MEDIKA d.d.

AUDITOR'S REPORT AND UNCONSOLIDATED 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.

CONTENT

Operating result in 2011

Medika d.d. ("the Company") realized unconsolidated revenue in the amount of HRK 2,083,586 thousand, an decrease of 5.3% in comparison to prior year. Unconsolidated operating profit amounts to HRK 39,676 thousand which is 23.8% decrease in comparison to prior year.

Unconsolidated profit before tax amounts to HRK 17,772 thousand and net profit HRK 12,445 thousand, being 32.5% less than in 2010.

If analysing operating segments (note 6 in financial statements), 61.3% of total unconsolidated income was generated through “pharmacies” segment, and 25.6% through “hospitals” segment. In comparison to previous year, the "hospitals" segment experienced growth of 2.6%.

Total unconsolidated assets amount to HRK 1,759,347 thousand, an increase of 8.7% in comparison to prior year. Unconsolidated current assets comprise 86.6% of total assets. Trade and other receivables are the largest and most significant amount of total assets and have increased by 15.7% in comparison to the prior year. At the same time inventory has decreased by 15.6% when compared with the prior period. These changes are the consequence of sales growth in the current period.

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

Equity to assets ratio is 18% which shows that 18% of total unconsolidated assets are financed through own resources.

Total unconsolidated credit indebtedness is in the amount of HRK 355,713 thousand, of which HRK 344,562 thousand relates to short-term loans and finance leases, while the remainder in the amount of HRK 11,151 thousand relates to long-term loans and finance leases (note 24).

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

Subsequent events

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 increase of productivity.

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.

Subsidiaries and associates

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

Zdravstvena ustanova Ljekarne Prima Pharme has subsidiaries: Zdravstvena ustanova Ljekarne Delonga (Okrug Gornji), 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 for Medika d.d. is a long collection period of receivables, especially HZZO and HZZO related receivables. Therefore, a significant amount of working capital is not available with strong influence on cash flows and timely settlement of Medika d.d. liabilities.

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

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

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

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

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

Corporate governance

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

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

Management and Supervisory Board

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

Supervisory Board of the company during the year were as follows:
Mr. Mate Perković, president, Mr. Damjan Možina, vice-president, and members: Mr. Matko Bolanča, Mr. Tomislav Gnjidić, Mr. Zlatko Dunković, Mr. Nikica Gabrić and Mrs. Ružica Vađić.

Zagreb, 8 March 2012

Jasminko Herceg
Member of the Management Board

Medika d.d.
ZAGREB, Capraška 1

STATEMENT OF MANAGEMENT AND SUPERVISORY BOARD RESPONSIBILITIES

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

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

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

The financial statements set out on pages 7 to 45 and alternative presentation and reconciliation set out on pages 46 to 52 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 Herceg
Member of the Management Board

Medika d.d.
ZAGREB Capraška

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

We have audited the accompanying separate financial statements of Medika d.d. ("the Company"), which comprise the separate statement of financial position as at 31 December 2011, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2011, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

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

Other legal and regulatory requirements

Pursuant to the Regulation on the Structure and Content of the Annual Financial Statements issued by the Ministry of Finance, the Management Board has prepared the schedules set out on pages 46 to 52 ("the Schedules"), which comprise an alternative presentation of the unconsolidated statement of financial position as of 31 December 2011, unconsolidated income statement and unconsolidated cash flow statement for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules presented on pages 46 to 52 with the unconsolidated financial statements as presented on pages 7 to 45. 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 45 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, 17th 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.

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts are expressed in thousands of HRK)	Note	2011	2010
Revenues	5, 6	2,083,586	1,978,680
Cost of trade goods sold	6	(1,910,199)	(1,792,693)
Staff costs	7	(59,250)	(59,714)
Marketing and promotion expenses	8	(10,030)	(13,052)
Depreciation and amortisation	13, 14	(14,562)	(15,413)
Other operating expenses	9	(42,634)	(41,945)
Other gains/(losses) – net	10	(7,235)	(3,831)
Operating profit		**39,676**	**52,032**
Finance costs – net	11	(21,904)	(26,096)
Profit before tax		**17,772**	**25,936**
Income tax	12	(5,327)	(7,497)
Net profit for the year		**12,445**	**18,439**
Other comprehensive income		-	-
Total comprehensive income		**12,445**	**18,439**

The financial statements set out on pages 7 to 45 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 from 12 to 45 form an integral part of these financial statements.

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

(all amounts are expressed in thousands of HRK)	Note	As at 31 December 2011	2010
ASSETS			
Non-current assets			
Property and equipment	13	148,383	154,116
Intangible assets	14	26,212	30,744
Investments in subsidiaries	15	60,000	60,000
Deferred tax assets	25	457	503
Trade and other receivables	17	206	1,826
		235,258	247,189
Current assets			
Inventories	18	185,872	220,284
Trade and other receivables	17	1,300,928	1,124,399
Receivables for income tax		1,712	-
Cash and cash equivalents	19	35,577	26,569
		1,524,089	1,371,252
Total assets		**1,759,347**	**1,618,441**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	37,848	43,879
Reserves	21	67,278	62,730
Retained earnings	22	204,276	196,673
		309,402	303,282
Non-current liabilities			
Long-term borrowings	24	11,151	193,545
Non-current provisions	26	420	401
		11,571	193,946
Current liabilities			
Trade and other payables	23	1,092,404	1,013,537
Short-term borrowings	24	344,562	104,847
Income tax liability		-	663
Current provisions	26	1,408	2,166
		1,438,374	1,121,213
Total equity and liabilities		**1,759,347**	**1,618,441**

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts are expressed in thousands of HRK)	Note	Share capital	Reserves	Retained earnings	Total
At 1 January 2010		**36,818**	**62,730**	**183,486**	**283,034**
Total comprehensive income					
Net profit for the year		-	-	18,439	18,439
Other comprehensive income		-	-	-	-
Total comprehensive income		**-**	**-**	**18,439**	**18,439**
Transactions with owners recognized directly in equity					
Release of treasury shares	20	1,995	-	-	1,995
Interim dividend	20, 22	5,066	-	(5,252)	(186)
Transactions with owners recognized directly in equity		**7,061**	**-**	**(5,252)**	**1,809**
At 31 December 2010		**43,879**	**62,730**	**196,673**	**303,282**
At 1 January 2011		**43,879**	**62,730**	**196,673**	**303,282**
Total comprehensive income					
Net profit for the year		-	-	12,445	12,445
Other comprehensive income		-	-	-	-
Total comprehensive income		**-**	**-**	**12,445**	**12,445**
Transactions with owners recognized directly in equity					
Release of treasury shares	20	1,995	-	-	1,995
Payment of dividend	20	-	-	(294)	(294)
Transfer to reserves	22	-	4,548	(4,548)	-
Acquisition of own shares	21	(8,026)	-	-	(8,026)
Transactions with owners recognized directly in equity		**(6,031)**	**4,548**	**(4,842)**	**(6,325)**
At 31 December 2011		**37,848**	**67,278**	**204,276**	**309,402**

The accompanying notes on pages from 12 to 45 form an integral part of these financial statements.

UNCONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	Note	2011	2010
Cash flows from operating activities:			
Net profit		**12,445**	**18,439**
Adjustments for:			
Income tax	12	5,327	7,497
Depreciation and amortisation	13, 14	14,562	15,413
Impairment of receivables	9	3,617	1,450
Inventory impairment	18	3,788	3,679
Unrealised foreign exchange differences		3,104	2,414
Change in provisions		(739)	836
Gain on sale of property and equipment	10	(365)	(378)
Intangible assets disposal	14	6	1
Interest expense	11	17,279	23,303
Expenses from bills of exchange discount	11	1,504	277
Interest income		(311)	(2,880)
Working capital changes:			
Inventories		30,624	(32,051)
Trade and other receivables		(180,498)	(11,704)
Trade and other payables		81,712	19,074
Cash flows generated from operating activities		**(7,945)**	**45,370**
Interest paid		(17,738)	(21,525)
Income tax paid		(7,644)	(8,481)
Cash flows from operating activities		**(33,327)**	**15,364**
Cash flows from investing activities:			
Purchase of tangible and intangible assets	13, 14	(1,876)	(6,045)
Proceeds from sale of tangible assets		430	678
Proceeds from repayment of loans given		3,031	10,279
Investment in subsidiary	15	(428)	-
Loans given		(1,030)	(10,814)
Interest received		311	2,854
Cash flows from investing activities		**438**	**(3,048)**

UNCONSOLIDATED STATEMENT OF CASH FLOW (continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	Note	2011	2010
Cash flows from financing activities:			
Repayment of borrowings		(157,930)	(236,142)
Proceeds from borrowings		210,583	210,785
Repayment of finance lease		(2,352)	(2,281)
Acquisition of own shares	20	(8,026)	-
Dividend paid	22	(378)	(103)
Cash flows from financing activities		**41,897**	**(27,741)**
Net increase / (decrease) in cash and cash equivalents		**9,008**	**(15,425)**
Cash and cash equivalents at beginning of year		26,569	41,994
Cash and cash equivalents at end of year	19	**35,577**	**26,569**

The accompanying notes on pages from 12 to 45 form an integral part of these financial statements.

NOTE 1 – GENERAL INFORMATION

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

As at 31 December 2011, the Company's shares were listed on official market on the Zagreb Stock Exchange. Shareholder structure is shown in note 20.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

The Company has issued these unconsolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 8 March 2012. In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2011 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been released and are not yet effective for the year ended 31 December 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 Company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Segment reporting

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

2.3 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

2.4 Investments in subsidiaries

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property and equipment

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

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

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

The estimated useful lives are as follows:

Buildings	10 - 40 years
Equipment	2 - 20 years

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

(a) Goodwill

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

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

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

(b) Licences

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

2.7 Impairment of non-financial assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets

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

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

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

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

2.9 Leases

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

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

2.10 Inventories

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and loan receivables

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

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

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

2.12 Cash and cash equivalents

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

2.13 Share capital

Ordinary shares are classified as equity.

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

2.14 Trade payables

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

2.15 Borrowings

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Income tax

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

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

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

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

2.17 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Long-term employee benefits

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

(c) Short-term employee benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits (continued)

(c) Short-term employee benefits (continued)

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

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

2.18 Provisions

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

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

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

2.19 Revenue recognition

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

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

(a) Sales of goods

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Revenue recognition (continued)

(b) Sales of services

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

(c) Interest income

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

2.20 Finance expenses

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

2.21 Dividend distribution

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

2.22 Value added tax

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

2.23 Comparative information

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

At 31 December 2011 (notes 17, 19, 23, 24), if the EURO had weakened/strengthened by 1.35% (2010: 1.14%) against the HRK, with all other variables held constant, the profit after tax for the reporting period would have been HRK 5,580 thousand higher/lower (2010: HRK 4,845 thousand), mainly as a result of foreign exchange gains/losses on translation of EURO-denominated trade payables and borrowings.

(ii) Cash flow and fair value interest rate risk

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

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

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

At 31 December 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 3,540 thousand lower/higher (2010: HRK 353 thousand).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

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

(c) Liquidity risk

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

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

(in thousands of HRK)	Less than 1 year	Between 1-3 years	Over 3 years	Total
31 December 2011				
Trade and other payables	1,092,404	-	-	1,092,404
Borrowings	354,535	8,760	-	363,295

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

During 2012, the Company 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.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

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

The equity to assets ratio is as follows:

	2011	2010
	(in thousands of HRK)	
Total equity (capital and reserves)	309,402	303,282
Total assets	1,759,347	1,618,441
Equity to assets ratio	**18%**	**19%**

In 2011, the ratio has decreased in comparison to 2010 showing that 18% of the Company'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 Company is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

Assumptions to determine amount of provisions of trade receivables

Due to the materiality of the amount of trade receivables recorded in the statement of financial position, Management estimates the likelihood of the collection of trade receivables based on an analysis of such assets. Factors taken into consideration by Management include: ageing analysis of trade receivables and the financial position of customers compared to the collection history with the customer. The estimated recoverable amount of trade receivables represents the present value of estimated future cash flows, discounted at the effective interest rate of 5.73 % per year (2010: 5.91%). Should actual collections be less than management estimates, the Company would be required to record additional impairment expense.

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 4,265 thousand). 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 331 thousand).

NOTE 5 – REVENUES

	2011	2010
	(in thousands of HRK)	
Revenue from sales	2,074,317	1,969,312
Other revenues	9,269	9,368
	2,083,586	**1,978,680**

NOTE 6 – SEGMENT INFORMATION

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

The Company monitors revenues and gross profit through distribution channels:

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

The company operates with about 440 pharmacies and medical 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.)

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 applies the same accounting policies in all segments.

NOTE 6 – SEGMENT INFORMATION (continued)

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

(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Total**
Revenue from sales	1,015,526	533,366	263,944	1,812,836
Other revenue	-	-	8,574	8,574
Revenue from sales and other revenue from related parties	261,873	-	303	262,176
Total revenues	**1,277,399**	**533,366**	**272,821**	**2,083,586**
Cost of trade goods sold	(1,190,532)	(483,395)	(236,272)	(1,910,199)
Segment results	**86,867**	**49,971**	**36,549**	**173,387**
Operating expenses				(133,711)
Operating profit				**39,676**
Finance costs- net				(21,904)
Profit before tax				**17,772**
Income tax				(5,327)
Profit for the year				**12,445**

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

(in thousands of HRK)	**Pharmacies**	**Hospitals**	**Other**	**Total**
Revenue from sales	1,183,442	454,721	102,656	1,740,819
Other revenue	-	-	8,850	8,850
Revenue from sales and other revenue from related parties	228,866	-	145	229,011
Total revenues	**1,412,308**	**454,721**	**111,651**	**1,978,680**
Cost of trade goods sold	(1,285,247)	(413,939)	(93,507)	(1,792,693)
Segment results	**127,061**	**40,782**	**18,144**	**185,987**
Operating expenses				(133.955)
Operating profit				**52,032**
Finance costs- net				(26,096)
Profit before tax				**25,936**
Income tax				(7,497)
Profit for the year				**18,439**

NOTE 6 – SEGMENT INFORMATION (continued)

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

(in thousands of HRK)	Pharmacies	Hospitals	Other	Total
Trade receivables (note 17 /ii/)	620,429	538,912	119,016	1,278,357

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

(in thousands of HRK)	Pharmacies	Hospitals	Other	Total
Trade receivables (note 17 /iii/)	547,725	444,684	122,727	1,115,136

NOTE 7 – STAFF COSTS

	2011	2010
	(in thousands of HRK)	
Net salaries	28,922	28,761
Tax and surtax	5,836	6,711
Contributions from and on salaries /i/	15,831	16,172
Termination benefits	310	1,099
Employee transportation costs	1,634	1,696
Other employee benefits /ii/	2,455	2,260
Bonuses	4,262	3,015
	59,250	**59,714**

As at 31 December 2011, the Company had 356 employees (2010: 351 employees).

