate governance adopted by CFSSA (Croatian Financial Services Supervisory Agency) and Zagreb Stock Exchange. Corporate governance is published on the web site of Zagreb Stock Exchange.

The Company has not entered into joint venture, and it does not have securities with special rights nor securities with restriction to vote. There are no cases in which financial rights from securities are separated from ownership of those securities.

Management and Supervisory Board

Management Board has one member: Mr. Jasminko Herceg, member of the Management Board.

Supervisory Board of the company during the year were as follows:
Mr. Mate Perković, president, Mr. Damjan Možina, vice-president, and members: Mr. Matko Bolanča, Mr. Tomislav Gnjidić, Mr. Mladen Kovačić, Mr. Nikica Gabrić and Mrs. Anka Tikulin–representative of workers.

Zagreb, 7 March 2011

Jasminko Herceg
Member of the Management Board

Medika d.d.
ZAGREB Capraška

STATEMENT OF MANAGEMENT AND SUPERVISORY BOARD RESPONSIBILITIES

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

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

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

The financial statements set out on pages 7 to 47 and alternative presentation and reconciliation set out on pages 48 to 54 were authorised by the Management Board on 7 March 2011 for issue to the Supervisory Board and are signed below to signify this.

By order of the Management Board

Jasminko Herceg
Member of the Management Board

Medika d.d.
ZAGREB Capraška

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

We have audited the accompanying separate financial statements of Medika d.d. ("the Company"), which comprise the separate statement of financial position as at 31 December 2010, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2010, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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

Other legal and regulatory requirements

Pursuant to the Regulation on the Structure and Content of the Annual Financial Statements issued by the Ministry of Finance, the Management Board has prepared the schedules set out on pages 48 to 54 ("the Schedules"), which comprise an alternative presentation of the unconsolidated statement of financial position as of 31 December 2010, unconsolidated income statement and unconsolidated cash flow statement for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the unconsolidated financial statements as presented on pages 7 to 47. The Management Board is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements of the Company set out on pages 7 to 47 on which we have expressed an opinion as set out above.

KPMG Croatia d.o.o.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
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7 March 2011

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

MEDIKA d.d.

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts are expressed in thousands of HRK)	Note	2010	2009
Revenues	5, 6	1,978,680	1,947,861
Cost of trade goods sold	6	(1,792,693)	(1,777,209)
Staff costs	7	(59,714)	(60,816)
Marketing and promotion expenses	8	(13,052)	(15,409)
Depreciation and amortisation	13, 14	(15,413)	(13,694)
Other operating expenses	9	(42,222)	(46,346)
Other gains/(losses) – net	10	(3,831)	6,251
Operating profit		**51,755**	**40,638**
Finance costs – net	11	(25,819)	(18,831)
Profit before tax		**25,936**	**21,807**
Income tax	12	(7,497)	(6,320)
Net profit for the year		**18,439**	**15,487**
Other comprehensive income			
Release of revaluation reserve	15/i/	-	2,213
Other comprehensive income		-	**2,213**
Total comprehensive income		**18,439**	**17,700**

The financial statements set out on pages 7 to 47 were approved by the Management Board of the Company in Zagreb on 7 March 2011.

Jasminko Herceg
Member of the Management Board

3 Medika d.d.
ZAGREB, Capraška

The accompanying notes on pages from 12 to 47 form an integral part of these financial statements.

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

(all amounts are expressed in thousands of HRK)	Note	As at 31 December 2010	2009
ASSETS			
Non-current assets			
Property and equipment	13	154,116	154,456
Intangible assets	14	30,744	35,020
Investments in subsidiaries	15	60,000	60,000
Deferred tax assets	25	503	970
Trade and other receivables	17	1,826	778
		247,189	251,224
Current assets			
Inventories	18	220,284	191,912
Trade and other receivables	17	1,124,399	1,114,909
Cash and cash equivalents	19	26,569	41,994
		1,371,252	1,348,815
Total assets		**1,618,441**	**1,600,039**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	43,879	36,818
Reserves	21	62,730	62,730
Retained earnings	22	196,673	183,486
		303,282	283,034
Non-current liabilities			
Long-term borrowings	24	193,545	202,705
Non-current provisions	26	401	515
		193,946	203,220
Current liabilities			
Trade and other payables	23	1,013,537	996,316
Short term borrowings	24	104,847	113,967
Income tax liability		663	2,286
Current provisions	26	2,166	1,216
		1,121,213	1,113,785
Total equity and liabilities		**1,618,441**	**1,600,039**

The accompanying notes on pages from 12 to 47 form an integral part of these financial statements.

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts are expressed in thousands of HRK)	Note	Share capital	Reserves	Retained earnings	Total
At 1 January 2009		**36,220**	**34,496**	**196,233**	**266,949**
Total comprehensive income					
Net profit for the year		-	-	15,487	15,487
Other comprehensive income		-	(2,213)	2,213	-
Total comprehensive income		-	**(2,213)**	**17,700**	**15,487**
Transactions with owners recognized directly in equity					
Transfer to reserves for treasury shares	21	-	30,447	(30,447)	-
Release of treasury shares	20	598	-	-	598
Transactions with owners recognized directly in equity		**598**	**30,447**	**(30,447)**	**598**
At 31 December 2009		**36,818**	**62,730**	**183,486**	**283,034**
At 1 January 2010		**36,818**	**62,730**	**183,486**	**283,034**
Total comprehensive income					
Net profit for the year		-	-	18,439	18,439
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	**18,439**	**18,439**
Transactions with owners recognized directly in equity					
Release of treasury shares	20	1,995	-	-	1,995
Interim dividend	20, 22	5,066	-	(5,252)	(186)
Transactions with owners recognized directly in equity		**7,061**	-	**(5,252)**	**1,809**
At 31 December 2010		**43,879**	**62,730**	**196,673**	**303,282**

UNCONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts expressed in thousands of HRK)	Note	2010	2009
Cash flows from operating activities:			
Net profit		**18,439**	**15,487**
Adjustments for:			
Income tax	12	7,497	6,320
Depreciation and amortisation	13, 14	15,413	13,694
Impairment of receivables	9	1,450	7,100
Impairment of loans given	9	-	569
Inventory impairment	18	3,679	2,621
Unrealised foreign exchange differences		2,414	35
Change in provisions		836	235
Gain on sale of property and equipment	10	(378)	(6,416)
Impairment of property and equipment		-	1,109
Intangible assets disposal		1	3
Interest expense	11	23,303	18,867
Interest income		(2,880)	(1,786)
Release of financial lease liability		-	(1,166)
Working capital changes:			
Inventories		(32,051)	10,350
Trade and other receivables		(11,427)	116,237
Trade and other payables		19,074	(131,145)
Cash flows generated from operating activities		**45,370**	**52,114**
Interest paid		(21,525)	(18,916)
Income tax paid		(8,481)	(4,965)
Cash flows from operating activities		**15,364**	**28,233**
Cash flows from investing activities			
Purchase of tangible and intangible assets	13, 14	(6,045)	(33,536)
Proceeds from sale of tangible assets		678	301
Proceeds from repayment of loans given		10,279	1,535
Investment in subsidiary		-	(165)
Loans given		(10,814)	(1,700)
Interest received		2,854	1,502
Cash flows from investing activities		**(3,048)**	**(32,063)**

The accompanying notes on pages from 12 to 47 form an integral part of these financial statements.

UNCONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts expressed in thousands of HRK)	Note	2010	2009
Cash flows from financing activities			
Repayment of borrowings		(236,142)	(140,956)
Proceeds from borrowings		210,785	160,154
Repayment of finance lease		(2,281)	(1,481)
Dividend paid	22	(103)	-
Cash flows from financing activities		**(27,741)**	**17,717**
Net increase / (decrease) in cash and cash equivalents		**(15,425)**	**13,887**
Cash and cash equivalents at beginning of year	19	41,994	28,107
Cash and cash equivalents at end of year	19	**26,569**	**41,994**

NOTE 1 – GENERAL INFORMATION

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

As at 31 December 2010, the Company's shares were listed on official market on the Zagreb Stock Exchange. Shareholder structure is shown in note 20.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

These financial statements are a translation of the official statutory financial statements prepared in Croatian.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the 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 unconsolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 7 March 2011. In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2010 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been released and are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Segment reporting

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

2.3 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

2.4 Investments in subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are carried at cost less impairment losses, if any.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property and equipment

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

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

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

The estimated useful lives are as follows:

Buildings	10 - 40 years
Equipment	2 - 20 years

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Company allocates goodwill to each business segment in which it operates.

