

**MEDIKA d.d.**

**AUDITOR'S REPORT AND  
CONSOLIDATED FINANCIAL STATEMENTS  
31 DECEMBER 2011**

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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### **Financial results in the year 2011**

In the year 2011, Medika Group realized consolidated revenue in the amount of HRK 2,172,355 thousand, an increase of 5.6% in comparison to previous year. Consolidated operating profit of HRK 48,380 thousand fell by 20.2% compared to the prior period.

Consolidated profit before tax amounts to HRK 25,201 thousand and consolidated net profit HRK 18,391 thousand, being 25.7% less than 2010.

If analysing operating business segments (note 6 in financial statements), 62.9% of total consolidated income was generated through "pharmacies" segment, of which 13.9% from own pharmacies and 24.6% through "hospitals" segment. In comparison to prior year, the "hospitals" segment experienced growth of 2.5% while at the same time the "pharmacies" segment fell by 9.1%.

Total consolidated assets amount to HRK 1,860,209 thousand, and have increased by 10.4% in comparison to last year. Consolidated current assets comprise 80.5% of total assets. Trade and other receivables are the most significant part of total assets and have increased by 14.7% in comparison to prior year.

On the basis of the decision confirmed by the Annual General Meeting, an amount of HRK 4,548 thousand will be transferred to reserves.

The equity to assets ratio of the Group shows that 18% of total consolidated assets is financed through own resources.

Total consolidated credit indebtedness of the Medika Group is HRK 395,600 thousand, of which HRK 359,179 thousand relates to short-term loans (loans and finance lease), while the remainder in the amount of HRK 36,421 thousand relates to long-term loans and finance lease.

Consolidated financial results are presented in the statement of comprehensive income on page 7 of the financial statements.

### **Subsequent events**

The Company is currently involved in negotiations with local banks regarding the refinancing of current debt to noncurrent.

### **The vision of company development**

Medika d.d. business plan for next 2012 stipulates annual growth of sales of 2%, 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 an increase of productivity.

ZU Ljekarne Prima Pharme's development strategy is to expand its network of pharmacies to the whole territory of Croatia.

### **Treasury shares**

In June 2010, the Company granted 285 of its treasury shares to key management.

During the year the company has acquired 1,110 of its treasury shares.

Medika d.d. currently owns 1,584 treasury shares, which represents 5.25% of shares issued.

### **Medika Group**

Medika Group consists of a parent company Medika d.d., whose primary activity is the wholesale of medicines and medical products, and subsidiaries Primus nekretnine Ltd., registered in Zagreb and Zdravstvena ustanova Ljekarne Prima Pharme, registered in Split. Both are wholly owned by Medika d.d.

Zdravstvena ustanova Ljekarne Prima Pharme has subsidiaries: Zdravstvena ustanova Ljekarne Delonga (Okrug Gornji), Zdravstvena ustanova Ljekarne Ines Škoko (Požega), Zdravstvena ustanova Ljekarne Atalić (Osijek) and Ljekarna Dragica Blagus Vičanović (Strahoninec). These subsidiaries are wholly owned by ZU Ljekarne Prima Pharme.

During the year 2011 Ljekarna Ines Buhač (Zagreb) and Ljekarna Mladenka Čobanov (Šibenik) have been incorporated into ZU Ljekarne Prima Pharme.

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

### **Risks**

The most significant market risk to Medika d.d. business is a long collection period for receivables, especially HZZO and HZZO related receivables. Therefore, a significant amount of working capital is tied up which has a 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 Group does not use financial instruments to protect itself from currency risk.

Interest risk of the Group arises from received short and long-term loans with variable interest rate.

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

### **Corporate governance**

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

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

### **Management and Supervisory Board**

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

The supervisory Board consists of: Mr. Mate Perković, president, Mr. Damjan Možina, vice-president, and members: Mr. Matko Bolanča, Mr. Tomislav Gnjidić, Mr. Zlatko Dunković, Mr. Nikica Gabrić and Mrs. Ružica Vadić.

Zagreb, 8 March 2012

Jasminko Herceg  
*Member of the Management Board*


**Medika** d.d.  
ZAGREB, Capraška

## **STATEMENT OF MANAGEMENT AND SUPERVISORY BOARD'S RESPONSIBILITIES**

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

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 consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for the submission of its annual report together with the annual consolidated financial statements to the Supervisory Board, following which the Supervisory Board is required to approve the annual consolidated 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 8 March 2012 for issue to the Supervisory Board and are signed below to signify this.

By order of the Management Board

Jasminko Heroeg  
*Member of the Management Board*

  
**Medika d.d.**  
C. B. F. B. Capraška

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

We have audited the accompanying consolidated financial statements of Medika d.d. ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated 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 consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.



**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 consolidated statement of financial position as at 31 December 2011, consolidated statement of comprehensive income and consolidated cash flow statement for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules as presented on pages 48 to 54 with the consolidated 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.  
Eurotower, 17. kat  
Ivana Lučića 2a, 10000 Zagreb

**KPMG Croatia d.o.o. za reviziju**

Croatian Certified Auditors

Eurotower, 17<sup>th</sup> floor,

Ivana Lučića 2a

10000 Zagreb, Croatia

**8 March 2012**

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.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**

<i>(all amounts are expressed in thousands of HRK)</i>	<b>Note</b>	<b>2011</b>	<b>2010</b>
Revenues	5, 6	2,172,355	2,057,636
Cost of trade goods sold	6	(1,929,262)	(1,811,239)
Staff costs	7	(99,399)	(92,295)
Marketing and promotion expenses	8	(10,350)	(13,150)
Depreciation and amortisation	14, 15	(17,774)	(18,946)
Other operating expenses	9	(60,024)	(57,828)
Other gains / (loss) – net	10	(7,166)	(3,840)
<b>Operating profit</b>		<b>48,380</b>	<b>60,615</b>
Finance costs – net	11	(23,962)	(26,853)
Share of profits in associates	16	783	-
<b>Profit before tax</b>		<b>25,201</b>	<b>33,762</b>
Income tax	12	(6,810)	(9,023)
<b>Net profit for the year</b>		<b>18,391</b>	<b>24,739</b>
<b>Other comprehensive income</b>			
Changes during the year		-	-
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income</b>		<b>18,390</b>	<b>24,739</b>
Earnings per share:			
- basic/diluted (in HRK)	13	626.55	862.65

The consolidated financial statements set out on pages 7 to 47 were approved by the Management Board of the Company in Zagreb on 8 March 2012.

  
Jasminko Herceg  
Member of the Management Board  
  
**Medika** d.d.  
ZAGREB Capraška

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

<i>(all amounts are expressed in thousands of HRK)</i>		As at 31 December	
		2011	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	14	166,756	172,600
Intangible assets	15	175,082	133,846
Investment in associates	16	17,709	17,267
Deferred tax asset	26	2,666	2,732
Trade and other receivables	18	792	2,024
		363,005	328,469
<b>Current assets</b>			
Inventories	19	213,788	243,230
Trade and other receivables	18	1,240,809	1,081,750
Income tax receivable		2,028	22
Cash and cash equivalents	20	40,579	31,265
		1,497,204	1,356,267
<b>Total assets</b>		<b>1,860,209</b>	<b>1,684,736</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	21	37,848	43,879
Reserves	22	67,278	62,730
Retained earnings	23	222,319	208,770
		327,445	315,379
<b>Non-current liabilities</b>			
Long-term borrowings	25	36,421	200,327
Deferred tax liability	26	15,134	10,650
Provisions	27	598	605
		52,153	211,582
<b>Current liabilities</b>			
Trade and other payables	24	1,119,807	1,043,534
Income tax liabilities		151	1,244
Short-term borrowings	25	359,179	110,791
Provisions	27	1,474	2,206
		1,480,611	1,157,775
<b>Total equity and liabilities</b>		<b>1,860,209</b>	<b>1,684,736</b>

