

**BOARD'S REPORT
for first nine months of 2010
Group Medika**

October 2010.

Memembr of the Board Report – Group Medika

Comment on the results for the first nine months of 2010

As of 30 September 2010 Group Medika consisted of the following legal entities: Medika d.d., healthcare facilities of Prima Pharma - Zdravstvene ustanove Prima Pharme, healthcare facilities of Delonga pharmacies - ZU Ljekarne Delonga, the pharmacy Ines Buhač - Ljekarna Ines Buhač, the pharmacy Mladenka Čobanov – Ljekarna Mladenka Čobanov and Primus nekretnine d.o.o.. Share in the healthcare facilities Jagatić – ZU Jagatić is 49%.

Total sales of Group Medika in first nine months of 2010 increased by 2.6 % in comparison to the same period of prior year, in spite of the strong impact of economic crisis at the beginning of 2010. Increase of total sales was also influenced by higher number of pharmacies in ZU Prima Pharma which as at 30 September 2010 had 52 pharmacies across Croatia compared to 47 pharmacies as at 30 September 2009. Associate ZU Ljekarne Jagatić as at 30 September 2010 has 6 pharmacies (1 pharmacy more than 30 September 2010).

The operative profit rate EBIT amounts to HRK 34.5 mil or 2,3%, and EBITDA amounts HRK 48.5 mil or 3.2%. Net profit for the period is HRK 12.7 mil.

| Key indicators | I-IX 2010. | I-IX 2009. | Change I-IX 2010/ I-IX 2009 |
|-------------------------|-------------------|-------------------|--|
| Sales revenue (000 HRK) | 1,515,597 | 1,476,927 | 2.62% |
| EBITDA margin | 3.19% | 2.27% | +0.92 |
| EBIT margin | 2.27% | 1.4%3 | +0.84 |
| Net profit (000 HRK) | 12,726 | 4,734 | 168.85 |

Key events

In September Medika repurchased 10th tranche of commercial bills upon maturity. Repurchase was financed by long-term loan taken from commercial bank under more favourable conditions than the ones relating to commercial bills.

In Group Medika in third quartal entered one more business subject – pharmacy Mladenka Čobanov.

Balance sheet

Intangible assets of Group Medika amount to HRK 134.4 mil. Increase of HRK 17.8 million relates to increased number of licenses in healthcare facilities of Prima Pharma as a result of increased number of pharmacies.

Tangible assets, long-term financial assets and deferred tax asset do not show significant change comparing to 31 December 2009.

Inventory balance is lower for HRK 3.0 mil or 1.4% comparing to 31 December 2009.

Short-term assets amount to HRK 1 billion 449 million, whereof HRK 1 billion 176 million relate to trade receivables. Trade receivables increased by 5.4% comparing to the beginning of the year. Increase was caused by poor collectability in this year. This was mainly caused by lower cash sales in pharmacies due to the economic crisis.

Long term liabilities increased by HRK 42.6 mil comparing to beginning of the year. Increase relates mainly to long-term loan taken to repurchase commercial bills.

Short-term liabilities amount to HRK 1 billion 198 thousand whereof HRK 1 billion 74 million relates to the liabilities to suppliers, HRK 77.0 mil to debt (HRK 76.5 mil relates to short term loans and HRK 449.0 thousand relates to finance leasing), and HRK 47.5 mil on other short-term liabilities whereof major part relates to liabilities for purchase of pharmacies.

Short-term liabilities increased by HRK 30.9 million and major part relate to increase in liabilities to suppliers which increased by 1.8% comparing to the beginning of the year as a result of poor collectability of trade receivables in this year.

Risks

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

As these receivables are either dependent from or owned by State, risk of collection is not high, but this increases the need for future financing, which increases finance expenses.

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

Currency risk is a significant financial risk. Most of inventory is purchased from foreign suppliers in foreign currencies. Majority of borrowings from banks 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 long term and short term borrowing, with a 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 going concern issue and collection issue.

Expectations

Medika d.d. business plan for 2010 stipulates annual growth of sales of 2% that would result in increase of market share. The Company will continue with its main activity: distribution of medications and medical products and develop operations with the products representing the Company's core business.