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

(b) Licences

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (5 to 10 years).

2.7 Impairment of non-financial assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets

The Company classifies its financial assets as trade and other receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

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

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

2.9 Leases

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

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

2.10 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs attributable to the purchase of goods and is calculated based on the average purchase price. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. At each reporting date, the Company examines if there are damaged and/or expired inventories. With respect to differences identified, a provision is made for such inventories against cost of trade goods sold.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and loan receivables

Trade and loan receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

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

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

2.12 Cash and cash equivalents

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

2.13 Share capital

Ordinary shares are classified as equity.

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

2.14 Trade payables

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

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Income tax

The current income tax charge is calculated on the basis of the tax law enacted at the reporting date in Croatia. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets and liabilities are determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2.17 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Long-term employee benefits

The Company recognises a liability for long-term employee benefits (jubilee awards and termination benefits as defined by the collective bargaining agreement) evenly over the period the jubilee award/termination benefit is earned based on actual years of service. The long-term employee benefit liability includes assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate. Termination benefits and jubilee awards falling due more than 12 months after the reporting date are discounted to their present value.

(c) Short-term employee benefits

The Company recognises a provision for bonuses, unused vacation days and other considerations where contractually obliged or where there is a past practice that has created a constructive obligation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits (continued)

(c) Short-term employee benefits (continued)

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.

2.18 Provisions

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

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

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

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below.

(a) Sales of goods

Income from the wholesale of goods is recognised when the Company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Products are sold with volume discounts and customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specified in the sales contracts, net of estimated volume discounts and returns at the time of sale.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Revenue recognition (continued)

(b) Sales of services

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

(c) Interest income

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

2.20 Finance expenses

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

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2.22 Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the statement of financial position on a net basis. Where a provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

2.23 Comparative information

Where necessary, comparative information has been reclassified to achieve consistency in reporting when using data from different periods.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Company does not have a written risk management programme, and did not use derivative financial instruments to actively hedge financial risks. However, overall risk management in respect of these risks is carried out by the Company's Finance department.

(a) Market risk

(i) Foreign exchange risk

The Company's sales are predominantly realised on the domestic market in Croatian kuna (HRK). The Company's purchase of goods is predominantly realised on the foreign market. Furthermore, a part of the borrowings is linked to foreign currencies. The Company is therefore exposed to foreign exchange risk arising from various changes in foreign exchange rates mainly linked to the EUR, which may have an impact on future operating results and cash flows. In relation to this, the Company does not use derivative instruments to actively hedge foreign exchange risk exposure.

At 31 December 2010 (notes 17, 23, 24), if the EURO had weakened/strengthened by 1.14 % (2009: 0.43%) against the HRK, with all other variables held constant, the profit after tax for the reporting period would have been HRK 4,845 thousand higher/lower (2009: 1,170 thousand), mainly as a result of foreign exchange gains/losses on translation of EURO-denominated trade payables and liabilities for issued bonds.

(ii) Cash flow and fair value interest rate risk

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

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

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

At 31 December 2010, if the effective interest rate on borrowings (issued at variable rate) had been 0.22% higher/lower on an annual level (2009: 3.43%), the profit after tax for the reporting period would have been HRK 353 thousand lower/higher (2009: HRK 7,313 thousand).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Current assets, which potentially subject the Company to concentrations of credit risk primarily include cash, trade receivables and other receivables. The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history. With respect to credit risk exposure, customers are grouped into three categories: pharmacies, hospitals and other customers. Pharmacies present higher credit risk since they have potential going concern issue. On the other hand, collection period for hospitals is longer, but there are no impairment indications, namely, there is no going concern issue. Other customers are not significant because of dispersion on large number of customers, individually small balances and Company's strict measures of collection of outstanding debts and delivery of goods. The Company insures part of the trade receivables by bills of exchange and promissory notes. Detailed credit risk analysis is shown under notes 16 and 17.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Company aims to maintain flexibility in funding by keeping committed credit lines available. The Finance department regularly, monthly, monitors available cash resources. The Commission in charge of monitoring the Company's liquidity prepares a payment plan on a monthly basis, and makes decisions on a daily basis with respect to payments, in accordance with the priority list received from managers who are in charge of the purchase of specific groups of products. Most of the customers are either state-owned or state-dependant, hence the Company's liquidity risk is dependant upon the state.

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

(in thousands of HRK)	**Less than 1 year**	**Between 1-3 years**	**Over 3 years**	**Total**
31 December 2010				
Trade and other payables	1,013,537	-	-	1,013,537
Borrowings	119,594	200,777	1,783	322,154

(in thousands of HRK)	**Less than 1 year**	**Between 1-3 years**	**Over 3 years**	**Total**
31 December 2009				
Trade and other payables	996,316	-	-	996,316
Borrowings	134,185	26,859	205,080	366,124

During 2011, the Company will remunerate trade and other liabilities according to the collection of receivables which depends on liquidity of the whole healthcare system.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

The Company monitors capital on the basis of the self-financing ratio on the non-consolidated financial statements, which should not move below the threshold of 15%. This ratio is calculated as the proportion of total equity and total assets.

The equity to assets ratio is as follows:

	2010	2009
	(in thousands of HRK)	
Total equity (capital and reserves)	303,282	283,034
Total assets	1,618,441	1,600,039
Equity to assets ratio	**19%**	**18%**

In 2010, the ratio has increased in comparison to 2009 showing that 19% of the Company's total assets are financed from own resources. In accordance with the stated, 81% of assets is financed from other resources.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Company is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

Assumptions to determine amount of provisions of trade receivables

Due to the materiality of the amount of trade receivables recorded in the statement of financial position, Management estimates the likelihood of the collection of trade receivables based on an analysis of such assets. Factors taken into consideration by Management include: ageing analysis of trade receivables and the financial position of customers compared to the collection history with the customer. The estimated recoverable amount of trade receivables represents the present value of estimated future cash flows, discounted at the effective interest rate of 5.91 % per year (2009: 8.02%). Should actual collections be less than management estimates, the Company would be required to record additional impairment expense.

At 31 December 2010, if the amount of uncollectible receivables in total receivables past due had been 1% lower/higher, with all other variables held constant, profit after tax for the reporting period would have been HRK 4,265 thousand higher/lower than the one recorded (2009: HRK 4,959 thousand). The effect in the hospital segment would be HRK 3,921 thousand (2009: HRK 3,068 thousand), in the pharmacy segment HRK 13 thousand (2009: HRK 1,503 thousand) and in the segment 'other' HRK 331 thousand (2009: HRK 388 thousand).

NOTE 5 – REVENUES

	2010	2009
	(in thousands of HRK)	
Revenue from sales	1,969,312	1,940,556
Other revenues	9,368	7,305
	1,978,680	**1,947,861**

NOTE 6 – SEGMENT INFORMATION

The Company monitors the realisation of revenues and gross profit through distribution channels:

1. Pharmacies – within this distribution channel the Company operates with more than 500 customers divided in two groups:
   - private pharmacies
   - pharmacies owned by local self-government units
2. Hospitals – they are grouped as follows:
   - Clinical hospitals
   - General hospitals
   - Special hospitals
3. Other – this distribution channel comprises the following: doctors' and dentists' surgeries, companies, pharmacy wholesalers, herb pharmacies, veterinary surgeries etc.

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

NOTE 6 – SEGMENT INFORMATION (continued)

The results of the stated segments for the year ended 31 December 2010 are as follows:

(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Total**
Sales	1,183,442	454,721	111,506	1,749,669
Sales to related parties	228,866	-	145	229,011
Total revenues	**1,412,308**	**454,721**	**111,651**	**1,978,680**
Cost of trade goods sold	(1,285,247)	(413,939)	(93,507)	(1,792,693)
Segment results	**127,061**	**40,782**	**18,144**	**185,987**
Operating profit				**51,755**
Finance costs- net				(25,819)
Profit before tax				**25,936**
Income tax				(7,497)
Profit for the year				**18,439**

The results of the stated segments for the year ended 31 December 2009 are as follows:

(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Total**
Sales	1,074,184	390,577	276,362	1,741,123
Sales to related parties	206,724	-	14	206,738
Total revenues	**1,280,908**	**390,577**	**276,376**	**1,947,861**
Cost of trade goods sold	(1,192,842)	(341,617)	(242,750)	(1,777,209)
Segment results	**88,066**	**48,960**	**33,626**	**170,652**
Operating profit				**40,638**
Finance costs- net				(18,831)
Profit before tax				**21,807**
Income tax				(6,320)
Profit for the year				**15,487**

The segment trade receivables at 31 December 2010 are as follows:

(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Total**
Trade receivables	547,725	444,684	122,727	1,115,136

The segment trade receivables at 31 December 2009 are as follows:

(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Total**
Trade receivables	590,972	413,077	102,866	1,106,915

NOTE 7 – STAFF COSTS

	2010	2009
	(in thousands of HRK)	
Net salaries	28,761	30,088
Tax and surtax	6,711	7,096
Contributions from and on salaries /i/	16,172	16,945
Termination benefits	1,099	2,312
Employee transportation costs	1,696	1,716
Other employee benefits /ii/	2,260	1,216
Bonuses	3,015	1,443
	59,714	**60,816**

As at 31 December 2010, the Company had 351 employees (2009: 371 employees).

