



Medika d.d.

Zagreb, Capraška 1

**BOARD'S REPORT
for the first nine months of 2010
Medika d.d. Zagreb**

October 2010

Report Submitted by the Board Member – Medika d.d.

Comment on the result for the first nine months of 2010

Total sale of Medika in the first nine months of 2010 is by 1.1% lower comparing to the same period of previous year, the reason is the strong impact of economic crisis during 2010.

The operative profit rate EBIT amounts to HRK 29.8 mil or 2.0% and EBITDA amounts to HRK 41.4 mil or 2.8 %.

The realized net profit amounts to HRK 9.4 mil. The lower net profit comparing to the operative net profit is result of net finance expense caused by the increase in interest expense. Increase in interest expense is result of increased debt in 2010 comparing to the same period of prior year.

Key indicators	I-IX 2010.	I-IX 2009.	Change I-IX 2010/ I-IX 2009
Sales revenue (000 HRK)	1,458,560	1,442,000	1.15%
EBITDA margin	2.82	2.27	+0.55
EBIT margin	2.04	1.59	+0.45
Net profit (000 HRK)	9,384	8,364	12.20%

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.

Balance sheet

There is no significant change in the long term assets and are at the same level comparing to the previous year.

Inventory balance is higher for HRK 1.4 mil or 0.75% comparing to December 31, 2009.

Short-term assets amount to HRK 1 billion 455 million, whereof HRK 1 billion 213 million trade receivables. Trade receivables increased by 10.4% comparing to the beginning of the year as a result of poor collectability. This was mainly caused by lower cash sales in pharmacies due to the economic crisis and lower collectability.

Long term liabilities increased for HRK 46.3 million comparing to beginning of the year. Increase mainly relates to long-term loan taken to repurchase commercial bills.

Short-term liabilities amount to HRK 1 billion 154 thousand whereof HRK 1 billion 66 million relates to the liabilities to suppliers, HRK 74.9 million to debt (HRK 74.6 million relates to short term loans and HRK 287.6 thousand relates to finance leasing), and HRK 12.4 million on other short-term liabilities.

Short-term liabilities increased by HRK 45.4 million whereof major part relates to increase in liabilities to suppliers. Liabilities to suppliers increased comparing to the beginning of the year by 4.1% as a result of poor collectability of trade receivables during the 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 what 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 inventories are 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.

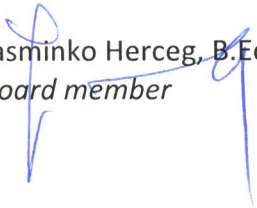
Interest risk of the Company arises from received long term and short term borrowing, with a variable interest rate.

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.

Jasminko Herceg, B.Econ.
Board member



Medika d.d.
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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: 368 (at the end of period)

Consolidated financial statements: NO

Code of NKD-a: 4646

Consolidating entities (according IFRS):

Headquarters:

MB:

Table with 3 columns: Consolidating entities, Headquarters, MB. All cells are empty.

Bookkeeping servis:

Contact person: RADMILOVIĆ DIJANA (enter surname and name person for contacts)

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

M.P. Medika d.d. ZAGREB, Capraška 1

(signature of authorised person)

Handwritten signature in blue ink.