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

<i>(all amounts are expressed in thousands of HRK)</i>	<b>Note</b>	<b>Share capital</b>	<b>Reserves</b>	<b>Retained earnings</b>	<b>Total</b>
<b>As at 1 January 2010</b>		<b>36,818</b>	<b>62,730</b>	<b>189,283</b>	<b>288,831</b>
<b>Total comprehensive income</b>					
Net profit for the year		-	-	24,739	24,739
Other comprehensive income		-	-	-	-
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>24,739</b>	<b>24,739</b>
<b>Transactions with owners recognized directly in equity</b>					
Release of treasury shares	21	1,995	-	-	1,995
Interim dividend	21, 23	5,066	-	(5,252)	(186)
<b>Transactions with owners recognized directly in equity</b>		<b>7,061</b>	<b>-</b>	<b>(5,252)</b>	<b>1,809</b>
<b>As at 31 December 2010</b>		<b>43,879</b>	<b>62,730</b>	<b>208,770</b>	<b>315,379</b>
<b>As at 1 January 2011</b>		<b>43,879</b>	<b>62,730</b>	<b>208,770</b>	<b>315,379</b>
<b>Total comprehensive income</b>					
Net profit for the year		-	-	18,391	18,391
Other comprehensive income		-	-	-	-
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>18,391</b>	<b>18,391</b>
<b>Transactions with owners recognized directly in equity</b>					
Release of treasury shares	21	1,995	-	-	1,995
Acquisition of own shares	21	(8,026)	-	-	(8,026)
Payment of dividends		-	-	(294)	(294)
Transfer to reserves	22	-	4,548	(4,548)	-
<b>Transactions with owners recognized directly in equity</b>		<b>(6,031)</b>	<b>4,548</b>	<b>4,842</b>	<b>(6,325)</b>
<b>As at 31 December 2011</b>		<b>37,848</b>	<b>67,278</b>	<b>222,319</b>	<b>327,445</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOW**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

<i>(all amounts expressed in thousands of HRK)</i>	<b>Note</b>	<b>2011</b>	<b>2010</b>
<b>Net profit</b>		<b>18,390</b>	<b>24,739</b>
<b>Adjustments for:</b>			
Income tax	12	6,810	9,023
Depreciation and amortisation	14, 15	17,774	18,946
Impairment of receivables	9	3,679	1,504
Inventory impairment	19	3,979	3,841
Unrealised foreign exchange differences		3,830	2,142
Change in provisions	27	(739)	849
Gains on sale of tangible assets	10	(434)	(392)
Impairment of intangible assets		6	1
Interest income		(409)	(2,796)
Interest expense	11	18,809	24,285
Expenses from bills of exchange discount	11	1,504	277
Share of (profit)/loss from associates	16	(783)	-
<b>Changes in working capital:</b>			
Inventories		27,101	(35,135)
Trade and other receivables		(155,885)	36,534
Trade and other payables		63,755	(9,668))
<b>Cash generated from operating activities</b>		<b>7,388</b>	<b>74,150</b>
Interest paid		(18,811)	(23,411)
Income tax paid		(9,483)	(10,552)
<b>Cash flows from operating activities</b>		<b>(21,336)</b>	<b>40,187</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	14	(3,404)	(6,970)
Proceeds from sale of property and equipment		581	773
Purchase of intangible assets	15	(1,478)	(19,956)
Acquisition of subsidiary, net of cash acquired	29	(38,722)	20
Proceeds from the repayment of loans given		5,412	3,812
Loans given		(1,588)	(3,014)
Interest received		409	2,770
Dividend received	16	341	289
<b>Cash flows from investing activities</b>		<b>(38,449)</b>	<b>(22,276)</b>

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

**MEDIKA d.d.**

**CONSOLIDATED STATEMENT OF CASH FLOW**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

<i>(all amounts expressed in thousands of HRK)</i>	<b>Note</b>	<b>2011</b>	<b>2010</b>
<b>Cash flows from financing activities</b>			
Acquisition of own shares		(8,026)	-
Repayment of borrowings		(164,819)	(254,654)
Proceeds from borrowings		244,896	220,585
Repayment of finance lease		(2,574)	(2,608)
Cash receipts from associates share in profits		(378)	(103)
<b>Cash flows from financing activities</b>		<b>69,099</b>	<b>(36,780)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>9,314</b>	<b>(18,869)</b>
Cash and cash equivalents at beginning of year		31,265	50,134
<b>Cash and cash equivalents at end of year</b>	<b>20</b>	<b>40,579</b>	<b>31,265</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 1 – GENERAL INFORMATION

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

The Group is comprised of the Company and the following subsidiaries and an associate in which the company has ownership interests as follows:

	2011	2010
- Zdravstvena ustanova Ljekarne Prima Pharme, Split	100%	100%
- Zdravstvena ustanova Ljekarne Delonga, Okrug Gornji (from May 2007)	100%	100%
- Ljekarna Ines Buhač, Zagreb (acquired in March 2011)	-	100%
- Ljekarna Mladenka Čobanov, Šibenik (acquired in August 2011)	-	100%
- Zdravstvena ustanova ljekarne Ines Škoko, Požega (from March 2011)	100%	-
- Ljekarna Dragica Blagus-Vičanović, Strahoninec (from May 2011)	100%	-
- Zdravstvena ustanova ljekarne Atalić, Osijek (from June 2011)	100%	-
- Zdravstvena ustanova Ljekarne Jagatić, Zagreb (from November 2008)	49%	49%
- Primus nekretnine d.o.o. (established in 2009)	100%	100%

As at 31 December 2011, the Company’s shares were listed on the official market on the Zagreb Stock Exchange. The shareholder structure is shown in note 21.

### 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

Consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). Consolidated 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 consolidated 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 Group’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.

#### 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 2011, 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 Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.2 Consolidation**

*(a) Subsidiaries*

Subsidiaries are all entities over which the Group 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 Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Inter-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated, but considered if an impairment indicator of the asset transferred exists. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

*(b) Associates*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. In Group's financial statements, these investments are stated using expense method.

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

Unrealized gains on transactions between the group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

**2.3 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 Foreign currencies**

*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated 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 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.

**2.5 Property and equipment**

Property and equipment is included in the statement of financial position at historical cost less accumulated depreciation.

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 Group 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 Group 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 Group 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.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 Property and equipment (continued)**

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.

**2.6 Intangible assets**

*(a) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group'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 Group 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 pharmaceutical service licences are capitalised by the amount for which future economic benefits are expected. These licences are amortized over their estimated useful life of 5 to an infinite lifetime. Recoverable amount is estimated on an annual basis.

*(c) Software*

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).

*(d) Other rights*

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 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 other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**2.8 Financial assets**

The Group 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 measured at amortised cost using effective interest rate method.

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

**2.9 Leases**

The Group leases certain property and equipment. Leases of property, plant and equipment, where the Group 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, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life or the lease term.

Leases where the significant portion of risks and rewards of ownership are not transferred to the Group 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.10 Inventories**

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs attributable to the purchase of goods and is calculated based on the 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 Group 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.

**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 receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of 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 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.

When 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

**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 asset and liability 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 Group 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 Group does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any other post-employment benefits.

*(b) Long-term employee benefits*

The Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.17 Employee benefits (continued)**

*(c) Short-term employee benefits*

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

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

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

**2.18 Provisions**

Provisions for costs are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

Provisions are measured at the present value of the expenditures 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 Group's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

The Group 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 Group's activities as described below.

*(a) Sale of goods*

Income from the wholesale of goods is recognised when the Group 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.19 Revenue recognition (continued)**

*(a) Sale of goods (continued)*

Income from the retail sales of goods is recognised when the Group sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in other operating expenses.

*(b) Sale 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, given loans and interest from customers is recognised in the period when collected.

**2.20 Finance expenses**

Finance expenses comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets and foreign currency 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 Earnings per share**

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

**2.24 Comparative information**

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and equity securities risk) credit risk and liquidity risk. The Group 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 Group's Finance department.

*(a) Market risk*

*(i) Foreign exchange risk*

The Group's sales are predominantly realised on the domestic market in Croatian kuna (HRK). Commercial bills have been issued in HRK and therefore, there is no foreign exchange risk exposure in relation to the above stated. However, the Group's purchase of goods is predominantly realised on the foreign market. Furthermore, a part of the long-term borrowings is linked to foreign currencies. The Group 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 Group does not use derivative instruments to actively hedge foreign exchange risk exposure.

As at 31 December 2011, if the EURO had weakened/strengthened by 1.35% against the HRK (2010: 1.14%), with all other variables held constant, the profit after tax for the reporting period would have been HRK 5,889 thousand higher/lower (2010: 4,848 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 Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from issued bonds and commercial bills and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

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

As at 31 December 2011, if the effective interest rate on borrowings (issued at variable rate) had been 1.32% higher/lower on an annual level (2010: 0.22%), the profit after tax for the reporting period would have been HRK thousand lower/higher by HRK 3,712 thousand (2010: 353 thousand).

*(iii) Equity securities risk*

The Group does not have any equity securities and therefore it is not exposed to this financial risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Group's exposure to credit risk is influenced mainly by current assets which comprise cash, trade and other receivables. The Group does not have a significant concentration of credit risk. Group's sales policies ensure that sale is done towards customers with adequate credit history. As for the credit exposure, customers are divided 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. The majority of receivables are either financially dependent or owned by the State causing the Group, from perspective of credit risk exposure, also to be dependent on the State. Other customers are not significant because of dispersion on large number of customers, individually small balances and Group's strict measures of collection of outstanding debts and delivery of goods. The Group insures part of the trade receivables by bills of exchange and promissory notes. Detailed credit risk analysis is shown under notes 17 and 18.