/i/ In 2010, pension contributions recognised by the Company for payment to mandatory pension funds amounted to HRK 8,609 thousand (2009: HRK 9,144 thousand).

/ii/ Other employee benefits relate to accruals for unused vacation days, business trip expenses, aids, awards etc.

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	2010	2009
	(in thousands of HRK)	
Entertainment	7,438	9,325
Marketing	1,708	2,514
Donations	3,906	3,570
	13,052	**15,409**

NOTE 9 – OTHER OPERATING EXPENSES

	2010	2009
	(in thousands of HRK)	
Impairment for trade receivables (note 17/ii/)	1,450	7,100
Impairment for trade receivables from loans given (note 17/iv/)	-	569
Materials and energy consumed	8,490	7,425
Maintenance of assets, security services and insurance	9,906	9,444
Telephone, postal, utility services and insurance	1,735	1,866
Taxes and contributions irrespective of result	4,183	3,951
Professional training and consultancy services	3,707	4,076
Bank charges and payment transaction costs	1,959	1,732
Expenses from bills of exchange discount	277	-
Brokerage services	166	479
Rent expense	1,984	2,298
Provisions for legal disputes	1,553	505
Other expenses	6,154	6,821
Other expenses – related parties (note 29)	658	80
	42,222	**46,346**

NOTE 10 – OTHER GAINS / (LOSSES) – NET

	2010	2009
	(in thousands of HRK)	
Gains on sale of tangible assets (net)	378	6,416
Net foreign exchange losses	(4,209)	(165)
	(3,831)	**6,251**

NOTE 11 – FINANCE COSTS - NET

	2010	2009
	(in thousands of HRK)	
Interest expense		
Bank borrowings and finance lease	(20,117)	(13,726)
Commercial bills issued	(3,186)	(5,141)
	(23,303)	(18,867)
Foreign exchange gains / (losses) – net		
Foreign exchange gains	7,360	1,603
Foreign exchange losses	(9,876)	(1,567)
	(2,516)	36
	(25,819)	**(18,831)**

NOTE 12 – INCOME TAX

	2010	2009
	(in thousands of HRK)	
Current tax	7,030	6,883
Deferred tax (note 25)	467	(563)
	7,497	**6,320**

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

	2010	2009
	(in thousands of HRK)	
Profit before taxation	**25,936**	**21,807**
Income tax 20%	5,187	4,361
Income non assessable	(20)	(43)
Expenses not deductible	2,330	2,002
Income tax	**7,497**	**6,320**
Effective tax rate	28.91%	28.98%

In 2005, the tax authorities performed income tax review for the 2004 which did not reveal any irregularities. The tax authorities have not made another income tax review since. In accordance with local regulations, the Tax Authority may at any time inspect the Company's books and records within 3 years following the end of the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTE 13 – PROPERTY AND EQUIPMENT

(all amounts are expressed in thousands of HRK)	Land	Buildings	Equipment	Assets under construction	Total
At 31 December 2008					
Cost	12,013	143,883	77,124	10,045	243,065
Accumulated depreciation	-	(36,527)	(60,893)	-	(97,420)
Net book amount	**12,013**	**107,356**	**16,231**	**10,045**	**145,645**
Year ended 31 December 2009					
Opening net book amount	12,013	107,356	16,231	10,045	145,645
Additions	7,905	18,572	6,618	-	33,095
Transfer from assets under construction	-	7,257	94	(7,351)	-
Disposals	-	-	(1,194)	(42)	(1,236)
Increase of share capital of subsidiary (note 15)	(3,287)	(9,830)	(47)	-	(13,164)
Transfer	(636)	-	636	-	-
Depreciation	-	(3,794)	(6,090)	-	(9,884)
Closing net book amount	15,995	119,561	16,248	2,652	154,456
At 31 December 2009					
Cost	15,995	151,913	76,762	2,652	247,322
Accumulated depreciation	-	(32,352)	(60,514)	-	(92,866)
Net book amount	**15,995**	**119,561**	**16,248**	**2,652**	**154,456**
Year ended 31 December 2010					
Opening net book amount	15,995	119,561	16,248	2,652	154,456
Additions	-	-	62	10,647	10,709
Transfer from assets under construction	-	1,174	9,105	(10,279)	-
Disposals	-	-	(300)	-	(300)
Transfer	-	(300)	300	-	-
Depreciation	-	(3,781)	(6,968)	-	(10,749)
Closing net book amount	15,995	116,654	18,447	3,020	154,116
At 31 December 2010					
Cost	15,995	152,786	78,332	3,020	250,133
Accumulated depreciation	-	(36,132)	(59,885)	-	(96,017)
Net book amount	**15,995**	**116,654**	**18,447**	**3,020**	**154,116**

Revolving loans and finance lease liabilities (note 24) have been secured by pledges over tangible fixed assets with a net book value of HRK 131,035 thousand as at 31 December 2010 (2009: HRK 116,917 thousand).

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

	2010	2009
	(in thousands of HRK)	
Cost – capitalised finance lease	7,872	4,670
Accumulated depreciation	(2,846)	(2,604)
Net book amount	**5,026**	**2,066**

NOTE 14 – INTANGIBLE ASSETS

(all amounts are expressed in thousands of HRK)	Licences	Goodwill	Asset under construction	Total
At 31 December 2008				
Cost	16,152	11,930	15,000	43,082
Accumulated amortisation	(5,060)	-	-	(5,060)
Net book amount	**11,092**	**11,930**	**15,000**	**38,022**
Year ended 31 December 2009				
Opening net book amount	11,092	11,930	15,000	38,022
Additions	-	-	811	811
Transfer	15,750	-	(15,750)	-
Disposals	(3)	-	-	(3)
Amortisation	(3,810)	-	-	(3,810)
Closing net book amount	23,029	11,930	61	35,020
At 31 December 2009				
Cost	26,839	11,930	61	38,830
Accumulated amortisation	(3,810)	-	-	(3,810)
Net book amount	**23,029**	**11,930**	**61**	**35,020**
Year ended 31 December 2010				
Opening net book amount	23,029	11,930	61	35,020
Additions	-	-	389	389
Transfer	300	-	(300)	-
Disposal	(1)	-	-	(1)
Amortisation	(4,664)	-	-	(4,664)
Closing net book amount	18,664	11,930	150	30,744
At 31 December 2010				
Cost	31,799	11,930	150	43,879
Accumulated amortisation	(13,135)	-	-	(13,135)
Net book amount	**18,664**	**11,930**	**150**	**30,744**

NOTE 15 – INVESTMENTS IN SUBSIDIARIES

	% holding in 2010	% holding in 2009	2010	2009
			(in thousands of HRK)	
ZU Ljekarne Prima Pharme, Split	100%	100%	40,000	40,000
Primus nekretnine d.o.o., Zagreb /i/	100%	100%	20,000	20,000
			60,000	**60,000**

/i/ In May 2009, the Company established Primus nekretnine d.o.o (a Subsidiary). The Subsidiary was established with the purpose of property management. Prior to establishment, equity capital amounted to HRK 20 thousand. The Company increased the share capital of the Subsidiary to HRK 20 million. Recapitalization resulted through the addition of assets (real estate in Split) in the amount of HRK 19,407 thousand and the inflow of cash in the amount of HRK 145 thousand. Property entered into the recapitalization had a net book value of HRK 13,164 thousand and so created revenue through the transfer of property in the amount of HRK 6,243 thousand, and surplus in revaluation reserve in the amount of HRK 2,213 thousand.