/i/ In 2011, pension contributions recognised by the Company for payment to mandatory pension funds amounted to HRK 8,408 thousand (2010: HRK 8,609 thousand).

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

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	2011	2010
	(in thousands of HRK)	
Entertainment	3,818	7,438
Marketing	1,492	1,708
Donations	4,720	3,906
	10,030	**13,052**

NOTE 9 – OTHER OPERATING EXPENSES

	2011	2010
	(in thousands of HRK)	
Impairment of trade receivables (note 17/ii/)	3,617	1,450
Materials and energy consumed	9,093	8,490
Maintenance of assets, security services and insurance	8,941	9,906
Telephone, postal and utility services	1,445	1,735
Taxes and contributions irrespective of result	4,943	4,183
Professional training and consultancy services	3,967	3,707
Bank charges and payment transaction costs	1,905	1,959
Rent expense	2,310	1,984
Provisions for legal disputes	-	1,553
Control and analysis service	2,452	2,007
Other expenses	3,961	4,313
Other expenses – related parties (note 29)	-	658
	42,634	**41,945**

NOTE 10 – OTHER GAINS / (LOSSES) – NET

	2011	2010
	(in thousands of HRK)	
Gains on sale of tangible assets (net)	365	378
Net foreign exchange losses	(7,600)	(4,209)
	(7,235)	**(3,831)**

NOTE 11 – FINANCE COSTS - NET

	2011	2010
	(in thousands of HRK)	
Interest expense		
Bank borrowings and finance lease	(17,279)	(20,117)
Commercial bills issued	-	(3,186)
Expenses from bills of exchange discount	(1,504)	(277)
	(18,783)	(23,580)
Foreign exchange gains / (losses) – net		
Foreign exchange gains	2,361	7,360
Foreign exchange losses	(5,482)	(9,876)
	(3,121)	(2,516)
	(21,904)	**(26,096)**

NOTE 12 – INCOME TAX

	2011	2010
	(in thousands of HRK)	
Current tax	5,281	7,030
Deferred tax (note 25)	46	467
	5,327	**7,497**

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

	2011	2010
	(in thousands of HRK)	
Profit before taxation	**17,772**	**25,936**
Income tax 20%	3,554	5,187
Income non-assessable	(14)	(20)
Expenses not deductible	1,787	2,330
Income tax	**5,327**	**7,497**
Effective tax rate	29.97%	28.91%

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

NOTE 13 – PROPERTY AND EQUIPMENT

(all amounts are expressed in thousands of HRK)	Land	Buildings	Equipment	Assets under construction	Total
At 31 December 2009					
Cost	15,995	151,913	76,762	2,652	247,322
Accumulated depreciation	-	(32,352)	(60,514)	-	(92,866)
Net book amount	**15,995**	**119,561**	**16,248**	**2,652**	**154,456**
Year ended 31 December 2010					
Opening net book amount	15,995	119,561	16,248	2,652	154,456
Additions	-	-	62	10,647	10,709
Transfer from assets under construction	-	1,174	9,105	(10,279)	-
Disposals	-	-	(300)	-	(300)
Transfer	-	(300)	300	-	-
Depreciation	-	(3,781)	(6,968)	-	(10,749)
Closing net book amount	15,995	116,654	18,447	3,020	154,116
At 31 December 2010					
Cost	15,995	152,786	78,332	3,020	250,133
Accumulated depreciation	-	(36,132)	(59,885)	-	(96,017)
Net book amount	**15,995**	**116,654**	**18,447**	**3,020**	**154,116**
Year ended 31 December 2011					
Opening net book amount	15,995	116,654	18,447	3,020	154,116
Additions	-	-	11	4,195	4,206
Transfer from assets under construction	-	260	4,367	(4,627)	-
Disposals	-	-	(65)	-	(65)
Depreciation	-	(3,815)	(6,059)	-	(9,874)
Closing net book amount	15,995	113,099	16,701	2,588	148,383
At 31 December 20101					
Cost	15,995	153,046	78,250	2,588	249,879
Accumulated depreciation	-	(39,947)	(61,549)	-	(101,496)
Net book amount	**15,995**	**113,099**	**16,701**	**2,588**	**148,383**

Revolving loans and finance lease liabilities (note 24) have been secured by pledges over tangible fixed assets with a net book value of HRK 132,495 thousand as at 31 December 2011 (2010: HRK 135,710 thousand).

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

	2011	2010
	(in thousands of HRK)	
Cost – capitalised finance lease	10,312	7,872
Accumulated depreciation	(5,026)	(2,846)
Net book amount	**5,286**	**5,026**

NOTE 14 – INTANGIBLE ASSETS

(all amounts are expressed in thousands of HRK)	Licences	Goodwill	Assets under construction	Total
At 31 December 2009				
Cost	26,839	11,930	61	38,830
Accumulated amortisation	(3,810)	-	-	(3,810)
Net book amount	**23,029**	**11,930**	**61**	**35,020**
Year ended 31 December 2010				
Opening net book amount	23,029	11,930	61	35,020
Additions	-	-	389	389
Transfer	300	-	(300)	-
Disposals	(1)	-	-	(1)
Amortisation	(4,664)	-	-	(4,664)
Closing net book amount	18,664	11,930	150	30,744
At 31 December 2010				
Cost	31,799	11,930	150	43,879
Accumulated amortisation	(13,135)	-	-	(13,135)
Net book amount	**18,664**	**11,930**	**150**	**30,744**
Year ended 31 December 2011				
Opening net book amount	18,664	11,930	150	30,744
Additions	-	-	162	162
Transfer	193	-	(193)	-
Disposal	(6)	-	-	(6)
Amortisation	(4,688)	-	-	(4,688)
Closing net book amount	14,163	11,930	119	26,212
At 31 December 2011				
Cost	31,681	11,930	119	43,730
Accumulated amortisation	(17,518)	-	-	(17,518)
Net book amount	**14,163**	**11,930**	**119**	**26,212**

NOTE 15 – INVESTMENTS IN SUBSIDIARIES

	% holding in 2011	% holding in 2010	2011	2010
			(in thousands of HRK)	
ZU Ljekarne Prima Pharme, Split	100%	100%	40,000	40,000
Primus nekretnine d.o.o., Zagreb /i/	100%	100%	20,000	20,000
			60,000	**60,000**

/i/ In May 2009, the Company established Primus nekretnine d.o.o (a Subsidiary). The Subsidiary was established with the purpose of property management. Prior to establishment, equity capital amounted to HRK 20 thousand. The Company increased the share capital of the Subsidiary to HRK 20 million. Recapitalization resulted through the addition of assets (real estate in Split) in the amount of HRK 19,407 thousand and the inflow of cash in the amount of HRK 573 thousand of which HRK 428 thousand is paid in 2011.