Development strategy of Prima Pharme is to expand network of pharmacies on whole territory of Croatia.

Jasminko Herceg, B.Econ.
Board member

Medika d.d.
d.o.o. Zagreb



APPENDIX 1.

period from:

1.1.2010

to

30.9.2010

QUARTERLY FINANCIAL STATEMENTS OF COMPANY-TFI-POD

Registration number: 03209741

Identification number of company (MBS): 080027531

Personal identification number (OIB): 94818858923

Name of the company: **MEDIKA D.D.**

Postal code and city: 10000 ZAGREB

Street name and street number: **CAPRAŠKA 1**

E-mail: medika@medika.hr

Web page: www.medika.hr

Code and name of the city: 133 ZAGREB

Code and name of the county: 21 GRAD ZAGREB

Number of employees: 652

(at the end of period)

Consolidated financial statements: YES

Code of NKD-a: 4646

Consolidating entities (according IFRS):

Headquarters:

MB:

| | | |
|---------------------------|--------------|---------------|
| ZU ljekarne Prima Pharme | Split | 0694975 |
| ZU Ljekarne Delonga | Okrug gornji | 1605747 |
| Ljekarna Ines Buhač | Zagreb | 80027997 |
| Primus nekretnine d.o.o. | Zagreb | 2534983 |
| Ljekarna Mladenka Čobanov | Šibenik | 2912958388302 |
| | | |

Bookkeeping servis:

Contact person: **RADMILOVIĆ DIJANA**
(enter surname and name of contact person)

Phone: 012412551 Fax: 012371441

E-mail: medika@medika.hr

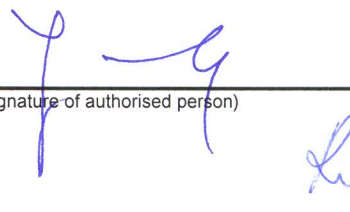
Surname and name: **HERCEG JASMINKO**
(authorised person)

Documents for publishing:

1. Financial statements (balance sheet, profit and loss, cash flow, changes in equity and notes to financial statements)
2. Statement of the person responsible for preparing financial statements
3. Board's report about the state of the company

3 Medika d.d.
ZAGREB, Capraška 1

(signature of authorised person)



BALANCE SHEET

as at

30 SEPTEMBER 2010

amounts in HRK

| Description | AOP tag | Previous period | Current period |
|--|------------|-----------------|----------------|
| 1 | 2 | 3 | 4 |
| ASSETS | | | |
| A) RECEIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL | 001 | | |
| B) NON-CURRENT ASSETS | 002 | 313.099.434 | 330.418.974 |
| I. INTANGIBLE ASSETS | 003 | 116.558.651 | 134.355.955 |
| II. TANGIBLE ASSETS | 004 | 173.358.297 | 173.229.096 |
| III. NON-CURRENT FINANCIAL ASSETS | 005 | 20.003.544 | 19.583.383 |
| IV. RECEIVABLES | 006 | | |
| V. DEFERRED TAX ASSETS | 007 | 3.178.942 | 3.250.540 |
| C) CURRENT ASSETS | 008 | 1.375.280.835 | 1.448.648.556 |
| I. INVENTORIES | 009 | 211.698.654 | 214.689.735 |
| II. RECEIVABLES | 010 | 1.106.671.993 | 1.186.138.841 |
| III. CURRENT FINANCIAL ASSETS | 011 | 7.072.141 | 4.785.436 |
| IV. CASH AND CASH EQUIVALENTS | 012 | 49.838.047 | 43.034.544 |
| D) ACCRUED INCOME | 013 | 927.765 | 765.325 |
| E) LOSS ABOVE CAPITAL | 014 | | |
| F) TOTAL ASSETS | 015 | 1.689.308.034 | 1.779.832.855 |
| G) OFF BALANCE SHEET ITEMS | 016 | 20.436.127 | 124.192.114 |
| EQUITY AND LIABILITIES | | | |
| A) CAPITAL AND RESERVES | 017 | 288.830.332 | 303.551.504 |
| I. SHARE CAPITAL | 018 | 60.388.000 | 60.388.000 |
| II. CAPITAL RESERVES | 019 | 4.401.478 | 1.861.168 |
| III. RESERVES FROM RETAINED EARNINGS | 020 | 66.555.382 | 71.090.792 |
| IV. REVALUATION RESERVES | 021 | | |
| V. RETAINED EARNINGS | 022 | 140.633.899 | 157.485.473 |
| VI. ACUMULATED LOSS | 023 | | |
| VII. PROFIT FOR THE PERIOD | 024 | 16.851.573 | 12.726.071 |
| VIII. LOSS FOR THE PERIOD | 025 | | |
| IX. MINORITY INTERESTS | 026 | | |
| B) PROVISIONS | 027 | 513.883 | 513.883 |
| C) NON-CURRENT LIABILITIES | 028 | 228.676.390 | 271.295.571 |
| D) CURRENT LIABILITIES | 029 | 1.167.114.084 | 1.198.047.351 |
| E) DEFERRED INCOME AND ACCRUED EXPENSES | 030 | 4.173.345 | 6.424.546 |
| F) TOTAL EQUITY AND LIABILITIES | 031 | 1.689.308.034 | 1.779.832.855 |
| G) OFF BALANCE SHEET ITEMS | 032 | 20.436.127 | 124.192.114 |
| SUPPLEMENT TO THE BALANCE SHEET (filled in by the company that prepares consolidated annual financial statements) | | | |
| CAPITAL AND RESERVES | | | |
| 1. Attributable to equity holders | 033 | | |
| 2. Attributable to minority interests | 034 | | |