NOTE 16– FINANCIAL INSTRUMENTS BY CATEGORY

	2010	2009
	(in thousands of HRK)	
Financial assets- category: Loans given and receivables		
Loans given and receivables (note 17 /v/)	1,120,234	1,109,061
Cash	26,569	41,994
	1,146,803	**1,151,055**
Financial liabilities- category: Other liabilities		
Trade payables	1,004,580	987,673
Total debt	298,392	316,672
	1,302,972	**1,304,345**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. The credit quality of financial assets that are neither past due nor impaired is monitored based on the customers' exposure to credit risk:

	2010	2009
	(in thousands of HRK)	
Pharmacies	360,942	391,002
Hospitals	217,460	172,669
Other	34,876	33,823
At 31 December	**613,278**	**597,494**

NOTE 17 – TRADE AND OTHER RECEIVABLES

	2010	2009
	(in thousands of HRK)	
Non-current receivables:		
Loans given /i/	1,826	778
Current receivables:		
Trade receivables /ii/	1,115,136	1,106,915
Other current receivables /iii/	5,991	6,626
Loans given /iv/	1,333	-
Loans given – current portion of non-current receivables /i/	1,939	1,368
	1,124,399	1,114,909
	1,126,225	**1,115,687**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

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

	Effective interest rate	2010	2009
		(in thousands of HRK)	
Loans given to pharmacies	4.64%	3,762	2,361
Loans given to associations	6.67%	409	604
Other		-	32
Provision for loans given		(406)	(851)
Total non-current receivables, including current portion		3,765	2,146
Current portion of non-current receivables		(1,939)	(1,368)
Total non-current receivables		**1,826**	**778**

In 2010, there was no additional provision for loans given. Loans are secured by promissory notes.

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

The maturity of long-term loans is as follows:

	2010	2009
	(in thousands of HRK)	
Between 1 and 2 years	1,826	748
Between 2 and 5 years	-	30
	1,826	**778**

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

	2010	2009
	(in thousands of HRK)	
Domestic trade receivables	1,007,224	1,034,255
Foreign trade receivables	2,664	2,385
Trade receivables – related parties (note 29)	129,863	95,334
	1,139,751	1,131,974
Provision for trade receivables	(24,615)	(25,059)
	1,115,136	**1,106,915**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

The ageing structure of receivables past due is as follows:

	2010	2009
	(in thousands of HRK)	
0-180 days	331,552	320,985
181-360 days	84,584	92,459
Over 360 days	110,337	121,036
	526,473	**534,480**

Movements in the provision for impairment of trade receivables are as follows:

	2010	2009
	(in thousands of HRK)	
At 1 January	25,059	19,213
Increase (note 9)	1,450	7,100
Write off	(1,894)	(1,254)
At 31 December	**24,615**	**25,059**

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

	2010	2009
	(in thousands of HRK)	
HRK	1,122,854	1,113,214
EUR	3,371	2,473
	1,126,225	**1,115,687**

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

	2010	2009
	(in thousands of HRK)	
VAT receivable	4,625	5,593
Other	1,366	1,033
	5,991	**6,626**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

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

	2010	2009
	(in thousands of HRK)	
Loans given- related parties (note 29)	1,333	-
Loans given – other	569	569
	1,902	569
Impairment (note 9)	(569)	(569)
	1,333	-

/v/ Financial assets by category include the following:

	2010	2009
	(in thousands of HRK)	
Loans given	5,098	2,146
Trade receivables	1,115,136	1,106,915
	1,120,234	**1,109,061**

NOTE 18 – INVENTORIES

	2010	2009
	(in thousands of HRK)	
Trade goods	178,331	161,512
Trade goods – related parties (note 29)	37,943	23,650
Advances given	3,800	6,637
Office supplies	210	113
	220,284	**191,912**

In 2010, the Company tested for damaged and expired inventories. With respect to differences identified, a provision is made for such inventories, which amounted to HRK 3,679 thousand in 2010 (2009: HRK 2,621 thousand) and which is included in cost of trade goods sold.

NOTE 19 – CASH AND CASH EQUIVALENTS

	2010	2009
	(in thousands of HRK)	
Current account	26,398	41,942
Foreign currency account	165	34
Cash in hand	6	18
	26,569	**41,994**

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

NOTE 20 – SHARE CAPITAL

As at 31 December 2010, the Company's share capital amounted to HRK 60,388,000 distributed among 30,194 shares. The nominal value per share is HRK 2,000. All issued shares are fully paid.

	Number of shares	Share capital	Treasury shares	Capital profit/ (loss)	Total
	(in number of shares)		*(in thousands of HRK)*		
At 1 January 2009	30,194	60,388	(29,553)	5,385	36,220
Release of treasury shares	-	-	1,582	(984)	598
At 31 December 2009	**30,194**	**60,388**	**(27,971)**	**4,401**	**36,818**
At 1 January 2010	30,194	60,388	(27,971)	4,401	36,818
Release of treasury shares \i\	-	-	4,536	(2,541)	1,995
Interim dividend \ii\	-	-	11,185	(6,119)	5,066
At 31 December 2010	**30,194**	**60,388**	**(12,250)**	**(4,259)**	**43,879**

\i\ In May 2010, the Company granted 281 of its treasury shares to key management.

\ii\ In December 2010, the Company released 693 of treasury shares as an interim dividend. The dividend was paid partly in shares and partly in cash (note 22). Shareholders were given one share for every 40 shares they own and the remainder was paid in cash

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

	2010		2009	
	Number of shares	%	Number of shares	%
Custodian shares	15,503	51.34%	13,800	45.71%
Treasury shares \iii\	1,050	3.48%	1,733	5.74%
Legal entites	8,485	28.10%	9,098	30.13%
Foreign natural persons	3,536	11.71%	3,549	11.75%
Domestic natural persons	1,620	5.37%	2,014	6.67%
Total	**30,194**	**100%**	**30,194**	**100%**

NOTE 20 – SHARE CAPITAL (continued)

/iii/ As at 31 December 2010, the Company had 1,050 issued treasury shares. 759 of them are owned by the Company, while 291 shares refer to the interim dividend for which the transfer of ownership has not been carried out yet.

In May 2010, the company Mavota d.o.o. announced a public takeover offer for the Company. Mavota d.o.o. jointly operated with PLIVA d.d., Zagreb, the Company and Jasminko Herceg.

After the public offer had been conducted, Mavota d.o.o. owned 14,503 shares.

NOTE 21 – RESERVES

(in thousands of HRK)	**Revaluation reserves**	**Legal reserves**	**Reserves for treasury shares**	**Total**
At 31 December 2008	**2,213**	**2,730**	**29,553**	**34,496**
Increase of share capital of subsidiary (note 15)	(2,213)	-	-	(2,213)
Transfer to reserves for treasury shares	-	-	30,447	30,447
At 31 December 2009	-	**2,730**	**60,000**	**62,730**
Changes during the year	-	-	-	-
At 31 December 2010	-	**2,730**	**60,000**	**62,730**

Legal reserves amount to HRK 2,730 thousand. The legal reserve is required under Croatian law according to which the Company is committed to build up legal reserves to a minimum of 5% of the profit for the year until the legal together with share premium reserve reached 5% of the share capital. Revaluation and legal reserves are not distributable.

NOTE 22 – RETAINED EARNINGS

Other reserves in the amount of HRK 31,796 thousand (2009: HRK 31,796 thousand) form part of retained earnings.
In December 2010, the Company paid out an interim dividend for 2010 amounting to HRK 5,252 thousand. HRK 5,066 thousand was paid by attributing treasury shares and HRK 186 thousand in cash. As at 31 December 2010, HRK 103 thousand was paid in cash.

Related dividend per share amounted to HRK 182.75.

NOTE 23 – TRADE AND OTHER PAYABLES

	2010	2009
	(in thousands of HRK)	
Trade payables /i/	1,004,580	987,673
Other payables /ii/	8,957	8,643
	1,013,537	**996,316**

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

	2010	2009
	(in thousands of HRK)	
Trade payables – domestic	448,287	464,032
Trade payables – foreign	401,860	380,879
Due to related parties (note 29)	154,433	142,762
	1,004,580	**987,673**

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

	2010	2009
	(in thousands of HRK)	
HRK	660,116	631,410
EUR	334,626	344,544
DKK	9,468	11,295
Other currencies	370	424
	1,004,580	**987,673**

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

	2010	2009
	(in thousands of HRK)	
Net salaries to employees	4,811	5,351
Unused vacation days	1,756	1,703
Other taxes and contributions	42	125
Dividend payable	85	-
Other	2,263	1,464
	8,957	**8,643**

NOTE 24 – BORROWINGS

	2010	2009
	(in thousands of HRK)	
Long-term borrowings:		
Long-term loans /i/	190,397	201,742
Finance lease /iv/	3,148	963
	193,545	**202,705**
Short-term borrowings:		
Short-term loans /ii/	102,885	64,702
Commercial bills issued /iii/	-	48,023
Finance lease /iv/	1,962	1,242
	104,847	**113,967**
Total borrowings	**298,392**	**316,672**

/i/ Long-term loans relate to financing from various banks for the purpose of maintaining an adequate level of working capital. Long-term loans consist of three loans; one loan is denominated in EUR with maturity within two years and a variable interest rate and the other two loans are denominated in Croatia kuna (HRK), one of which bears fixed interest rate and the other variable interest rate. Both loans have a maturity of two years.