(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 Group 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 Group'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. The majority of debtors are either financially dependent or owned by the State so the Group is also dependent on the State on the liquidity risk side.

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

<i>(in thousands of HRK)</i>	<b>Less than 1 year</b>	<b>Between 1-3 years</b>	<b>Over 3 years</b>	<b>Total</b>
<b>31 December 2011</b>				
Trade and other payables	1,119,807	-	-	1,119,807
Borrowings	371,099	36,165	-	407,264
<i>(in thousands of HRK)</i>	<b>Less than 1 year</b>	<b>Between 1-3 years</b>	<b>Over 3 years</b>	<b>Total</b>
<b>31 December 2010</b>				
Trade and other payables	1,043,534	-	-	1,043,534
Borrowings	125,791	198,391	11,836	336,018

During 2012, the Group will settle trade and other liabilities according to the collection of receivables which depends on liquidity of the whole healthcare system. The Company is currently involved in negotiations with local banks regarding the refinancing of current debt to noncurrent.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

**3.2 Capital risk management**

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

The Group monitors its capital using gearing ratios in consolidated financial statements, according to the covenants relevant to issued bonds.

The Group monitors its capital using gearing ratios, the most significant of which is the self-financing ratio, which should not move below the threshold of 15%. This ratio is calculated as the proportion of total equity and total assets.

The self-financing ratio is as follows:

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Total equity (capital and reserves)	327,445	315,379
Total assets	<u>1,860,209</u>	<u>1,684,736</u>
<b>Self-financing ratio</b>	<u>18%</u>	<u>19%</u>

In 2011, the ratio has decreased in comparison to 2010 showing that 18% of the Group's total assets are financed from own resources. In accordance with the stated, 82% 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 Group 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 Group 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 Group for similar financial instruments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

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**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 Group 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 annual effective interest rate of 5.73 % (2010: 5.91 %). Should actual collections be less than management estimates, the Group would be required to record additional impairment expense.

As at 31 December 2011, 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 1,888 thousand higher/lower than the one recorded (2010: HRK 4,270 thousand), i.e., the effect in the hospital segment would be HRK 1,485 thousand (2010: HRK 3,921 thousand), in the pharmacy segment HRK 112 thousand (2010: HRK 13 thousand) and in the segment 'other' HRK 291 thousand (2010: HRK 336 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 5 - REVENUES

	2011	2010
	<i>(in thousands of HRK)</i>	
Revenues	2,161,585	2,047,623
Other income	10,770	10,013
	<b>2,172,355</b>	<b>2,057,636</b>

NOTE 6 – BUSINESS SEGMENT INFORMATION

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

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

The wholesale distribution channel consists of:

1. Pharmacies, which are for the purpose of reporting, divided into following categories:

- county pharmacies
- private pharmacies

The Group operates with approximately 440 pharmacies and health institutions.

2. Hospitals, which are by the Regulation on conditions for the classification of hospitals (passed as a part of health system reform started in 2011), divided into following categories:

- national hospitals
- county hospitals with regional significance
- county hospitals
- local hospitals

3. Other customers divided into:

- dental practices
- veterinary clinics
- medical centres
- pharmacy wholesalers
- other customers (herbal pharmacies, companies, etc.)

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

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

Transactions between segments do not exist. The Company and The Group apply the same accounting policies for all segments.

Transactions between Group members are measured at market prices.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**

**NOTE 6 – BUSINESS SEGMENT INFORMATION (continued)**

The results of the stated segments for the year ended 31 December 2011 are as follows:

<i>(in thousands of HRK)</i>	<b>Wholesale</b>			<b>Retail</b>	<b>Total</b>
	<b>Pharmacies</b>	<b>Hospitals</b>	<b>Other</b>	<b>Self-owned pharmacies</b>	
Revenue from sales	1,050,954	533,366	263,944	299,486	2,147,750
Other revenue	-	-	8,530	2,195	10,725
Revenue from sales and other revenue from related parties	13,835	-	45	-	13,880
<b>Total revenues</b>	<b>1,064,789</b>	<b>533,366</b>	<b>272,519</b>	<b>301,681</b>	<b>2,172,355</b>
Cost of trade goods sold	(977,948)	(483,395)	(236,272)	(231,647)	(1,929,262)
<b>Segment results</b>	<b>86,841</b>	<b>49,971</b>	<b>36,247</b>	<b>70,034</b>	<b>243,093</b>
Operating expenses					(194,713)
<b>Operating profit</b>					<b>48,380</b>
Finance costs- net					(23,962)
Share of profit from associates					783
<b>Profit before tax</b>					<b>25,201</b>
Income tax					(6,810)
<b>Profit for the year</b>					<b>18,391</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 6 – BUSINESS SEGMENT INFORMATION (continued)

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

(in thousands of HRK)	Wholesale			Retail	Total
	Pharmacies	Hospitals	Other	Self-owned pharmacies	
Revenue from sales	1,206,976	454,721	111,506	263,086	2,036,289
Other revenue	-	-	8,648	1,164	9,812
Revenue from sales and other revenue from related parties	11,334	-	201	-	11,535
<b>Total revenues</b>	<b>1,218,310</b>	<b>454,721</b>	<b>120,355</b>	<b>264,250</b>	<b>2,057,636</b>
Cost of trade goods sold	(1,114,199)	(399,862)	(93,507)	(203,671)	(1,811,239)
<b>Segment results</b>	<b>104,111</b>	<b>54,859</b>	<b>26,848</b>	<b>60,579</b>	<b>246,397</b>
Operating expenses					(185,782)
<b>Operating profit</b>					<b>60,615</b>
Finance costs- net					(26,853)
Share of profit from associates					-
<b>Profit before tax</b>					<b>33,762</b>
Income tax					(9,023)
<b>Profit for the year</b>					<b>24,739</b>

The segment trade receivables at 31 December 2011 are as follows:

(in thousands of HRK)	Wholesale			Retail	Total
	Pharmacies	Hospitals	Other	Self-owned pharmacies	
Trade receivables (note 18 /ii/)	501,764	538,912	94,354	100,256	1,235,286

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

(in thousands of HRK)	Wholesale			Retail	Total
	Pharmacies	Hospitals	Other	Self-owned pharmacies	
Trade receivables (note 18 /ii/)	428,634	444,684	122,727	73,847	1,069,892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 7 – STAFF COSTS

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Net salaries	51,097	47,521
Tax and surtax	15,975	9,837
Contributions from and on salaries /i/	21,349	26,087
Termination benefits	332	1,225
Employee transportation costs	2,875	1,696
Other employee benefits /ii/	3,509	2,914
Bonuses	4,262	3,015
	<u>99,399</u>	<u>92,295</u>

As at 31 December 2011, the Group had 697 employees (2010: 635 employees).

/i/ In 2011, pension contributions calculated by the Group for payment to mandatory pension funds amounted to HRK 14,801 thousand (2010: HRK 13,989 thousand).

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

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Entertainment	4,025	7,536
Marketing	1,604	1,708
Donations	4,721	3,906
	<u>10,350</u>	<u>13,150</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 9 – OTHER OPERATING EXPENSES

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Impairment of trade receivables (note 18/ii/)	3,679	1,504
Maintenance of assets, security services and insurance	11,163	11,569
Materials and energy consumed	11,812	10,911
Rental expenses	9,831	7,598
Taxes and contributions irrespective of results	5,956	4,290
Professional training and consultancy services	5,137	5,251
Bank charges and payment transaction costs	3,184	3,107
Telephone, postal and utility services	2,241	3,830
Provisions for legal disputes	-	1,553
Other expenses	7,021	7,938
	<u>60,024</u>	<u>57,551</u>

NOTE 10 – OTHER GAINS / (LOSSES) – NET

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Gains on sale of tangible assets (net)	434	392
Net foreign exchange losses	(7,600)	(4,232)
	<u>(7,166)</u>	<u>(3,840)</u>

NOTE 11 – FINANCE COSTS - NET

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
<b>Interest expense:</b>		
Bank borrowings and finance lease	(18,809)	(21,099)
Commercial bills issued	-	(3,186)
Bills of exchange expense	(1,504)	(277)
	<u>(20,313)</u>	<u>(24,562)</u>
<b>Foreign exchange gains / (losses) – net</b>		
Foreign exchange gains	2,364	7,631
Foreign exchange losses	(6,013)	(9,922)
	<u>(3,649)</u>	<u>(2,291)</u>
	<u>(23,962)</u>	<u>(26,853)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 12 – INCOME TAX

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Current tax	6,744	8,576
Deferred tax (note 26)	<u>66</u>	<u>447</u>
	<u>6,810</u>	<u>9,023</u>

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
<b>Profit before taxation</b>	<b>25,201</b>	<b>33,762</b>
Income tax (20%)	5,040	6,751
Income non assessable and tax incentives	(152)	(108)
Expenses not deductible	1,707	2,386
Losses not recognized as deferred tax asset	227	-
Unrecognised losses utilised	<u>(12)</u>	<u>(6)</u>
Income tax	<u>6,810</u>	<u>9,023</u>
Effective tax rate	<u>27.02%</u>	<u>26.73%</u>

In accordance with local regulations, the Tax Authority may at any time inspect the Group'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 Group's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTE 13 – EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit of the Group by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares. Average number of shares in amount of 29,353 is the result of releasing treasury shares in June 2011 and acquiring treasury shares in August and October 2011.