PROFIT AND LOSS

from 1.1.2010 to 30.9.2010

amounts in HRK

| Description | AOP tag | Previous year | | Current year | |
|--|------------|---------------|-------------|---------------|-------------|
| | | Cumulative | Quarter | Cumulative | Quarter |
| 1 | 2 | 3 | 4 | 5 | 6 |
| I. OPERATING REVENUES | 035 | 1.482.623.383 | 476.954.976 | 1.521.954.629 | 508.471.207 |
| 1. Sales revenues | 036 | 1.476.927.182 | 474.649.895 | 1.515.596.984 | 507.121.407 |
| 2. Revenues from use of own goods and services | 037 | | | | |
| 3. Other operating revenues | 038 | 5.696.201 | 2.305.081 | 6.357.645 | 1.349.800 |
| II. OPERATING EXPENSES | 039 | 1.461.397.103 | 472.683.867 | 1.487.404.018 | 490.280.151 |
| 1. Decrease of finished goods and work in progress | 040 | | | | |
| 2. Increase of finished goods and work in progress | 041 | | | | |
| 3. Material expenses | 042 | 1.360.773.224 | 444.306.372 | 1.370.986.676 | 451.225.410 |
| 4. Staff costs | 043 | 61.092.414 | 20.028.741 | 62.635.132 | 21.168.841 |
| 5. Depreciations | 044 | 12.491.728 | 4.471.549 | 13.946.245 | 4.589.650 |
| 6. Other expenses | 045 | 15.536.427 | -4.060.768 | 29.018.569 | 8.479.707 |
| 7. Impairment charge | 046 | 11.503.310 | 7.937.973 | 10.365.776 | 4.364.923 |
| 8. Provisions | 047 | | | 451.620 | 451.620 |
| 9. Other operating expenses | 048 | | | | |
| III. FINANCE INCOME | 049 | 13.235.354 | 1.784.506 | 9.783.113 | -2.133.385 |
| 1. Interests, foreign exchanges and dividend from related parties | 050 | | | | |
| 2. Interests, foreign exchanges and dividend from non-related parties | 051 | 13.235.354 | 1.784.506 | 9.783.113 | -2.133.385 |
| 3. Share of profit from associates | 052 | | | | |
| 4. Unrealised gains | 053 | | | | |
| 5. Other finance income | 054 | | | | |
| IV. FINANCE EXPENSES | 055 | 26.262.462 | 8.512.980 | 26.798.009 | 11.929.011 |
| 1. Interests and foreign exchanges from related parties | 056 | | | | |
| 2. Interests and foreign exchanges from non-related parties | 057 | 26.262.462 | 8.512.980 | 26.798.009 | 11.929.011 |
| 3. Unrealised losses | 058 | | | | |
| 4. Other finance expenses | 059 | | | | |
| V. EXTRAORDINARY INCOME | 060 | 2.519 | 2.519 | | |
| VI. EXTRAORDINARY EXPENSES | 061 | 12 | 12 | | |
| VII. TOTAL INCOME | 062 | 1.495.861.256 | 478.742.001 | 1.531.737.742 | 506.337.822 |
| VIII. TOTAL EXPENSES | 063 | 1.487.659.577 | 481.196.859 | 1.514.202.027 | 502.209.162 |
| IX. PROFIT BEFORE TAX | 064 | 8.201.679 | -2.454.858 | 17.535.715 | 4.128.660 |
| X. LOSS BEFORE TAX | 065 | | | | |
| XI. INCOME TAX | 066 | 3.468.142 | 604.018 | 4.809.644 | 999.115 |
| XII. PROFIT FOR THE PERIOD | 067 | 4.733.537 | | 12.726.071 | 3.129.545 |
| XIII. LOSS FOR THE PERIOD | 068 | | 3.058.876 | | |
| SUPPLEMENT TO P&L (filled in by the company that prepares consolidated annual financial statements) | | | | | |
| XIV.* PROFIT ATTRIBUTABLE TO EQUITY HOLDERS | 069 | | | | |
| XV.* PROFIT ATTRIBUTABLE TO MINORITY INTERESTS | 070 | | | | |
| XVI.* LOSS ATTRIBUTABLE TO EQUITY HOLDERS | 071 | | | | |
| XVII.* LOSS ATTRIBUTABLE TO MINORITY INTERESTS | 072 | | | | |