NOTE 16– FINANCIAL INSTRUMENTS BY CATEGORY

	2011	2010
	(in thousands of HRK)	
Financial assets- category: Loans given and receivables		
Loans given and receivables (note 17 /v/)	1,297,014	1,120,234
Cash (note 19)	35,577	26,569
	1,332,591	**1,146,803**
Financial liabilities- category: Other liabilities		
Trade payables (note 23 /i/)	1,080,575	1,004,580
Other payables (note 23 /ii/)	11,829	8,957
Total debt (note 24)	355,713	298,392
	1,448,117	**1,311,929**

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:

	2011	2010
	(in thousands of HRK)	
Pharmacies	387,403	360,942
Hospitals	248,248	217,460
Other	51,071	34,876
At 31 December	**686,722**	**613,278**

NOTE 17 – TRADE AND OTHER RECEIVABLES

	2011	2010
	(in thousands of HRK)	
Non-current receivables:		
Loans given /i/	206	1,826
Current receivables:		
Trade receivables /ii/	1,295,852	1,115,136
Other current receivables /iii/	4,120	5,991
Loans given /iv/	521	1,333
Loans given – current portion of non-current receivables /i/	435	1,939
	1,300,928	1,124,399
	1,301,134	**1,126,225**

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

	Effective interest rate	2011	2010
		(in thousands of HRK)	
Loans given to pharmacies	2.39%	641	3,762
Loans given to associations	6.67%	-	3
Total non-current receivables, including current portion		641	3,765
Current portion of non-current receivables		(435)	(1,939)
Total non-current receivables		**206**	**1,826**

In 2011, there was no additional provision for loans given. Loans are secured by promissory notes.

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

The maturity of long-term loans is as follows:

	2011	2010
	(in thousands of HRK)	
Between 1 and 2 years	100	1,826
Between 2 and 5 years	106	-
	206	**1,826**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

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

	2011	2010
	(in thousands of HRK)	
Domestic trade receivables	1,146,628	1,007,224
Foreign trade receivables	2,610	2,664
Trade receivables – related parties (note 29)	174,609	129,863
	1,323,847	1,139,751
Provision for trade receivables	(27,995)	(24,615)
	1,295,852	**1,115,136**

The ageing structure of receivables past due is as follows:

	2011	2010
	(in thousands of HRK)	
0-180 days	415,166	331,552
181-360 days	97,761	84,584
Over 360 days	124,198	110,337
	637,125	**526,473**

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

	2011	2010
	(in thousands of HRK)	
At 1 January	24,615	25,059
Increase (note 9)	3,617	1,450
Write off	(237)	(1,894)
At 31 December	**27,995**	**24,615**

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

	2011	2010
	(in thousands of HRK)	
HRK	1,298,236	1,122,854
EUR	2,898	3,371
	1,301,134	**1,126,225**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

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

	2011	2010
	(in thousands of HRK)	
VAT receivable	2,168	4,625
Other	1,952	1,366
	4,120	**5,991**

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

	2011	2010
	(in thousands of HRK)	
Loans given- related parties (note 29)	-	1,333
Loans given – other	1,090	569
	1,090	1,902
Impairment	(569)	(569)
	521	**1,333**

/v/ Financial assets by category include the following:

	2011	2010
	(in thousands of HRK)	
Loans given	1,162	5,098
Trade receivables	1,295,852	1,115,136
	1,297,014	**1,120,234**

NOTE 18 – INVENTORIES

	2011	2010
	(in thousands of HRK)	
Trade goods	158,255	178,331
Trade goods – related parties (note 29)	24,902	37,943
Advances given	2,600	3,800
Office supplies	115	210
	185,872	**220,284**

In 2011, the Company tested for damaged and expired inventories. With respect to differences identified, a provision was made for such inventories, which amounted to HRK 3,788 thousand in 2011 (2010: HRK 3,679 thousand) and which was included in cost of trade goods sold.

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

NOTE 19 – CASH AND CASH EQUIVALENTS

	2011	2010
	(in thousands of HRK)	
Current account	35,512	26,398
Foreign currency account	52	165
Cash in hand	13	6
	35,577	**26,569**

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

NOTE 20 – SHARE CAPITAL

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

	Number of shares	Share capital	Treasury shares	Capital profit/ (loss)	Total
	(in number of shares)		*(in thousands of HRK)*		
At 1 January 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
At 31 December 2010	**30,194**	**60,388**	**(12,250)**	**(4,259)**	**43,879**
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 own shares \ii\	-	-	(8,026)	-	(8,026)
At 31 December 2011	**30,194**	**60,388**	**(15,676)**	**(6,864)**	**37,848**

\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 as at 31 December 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	1,567	5.19%	1,620	5.37%
Total	**30,194**	**100%**	**30,194**	**100%**

\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 entitites) 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.

NOTE 21 – RESERVES

(in thousands of HRK)	Legal reserves	Reserves for treasury shares	Total
At 31 December 2009	**2,730**	**60,000**	**62,730**
Changes during the year	-	-	-
At 31 December 2010	**2,730**	**60,000**	**62,730**
Changes during the year	4,548	-	4,548
At 31 December 2011	**7,278**	**60,000**	**67,278**

Legal reserves amount to HRK 7,278 thousand. The legal reserve is required under Croatian law according to which the Company is committed to build up legal reserves to a minimum of 5% of the profit for the year until the legal together with share premium reserve reached 5% of the share capital. Revaluation and legal reserves are not distributable.

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

NOTE 22 – 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.

NOTE 23 – TRADE AND OTHER PAYABLES

	2011	2010
	(in thousands of HRK)	
Trade payables /i/	1,080,575	1,004,580
Other payables /ii/	11,829	8,957
	1,092,404	**1,013,537**

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

	2011	2010
	(in thousands of HRK)	
Trade payables – domestic	471,761	448,287
Trade payables – foreign	478,510	401,860
Due to related parties (note 29)	129,304	154,433
	1,080,575	**1,004,580**

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

	2011	2010
	(in thousands of HRK)	
HRK	700,631	660,116
EUR	372,010	334,626
DKK	7,868	9,468
Other currencies	66	370
	1,080,575	**1,004,580**

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

	2011	2010
	(in thousands of HRK)	
Net salaries to employees	5,126	4,811
Unused vacation days	1,903	1,756
Other taxes and contributions	85	42
Dividend payable	1	85
Liabilities for VAT	1,310	-
Other	3,404	2,263
	11,829	**8,957**

NOTE 24 – BORROWINGS

	2011	2010
	(in thousands of HRK)	
Long-term borrowings:		
Long-term loans /i/	7,800	190,397
Finance lease /iii/	3,351	3,148
	11,151	**193,545**
Short-term borrowings:		
Short-term loans /ii/	342,551	102,885
Finance lease /iii/	2,011	1,962
	344,562	**104,847**
Total borrowings	**355,713**	**298,392**

/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 two loans denominated in Croatian kuna (HRK), one of which bears fixed interest rate and the other variable interest rate. Both loans have a maturity of two years.

/ii/ Short-term loans relate to financing from various banks for the purpose of maintaining the adequate level of working capital. One part of loans is denominated in Croatian kuna (HRK) and the other in EUR. Loans have maturities 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 rate of 4.45%-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 13). Lease liabilities are effectively secured since the lessor has the right to take over the subject of the lease if the Company stops paying these liabilities.