/ii/ Short-term loans relate to financing from various banks for the purpose of maintaining the adequate level of working capital. One loan is denominated in Croatian kuna (HRK) and the rest are denominated in EUR. Loans have maturity ranging from three months to one year and bear variable interest rate.

/iii/ In 2010, the Company redeemed the eighth, ninth and tenth tranche of commercial bills. Redemption of commercial bills was financed through a short-term bank loan.

In 2009, eight, ninth and tenth tranche of commercial bills were issued and used for refinancing of seventh tranche. Eight tranche was issued in the amount of HRK 4,0 million with discount of 10.40% and maturity period of 365 days. Ninth tranche of commercial bills was issued in the amount of EUR 1,0 million with discount of 9.76% and maturity period of 274 days. Tenth tranche of commercial bills was issued in the amount of EUR 5,487 thousand with discount of 9.94% and maturity period of 274 days.

/iv/ Long-term finance lease liabilities relate to the purchase of delivery and personal vehicles. A number of leases were agreed at a fixed interest rate of 6.5%, while leases in 2010 were agreed at interest rate of 5.25% - 5.75% (2009: 5.68%). The lease liabilities are repayable within four and five years and they are secured by a pledge over all cars which are subject to the finance lease (note 13). Lease liabilities are effectively secured since the lessor has the right to take over the subject of the lease if the Company stops paying of the liabilities.

NOTE 24 – BORROWINGS (continued)

The gross finance lease liability is as follows:

	2010	2009
	(in thousands of HRK)	
Up to one year	2,191	1,287
Between 1 and 5 years	3,353	1,130
Future financing costs	(434)	(212)
Net book value of finance lease liability	**5,110**	**2,205**

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

	2010	2009
	(in thousands of HRK)	
Up to one year	1,962	1,242
Between 1 and 5 years	3,148	963
	5,110	**2,205**

The maturity of long-term borrowings is as follows:

	2010	2009
	(in thousands of HRK)	
Between 1 and 2 years	183,984	8,580
Between 2 and 5 years	9,561	194,125
	193,545	**202,705**

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

	2010		2009	
	HRK %	EUR %	HRK %	EUR %
Long-term borrowings				
Finance lease	-	5.29%-5.75%	-	6.50%-7.62%
Long-term loans	3.80%-5.50%	6.51%	-	7.70%
Short-term borrowings				
Commercial bills	-	-	10.40%	9.76%-9.94%
Short-term loans	4.95%-5.20%	5.01%	-	4.40%-8.30%

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

The carrying amount of short-term borrowings approximate their fair value and the effect of discounting is not material.

NOTE 24 – BORROWINGS (continued)

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

	2010	2009
	(in thousands of HRK)	
Up to 3 months	-	10,593
3 - 12 months	282,792	306,079
1 - 3 years	15,600	-
	298,392	**316,672**

Borrowing in the amount of 15,600 thousand HRK is shown and is repayable within a period 1-3 years. As the loan's interest rate is fixed, there is no exposure to interest rate changes.

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

	2010	2009
	(in thousands of HRK)	
HRK	93,596	3,797
EUR	204,796	312,875
	298,392	**316,672**

Loans received are secured by mortgages over Company's buildings (note 13), bills of exchange and promissory notes.

NOTE 25 – DEFERRED INCOME TAX

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

Deferred tax assets

(in thousands of HRK)	Inventory impairment	Impairment of trade receivables	Provision for employee benefits	Total
At 1 January 2009	**315**	-	**645**	**960**
Tax charged to the income statement	(27)	-	(179)	(206)
Tax credited to the income statement	-	216	-	216
At 31 December 2009	**288**	**216**	**466**	**970**
At 1 January 2010	**288**	**216**	**466**	**970**
Tax charged to the income statement	-	(216)	(367)	(583)
Tax credited to the income statement	116	-	-	116
At 31 December 2010	**404**	-	**99**	**503**

Deferred tax liability

In 2009, deferred tax was credited to income statement as a result of the deferred tax liability release in the amount of HRK 553 thousand.

NOTE 26 – PROVISIONS

(in thousands of HRK)	Provision for employee benefits	Legal disputes	Total
At 31 December 2009			
Non-current	515	-	515
Current	381	835	1,216
At 1 January 2010	**896**	**835**	**1,731**
Additional provisions	-	1,553	1,553
(Decrease)	(54)	-	(54)
Used during the year	(312)	(351)	(663)
At 31 December 2010	**530**	**2,037**	**2,567**
Non-current	401	-	401
Current	129	2,037	2,166

Employee benefits

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

Legal disputes

During 2010, the Company has made provision for legal disputes on the basis of lawyer's and Management's estimation of probability of losing the dispute.

NOTE 27 – CONTINGENCIES

The Company issued guarantees for borrowings of its subsidiary in the total amount of HRK 11,456 thousand (2009: HRK 20,198 thousand).

The stated contingencies are not recorded in the statement of financial position as at 31 December 2010, as Management estimates that the liabilities of these subsidiaries will not become the obligations of the Parent Company, since all business transaction of these subsidiaries are under absolute control of Parent Company.

The Company entered into several legal disputes, both as plaintiff and defendant. According to the opinion of the expert legal counsellor who represents the Company in the stated disputes, Management estimates that no material losses shall arise from these disputes for the Company except for two disputes for which provision was made in amount of HRK 2,037 thousand (note 26).

NOTE 28 – SUBSEQUENT EVENTS

In February 2011, the loan in the amount of EUR 22,613 thousand was reprogrammed to a lower interest rate. Concurrently, part of the respective loan in the amount of EUR 6,743 thousand was converted to a short-term in Croatian kuna, which reduced the Company's currency risk exposure.

NOTE 29 – RELATED PARTY TRANSACTIONS

The Company enters into transactions with related parties (entities with significant influence under common control). The related party Pliva Hrvatska d.o.o., Zagreb has a 24.71% ownership share in the Company. However, according to operating business transactions with the Company, it has a significant impact on the Company's current business operations. Balances and items resulting from these transactions are as follows:

(in thousands of HRK)	Note	2010	2009
Trade receivables			
Zdravstvena ustanova Ljekarne Prima Pharme, Split		107,673	69,837
Zdravstvena ustanova Ljekarne Delonga, Okrug Gornji		3,295	3,013
Ljekarna Ines Buhač, Zagreb		2,720	4,951
Ljekarna Irena Hanžek, Zagreb		-	6,290
Ljekarna Mladenka Čobanov, Šibenik		4,640	-
Zdravstvena ustanova Ljekarne Jagatić, Dubec		11,334	11,226
Pliva Hrvatska d.o.o., Zagreb		201	-
Primus nekretnine d.o.o., Zagreb		-	17
	17	129,863	95,334
Loans given			
Zdravstvena ustanova Ljekarne Prima Pharme, Split		1,333	-
	17	1,333	-
Inventories			
Pliva Hrvatska d.o.o., Zagreb		37,943	23,650
	18	37,943	23,650
Trade payables			
Primus nekretnine d.o.o., Zagreb		762	-
Pliva Hrvatska d.o.o., Zagreb		153,671	142,762
	23	154,433	142,762
Other payables			
Primus nekretnine d.o.o., Zagreb		428	428
		428	428
Sales			
Zdravstvena ustanova Ljekarne Prima Pharme, Split		191,819	173,663
Zdravstvena ustanova Ljekarne Delonga, Okrug Gornji		7,325	6,520
Ljekarna Ines Buhač, Zagreb		3,900	3,077
Ljekarna Irena Hanžek, Zagreb		-	1,112
Ljekarna Mladenka Čobanov, Šibenik		1,186	-
Zdravstvena ustanova Ljekarne Jagatić, Dubec		24,263	22,303
Pliva Hrvatska d.o.o., Zagreb		-	-
		228,493	206,675

NOTE 29 – RELATED PARTY TRANSACTIONS (continued)