CASH FLOW STATEMENT - Indirect method

from 1.1.2010 to 30.9.2010

amounts in HRK

| Description | AOP tag | Previous period | Current period |
|--|------------|--------------------|--------------------|
| 1 | 2 | 3 | 4 |
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| 1. Profit before tax | 073 | 8.201.679 | 17.535.714 |
| 2. Depreciation and amortisation | 074 | 12.491.728 | 13.946.245 |
| 3. Increase of current liabilities | 075 | | |
| 4. Decrease of current assets | 076 | 80.885.559 | 73.084.425 |
| 5. Decrease of inventories | 077 | 38.207.000 | |
| 6. Other increase of cash flow | 078 | 5.217.000 | 6.832.091 |
| I. Total increase of cash flow from operating activities | 079 | 145.002.966 | 111.398.475 |
| 1. Decrease of current liabilities | 080 | 80.034.000 | |
| 2. Increase of current assets | 081 | | 79.466.848 |
| 3. Increase of inventories | 082 | | 2.991.080 |
| 4. Other decrease of cash flow | 083 | 26.465.000 | 5.806.131 |
| II. Total decrease of cash flow from operating activities | 084 | 106.499.000 | 88.264.059 |
| A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES | 085 | 38.503.966 | 23.134.416 |
| A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES | 086 | | |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| 1. Proceeds from sale of tangible and intangible assets | 087 | 74.000 | 712.200 |
| 2. Proceeds from sale of equity and debt securities | 088 | | |
| 3. Interest received | 089 | 1.631.000 | 997.487 |
| 4. Dividends received | 090 | | |
| 5. Other proceeds from investing activities | 091 | | |
| III. Total proceeds from investing activities | 092 | 1.705.000 | 1.709.687 |
| 1. Purchase of tangible and intangible assets | 093 | 41.927.000 | 31.614.348 |
| 2. Purchase of equity and debt securities | 094 | | |
| 3. Other purchases resulting from investing activities | 095 | 5.693.000 | |
| IV. Total purchases resulting from investing activities | 096 | 47.620.000 | 31.614.348 |
| B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES | 097 | | |
| B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES | 098 | 45.915.000 | 29.904.661 |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| 1. Proceeds from issuing of equity and debt securities | 099 | | |
| 2. Proceeds from borrowings | 100 | 86.600.000 | 169.324.325 |
| 3. Other proceeds from financing activities | 101 | 1.644.000 | 3.545.244 |
| V. Total proceeds from financing activities | 102 | 88.244.000 | 172.869.569 |
| 1. Repayment of borrowings | 103 | 77.240.000 | 171.028.250 |
| 2. Dividends paid | 104 | | |
| 3. Repayment of finance lease | 105 | 1.110.000 | 1.874.577 |
| 4. Purchase of treasury shares | 106 | | |
| 5. Other purchases resulting from financing activities | 107 | | |
| VI. Total purchases resulting from financing activities | 108 | 78.350.000 | 172.902.827 |
| C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES | 109 | 9.894.000 | |
| C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES | 110 | | 33.258 |
| Total increase of cash flow | 111 | 234.951.966 | 285.977.731 |
| Total decrease of cash flow | 112 | 232.469.000 | 292.781.234 |
| Cash and cash equivalents at the beginning of the period | 113 | 64.460.789 | 49.838.047 |
| Increase of cash and cash equivalents | 114 | 2.482.966 | |
| Decrease of cash and cash equivalents | 115 | | 6.803.503 |
| Cash and cash equivalents at the end of the period | 116 | 66.943.755 | 43.034.544 |