The gross finance lease liability is as follows:

	2011	2010
	(in thousands of HRK)	
Up to one year	2,239	2,191
Between 1 and 5 years	3,509	3,353
Future financing costs	(386)	(434)
Net book value of finance lease liability	**5,362**	**5,110**

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

	2011	2010
	(in thousands of HRK)	
Up to one year	2,011	1,962
Between 1 and 5 years	3,351	3,148
	5,362	**5,110**

NOTE 24 – BORROWINGS (continued)

The maturity of long-term borrowings is as follows:

	2011	2010
	(in thousands of HRK)	
Between 1 and 2 years	9,897	183,984
Between 2 and 5 years	1,254	9,561
	11,151	**193,545**

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

	2011		2010	
	HRK %	EUR %	HRK %	EUR %
Long-term borrowings				
Finance lease	-	4.67%-7.88%	-	5.29%-5.75%
Long-term loans	3.80%-7.75%	-	3.80%-5.50%	6.51%
Short-term borrowings				
Short-term loans	7.20%-7.55%	4.85%-5.87%	4.95%-5.20%	5.01%

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

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

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

	2011	2010
	(in thousands of HRK)	
Up to 3 months	-	-
3 - 12 months	347,913	282,792
1 - 3 years	7,800	15,600
	355,713	**298,392**

Borrowing in the amount of HRK 7,800 thousand is shown and is repayable within a period of 1 to 3 years. As the loan's interest rate is fixed and falls due in 1 to 2 years, there is no exposure to interest rate changes.

NOTE 24 – BORROWINGS (continued)

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

	2011	2010
	(in thousands of HRK)	
HRK	197,806	93,596
EUR	157,907	204,796
	355,713	**298,392**

Loans received are secured by mortgages over Company's buildings (note 13), inventories (note 18), bills of exchange and promissory notes.

NOTE 25 – DEFERRED INCOME TAX

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

Deferred tax assets

(in thousands of HRK)	Inventory impairment	Impairment of trade receivables	Provision for employee benefits	Total
At 1 January 2010	**288**	**216**	**466**	**970**
Tax charged to the income statement	-	(216)	(367)	(583)
Tax credited to the income statement	116	-	-	116
At 31 December 2010	**404**	**-**	**99**	**503**
At 1 January 2011	**404**	**-**	**99**	**503**
Tax charged to the income statement	(53)	-	-	(53)
Tax credited to the income statement	-	-	7	7
At 31 December 2011	**351**	**-**	**106**	**457**

Deferred tax liability

The Company has no deferred tax liability.

NOTE 26 – PROVISIONS

(in thousands of HRK)	Provision for employee benefits	Legal disputes	Total
At 31 December 2010	**530**	**2,037**	**2,567**
Non-current	401	-	401
Current	129	2,037	2,166
At 1 January 2011	**530**	**2,037**	**2,567**
Additional provisions	123	-	123
Used during the year	(123)	(739)	(862)
At 31 December 2011	**530**	**1,298**	**1,828**
Non-current	420	-	420
Current	110	1,298	1,408

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 27 – CONTINGENCIES

The Company issued guarantees for borrowings of its subsidiary in the total amount of HRK 39,596 thousand (2010: HRK 11,456 thousand).

The stated contingencies are not recorded in the statement of financial position as at 31 December 2011, as Management estimates that the liabilities of these subsidiaries will not become the obligations of the Parent Company, since all business transaction of these subsidiaries are under absolute control of Parent Company.

The Company entered into several legal disputes, both as plaintiff and defendant. 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 26).

NOTE 28 – SUBSEQUENT EVENTS

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

NOTE 29 – RELATED PARTY TRANSACTIONS

The Company enters into transactions with related parties (entities with significant influence under common control).

Related parties are:

	2011	2010
1. Subsidiaries of the Company:		
Zdravstvena ustanova Ljekarne Prima Pharme, Split	100%	100%
Primus nekretnine d.o.o., Zagreb	100%	100%
2. Subsidiaries of Zdravstvene ustanove Ljekarne Prima Pharme, Split:		
Zdravstvena ustanova Ljekarne Delonga, Okrug Gornji	100%	100%
Ljekarna Ines Buhač, Zagreb	-	100%
Ljekarna Mladenka Čobanov, Šibenik	-	100%
Zdravstvena ustanova Ljekarne Atalić, Osijek	100%	-
Ljekarna Dragica Blagus-Vičanović, Strahoninec	100%	-
Zdravstvena ustanova Ljekarne Ines Škoko, Požega	100%	-
3. Associate of Zdravstvene ustanove Ljekarne Prima Pharme, Split		
Zdravstvena ustanova Ljekarne Jagatić, Dubec	49%	49%

4. The company with majority of voting rights, or a parent company Mavota d.o.o. owns 47.38% of the Company and has 50% plus one share of voting rights.

   During 2011, the Company redeemed 825 treasury shares from 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.

5. Related party Pliva Hrvatska d.o.o., Zagreb owns 25.32% of the Company and has 26.73% of the voting rights. Given the share in the ownership and business transactions with the Company, Pliva Hrvatska has a significant impact on the current operations of the Company.

Balances and items resulting from these transactions are as follows:

(in thousands of HRK)	Note	2011	2010
Trade and other receivables			
Subsidiaries of the Company		139,256	107,673
Subsidiaries of Zdravstvene ustanove Ljekarne Prima Pharme		21,473	10,655
Associate of ZU Ljekarne Prima Pharme		13,835	11,334
Pliva Hrvatska d.o.o., Zagreb		45	201
	17	174,609	129,863

NOTE 29 – RELATED PARTY TRANSACTIONS (continued)

(in thousands of HRK)	Note	2011	2010
Loans given			
Subsidiaries of the Company		-	1,333
	17	-	1,333
Inventories			
Pliva Hrvatska d.o.o., Zagreb		24,902	37,943
	18	24,902	37,943
Trade payables			
Subsidiaries of the Company		291	762
Pliva Hrvatska d.o.o., Zagreb		129,013	153,671
	23	129,304	154,433
Other payables			
Subsidiaries of the Company		-	428
		-	428
Revenue from sales			
Subsidiaries of the Company		201,581	191,819
Subsidiaries of Zdravstvene ustanove Ljekarne Prima Pharme		31,719	12,411
Associate of ZU Ljekarne Prima Pharme		28,181	24,263
		261,481	228,493
Rental income			
Subsidiaries of the Company		399	397
		399	397
Other income			
Subsidiaries of the Company		296	121
		296	121
Other expenses			
Subsidiaries of the Company		-	658
	9	-	658
Purchase of products			
Pliva Hrvatska d.o.o., Zagreb		166,938	209,041
		166,938	209,041
Key management compensation – salaries and bonuses for four members (2010: salaries and bonuses for four members)		6,774	6,715
Supervisory Board compensation		734	731