	<u>2011</u>	<u>2010</u>
Net profit attributable to shareholders <i>(in thousands of HRK)</i>	18,391	24,739
Weighted average number of ordinary shares excluding treasury shares	<u>29,353</u>	<u>28,678</u>
<b>Basic/diluted earnings per share <i>(in HRK)</i></b>	<u><b>626.55</b></u>	<u><b>862.65</b></u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 14 – PROPERTY AND EQUIPMENT

(all amounts are expressed in thousands of HRK)

	Land	Buildings	Equipment	Assets under construction	Total
<b>As at 31 December 2009</b>					
Cost	16,516	176,211	96,949	2,814	292,490
Accumulated depreciation	-	(41,559)	(77,565)	-	(119,124)
<b>Net book amount</b>	<b>16,516</b>	<b>134,652</b>	<b>19,384</b>	<b>2,814</b>	<b>173,366</b>
<b>For year ended 31 December 2010</b>					
Opening net book amount	16,516	134,652	19,384	2,814	173,366
Additions	-	-	1,573	10,659	12,232
Acquisition of subsidiary (note 29)	-	-	10	-	10
Transfer	-	1,174	9,105	(10,279)	-
Transfer from assets under construction	-	(300)	300	-	-
Disposals	-	-	(381)	-	(381)
Depreciation	-	(4,409)	(8,218)	-	(12,627)
Closing net book amount	16,516	131,117	21,773	3,194	172,600
<b>As at 31 December 2010</b>					
Cost	16,516	177,085	107,556	3,194	304,351
Accumulated depreciation	-	(45,968)	(85,783)	-	(131,751)
<b>Net book amount</b>	<b>16,516</b>	<b>131,117</b>	<b>21,773</b>	<b>3,194</b>	<b>172,600</b>
<b>For year ended 31 December 2011</b>					
Opening net book amount	16,516	131,117	21,773	3,194	172,600
Additions	-	19	1,822	4,060	5,901
Acquisition of subsidiary (note 29)	-	-	62	-	62
Transfer	-	-	-	-	-
Transfer from assets under construction	-	108	4,384	(4,492)	(147)
Disposals	-	-	(135)	(12)	-
Depreciation	-	(4,277)	(7,383)	-	(11,660)
Closing net book amount	16,516	126,967	20,523	2,750	166,756
<b>As at 31 December 2011</b>					
Cost	16,516	177,212	113,689	2,750	310,167
Accumulated depreciation	-	(50,245)	(93,166)	-	(143,411)
<b>Net book amount</b>	<b>16,516</b>	<b>126,967</b>	<b>20,523</b>	<b>2,750</b>	<b>166,756</b>

Revolving loans and finance lease liabilities (note 25) have been secured by pledges over tangible fixed assets with a net book value of HRK 135,152 thousand as at 31 December 2011 (2010: HRK 136,254 thousand).

Delivery and personal vehicles under finance lease are as follows:

	2011	2010
	(in thousands of HRK)	
Cost – capitalised finance lease	10,931	9,391
Accumulated depreciation	(5,387)	(3,941)
<b>Net book amount</b>	<b>5,544</b>	<b>5,450</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 15 – INTANGIBLE ASSETS

<i>(all amounts are expressed in thousands of HRK)</i>	<b>Goodwill</b>	<b>Licences, software and other rights</b>	<b>Asset under construction</b>	<b>Total</b>
<b>As at 31 December 2009</b>				
Cost	33,730	106,224	61	140,015
Accumulated amortisation	-	(23,464)	-	(23,464)
<b>Net book amount</b>	<b>33,730</b>	<b>82,760</b>	<b>61</b>	<b>116,551</b>
<b>For the year ended 31 December 2010</b>				
Opening net book amount	33,730	82,760	61	116,551
Acquisition of subsidiary (note 29)	1,951	1,708	-	3,659
Additions	2,383	17,184	389	19,956
Transfers	-	300	(300)	-
Disposals	-	(1)	-	(1)
Amortisation	-	(6,319)	-	(6,319)
Closing net book amount	38,064	95,632	150	133,846
<b>As at 31 December 2010</b>				
Cost	38,064	125,284	150	163,498
Accumulated amortisation and impairment	-	(29,652)	-	(29,652)
<b>Net book amount</b>	<b>38,064</b>	<b>95,632</b>	<b>150</b>	<b>133,846</b>
<b>For the year ended 31 December 2011</b>				
Opening net book amount	38,064	95,632	150	133,846
Acquisition of subsidiary (note 29)	23,309	22,569	-	45,878
Additions	-	1,316	162	1,478
Transfer	-	193	(193)	-
Disposal	-	(6)	-	(6)
Amortisation	-	(6,114)	-	(6,114)
Closing net book amount	61,373	113,590	119	175,082
<b>At 31 December 2011</b>				
Cost	61,373	149,356	119	210,848
Accumulated amortisation and impairment	-	(35,766)	-	(35,766)
<b>Net book amount</b>	<b>61,373</b>	<b>113,590</b>	<b>119</b>	<b>175,082</b>

Increase in the value of goodwill is the result of change in purchase prices of pharmacies as stated in the annexes of the contracts signed in 2010 with regard to original contracts signed in the previous period.

**Goodwill impairment test**

The Group calculated recoverable amount using value-in-use method. Value-in-use cash flow projections were based on 5 year business plan approved by management. Discount rates of 7.83%, growth rate from 1%-9% and income tax rate of 20% were applied when discounting projected cash flow. Recoverable amount exceeds carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 16 – INVESTMENTS IN ASSOCIATES

The Group holds 49% share in the associate Zdravstvena ustanova Ljekarne Jagatić, which was acquired during 2008.

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
As at 1 January	17,267	17,556
Receipts from associate	(341)	(289)
Gain / (loss) realized after the acquisition date	<u>783</u>	<u>-</u>
<b>As at 31 December</b>	<b><u>17,709</u></b>	<b><u>17,267</u></b>

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

	<u>2011.</u>	<u>2010.</u>
	<i>(in thousands of HRK)</i>	
Assets	18,066	14,671
Liabilities	16,300	13,281
Revenue	45,216	37,869
Gain / (loss) – net	<u>916</u>	<u>682</u>

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
<b>Financial assets- category: Loans given and receivables</b>		
Loans given and receivables (note 18/v/)	1,237,034	1,077,400
Cash and cash equivalents (note 20)	<u>40,579</u>	<u>31,265</u>
	<b><u>1,277,613</u></b>	<b><u>1,108,665</u></b>
	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
<b>Financial liabilities - Category: Other liabilities</b>		
Trade payables (note 24)	1,099,966	1,025,174
Other liabilities (note 24)	19,841	18,360
Long-term debt (note 25)	<u>395,600</u>	<u>311,118</u>
	<b><u>1,515,407</u></b>	<b><u>1,354,652</u></b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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:

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Hospitals	210,173	244,887
Pharmacies	164,762	217,460
HZZO	213,449	49,684
Other	39,308	36,832
<b>At 31 December</b>	<b>627,692</b>	<b>548,863</b>

NOTE 18 – TRADE AND OTHER RECEIVABLES

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
<b>Non-current receivables:</b>		
Loans given /i/	792	2,024
<b>Current receivables:</b>		
Trade receivables /ii/	1,235,286	1,069,892
Other current receivables /iii/	4,567	6,374
Loans given /i/,/iv/	521	3,545
Loans given-current maturity of non-current receivables /i/	435	1,939
	<u>1,240,809</u>	<u>1,081,750</u>
	<b>1,241,601</b>	<b>1,083,774</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	<u>Effective interest rate</u>	<u>2011</u>	<u>2010</u>
<i>(in thousands of HRK)</i>			
Loans given to pharmacies	2.39%	641	3,761
Loans given to associations	6.67%	-	3
Other		586	199
Total non-current receivables, including current portion		1,227	3,963
Current portion of non-current receivables		(435)	(1,939)
<b>Total non-current receivables</b>		<b>792</b>	<b>2,024</b>

The maturity of long-term loans is as follows:

	<u>2011</u>	<u>2010</u>
<i>(in thousands of HRK)</i>		
Between 1 and 2 years	100	2,024
Between 2 and 5 years	692	-
	<b>792</b>	<b>2,024</b>

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

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

	<u>2011</u>	<u>2010</u>
<i>(in thousands of HRK)</i>		
Domestic trade receivables	1,248,327	1,081,782
Foreign trade receivables	2,610	2,664
Trade receivables – related parties (note 31)	13,880	11,535
	1,264,817	1,095,981
Impairment of trade receivables	(29,531)	(26,089)
	<b>1,235,286</b>	<b>1,069,892</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

The ageing structure of receivables past due is as follows:

	<b>2011</b>	<b>2010</b>
	<i>(in thousands of HRK)</i>	
0-180 days	415,166	350,459
181-360 days	97,761	84,775
Over 360 days	124,198	111,884
	<b>637,125</b>	<b>547,118</b>

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

	<b>2011</b>	<b>2010</b>
	<i>(in thousands of HRK)</i>	
As at 1 January	26,089	26,599
Increase (note 9)	3,679	1,504
Written off	(237)	(2,014)
<b>As at 31 December</b>	<b>29,531</b>	<b>26,089</b>

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

	<b>2011</b>	<b>2010</b>
	<i>(in thousands of HRK)</i>	
HRK	1,328,703	1,080,403
EUR	2,898	3,371
	<b>1,241,601</b>	<b>1,083,774</b>

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

	<b>2011</b>	<b>2010</b>
	<i>(in thousands of HRK)</i>	
VAT receivable	2,429	4,640
Prepaid expenses	753	1,217
Other	1,385	517
	<b>4,567</b>	<b>6,374</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Loans given - other	1,090	4,114
	1,090	4,114
Impairment	(569)	(569)
	<u>521</u>	<u>3,545</u>

/v/ Financial assets by category include the following:

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Loans given	1,748	7,508
Trade receivables	1,235,286	1,069,892
	<u>1,237,034</u>	<u>1,077,400</u>

NOTE 19 – INVENTORIES

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Trade goods	183,385	198,928
Trade goods – related parties (note 31)	27,125	39,839
Advances given	2,878	3,992
Office supplies	400	471
	<u>213,788</u>	<u>243,230</u>

Inventories are stated at the lower of cost or net realisable sales value. At each reporting date, damaged and expired inventories are tested. With respect to differences identified, a provision is made for such inventories, which amounted to HRK 3,979 thousand in 2010 (2010: HRK 3,841 thousand) and which is included in cost of trade goods sold.

Inventory of HRK 30 million is used as security against a loan.

NOTE 20 – CASH AND CASH EQUIVALENTS

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Current account	40,458	31,054
Foreign currency account	53	165
Cash in hand and cheques	68	46
	<u>40,579</u>	<u>31,265</u>

Cash on HRK and foreign currency accounts are held with business banks in Croatia. Cash includes cheques with maturity less than three months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 21 – SHARE CAPITAL

As at 31 December 2011, Company's share capital amounts to HRK 60,388,000, and it is distributed among 30,194 shares. The nominal value per share is HRK 2,000. All issued shares are fully paid.

	Number of shares ( in number of shares)	Share capital	Treasury shares (in thousands of HRK)	Capital profit/ (loss)	Total
As at 1 January 2010	30,194	60,388	(27,971)	4,401	36,818
Release of treasury shares	-	-	4,536	(2,541)	1,995
Interim dividend	-	-	11,185	(6,119)	5,066
<b>As at 31 December 2010</b>	<b>30,194</b>	<b>60,388</b>	<b>(12,250)</b>	<b>(4,259)</b>	<b>43,879</b>
As at 1 January 2011	30,194	60,388	(12,250)	(4,259)	43,879
Release of treasury shares \i\	-	-	4,600	(2,605)	1,995
Acquisition of treasury shares \ii\	-	-	(8,026)	-	(8,026)
<b>As at 31 December 2011</b>	<b>30,194</b>	<b>60,388</b>	<b>(15,676)</b>	<b>(6,864)</b>	<b>37,848</b>

\i\ In June 2011, the Company granted 285 of its treasury shares to key management.

\ii\ During 2011, the Company redeemed a total of 1,110 of its shares.

The ownership structure of the Company is as follows:

	2011		2010	
	Number of shares	%	Number of shares	%
Mavota d.o.o.	14,306	47.38%	15,131	50.11%
Pliva Hrvatska d.o.o.	7,646	25.32%	7,460	24.71%
Krka d.d. Novo Mesto	3,614	11.97%	3,526	11.68%
Tresury shares \iii\	1,584	5.25%	1,050	3.48%
Domestic natural persons	1,575	5.22%	1,630	5.40%
Other businesses	1,469	4.86%	1,397	4.62%
<b>Total</b>	<b>30,194</b>	<b>100%</b>	<b>30,194</b>	<b>100%</b>

\iii\ As at 31 December 2010, the Company had 1,050 treasury shares of which 759 were owned by the Company, while 291 shares relate to the interim dividend for which the transfer of ownership had not yet been carried out. The transfer of ownership was carried out during 2011.

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

After a public takeover had been conducted, Mavota d.o.o. owned 14,503 shares and therefore became a parent company of Medika d.d. As at 31 December 2011 Mavota d.o.o. owned 14,306 shares, which represents 50% plus one share with voting rights.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 22 – RESERVES

<i>(in thousands of HRK)</i>	<b>Legal reserves</b>	<b>Reserves for treasury shares</b>	<b>Total</b>
<b>As at 31 December 2009</b>	<b>2,730</b>	<b>60,000</b>	<b>62,730</b>
Changes during the year	-	-	-
<b>As at 31 December 2010</b>	<b>2,730</b>	<b>60,000</b>	<b>62,730</b>
Changes during the year	4,548	-	4,548
<b>As at 31 December 2011</b>	<b>7,278</b>	<b>60,000</b>	<b>67,278</b>

Legal reserves amount to HRK 7,278 thousand. The legal reserve is required under Croatian law according to which the Company, as a Group member, 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 reach 5% of the share capital. Revaluation and legal reserves are not distributable.

In 2011, the Company allocated HRK 4,548 thousand to legal reserves in accordance with the decision of the General Assembly.

NOTE 23 – RETAINED EARNINGS

Other reserves in the amount of HRK 31,796 thousand (2010: 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. Related dividend per share amounted to HRK 182.75.

In July 2011, the Company paid out the dividend for 2010 in accordance with the decision of the General Assembly. The dividend per share was HRK 10.00.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 24 – TRADE AND OTHER PAYABLES

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Trade payables /i/	1,099,966	1,025,174
Other payables /ii/	19,841	18,360
	<u>1,119,807</u>	<u>1,043,534</u>

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Trade payables – domestic	492,443	461,643
Trade payables – foreign	478,510	409,860
Due to related parties (note 31)	129,013	153,671
	<u>1,099,966</u>	<u>1,025,174</u>

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
HRK	720,022	680,710
EUR	372,010	334,626
DKK	7,868	9,468
Other currencies	66	370
	<u>1,099,966</u>	<u>1,025,174</u>

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Gross salaries to employees	8,643	7,684
Liabilities for the purchase of subsidiaries (note 29)	2,610	5,666
Unused vacation days	2,413	1,756
Other taxes and contributions	238	127
VAT payable	1,955	227
Dividend payable	1	85
Other	3,981	2,815
	<u>19,841</u>	<u>18,360</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 25 – BORROWINGS

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
<b>Long-term borrowings:</b>		
Loans/i/	32,891	196,893
Finance lease /iii/	<u>3,530</u>	<u>3,434</u>
	36,421	200,327
 <b>Short-term borrowings:</b>		
Loans/ii/	357,056	108,607
Finance lease /iii/	<u>2,123</u>	<u>2,184</u>
	359,179	110,791
 <b>Total borrowings</b>	 <u><b>395,600</b></u>	 <u><b>311,118</b></u>

/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 five loans; one loan is denominated in EUR with maturity within two years and a variable interest rate and the other four loans are denominated in Croatian kuna (HRK), two of which bear fixed interest rate and the other two variable interest rate. All four 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. Some of them are denominated in Croatian kuna (HRK), while some of them are denominated in EUR. Loans have maturity ranging from two months to one year and bear variable interest rate.