(in thousands of HRK)	Note	2010	2009
Rental income			
Zdravstvena ustanova Ljekarne Prima Pharme, Split		373	49
Primus nekretnine d.o.o., Zagreb		24	14
		397	63
Other income			
Primus nekretnine d.o.o., Zagreb		121	-
		121	-
Other expenses			
Zdravstvena ustanova Ljekarne Prima Pharme, Split		-	80
Primus nekretnine d.o.o., Zagreb		658	-
	9	658	80
Purchase of products			
Pliva Hrvatska d.o.o., Zagreb		209,041	198,989
		209,041	198,989
Key management compensation – salaries and bonuses for four members (2009: salaries and bonuses for four members)		6,715	4,342

***

BALANCE SHEET
As at 31.12.2010

Name of position	AOP mark	Prior year	Current year
1	2	3	4
ASSETS			
A) SHARE CAPITAL SUBSCRIBED BUT NOT PAID IN	001		
B) NON-CURRENT ASSETS (003+010+020+029+033)	002	251,328,075	247,189,959
I. INTANGIBLE ASSETS (004 to 009)	003	35,019,733	30,743,977
1. Research and development	004		
2. Concessions, patents, licenses, trade marks, software and other rights	005	23,029,293	18,664,278
3. Goodwill	006	11,929,587	11,929,586
4. Advances for intangible assets	007	60,853	150,113
5. Intangible assets under construction	008		
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 to 019)	010	154,456,059	154,116,332
1. Land	011	15,994,716	15,994,715
2. Buildings	012	119,561,379	116,653,874
3. Plant and equipment	013	6,025,139	7,038,305
4. Tools and vehicles	014	9,367,366	10,631,567
5. Biological assets	015		
6. Advances for tangible assets	016		62,705
7. Tangible assets under construction	017	2,652,015	2,957,815
8. Other tangible assets	018	855,444	777,351
9. Real estate investments	019		
III. NON-CURRENT FINANCIAL ASSETS (021 to 028)	020	60,882,517	61,826,527
1. Shares in related parties	021	60,000,000	60,000,000
2. Loans to related parties	022		
3. Participating interests	023		
4. Investments in securities	024	882,517	1,826,527
5. Loans given, deposits and similar	025		
6. Treasury shares	026		
7. Other non-current financial assets	027		
8. Investments in joint ventures	028		
IV. RECEIVABLES (030 do 032)	029	0	0
1. Receivables form related parties	030		
2. Receivables from credit sales	031		
3. Other receivables	032		
V. DEFERRED TAX ASSET	033	969,766	503,123
C) CURRENT ASSETS (035+043+050+058)	034	1,346,965,286	1,369,616,652
I. INVENTORY (036 do 042)	035	192,003,561	220,337,784
1. Raw materials	036	113,866	209,553
2. Work in progress	037		
3. Finished goods	038		
4. Commercial goods	039	185,252,810	216,328,084
5. Advances for inventories	040	6,636,885	3,800,147
6. Other assets held for sale	041		
7. Biological assets	042		
II. RECEIVABLES (044 do 049)	043	1,104,554,282	1,083,124,463
1. Receivables from related parties	044	84,108,615	118,328,129
2. Trade receivables	045	1,013,812,858	959,570,333
3. Receivables from participating companies	046		
4. Receivables from employees and members	047	99,396	117,316
5. Receivables from state and other institutions	048	4,458,146	3,954,251
6. Other receivables	049	2,075,267	1,154,434
III. CURRENT FINANCIAL ASSETS (051 do 057)	050	8,413,755	39,585,807
1. Shares in related parties	051		
2. Loans given to related parties	052		1,333,334
3. Participating interests	053		
4. Investments in securities	054	6,918,600	36,082,060
5. Loans given to companies with participating interests	055	1,495,155	2,170,413
6. Loans given, deposits and similar	056		
7. Other financial assets	057		
IV. CASH AT BANK AND ON HAND	058	41,993,688	26,568,598
D) PREPAID EXPENSES AND ACCRUED INCOME	059	572,669	850,196
E) TOTAL ASSETS (001+002+034+059)	060	1,598,866,030	1,617,656,807
F) OFF BALANCE SHEET ITEMS	061	20,436,128	127,975,856

BALANCE SHEET
As at 31.12.2010

Name of position	AOP mark	Prior year	Current year
1	2	3	4
EQUITY AND LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	283,034,230	303,281,707
I. SHARE CAPITAL	063	60,388,000	60,388,000
II. CAPITAL RESERVES	064	4,401,478	-4,258,313
III. PROFIT RESERVES (066+067-068+069+070)	065	66,555,382	82,275,985
1. Legal reserves	066	2,729,945	2,729,945
2. Reserves for treasury shares	067	60,000,000	60,000,000
3. Treasury shares (excluding figure)	068	27,971,053	12,250,449
4. Statutory reserves	069		
5. Other reserves	070	31,796,490	31,796,490
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR ACCUMULATED LOSS	072	136,202,902	146,436,891
1. Retained earnings	073	136,202,902	146,436,891
2. Accumulated loss	074		
VI. PROFIT OR LOSS FOR THE YEAR	075	15,486,468	18,439,144
1. Profit for the year	076	15,486,468	18,439,144
2. Loss for the year	077		
VII. MINORITY INTEREST	078		
B) PROVISIONS (080 to 082)	079	513,883	402,284
1. Provisions for pensions, severances and similar liabilities	080	513,883	402,284
2. Provisions for tax liabilities	081		
3. Other provisions	082		
C) LONG-TERM LIABILITIES (084 to 092)	083	202,704,856	193,545,079
1. Liabilities towards related parties	084		
2. Liabilities for loans, deposits and similar	085		
3. Liabilities towards banks and other financial institutions	086	202,704,856	193,545,079
4. Liabilities for advances received	087		
5. Trade payables	088		
6. Liabilities from securities	089		
7. Liabilities to companies with participating interests	090		
8. Other long-term liabilities	091		
9. Deferred tax liability	092		
D) CURRENT LIABILITIES (094 to 105)	093	1,108,544,716	1,116,789,228
1. Liabilities to related parties	094		1,190,344
2. Liabilities for loans, deposits and similar	095		
3. Liabilities towards banks and other financial institutions	096	113,341,804	86,834,434
4. Liabilities for advances received	097		1,867,124
5. Trade payables	098	984,530,435	977,925,289
6. Liabilities for securities	099		35,482,060
7. Liabilities to companies with participating interests	100		
8. Liabilities to employees	101	4,918,340	5,259,383
9. Liabilities for taxes and contributions	102	3,937,454	2,445,982
10. Liabilities arising from share of result	103		84,977
11. Liabilities arising from non-current assets held for sale	104		
12. Other current liabilities	105	1,816,683	5,699,635
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	4,068,345	3,638,509
F) TOTAL - EQUITY AND LIABILITIES (063+079+083+093+106)	107	1,598,866,030	1,617,656,807
G) OFF BALANCE SHEET ITEMS	108	20,436,128	127,975,856

INCOME STATEMENT

For the period from 1.1.2010 to 31.12.2010

Name of position	AOP mark	Prior year	Current year
1	2	3	4
I. OPERATING INCOME (112+113)	111	1,980,428,829	1,994,516,132
1. Revenue from sales	112	1,941,361,372	1,969,352,862
2. Other operating income	113	39,067,457	25,163,270
II. OPERATING EXPENSE (115+116+120+124+125+126+129+130)	114	1,940,650,121	1,941,939,469
1. Change in value of work-in-progress and finished goods	115		
2. Material expenses (117 do 119)	116	1,803,656,135	1,818,777,514
a) Raw materials	117	7,424,872	8,489,728
b) Cost of goods sold	118	1,774,625,851	1,789,142,293
c) Other external expenses	119	21,605,412	21,145,493
3. Employee expenses (121 do 123)	120	54,828,040	51,643,125
a) Salaries and wages	121	30,329,677	28,760,782
b) Taxes and contributions from salaries	122	16,475,208	15,320,236
c) Contributions on salary	123	8,023,155	7,562,107
4. Amortisation and depreciation	124	13,693,782	15,413,019
5. Other expenses	125	47,933,279	36,480,143
6. Impairment (127+128)	126	20,034,287	18,072,990
a) of long-term assets (except for financial assets)	127		
b) of current assets (except for financial assets)	128	20,034,287	18,072,990
7. Provisions	129	504,598	1,552,678
8. Other operating expenses	130		
III. FINANCIAL INCOME (132 do 136)	131	15,778,152	13,953,226
1. Interest, foreign exchange gains, dividends and similar income from related parties	132		121,984
2. Interest, foreign exchange gains, dividends and similar income from third and other parties	133	15,778,152	13,831,242
3. Income from joint ventures and participating interests	134		
4. Unrealized gains (income)	135		
5. Other financial income	136		
IV. FINANCIAL EXPENSE (138 do 141)	137	33,750,622	40,594,239
1. Interest, foreign exchange losses and other related party expenses	138		
2. Interest, foreign exchange loses and other expenses from third and other parties	139	33,750,622	40,594,239
3. Unrealized gains (losses) on financial assets	140		
4. Other financial expense	141		
V. SHARE OF PROFIT FROM ASSOCIATED COMPANIES	142		
VI. SHARE OF LOSS OF ASSOCIATED COMPANIES	143		
VII. EXTRAORDINARY- OTHER INCOME	144		
VIII. EXTRAORDINARY- OTHER LOSSES	145		
IX. TOTAL INCOME (111+131+142 + 144)	146	1,996,206,981	2,008,469,358
X. TOTAL EXPENSES (114+137+143 + 145)	147	1,974,400,743	1,982,533,708
XI. PROFIT OR LOSS BEFORE TAX (146-147)	148	21,806,238	0
1. Profit before tax (146-147)	149	21,806,238	25,935,650
2. Loss before tax (147-146)	150	0	0
XII. INCOME TAX	151	6,319,770	7,496,506
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	15,486,468	0
1. Profit for the year (149-151)	153	15,486,468	18,439,144
2. Loss for the year (151-148)	154	0	0