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

***

BALANCE SHEET

As at 31.12.2011

Name of position	AOP mark	Prior year	Current year
1	2	3	4
ASSETS			
A) SHARE CAPITAL SUBSCRIBED BUT NOT PAID IN	001		
B) NON-CURRENT ASSETS (003+010+020+029+033)	002	247.189.959	235.450.613
I. INTANGIBLE ASSETS (004 to 009)	003	30.743.977	26.212.397
1. Research and development	004		
2. Concessions, patents, licenses, trade marks, software and other rights	005	18.664.278	14.164.717
3. Goodwill	006	11.929.586	11.929.586
4. Advances for intangible assets	007	150.113	118.094
5. Intangible assets under construction	008		
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 to 019)	010	154.116.332	148.382.613
1. Land	011	15.994.715	15.994.715
2. Buildings	012	116.653.874	113.099.346
3. Plant and equipment	013	7.038.305	6.098.713
4. Tools and vehicles	014	10.631.567	9.872.591
5. Biological assets	015		
6. Advances for tangible assets	016	62.705	3.911
7. Tangible assets under construction	017	2.957.815	2.584.587
8. Other tangible assets	018	777.351	728.750
9. Real estate investments	019		
III. NON-CURRENT FINANCIAL ASSETS (021 to 028)	020	61.826.527	60.398.725
1. Shares in related parties	021	60.000.000	60.000.000
2. Loans to related parties	022		
3. Participating interests	023		
4. Investments in securities	024		
5. Loans given, deposits and similar	025		
6. Treasury shares	026	1.826.527	398.725
7. Other non-current financial assets	027		
8. Investments in joint ventures	028		
IV. RECEIVABLES (030 do 032)	029	0	0
1. Receivables form related parties	030		
2. Receivables from credit sales	031		
3. Other receivables	032		
V. DEFERRED TAX ASSET	033	503.123	456.878
C) CURRENT ASSETS (035+043+050+058)	034	1.369.616.652	1.522.695.393
I. INVENTORY (036 do 042)	035	220.337.784	185.941.455
1. Raw materials	036	209.553	114.635
2. Work in progress	037		
3. Finished goods	038		
4. Commercial goods	039	216.328.084	183.227.276
5. Advances for inventories	040	3.800.147	2.599.544
6. Other assets held for sale	041		
7. Biological assets	042		
II. RECEIVABLES (044 do 049)	043	1.083.124.463	1.260.733.997
1. Receivables from related parties	044	118.328.129	160.729.031
2. Trade receivables	045	959.570.333	1.094.643.690
3. Receivables from participating companies	046		50.740
4. Receivables from employees and members	047	117.316	3.328.648
5. Receivables from state and other institutions	048	3.954.251	1.981.888
6. Other receivables	049	1.154.434	
III. CURRENT FINANCIAL ASSETS (051 do 057)	050	39.585.807	40.442.582
1. Shares in related parties	051		
2. Loans given to related parties	052	1.333.334	
3. Participating interests	053		
4. Investments in securities	054		
5. Loans given to companies with participating interests	055	36.082.060	39.360.000
6. Loans given, deposits and similar	056	2.170.413	1.082.582
7. Other financial assets	057		
IV. CASH AT BANK AND ON HAND	058	26.568.598	35.577.359
D) PREPAID EXPENSES AND ACCRUED INCOME	059	850.196	608.660
E) TOTAL ASSETS (001+002+034+059)	060	1.617.656.807	1.758.754.666
F) OFF BALANCE SHEET ITEMS	061	127.975.856	152.322.674

BALANCE SHEET

As at 31.12.2011

Name of position	AOP mark	Prior year	Current year
1	2	3	4
EQUITY AND LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	303.281.707	309.402.019
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	146.436.891	160.033.917
1. Retained earnings	073	146.436.891	160.033.917
2. Accumulated loss	074		
VI. PROFIT OR LOSS FOR THE YEAR	075	18.439.144	12.445.271
1. Profit for the year	076	18.439.144	12.445.271
2. Loss for the year	077		
VII. MINORITY INTEREST	078		
B) PROVISIONS (080 to 082)	079	402.284	420.100
1. Provisions for pensions, severances and similar liabilities	080	402.284	420.100
2. Provisions for tax liabilities	081		
3. Other provisions	082		
C) LONG-TERM LIABILITIES (084 to 092)	083	193.545.079	11.150.740
1. Liabilities towards related parties	084		
2. Liabilities for loans, deposits and similar	085		
3. Liabilities towards banks and other financial institutions	086	193.545.079	11.150.740
4. Liabilities for advances received	087		
5. Trade payables	088		
6. Liabilities from securities	089		
7. Liabilities to companies with participating interests	090		
8. Other long-term liabilities	091		
9. Deferred tax liability	092		
D) CURRENT LIABILITIES (094 to 105)	093	1.116.789.228	1.434.866.863
1. Liabilities to related parties	094	1.190.344	291.556
2. Liabilities for loans, deposits and similar	095		
3. Liabilities towards banks and other financial institutions	096	86.834.434	310.480.067
4. Liabilities for advances received	097	1.867.124	646.152
5. Trade payables	098	977.925.289	1.070.620.610
6. Liabilities for securities	099	35.482.060	38.010.000
7. Liabilities to companies with participating interests	100		
8. Liabilities to employees	101	5.259.383	6.518.126
9. Liabilities for taxes and contributions	102	2.445.982	3.688.245
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	5.699.635	4.611.073
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	3.638.509	2.914.944
F) TOTAL - EQUITY AND LIABILITIES (063+079+083+093+106)	107	1.617.656.807	1.758.754.666
G) OFF BALANCE SHEET ITEMS	108	127.975.856	152.322.674

APPENDIX 1: OTHER LEGAL AND REGULATORY REQUIREMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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
I. OPERATING INCOME (112+113)	111	1.994.516.132	2.096.936.394
1. Revenue from sales	112	1.969.352.862	2.075.049.149
2. Other operating income	113	25.163.270	21.887.245
II. OPERATING EXPENSE (115+116+120+124+125+126+129+130)	114	1.941.939.469	2.049.478.389
1. Change in value of work-in-progress and finished goods	115		
2. Material expenses (117 do 119)	116	1.818.777.514	1.936.664.183
a) Raw materials	117	8.489.728	9.093.336
b) Cost of goods sold	118	1.789.142.293	1.906.922.530
c) Other external expenses	119	21.145.493	20.648.317
3. Employee expenses (121 do 123)	120	51.643.125	50.589.573
a) Salaries and wages	121	28.760.782	28.922.419
b) Taxes and contributions from salaries	122	15.320.236	14.244.212
c) Contributions on salary	123	7.562.107	7.422.942
4. Amortisation and depreciation	124	15.413.019	14.561.843
5. Other expenses	125	36.480.143	34.058.014
6. Impairment (127+128)	126	18.072.990	13.570.219
a) of long-term assets (except for financial assets)	127		
b) of current assets (except for financial assets)	128	18.072.990	13.570.219
7. Provisions	129	1.552.678	34.557
8. Other operating expenses	130		
III. FINANCIAL INCOME (132 do 136)	131	13.953.226	3.309.340
1. Interest, foreign exchange gains, dividends and similar income from related parties	132	121.984	18.157
2. Interest, foreign exchange gains, dividends and similar income from third and other	133	13.831.242	3.291.183
3. Income from joint ventures and participating interests	134		
4. Unrealized gains (income)	135		
5. Other financial income	136		
IV. FINANCIAL EXPENSE (138 do 141)	137	40.594.239	32.994.885
1. Interest, foreign exchange losses and other related party expenses	138		
2. Interest, foreign exchange loses and other expenses from third and other parties	139	40.594.239	32.994.885
3. Unrealized gains (losses) on financial assets	140		
4. Other financial expense	141		
V. SHARE OF PROFIT FROM ASSOCIATED COMPANIES	142		
VI. SHARE OF LOSS OF ASSOCIATED COMPANIES	143		
VII. EXTRAORDINARY- OTHER INCOME	144		
VIII. EXTRAORDINARY- OTHER LOSSES	145		
IX. TOTAL INCOME (111+131+142 + 144)	146	2.008.469.358	2.100.245.734
X. TOTAL EXPENSES (114+137+143 + 145)	147	1.982.533.708	2.082.473.274
XI. PROFIT OR LOSS BEFORE TAX (146-147)	148	25.935.650	17.772.460
1. Profit before tax (146-147)	149	25.935.650	17.772.460
2. Loss before tax (147-146)	150	0	0
XII. INCOME TAX	151	7.496.506	5.327.189
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	18.439.144	12.445.271
1. Profit for the year (149-151)	153	18.439.144	12.445.271
2. Loss for the year (151-148)	154	0	0