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	251.328.075	248.828.052
I. INTANGIBLE ASSETS	003	35.019.733	31.741.751
II. TANGIBLE ASSETS	004	154.456.059	154.289.086
III. NON-CURRENT FINANCIAL ASSETS	005	60.882.517	61.827.449
IV. RECEIVABLES	006		
V. DEFERRED TAX ASSETS	007	969.766	969.766
C) CURRENT ASSETS	008	1.346.965.286	1.454.924.988
I. INVENTORIES	009	192.003.561	193.449.573
II. RECEIVABLES	010	1.104.554.282	1.217.298.557
III. CURRENT FINANCIAL ASSETS	011	8.413.755	7.110.796
IV. CASH AND CASH EQUIVALENTS	012	41.993.688	37.066.062
D) ACCRUED INCOME	013	572.669	533.240
E) LOSS ABOVE CAPITAL	014		
F) TOTAL ASSETS	015	1.598.866.030	1.704.286.280
G) OFF BALANCE SHEET ITEMS	016	20.436.128	124.192.114
EQUITY AND LIABILITIES			
A) CAPITAL AND RESERVES	017	283.034.230	294.413.792
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	136.202.902	151.689.370
VI. LOSS CARRIED FORWARD	023		
VII. PROFIT FOR THE PERIOD	024	15.486.468	9.384.462
VIII. LOSS FOR THE PERIOD	025		
IX. MINORITY INTERESTS	026		
B) PROVISIONS	027	513.883	513.883
C) NON-CURRENT LIABILITIES	028	202.704.856	249.029.468
D) CURRENT LIABILITIES	029	1.108.544.716	1.153.915.984
E) DEFERRED INCOME AND ACCRUED EXPENSES	030	4.068.345	6.413.153
F) TOTAL EQUITY AND LIABILITIES	031	1.598.866.030	1.704.286.280
G) OFF BALANCE SHEET ITEMS	032	20.436.128	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 1	AOP tag 2	Previous period		Current period	
		Cumulative	Quarter	Cumulative	Quarter
		3	4	5	6
I. OPERATING REVENUES	035	1.465.072.507	496.318.883	1.464.068.934	489.399.196
1. Sales revenues	036	1.442.000.432	475.782.734	1.458.560.251	488.043.739
2. Revenues from use of own goods and services	037				
3. Other operating revenues	038	23.072.075	20.536.149	5.508.683	1.355.457
II. OPERATING EXPENSES	039	1.441.788.532	486.417.995	1.434.249.391	473.001.730
1. Decrease of finished goods and work in progress	040				
2. Increase of finished goods and work in progress	041				
3. Material expenses	042	1.343.507.113	442.603.969	1.347.814.128	443.855.324
4. Staff costs	043	41.211.001	13.704.560	38.821.062	13.071.748
5. Depreciation and amortization	044	10.022.644	3.666.439	11.539.258	3.864.118
6. Other expenses	045	35.593.974	18.499.228	25.257.547	7.393.144
7. Impairment charge	046	11.453.800	7.943.799	10.365.776	4.365.776
8. Provisions	047			451.620	451.620
9. Other operating expenses	048				
III. FINANCE INCOME	049	12.825.841	1.696.295	9.544.305	-2.052.595
1. Interests, foreign exchanges and dividend from related parties	050			82.118	82.118
2. Interests, foreign exchanges and dividend from non-related parties	051	12.825.841	1.696.295	9.462.187	-2.134.713
3. Share of profit from associates	052				
4. Unrealised gains	053				
5. Other finance income	054				
IV. FINANCE EXPENSES	055	24.951.327	8.069.115	25.957.474	11.802.727
1. Interests and foreign exchanges from related parties	056				
2. Interests and foreign exchanges from non-related parties	057	24.951.327	8.069.115	25.957.474	11.802.727
3. Unrealised losses	058				
4. Other finance expenses	059				
V. EXTRAORDINARY INCOME	060				
VI. EXTRAORDINARY EXPENSES	061				
VII. TOTAL INCOME	062	1.477.898.348	498.015.178	1.473.613.239	487.346.601
VIII. TOTAL EXPENSES	063	1.466.739.859	494.487.110	1.460.206.865	484.804.457
IX. PROFIT BEFORE TAX	064	11.158.489	3.528.068	13.406.374	2.542.144
X. LOSS BEFORE TAX	065				
XI. INCOME TAX	066	2.794.388	505.262	4.021.912	762.643
XII. PROFIT FOR THE PERIOD	067	8.364.101	3.022.806	9.384.462	1.779.501
XIII. LOSS FOR THE PERIOD	068				
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	11.158.489	13.406.737
2. Depreciation and amortisation	074	10.022.643	11.539.257
3. Increase of current liabilities	075		83.796.430
4. Decrease of current assets	076	103.232.623	
5. Decrease of inventories	077	38.869.410	
6. Other increase of cash flow	078	10.578.873	3.920.837
I. Total increase of cash flow from operating activities	079	173.862.038	112.663.261
1. Decrease of current liabilities	080	76.227.964	
2. Increase of current assets	081	25.830.123	112.744.274
3. Increase of inventories	082		1.446.012
4. Other decrease of cash flow	083		5.019.399
II. Total decrease of cash flow from operating activities	084	102.058.087	119.209.685
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES	085	71.803.951	
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES	086		5.548.937
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from sale of tangible and intangible assets	087	74.500	712.200
2. Proceeds from sale of equity and debt securities	088		
3. Interest received	089	1.631.752	997.487
4. Dividends received	090		
5. Other proceeds from investing activities	091		
III. Total proceeds from investing activities	092	1.706.252	1.709.687
1. Purchase of tangible and intangible assets	093	25.559.197	7.980.339
2. Purchase of equity and debt securities	094	19.427.000	
3. Other purchases resulting from investing activities	095	3.437.977	
IV. Total purchases resulting from investing activities	096	48.424.174	7.980.339
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES	097		
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES	098	46.717.922	7.268.139
CASH FLOW FROM FINANCING ACTIVITIES			
1. Proceeds from issuing of equity and debt securities	099		
2. Proceeds from borrowings	100	86.600.273	155.753.997
3. Other proceeds from financing activities	101	1.056.006	3.515.927
V. Total proceeds from financing activities	102	87.656.279	159.269.924
1. Repayment of borrowings	103	77.240.184	149.755.794
2. Dividends paid	104		
3. Repayment of finance lease	105	1.110.051	1.624.681
4. Purchase of treasury shares	106		
5. Other purchases resulting from financing activities	107	864.331	
VI. Total purchases resulting from financing activities	108	79.214.566	151.380.475
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES	109	8.441.713	7.889.449
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES	110		
Total increase of cash flow	111	263.224.569	273.642.872
Total decrease of cash flow	112	229.696.827	278.570.499
Cash and cash equivalents at the beginning of the period	113	28.106.732	41.993.688
Increase of cash and cash equivalents	114	33.527.742	
Decrease of cash and cash equivalents	115		4.927.627
Cash and cash equivalents at the end of the period	116	61.634.474	37.066.061

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	136.202.902	15.486.468		151.689.370
5. Profit for the period	121	15.486.468	9.384.462	15.486.468	9.384.462
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	283.034.230	29.406.340	18.026.778	294.413.792
16a. Attributable to equity holders	133				
16b. Attributable to minority interests	134				



Medika

Dioničko društvo za trgovinu lijekovima i sanitetskim materijalom

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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.
Z A G R E B, Capraška