STATEMENT OF CASH FLOW - Indirect method

For the period from 1.1.2010 to 31.12.2010

Name of position	AOP mark	Prior year	Current year
1	2	3	4
CASH FLOWS FROM OPERATING ACTIVITIES			
1. Profit before tax	001	21,806,238	25,935,650
2. Amortization and depreciation	002	13,693,781	15,413,019
3. Increase in current liabilities	003		
4. Decrease in current receivables	004	133,947,495	21,429,819
5. Decrease in inventories	005	12,917,477	
6. Other cash inflows	006		1,189,021
I. Total cash inflows from operating activities (001 to 006)	007	182,364,991	63,967,509
1. Decrease in current liabilities	008	148,450,862	881,789
2. Increase in current receivables	009		
3. Increase in inventories	010		28,334,223
4. Other cash outflows	011	5,681,128	
II. Total cash outflows from operating activities (008 to 011)	012	154,131,990	29,216,012
A1) NET CASH INFLOWS FROM OPERATING ACTIVITIES	013	28,233,001	34,751,497
A2) NET CASH OUTFLOWS FROM OPERATING ACTIVITIES	014	0	0
CASH FLOWS FROM INVESTMENT ACTIVITIES			
1. Cash receipts from the sale of tangible and intangible assets	015	300,760	886,890
2. Cash receipts from sale of equity and debt instruments	016		
3. Cash receipts from interest	017	1,502,326	2,687,361
4. Cash receipts from dividends	018		
5. Other cash receipts	019	1,534,674	
III. Total cash receipts from investment activities (015 to 019)	020	3,337,760	3,574,251
1. Cash outflows from the purchase of tangible and intangible assets	021	33,535,405	10,790,536
2. Cash outflow for acquiring equity and debt instruments	022	165,000	
3. Other cash outflows	023	1,700,000	
IV. Total cash outflows from investment activities (021 up to 023)	024	35,400,405	10,790,536
B1) NET CASH INFLOWS FROM INVESTMENT ACTIVITIES	025	0	0
B1) NET CASH OUTFLOWS FROM INVESTMENT ACTIVITIES	026	32,062,645	7,216,285
CASH FLOW FROM FINANCING ACTIVITIES			
1. Cash receipts from issuing equity and debt instruments	027		
2. Cash inflow from loans, bonds and other borrowings	028	160,154,773	193,099,041
3. Other cash inflows from financing activities	029		
V. Total cash intflow from financing activities (027 to 029)	030	160,154,773	193,099,041
1. Cash outflow for the repayment of principal of loans and bonds	031	140,956,692	233,786,680
2. Cash outflow for dividend payout	032		103,068
3. Cash outflow for the repayment of finance lease	033	1,481,481	2,169,595
4. Cash outflow for redemption of own shares	034		
5. Ostali novčani izdaci od financijskih aktivnosti	035		
VI. Total cash outflow from financing activities (031 to 035)	036	142,438,173	236,059,343
C1) NET CASH INFLOWS FROM FINANCING ACTIVITIES	037	17,716,600	0
C2) NET CASH OUTFLOWS FROM FINANCING ACTIVITIES	038	0	42,960,302
Total cash increase (013 – 014 + 025 – 026 + 037 – 038)	039	13,886,956	0
Total cash decrease (014 – 013 + 026 – 025 + 038 – 037)	040	0	15,425,090
Cash and cash equivalents at beginning of period	041	28,106,732	41,993,688
Increase in cash and cash equivalents	042	13,886,956	
Decrease in cash and cash equivelents	043		15,425,090
Cash and cash equivalents at year end	044	41,993,688	26,568,598

MEDIKA d.d.

APPENDIX 1: OTHER LEGAL AND REGULATORY REQUIREMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

Reconciliation of statement of financial position *(in thousands of HRK)*

in thousands of HRK	Statement of financial position in accordance with IFRS	Deposits	Loans given	Loans given to related parties	Bill of exchange receivables	Prepaid expenses and accrued income	VAT on credit notes	Profit for the year	Capital loss	Own shares	Liabilities for customs and freight services	Reserves resulting from hyperinflation	Liabilities for advances received	Accruals	Provisions for employees	Provisions for legal disputes	Income tax liabilities	Dividend payable	Trade payables	Liabilities to employees	Liabilities to state and other institutions	Other liabilities	Bills of exchange discounted by banks	Bills of exchange discounted by creditors	Liabilities	Rounding	Standardised annual financial statements in accordance with Regulation on the structure of AFS	
ASSETS																												ASSETS
Property, plant and equipment	154,116																										154,116	Tangible assets
Intangible asset	30,744																										30,744	Intangible assets
Investment in subsidiaries	60,000		1,826																							1	61,827	Financial assets
Deferred tax asset	503																										503	Deferred tax asset
Trade and other receivables	1,826		-1,826																								0	Receivables
Total non current assets	247,189	0	0	0	0	0	0	0	0	0	0	0	0	0		0							0	0	0	1	247,190	NON-CURRENT ASSETS
Inventories	220,284										54																220,338	Inventories
Receivables	1,124,399	-232	-1,939	-1,333	-36,082	-850	-838																			-1	1,083,124	Receivables
		232	1,939	1,333	36,082																						39,586	Financial assets
Cash and cash equivalents	26,569																										26,569	Cash at bank and on hand
Total current assets	1,371,252	0	0	0	0	-850	-838	0	0	0	54	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-1	1,369,617	CURRENT ASSETS
						850																					850	PREPAID EXPENSES AND ACCRUED INCOME
TOTAL ASSETS	1,618,441	0	0	0	0	0	-838	0	0	0	54	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,617,657	TOTAL ASSETS
EQUITY AND LIABILITIES																												EQUITY AND LIABILITIES
Share capital	43,879								4,259	12,250																	60,388	Issued capital
									-4,259																	1	-4,258	Capital reserves
Reserves	62,730									-12,250		31,796															82,276	Profit reserves
Retained earnings	196,673							-18,439				-31,796														-1	146,437	Retained earnings
								18,439																			18,439	Profit for the year
Total equity	303,282	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	303,282	CAPITAL RESERVES
Long term borrowings	193,545																										193,545	Liabilities towards banks and other financial institutions
Non-current provision	401																									1	402	Provisions
Total non-current liabilities	193,946	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	193,947	NON-CURRENT LIABILITIES
Trade and other liabilities	1,013,537												-1,867	-1,548				-85	-977,925	-5,130	-2,621	-1,687	-21,482			-2	1,190	Liabilities towards related parties
Short term borrowings	104,847																							-14,000	-4,013		86,834	Liabilities towards banks and other financial institutions
													1,867														1,867	Liabilities for advances received
																			977,925								977,925	Trade payables
																							21,482	14,000			35,482	Liabilities from securities
Income tax liability	663																-663										0	
Current provisions	2,166														-129	-2,037											0	
															129					5,130						1	5,260	Liabilities to employees
							-838										663				2,621						2,446	Liabilities for taxes and contributions
																		85									85	Liabilities arising from share of result
																						1,687			4,013		5,700	Other Liabilities
Total current liabilities	1,121,213	0	0	0	0	0	-838	0	0	0	0	0	0	-1,548	0	-2,037	0	0	0	0	0	0	0	0	0	-1	1,116,789	CURRENT LIABILITIES
											54			1,548		2,037											3,639	ACCRUED EXPENSES AND DEFERRED INCOME
Total liabilities	1,315,159	0	0	0	0	0	-838	0	0	0	54	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,314,375	
TOTAL EQUITY AND LIABILITIES	1,618,441	0	0	0	0	0	-838	0	0	0	54	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,617,657	TOTAL EQUITY AND LIABILITIES

MEDIKA d.d.