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
CASH FLOWS FROM OPERATING ACTIVITIES			
1. Profit before tax	001	25.935.650	17.772.460
2. Amortization and depreciation	002	15.413.019	14.561.843
3. Increase in current liabilities	003		91.904.062
4. Decrease in current receivables	004	21.429.819	
5. Decrease in inventories	005	1.189.021	34.396.329
6. Other cash inflows	006		
I. Total cash inflows from operating activities (001 to 006)	007	63.967.509	158.634.694
1. Decrease in current liabilities	008	881.789	
2. Increase in current receivables	009		177.609.534
3. Increase in inventories	010		
4. Other cash outflows	011	28.334.223	14.352.526
II. Total cash outflows from operating activities (008 to 011)	012	29.216.012	191.962.060
A1) NET CASH INFLOWS FROM OPERATING ACTIVITIES	013	34.751.497	0
A2) NET CASH OUTFLOWS FROM OPERATING ACTIVITIES	014	0	33.327.366
CASH FLOWS FROM INVESTMENT ACTIVITIES			
1. Cash receipts from the sale of tangible and intangible assets	015	886.890	430.521
2. Cash receipts from sale of equity and debt instruments	016		
3. Cash receipts from interest	017	2.687.361	311.449
4. Cash receipts from dividends	018		
5. Other cash receipts	019		1.573.438
III. Total cash receipts from investment activities (015 to 019)	020	3.574.251	2.315.408
1. Cash outflows from the purchase of tangible and intangible assets	021	10.790.536	1.876.982
2. Cash outflow for acquiring equity and debt instruments	022		
3. Other cash outflows	023		
IV. Total cash outflows from investment activities (021 up to 023)	024	10.790.536	1.876.982
B1) NET CASH INFLOWS FROM INVESTMENT ACTIVITIES	025	0	438.426
B1) NET CASH OUTFLOWS FROM INVESTMENT ACTIVITIES	026	7.216.285	0
CASH FLOW FROM FINANCING ACTIVITIES			
1. Cash receipts from issuing equity and debt instruments	027		
2. Cash inflow from loans, bonds and other borrowings	028	193.099.041	210.583.452
3. Other cash inflows from financing activities	029		
V. Total cash intflow from financing activities (027 to 029)	030	193.099.041	210.583.452
1. Cash outflow for the repayment of principal of loans and bonds	031	233.786.680	157.930.852
2. Cash outflow for dividend payout	032	103.068	377.013
3. Cash outflow for the repayment of finance lease	033	2.169.595	2.352.276
4. Cash outflow for redemption of own shares	034		8.025.610
5. Ostali novčani izdaci od financijskih aktivnosti	035		
VI. Total cash outflow from financing activities (031 to 035)	036	236.059.343	168.685.751
C1) NET CASH INFLOWS FROM FINANCING ACTIVITIES	037	0	41.897.701
C2) NET CASH OUTFLOWS FROM FINANCING ACTIVITIES	038	42.960.302	0
Total cash increase (013 – 014 + 025 – 026 + 037 – 038)	039	0	9.008.761
Total cash decrease (014 – 013 + 026 – 025 + 038 – 037)	040	15.425.090	0
Cash and cash equivalents at beginning of period	041	41.993.688	26.568.598
Increase in cash and cash equivalents	042		9.008.761
Decrease in cash and cash equivelents	043	15.425.090	
Cash and cash equivalents at year end	044	26.568.598	35.577.359

APPENDIX 1: OTHER LEGAL AND REGULATORY REQUIREMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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

In thousands of HRK	Statement of financial position in accordance with IFRS.	Deposits	Loans given	Loans given to related parties	Bill of exchange receivables	Prepaid expenses and accrued income	VAT on credit notes	Profit for the year	Capital loss	Own shares	Liabilities for customs and freight services	Reserves resulting from hyperinflation	Liabilities for advances received	Accruals	Provisions for employees	Provisions for legal disputes	Income tax liabilities	Dividend payable	Trade payables	Liabilities to employees	Liabilities to state and other institutions	Other liabilities	Bills of exchange discounted by creditors	Bills of exchange discounted by banks	Liabilities for loan interest	Rounding	Standardised annual financial statements in accordance with Regulation on the structure of AFS.	
ASSETS																												ASSETS
Property, plant and equipment	148.383																										148.383	Tangible assets
Intangible asset	26.212																										26.212	Intangible assets
Investment in subsidiaries	60.000	193	206																								60.399	Financial assets
Deferred tax asset	457																										457	Deferred tax asset
Trade and other receivables	206		-206																								0	Receivables
Total non current assets	236.258	193	0	0	0	0	0	0	0	0	0	0	0	0		0							0	0	0	0	236.451	NON-CURRENT ASSETS
Inventories	185.872										69																185.941	Inventories
Receivables	1.300.926	-193	-1.083		-39.360	-609	-662										1.712										1.260.733	Receivables
Income tax receivable	1.712																-1.712											
			1.083	0	39.360																						40.443	Financial assets
Cash and cash equivalents	35.577																										35.577	Cash at bank and on hand
Total current assets	1.524.069	-193	0	0	0	-609	-662	0	0	0	69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1.522.694	CURRENT ASSETS
						609																					609	PREPAID EXPENSES AND ACCRUED INCOME
TOTAL ASSETS	1.759.347	0	0	0	0	0	-662	0	0	0	69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1.758.754	TOTAL ASSETS
EQUITY AND LIABILITIES																												EQUITY AND LIABILITIES
Share capital	37.648								6.663	15.677																	60.388	Issued capital
									-6.663																		-6.663	Capital reserves
Reserves	67.276									-15.677	31.797																83.396	Profit reserves
Retained earnings	204.276							-12.444			-31.797	0														-1	160.034	Retained earnings
								12.444																			12.444	Profit for the year
Total equity	309.402	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-1	309.401	CAPITAL RESERVES
Long term borrowings	11.151																										11.151	Liabilities towards banks and other financial institutions
Non-current provision	420																										420	Provisions
Total non-current liabilities	11.571	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11.571	NON-CURRENT LIABILITIES
Trade and other liabilities	1.092.404						-1.324						-646	-1.546				-1	-1.070.621	-6.408	-3.026	-1.069	-7.470			1	292	Liabilities towards related parties
Short term borrowings	344.562																							-30.540	-3.542		310.480	Liabilities towards banks and other financial institutions
													646														646	Liabilities for advances received
																			1.070.621								1.070.621	Trade payables
																							7.470	30.540			38.010	Liabilities from securities
Income tax liability																	0										0	
Current provisions	1.408														-110	-1.298											0	
															110					6.408							6.518	Liabilities to employees
							662										0				3.026						3.688	Liabilities for taxes and contributions
																		1									1	Liabilities arising from share of result
																						1.069			3.542		4.611	Other Liabilities
Total current liabilities	1.438.374	0	0	0	0	0	-662	0	0	0	0	0	0	-1.548	0	-1.298	0	0	0	0	0	0	0	0	0	1	1.434.887	CURRENT LIABILITIES
											69			1.548		1.298											2 915	ACCRUED EXPENSES AND DEFERRED INCOME
Total liabilities	1.449.945	0	0	0	0	0	-662	0	0	0	69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1.449.353	
TOTAL EQUITY AND LIABILITIES	1.759.347	0	0	0	0	0	-662	0	0	0	69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1.758.754	TOTAL EQUITY AND LIABILITIES

MEDIKA d.d.