/iii/ Long-term finance lease liabilities relate to the purchase of delivery and personal vehicles. Leases in 2011 were agreed at interest rates ranging from 4.45% to 4.48% (2010:5.29%-5.75%). 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 14). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 25 – BORROWINGS (continued)

The gross finance lease liability is as follows:

	<b>2011</b>	<b>2010</b>
	<i>(in thousands of HRK)</i>	
Up to one year	2,366	2,430
Between 1 and 5 years	3,697	3,672
Future financing costs	(410)	(484)
Net book value of finance lease liability	<b>5,653</b>	<b>5,618</b>

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

	<b>2011</b>	<b>2010</b>
	<i>(in thousands of HRK)</i>	
Up to one year	3,530	3,434
Between 1 and 5 years	2,123	2,184
	<b>5,653</b>	<b>5,618</b>

The maturity of long-term borrowings is as follows:

	<b>2011</b>	<b>2010</b>
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	21,064	189,073
Between 2 and 5 years	15,357	11,254
	<b>36,421</b>	<b>200,327</b>

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

	<b>2011</b>		<b>2010</b>	
	<b>HRK</b>	<b>EUR</b>	<b>HRK</b>	<b>EUR</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Long-term borrowings</b>				
Loans	3.80%-7.75%	5.67%	3.80%-5.70%	6.51%
Finance lease	-	4.67%-7.88%	-	5.29%-5.75%
<b>Short-term borrowings</b>				
Loans	4.95%-7.55%	4.85%-5.87%	4.95%-6.51%	5.01%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 25 – BORROWINGS (continued)

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

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
Up to 3 months	-	-
3 - 12 months	385,960	292,451
1 - 3 years	9,640	18,667
	<u>395,600</u>	<u>311,118</u>

Borrowing in the amount of HRK 9,640 thousand 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 amount of short-term borrowings approximates their fair value and the effect of discounting is not significant.

The carrying amount of the Group's borrowings was translated from the following currencies:

	<u>2011</u>	<u>2010</u>
	<i>(in thousands of HRK)</i>	
HRK	204,301	106,322
EUR	191,299	204,796
	<u>395,600</u>	<u>311,118</u>

Loans received are secured by mortgages over Group's buildings (note 14), inventories (note 19), bills of exchange and promissory notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 26 – DEFERRED INCOME TAX

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

Deferred tax asset

<i>(in thousands of HRK)</i>	<b>Inventory impairment</b>	<b>Impairment of trade receivables</b>	<b>Provision for employee benefits</b>	<b>Transfer of property in the Group</b>	<b>Total</b>
<b>As at 1 January 2010</b>	<b>569</b>	<b>216</b>	<b>592</b>	<b>1,802</b>	<b>3,179</b>
Tax charged to the income statement	-	(216)	(377)	-	(593)
Tax credited to the income statement	116	-	-	30	146
<b>As at 31 December 2010</b>	<b>685</b>	<b>-</b>	<b>215</b>	<b>1,832</b>	<b>2,732</b>
<b>As at 1 January 2011</b>	<b>685</b>	<b>-</b>	<b>215</b>	<b>1,832</b>	<b>2,732</b>
Tax charged to the income statement	(48)	-	-	(39)	(87)
Tax credited to the income statement	-	-	21	-	21
<b>As at 31 December 2011</b>	<b>637</b>	<b>-</b>	<b>236</b>	<b>1,793</b>	<b>2,666</b>

Deferred tax liability

<i>(in thousands of HRK)</i>	<b>Acquisition of subsidiary - licences</b>
<b>As at 1 January 2010</b>	<b>10,309</b>
Tax arising on acquisition of subsidiary	341
<b>As at 31 December 2010</b>	<b>10,650</b>
<b>As at 1 January 2011</b>	<b>10,650</b>
Tax arising on acquisition of subsidiary	4,484
<b>As at 31 December 2011</b>	<b>15,134</b>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 27 – PROVISIONS

<i>(in thousands of HRK)</i>	<b>Provision for employee benefits</b>	<b>Legal disputes</b>	<b>Total</b>
<b>As at 31 December 2010</b>	<b>774</b>	<b>2,037</b>	<b>2,811</b>
Non-current	605	-	605
Current	169	2,037	2,206
<b>As at 1 January 2011</b>	<b>774</b>	<b>2,037</b>	<b>2,811</b>
Additional provisions	160	-	160
Release of provision	-	-	-
Used during the year	(160)	(739)	(899)
<b>As at 31 December 2011</b>	<b>774</b>	<b>1,298</b>	<b>2,072</b>
Non-current	598	-	598
Current	176	1,298	1,474

*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 2011, the Company released provision for one legal dispute. On the basis of lawyer's and Management's estimation of probability of losing the dispute, the Company has not made additional provisions. During 2011, there were no additional legal disputes.

NOTE 28 – COMMITMENTS

The Group leases vehicles and business premises under non-cancellable operating lease agreements. The lease terms are between 1 and 6 years. The lease expenditure charge in the income statement during the year is disclosed in note 9.

The Company entered into several legal disputes, both as plaintiff and defendant. Based on 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 1,298 thousand (note 27).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NOTE 29 – ACQUISITION OF SUBSIDIARIES

Acquisition of Health Institutions

In 2011, the Group acquired 100% ownership over two health institutions and one pharmacy (2010: one pharmacy) for an amount of HRK 41,889 thousand (2010: HRK 3,142 thousand).

If the acquisition had occurred on 1 January, estimated revenue for the year ended 31 December 2011 would have been HRK 96 thousand higher (2010: HRK 15 thousand higher), while profit before taxation would have been HRK 120 thousand higher (2010: HRK 3 thousand higher) than stated. These amounts have been calculated using the Group's accounting policies. Details of the net book value of assets acquired and goodwill determined are as follows:

	31 December 2011	31 December 2010
	<i>(in thousands of HRK)</i>	
<b>Purchase consideration</b>	<b>41,889</b>	<b>3,142</b>
- Cash paid	39,279	-
- Liabilities for the purchase of subsidiaries	2,610	3,142
Fair value of assets acquired	(18,580)	(1,191)
<b>Goodwill (note 15)</b>	<b>23,309</b>	<b>1,951</b>

Fair value of acquired asset is as follows:

	2011	2010
	<i>(in thousands of HRK)</i>	
Intangible assets (note 15)	22,569	1,708
Property and equipment (note 14)	62	10
Inventory	1,638	329
Loans given	-	3,563
Trade receivables	9,417	995
Cash and cash equivalents	557	20
Non-current liabilities	-	-
Deferred tax liability (note 26)	(4,484)	(341)
Current liabilities	(11,179)	(5,093)
<b>Net assets acquired</b>	<b>18,580</b>	<b>1,191</b>
 Purchase consideration paid in cash	 39,279	 -
Cash and cash equivalents acquired	(557)	(20)
<b>Cash used in the acquisition</b>	<b>38,722</b>	<b>(20)</b>

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

The management of the Group identified and fair valued a pharmacy licence as the only form of intangible assets which arises during the acquisition of medical institutions/ pharmacies. The assets were fair valued at the acquisition date using net current value of cash flows from use of identified, tangible and intangible assets of the Group that can be directly attributed to them.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**NOTE 30 – SUBSEQUENT EVENTS**

There are no subsequent events that require financial statements adjustment or additional disclosures in financial statements.

**NOTE 31 – RELATED PARTY TRANSACTIONS**

During 2011, the Company redeemed treasury shares from Mavota d.o.o., the company with a majority of voting rights or the parent company. The acquisition cost amounted to HRK 6,031 thousand. In addition to these transactions, there were no other transactions with the parent company.

The Group enters into transactions with the associated company Zdravstvena ustanova Ljekarne Jagatić and related party Pliva Hrvatska d.o.o., Zagreb which has a 25.32% ownership interest in the Company. However, according to operating business transactions with the Group, it has a significant impact on the Group's current business operations.

Related party transactions relating to balances in the statement of financial position as at 31 December 2011 and 2010 and transactions in the income statement for years then ending are as follows:

<i>(in thousands of HRK)</i>	<b>Note</b>	<b>2011</b>	<b>2010</b>
<b>Trade receivables</b>			
Associated company		13,835	11,334
Pliva Hrvatska d.o.o., Zagreb		45	201
	18	13,880	11,535
<b>Inventories</b>			
Pliva Hrvatska d.o.o., Zagreb	19	27,125	39,839
<b>Trade payables</b>			
Pliva Hrvatska d.o.o., Zagreb	24	129,013	153,671
<b>Sales</b>			
Associated company		28,181	24,263
<b>Purchases</b>			
Pliva Hrvatska d.o.o., Zagreb		166,938	209,041
<b>Key management compensation - salaries and bonuses for five members (2010: salaries and bonuses for five members)</b>		7,337	7,186
<b>Supervisory Board compensation</b>		734	731

During 2011, the Company repurchased treasury shares from key management. The acquisition cost amounted to HRK 1,995 thousand.