APPENDIX 1: OTHER LEGAL AND REGULATORY REQUIREMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

Reconciliation of statement of comprehensive income *(in thousands of HRK)*

in thousands of HRK	Statement of comprehensive income in accordance with IFRS	Other revenue	Inventory surpluses and income from corrections made on inventories	Interest income	Income from redemption of receivables	Discount expenses arising from sale of receivables	Income from provisions released	Income from bill of exchange recovered previously impaired	Expenses from discounting bills of exchange	Foreign exchange gain from loans	Other foreign exchange gains	Interest expense	Foreign exchange losses from loans	Other foreign exchange losses	Sale of tangible assets	Impairment of receivables	Impairment of receivables	Provisions for legal disputes	Marketing expenses included in other operating expenses	Other operating expenses and material expenses	Raw materials used	Bonuses, employee benefits and contributions	Employee benefits	Rounding	Standardised annual financial statements in accordance with Regulation on the structure of AFS.	
Revenues	1,978,680	-6,029		-2,881	-27	325	-715																		1,969,353	Revenue from sales
		6,029	996				1,913								684		15,541								25,163	Other operating income
Total operating revenues	**1,978,680**	0	996	-2,881	-27	325	1,198	0	0	0	0	0	0	0	684	0	15,541	0	0	0	0	0	0	0	**1,994,516**	**OPERATING INCOME**
Cost of trade goods sold	-1,792,693		-996																-13,052	-3,546	-8,490				-1,818,777	Material expenses
Staff costs	-59,714																					8,071			-51,643	Employee expenses
Marketing and promotion expenses	-13,052																		13,052						0	
Depreciation and amortisation	-15,413																								-15,413	Amortisation
Other operating expenses	-42,222						-1,198	-1,081	277						-306	18,073	-15,541	1,553		3,546	8,490	-8,071			-36,480	Other expenses
																-18,073									-18,073	Impairment
																		-1,553							-1,553	Provisions
																									0	Other operating expenses
Other gain/(losses) - net	-3,831										-2,605			6,814	-378										0	
Total operating expenses	**-1,926,925**	0	-996	0	0	0	-1,198	-1,081	277	0	-2,605	0	0	6,814	-684	0	-15,541	0	0	0	0	0	0	0	**-1,941,939**	**OPERATING EXPENSES**
Finance costs - net	-25,819									-7,359		23,304	9,875											-1	0	
Finance costs - net				2,881	27			1,081		7,359	2,605														13,953	Financial income
						-325			-277			-23,304	-9,875	-6,814										1	-40,594	Financial expense
																									0	Extraordinary other income
																									0	Extraordinary other expenses
Finance costs - net	**-25,819**	0	0	2,881	27	-325	0	1,081	-277	0	2,605	0	0	-6,814	0	0	0	0	0	0	0	0	0	0	**-26,641**	**NET FINANCIAL EXPENSE**
Profit before tax	**25,936**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	**25,936**	**PROFIT BEFORE TAX**
Income tax	-7,497																								-7,497	Income tax
Net profit	**18,439**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	**18,439**	**Profit for the year**
Other comprehensive income	0																								0	**Net other comprehensive income**
Total other comprehensive income	18,439	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	18,439	**TOTAL COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD**

MEDIKA d.d.

APPENDIX 1: OTHER LEGAL AND REGULATORY REQUIREMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

Reconciliation of statement of cash flow *(in thousands of HRK)*

in thousands of HRK	Statement of cash flow in accordance with IFRS	Income tax	Bill of exchange receivable	Impairment of receivables	Inventory impairment	Liabilities for customs and freight services	Bills of exchange discounted by creditors	Non cash reconciliation of income	Purchase of tangible and intangible asset through finance lease	Income from asset disposal	Receipt from loan given	Loan given	Interest income	Other movements in liabilities	Liabilities settled through bills of exchange	Receipts from factor	Repayment of finance lease	Reclassified movement in receivables	Interest paid	Income tax paid
CASH FLOWS FROM OPERATING ACTIVITIES																				
Net profit	18439	7,497																		
Income tax	7,497	-7,497																		
Depreciation and amortisation	15,413																			
Impairment of receivables	1,450			-1,450																
Impairment of loans given	0																			
Inventory impairment	3,679				-3,679															
Unrealised foreign exchange differences	2,414							-2,414												
Change in provisions	836							-836												
Gain on sale of property and equipment	-378							378												
Impairment of property and equipment	0																			
Tangible assets disposal	1							-1												
Interest expense	23,303							-23,303												
Interest income	-2,880							2,880												
Release of financial lease liability	0																	21,430		
			-35,482			-38	21,482	23,296	4,746	-209	10,279	-10,814	4,242	-1,526	-2,355	17,686	-111		-21,525	-8,481
Working capital changes	**69,774**	**0**	**-35,482**	**-1,450**	**-3,679**	**-38**	**21,482**	**0**	**4,746**	**-209**	**10,279**	**-10,814**	**4,242**	**-1,526**	**-2,355**	**17,686**	**-111**	**21,430**	**-21,525**	**-8,481**
Inventories (increase)/decrease	-32,051				3,679	38														
Trade and other receivables (increase)/decrease	-11,427		35,482	1,450									-4,075					-21,430		
Trade and other payables increase/(decrease)	19,074						-21,482							1,526						
Cash flows generated by operating activities	**45,370**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**4,746**	**-209**	**10,279**	**-10,814**	**167**	**0**	**-2,355**	**17,686**	**-111**	**0**	**-21,525**	**-8,481**
Interest paid	-21,525																		21,525	
Income tax paid	-8,481																			8,481
Net cash flows from operating activities	**15,364**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**4,746**	**-209**	**10,279**	**-10,814**	**167**	**0**	**-2,355**	**17,686**	**-111**	**0**	**0**	**0**
INVESTING ACTIVITIES																				
Purchase of tangible and intangible assets	-6,045								-4,746											
Proceeds from sale of tangible assets	678									209										
Proceeds from repayment of loans given	10,279										-10,279									
Loans given	-10,814											10,814								
Interest received	2,854												-167							
Net cash flows from investing activities	**-3,048**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-4,746**	**209**	**-10,279**	**10,814**	**-167**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
FINANCING ACTIVITIES																				
Repayment of borrowings	-236,142														2,355					
Proceeds from borrowings	210,785															-17,686				
Repayment of finance lease	-2,281																111			
Dividend paid	-103																			
Net cash flows from financing activities	**-27,741**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**2,355**	**-17,686**	**111**	**0**	**0**	**0**
Net increase in cash and cash equivalents	**-15,425**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash and cash equivalents at 1 January	41,994																			
Cash and cash equivalents at 31 December	**26,569**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Standardised annual financial statements in accordance with Regulation on the structure of AFS	
	CASH FLOWS FROM OPERATING ACTIVITIES
25,936	1. Profit before tax
0	
15,413	2. Amortization and depreciation
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
21,430	4. Decrease in current receivables
1,190	6. Other cash inflows
63,969	Total cash inflows from operating activities
-28,334	3. Increase in inventories
0	
-882	1. Decrease in current liabilities
-29,216	Total cash outflows from operating activities
0	
0	
34,753	**NET CASH INFLOWS FROM OPERATING ACTIVITIES**
	CASH FLOWS FROM INVESTMENT ACTIVITIES
-10,791	Cash outflows from the purchase of tangible and intangible assets
887	Cash receipts from the sale of tangible and intangible assets
0	
0	
2,687	Cash receipts from interest
-7,217	**NET CASH OUTFLOWS FROM INVESTMENT ACTIVITIES**
	CASH FLOW FROM FINANCING ACTIVITIES
-233,787	Cash outflow for the repayment of principal of loans and bonds
193,099	Cash inflow from loans, bonds and other borrowings
-2,170	Cash outflow for the repayment of finance lease
-103	Cash outflow for dividend payout
-42,961	**NET CASH OUTFLOWS FROM FINANCING ACTIVITIES**
-15,425	**Total cash increase**
41,994	**Cash and cash equivalents at beginning of period**
26,569	**Cash and cash equivalents at year end**