CHANGES IN SHAREHOLDERS EQUITY

from 1.1.2010 to 30.9.2010

amounts in HRK

| Description | AOP tag | Previous period | Increase | Decrease | Current period |
|--|------------|----------------------|------------|------------|----------------|
| 1 | 2 | 31.12. previous year | | 3 | 4 |
| 1. Share capital | 117 | 60.388.000 | | | 60.388.000 |
| 2. Capital reserves | 118 | 4.401.478 | | 2.540.310 | 1.861.168 |
| 3. Reserves from retained earnings | 119 | 66.555.382 | 4.535.410 | | 71.090.792 |
| 4. Retained earnings | 120 | 140.633.899 | 16.851.574 | | 157.485.473 |
| 5. Profit for the period | 121 | 16.851.573 | 12.726.071 | 16.851.573 | 12.726.071 |
| 6. Revaluation of tangible assets | 122 | | | | |
| 7. Revaluation of intangible assets | 123 | | | | |
| 8. Revaluation of available-for-sale financial assets | 124 | | | | |
| 9. Other revaluation | 125 | | | | |
| 10. Total capital and reserves | 126 | | | | |
| 11. Current and defferd tax (part) | 127 | | | | |
| 12. Cash flow hedge | 128 | | | | |
| 13. Changes of accounting policies | 129 | | | | |
| 14. Correction of material mistakes from previous period | 130 | | | | |
| 15. Other changes in equity | 131 | | | | |
| 16. Total increase or decrease of equity | 132 | 288.830.332 | 34.113.055 | 19.391.883 | 303.551.504 |
| 16a. Attributable to equity holders | 133 | | | | |
| 16b. Attributable to minority interests | 134 | | | | |



Medika

Dioničko društvo za trgovinu lijekovima i sanitetskim materijalom

A Capraška 1, HR - 10000 Zagreb
T +385 1 2412 555
E medika@medika.hr
I www.medika.hr

Zagreb, 27 October 2010

Pursuant to the articles 407. to 410. of the Capital market Law (Official Gazette 88/08 and 146/08) Management Board member Jasminko Herceg provides

MANAGEMENT BOARD'S STATEMENT OF LIABILITY

Consolidated and unconsolidated financial statements of Medika d.d. have been prepared pursuant to the International Financial Reporting Standards (IFRS) and Croatian Accounting Law.

Consolidated and unconsolidated financial statements for the period ended 30 September 2010 present complete and fair view of assets and liabilities, profit and loss, financial position and operations of the Company and the Group.

The interim management report for the period 01 January to 30 September 2010 presents true and fair presentation of development and results of the operations of the Company and the Group with description of significant risks and uncertainties for the Company and the Group.

Jasminko Herceg
Management Board member


Medika d.d.
ZAGREB, Capraška