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**APPENDIX 1: OTHER LEGAL AND REGULATORY REQUIREMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**

**CONSOLIDATED BALANCE SHEET**  
**As at 31.12.2011**

Name of position	AOP mark	Prior year	Current year
1	2	3	4
<b>ASSETS</b>			
<b>A) SHARE CAPITAL SUBSCRIBED BUT NOT PAID IN</b>	<b>001</b>		
<b>B) NON-CURRENT ASSETS (003+010+020+029+033)</b>	<b>002</b>	<b>328.468.502</b>	<b>363.198.101</b>
<b>I. INTANGIBLE ASSETS (004 to 009)</b>	<b>003</b>	<b>133.845.657</b>	<b>175.081.644</b>
1. Research and development	004		
2. Concessions, patents, licenses, trade marks, software and other rights	005	95.631.738	113.457.278
3. Goodwill	006	38.063.806	61.372.626
4. Advances for intangible assets	007		
5. Intangible assets under construction	008	150.113	118.094
6. Other intangible assets	009		133.646
<b>II. TANGIBLE ASSETS (011 to 019)</b>	<b>010</b>	<b>172.600.037</b>	<b>186.756.138</b>
1. Land	011	16.515.477	16.515.477
2. Buildings	012	131.117.126	126.967.274
3. Plant and equipment	013	7.742.665	7.058.733
4. Tools and vehicles	014	13.246.831	12.695.623
5. Biological assets	015		
6. Advances for tangible assets	016	84.780	24.379
7. Tangible assets under construction	017	3.097.407	2.724.179
8. Other tangible assets	018	795.751	770.473
9. Real estate investments	019		
<b>III. NON-CURRENT FINANCIAL ASSETS (021 to 028)</b>	<b>020</b>	<b>19.290.772</b>	<b>18.694.282</b>
1. Shares in related parties	021	17.267.223	17.709.261
2. Loans to related parties	022		
3. Participating interests	023		
4. Investments in securities	024		
5. Loans given, deposits and similar	025		
6. Treasury shares	026	2.023.549	985.021
7. Other non-current financial assets	027		
8. Investments in joint ventures	028		
<b>IV. RECEIVABLES (030 do 032)</b>	<b>029</b>	<b>0</b>	<b>0</b>
1. Receivables from related parties	030		
2. Credit sales receivables	031		
3. Other receivables	032		
<b>V. DEFERRED TAX ASSET</b>	<b>033</b>	<b>2.732.036</b>	<b>2.666.037</b>
<b>C) CURRENT ASSETS (035+043+050+058)</b>	<b>034</b>	<b>1.354.266.652</b>	<b>1.495.636.019</b>
<b>I. INVENTORY (036 do 042)</b>	<b>035</b>	<b>243.283.950</b>	<b>213.858.036</b>
1. Raw materials	036	471.517	400.456
2. Work-in-progress	037		
3. Finished goods	038		
4. Commercial goods	039	238.821.264	210.858.036
5. Advances for inventories	040	3.991.169	2.599.544
6. Other assets held for sale	041		
7. Biological assets	042		
<b>II. RECEIVABLES (044 do 049)</b>	<b>043</b>	<b>1.041.464.985</b>	<b>1.200.149.450</b>
1. Receivables from related parties	044	11.333.959	13.835.243
2. Trade receivables	045	1.019.981.026	1.177.734.997
3. Receivables from participating companies	046		
4. Receivables from employees and members	047	4.139.567	603.088
5. Receivables from state and other institutions	048	4.139.880	4.010.314
6. Other receivables	049	1.870.553	3.965.808
<b>III. CURRENT FINANCIAL ASSETS (051 do 057)</b>	<b>050</b>	<b>38.266.670</b>	<b>41.151.041</b>
1. Shares in related parties	051		
2. Loans given to related parties	052		
3. Participating interests	053		
4. Investments in securities	054		
5. Loans given, deposits and similar	055	36.096.257	39.361.523
6. Treasury shares	056	2.170.413	1.789.518
7. Other financial assets	057		
<b>IV. CASH AT BANK AND ON HAND</b>	<b>058</b>	<b>31.251.047</b>	<b>40.477.492</b>
<b>D) PREPAID EXPENSES AND ACCRUED INCOME</b>	<b>059</b>	<b>1.217.043</b>	<b>781.642</b>
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>	<b>1.683.952.197</b>	<b>1.859.615.762</b>
<b>F) OFF BALANCE SHEET ITEMS</b>	<b>061</b>	<b>124.975.856</b>	<b>152.322.674</b>

**APPENDIX 1: OTHER LEGAL AND REGULATORY REQUIREMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**CONSOLIDATED BALANCE SHEET**

**As at 31.12.2011**

Name of position	AOP mark	Prior year	Current year
1	2	3	4
<b>EQUITY AND LIABILITIES</b>			
<b>A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)</b>	<b>062</b>	315.376.800	327.443.355
I. SHARE CAPITAL	063	60.388.000	60.388.000
II. CAPITAL RESERVES	064	-4.258.313	-6.863.284
III. PROFIT RESERVES (066+067-068+069+070)	065	82.275.985	83.398.115
1. Legal reserves	066	2.729.945	7.277.713
2. Reserves for treasury shares	067	60.000.000	60.000.000
3. Treasury shares (excluding figure)	068	12.250.450	15.676.088
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	152.232.994	172.129.009
1. Retained earnings	073	152.232.994	172.129.009
2. Accumulated loss	074		
VI. PROFIT OR LOSS FOR THE YEAR	075	24.738.134	18.391.515
1. Profit for the year	076	24.738.134	18.391.515
2. Loss for the year	077		
VII. MINORITY INTEREST	078		
<b>B) PROVISIONS (080 to 082)</b>	<b>079</b>	605.321	420.100
1. Provisions for pensions, severances and similar liabilities	080	605.321	420.100
2. Provisions for tax liabilities	081		
3. Other provisions	082		
<b>C) LONG-TERM LIABILITIES (084 to 092)</b>	<b>083</b>	210.976.855	51.555.505
1. Liabilities towards related parties	084		
2. Liabilities for loans, deposits and similar	085		
3. Liabilities towards banks and other financial institutions	086	200.326.490	36.421.275
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	10.650.365	15.134.230
<b>D) CURRENT LIABILITIES (094 to 105)</b>	<b>093</b>	1.153.175.184	1.477.001.857
1. Liabilities to related parties	094		
2. Liabilities for loans, deposits and similar	095		
3. Liabilities towards banks and other financial institutions	096	92.771.459	325.097.796
4. Liabilities for advances received	097	1.867.125	651.356
5. Trade payables	098	984.558.130	1.077.638.037
6. Liabilities for securities	099	35.482.060	38.010.000
7. Liabilities to companies with participating interests	100		
8. Liabilities to employees	101	7.592.790	9.436.040
9. Liabilities for taxes and contributions	102	4.701.840	6.029.089
10. Liabilities arising from share of result	103	84.977	1.034
11. Liabilities arising from non-current assets held for sale	104		
12. Other current liabilities	105	26.116.803	20.138.505
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>106</b>	3.818.037	3.194.945
<b>F) TOTAL - EQUITY AND LIABILITIES (063+079+083+093+106)</b>	<b>107</b>	1.683.952.197	1.859.615.762
<b>G) OFF BALANCE SHEET ITEMS</b>	<b>108</b>	127.975.856	152.322.674



**APPENDIX 1: OTHER LEGAL AND REGULATORY REQUIREMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**

CONSOLIDATED INCOME STATEMENT For the period from 1.1.2011 to 31.12.2011			
Name of position	AOP mark	Prior year	Current year
1	2	3	4
<b>I. OPERATING INCOME (112+113)</b>	<b>111</b>	<b>2.073.512.313</b>	<b>2.185.564.050</b>
1. Revenue from sales	112	2.048.249.491	2.162.199.457
2. Other operating income	113	25.262.822	23.364.593
<b>II. OPERATING EXPENSE (115+116+120+124+125+126+129+130)</b>	<b>114</b>	<b>2.012.246.266</b>	<b>2.129.500.084</b>
1. Change in value of work-in-progress and finished goods	115		
2. Material expenses (117 do 119)	116	1.849.068.163	1.969.853.207
a) Raw materials	117	10.958.160	11.812.087
b) Cost of goods sold	118	1.807.362.975	1.925.560.294
c) Other external expenses	119	30.747.028	32.480.826
3. Employee expenses (121 do 123)	120	83.445.620	88.420.422
a) Salaries and wages	121	47.521.525	51.096.702
b) Taxes and contributions from salaries	122	23.763.541	24.438.952
c) Contributions on salary	123	12.160.554	12.884.768
4. Amortisation and depreciation	124	18.946.125	17.773.673
5. Other expenses	125	40.929.984	39.786.092
6. Impairment (127+128)	126	18.126.504	13.632.133
a) of long-term assets (except for financial assets)	127		
b) of current assets (except for financial assets)	128	18.126.504	13.632.133
7. Provisions	129	1.729.870	34.557
8. Other operating expenses	130		
<b>III. FINANCIAL INCOME (132 do 136)</b>	<b>131</b>	<b>14.169.089</b>	<b>4.193.924</b>
1. Interest, foreign exchange gains, dividends and similar income from related parties	132		782.987
2. Interest, foreign exchange gains, dividends and similar income from third and other	133	14.169.089	3.410.937
3. Income from joint ventures and participating interests	134		
4. Unrealized gains (Income)	135		
5. Other financial income	136		
<b>IV. FINANCIAL EXPENSE (138 do 141)</b>	<b>137</b>	<b>41.673.620</b>	<b>35.056.426</b>
1. Interest, foreign exchange losses and other related party expenses	138		
2. Interest, foreign exchange losses and other expenses from third and other parties	139	41.673.620	35.056.426
3. Unrealized gains (losses) on financial assets	140		
4. Other financial expense	141		
<b>V. SHARE OF PROFIT FROM ASSOCIATED COMPANIES</b>	<b>142</b>		
<b>VI. SHARE OF LOSS OF ASSOCIATED COMPANIES</b>	<b>143</b>		
<b>VII. EXTRAORDINARY- OTHER INCOME</b>	<b>144</b>		
<b>VIII. EXTRAORDINARY- OTHER LOSSES</b>	<b>145</b>		
<b>VII. TOTAL INCOME (111+131+142 + 144)</b>	<b>146</b>	<b>2.087.681.402</b>	<b>2.189.757.974</b>
<b>VIII. TOTAL EXPENSES (114+137+143 + 145)</b>	<b>147</b>	<b>2.053.919.886</b>	<b>2.164.556.510</b>
<b>XI. PROFIT OR LOSS BEFORE TAX (146-147)</b>	<b>148</b>	<b>33.761.516</b>	<b>25.201.464</b>
1. Profit before tax (146-147)	149	33.761.516	25.201.464
2. Loss before tax (147-146)	150	0	0
<b>XII. INCOME TAX</b>	<b>151</b>	<b>9.023.382</b>	<b>6.809.949</b>
<b>XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	<b>152</b>	<b>24.738.134</b>	<b>18.391.515</b>
1. Profit for the year (149-151)	153	24.738.134	18.391.515
2. Loss for the year (151-148)	154	0	0

APPENDIX 1: OTHER LEGAL AND REGULATORY REQUIREMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

CONSOLIDATED STATEMENT OF CASH FLOW - Indirect method  
For the period from 1.1.2011 to 31.12.2011

Name of position	AOP mark	Prior year	Current year
1	2	3	4
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
1. Profit before tax	001	33.761.516	25.201.464
2. Amortization and depreciation	002	18.946.125	17.773.673
3. Increase in current liabilities	003		88.972.396
4. Decrease in current receivables	004	65.207.008	
5. Decrease in inventories	005		29.425.914
6. Other cash inflows	006		
<b>I. Total cash inflows from operating activities (001 to 006)</b>	<b>007</b>	<b>117.914.649</b>	<b>181.373.447</b>
1. Decrease in current liabilities	008	13.938.900	
2. Increase in current receivables	009		158.684.465
3. Increase in inventories	010	31.585.295	
4. Other cash outflows	011	31.618.105	24.025.821
<b>II. Total cash outflows from operating activities (008 to 011)</b>	<b>012</b>	<b>77.142.300</b>	<b>182.710.286</b>
<b>A1) NET CASH INFLOWS FROM OPERATING ACTIVITIES</b>	<b>013</b>	<b>40.772.349</b>	<b>0</b>
<b>A2) NET CASH OUTFLOWS FROM OPERATING ACTIVITIES</b>	<b>014</b>	<b>0</b>	<b>21.336.839</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>			
1. Cash receipts from the sale of tangible and intangible assets	015	702.863	581.405
2. Cash receipts from sale of equity and debt instruments	016		
3. Cash receipts from interest	017	2.732.948	409.325
4. Cash receipts from dividends	018		
5. Other cash receipts	019	3.923.136	4.164.325
<b>III. Total cash receipts from investment activities (015 to 019)</b>	<b>020</b>	<b>7.358.947</b>	<b>5.155.055</b>
1. Cash outflows from the purchase of tangible and intangible assets	021	26.926.450	4.882.328
2. Cash outflow for acquiring equity and debt instruments	022		
3. Other cash outflows	023	3.013.856	38.722.325
<b>IV. Total cash outflows from investment activities (021 up to 023)</b>	<b>024</b>	<b>29.940.306</b>	<b>43.604.653</b>
<b>B1) NET CASH INFLOWS FROM INVESTMENT ACTIVITIES</b>	<b>025</b>	<b>0</b>	<b>0</b>
<b>B1) NET CASH OUTFLOWS FROM INVESTMENT ACTIVITIES</b>	<b>026</b>	<b>22.581.359</b>	<b>38.449.598</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
1. Cash receipts from issuing equity and debt instruments	027		
2. Cash inflow from loans, bonds and other borrowings	028	220.585.345	244.896.328
3. Other cash inflows from financing activities	029		
<b>V. Total cash inflow from financing activities (027 to 029)</b>	<b>030</b>	<b>220.585.345</b>	<b>244.896.328</b>
1. Cash outflow for the repayment of principal of loans and bonds	031	254.652.602	164.819.425
2. Cash outflow for dividend payout	032	103.068	377.013
3. Cash outflow for the repayment of finance lease	033	2.607.665	2.574.000
4. Cash outflow for redemption of own shares	034		8.025.610
5. Ostali novčani izdaci od finansijskih aktivnosti	035		87.398
<b>VI. Total cash outflow from financing activities (031 to 035)</b>	<b>036</b>	<b>257.363.335</b>	<b>175.883.446</b>
<b>C1) NET CASH INFLOWS FROM FINANCING ACTIVITIES</b>	<b>037</b>	<b>0</b>	<b>69.012.882</b>
<b>C2) NET CASH OUTFLOWS FROM FINANCING ACTIVITIES</b>	<b>038</b>	<b>36.777.990</b>	<b>0</b>
<b>Total cash increase (013 - 014 + 025 - 026 + 037 - 038)</b>	<b>039</b>	<b>0</b>	<b>9.226.445</b>
<b>Total cash decrease (014 - 013 + 026 - 025 + 038 - 037)</b>	<b>040</b>	<b>18.587.000</b>	<b>0</b>
Cash and cash equivalents at beginning of period	041	49.838.047	31.251.047
Increase in cash and cash equivalents	042		9.226.445
Decrease in cash and cash equivalents	043	18.587.000	
Cash and cash equivalents at year end	044	31.251.047	40.477.492

APPENDIX 1: OTHER LEGAL AND REGULATORY REQUIREMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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

	Statement of financial position at year-end	Deposits	Loans given	Loans given to related parties	Off of exchange	Physical expenses and	Receivables from credit cards	VAT receivable	Profit for the year	Capital loan	Own shares	Liabilities for services and	Reserves resulting from hyperinflation	Ordered tax liabilities	Liabilities for employees received	Accrued	Provisions for legal disputes	Provisions	Accrued services payments	Accrued liability payments	Income tax liabilities	Current payables	Trade payables	Liabilities to employees	Liabilities to other and other institutions	Other liabilities	Off of exchange by creditors	Off of exchange by banks	Liabilities for other interest	Funding	Standardized surplus in accordance with Regulation on the structure	Assets		
In thousands of HRK																																		
ASSETS																																		
Intangible assets	169 756																																	169 756
Intangible assets	175 062																																	175 062
Investment in subsidiaries	17 709																																	17 709
Debt for asset	2 699																																	2 699
Trade and other receivables	153 782																																	153 782
Investment in subsidiaries	213 735																																	213 735
Trade and other receivables	1 240 898																																	1 240 898
Income tax receivable	2 026																																	2 026
Cash and cash equivalents	40 579																																	40 579
Total current assets	1 487 204																																	1 487 204
LIABILITIES																																		
Share capital	37 848																																	37 848
Reserves	89 219																																	89 219
Retained earnings	272 216																																	272 216
Total equity	397 283																																	397 283
Long term borrowings	38 421																																	38 421
Defined tax liability	15 134																																	15 134
Trade and other liabilities	55 753																																	55 753
Short term borrowings	358 179																																	358 179
Income tax liability	151																																	151
Current provisions	1 474																																	1 474
Total non-current liabilities	1 480 811																																	1 480 811
Current liabilities	1 532 745																																	1 532 745
LIABILITIES	1 890 200																																	1 890 200
TOTAL EQUITY AND LIABILITIES	1 890 200																																	1 890 200

**Reconciliation of consolidated statement of comprehensive income (in thousands of HK\$)**

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**FOR THE YEAR ENDED 31 DECEMBER 2011**

[illegible]