APPENDIX 1: OTHER LEGAL AND REGULATORY REQUIREMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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

in thousands of HRK	Statement of comprehensive income in accordance with IFRS.	Other revenue	Inventory surpluses and income from corrections made on inventories	Interest income	Income from redemption of receivables	Discount expenses arising from sale of receivables	Income from provisions released	Other expenses	Income from bill of exchange recovered previously impaired	Expenses from discounting bills of exchange	Foreign exchange gain from loans	Other foreign exchange gains	Interest expense	Foreign exchange losses from loans	Other foreign exchange losses	Sale of tangible assets	Impairment of receivables	Impairment of receivables	Provisions for legal disputes	Marketing expenses included in other operating expenses	Other operating expenses and material expenses	Raw materials used	Bonuses, employee benefits and contributions	Employee benefits	Rounding	Standardised annual financial statements in accordance with Regulation on the structure of AFS.	
Revenues	2.083.586	-7.702		-311	-3	495		-1.016																		2.075.049	Revenue from sales
		7.702	2.588				1.206									438		9.953								21.887	Other operating income
Total operating revenues	2.083.586	0	2.588	-311	-3	495	1.206	-1.016	0	0	0	0	0	0	0	438	0	9.953	0	0	0	0	0	0	0	2.096.936	OPERATING INCOME
Cost of trade goods sold	-1.910.199		-2.588																	-3.552	-1.515	-18.810				-1.936.664	Material expenses
Staff costs	-59.250						-1.206												35				9.832			-50.589	Employee expenses
Marketing and promotion expenses	-10.030																			8.527	1.503					0	
Depreciation and amortisation	-14.562																									-14.562	Amortisation
Other operating expenses	-42.634							1.016								-72	13.570	-9.953		-4.975	12	18.810	-9.832			-34.058	Other expenses
																	-13.570									-13.570	Impairment
																			-35							-35	Provisions
																										0	Other operating expenses
Other gain/(losses) - net	-7.235											-634			8.236	-366									-1	0	
Total operating expenses	-2.043.910	0	-2.588	0	0	0	-1.206	1.016	0	0	0	-634	0	0	8.236	-438	0	-9.953	0	0	0	0	0	0	-1	-2.049.478	OPERATING EXPENSES
Finance costs - net	-21.904									1.504	-2.361		17.279	5.482												0	
				311	3						2.361	634														3.309	Financial income
						-495				-1.504			-17.279	-5.482	-8.236										1	-32.995	Financial expense
																										0	Extraordinary other income
																										0	Extraordinary other expenses
Finance costs - net	-21.904	0	0	311	3	-495	0	0	0	0	0	634	0	0	-8.236	0	0	0	0	0	0	0	0	0	1	-29.686	NET FINANCIAL EXPENSE
Profit before tax	17.772	0	0	0	0	0	0		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	17.772	PROFIT BEFORE TAX
Income tax	-5.327																									-5.327	Income tax
Net profit	12.445	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	12.445	Profit for the year
Other comprehensive income	0																									0	Net other comprehensive income
Total other comprehensive income	12.445	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	12.445	TOTAL COMPREHENSIVE INCOME OR LOSS FOR

MEDIKA d.d.

APPENDIX 1: OTHER LEGAL AND REGULATORY REQUIREMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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

in thousands of HRK	Statement of cash flow in accordance with IFRS.	Income tax	Impairment of receivables	Inventory impairment	Liabilities for customs and freight services	Non cash reconciliation of income	Recapitalization of subsidiaries	Receipt from loan given	Loans given	Other movements in liabilities	Reclassified movement in receivables	Interest paid	Income tax paid	Standardised annual financial statements in accordance with Regulation on the structure of AFS.	
CASH FLOWS FROM OPERATING ACTIVITIES															CASH FLOWS FROM OPERATING ACTIVITIES
Net profit	12445	5.327												17.772	1. Profit before tax
Income tax	5.327	-5.327												0	
Depreciation and amortisation	14.562													14.562	2. Amortization and depreciation
Impairment of receivables	3.617		-3.617											0	
Impairment of loans given	0													0	
Inventory impairment	3.788			-3.788										0	
Unrealised foreign exchange differences	3.104					-3.104								0	
Change in provisions	-739					739								0	
Gain on sale of property and equipment	-365					365								0	
Impairment of property and equipment	0													0	
Tangible assets disposal	6					-6								0	
Interest expense	17.279					-17.279								0	
Interest income	-311					311								0	
Expenses from discounting bills of exchange	1.504					-1.504								0	
Release of financial lease liability	0													0	
										-728	-176.881			-177.609	4. Decrease in current receivables
					16	20.478				-9.464		-17.738	-7.644	-14.352	6. Other cash inflows
Working capital changes	60.217	0	-3.617	-3.788	16	0	0	0	0	-10.192	-176.881	-17.738	-7.644	-159.627	Total cash inflows from operating activities
Inventories (increase)/decrease	30.624			3.788	-16									34.396	3. Increase in inventories
Trade and other receivables (increase)/decrease	-180.498		3.617								176.881			0	
Trade and other payables increase/(decrease)	81.712									10.192				91.904	1. Decrease in current liabilities
Cash flows generated by operating activities	-7.945	0	0	0	0	0	0	0	0	0	0	-17.738	-7.644	126.300	Total cash outflows from operating activities
Interest paid	-17.738											17.738		0	
Income tax paid	-7.644												7.644	0	
Net cash flows from operating activities	-33.327	0	0	0	0	0	0	0	0	0	0	0	0	-33.327	NET CASH INFLOWS FROM OPERATING ACTIVITIES
INVESTING ACTIVITIES															CASH FLOWS FROM INVESTMENT ACTIVITIES
Purchase of tangible and intangible assets	-1.876													-1.876	Cash outflows from the purchase of tangible and intangible assets
Proceeds from sale of tangible assets	430													430	Cash receipts from the sale of tangible and intangible assets
Proceeds from repayment of loans given	3.031							-3.031						0	
Investment in subsidiaries	-428						428							0	
							-428	3.031	-1.030					1.573	Other receipts from investment activities
Loans given	-1.030								1.030					0	
Interest received	311													311	Cash receipts from interest
Net cash flows from investing activities	438	0	0	0	0	0	0	0	0	0	0	0	0	438	NET CASH OUTFLOWS FROM INVESTMENT ACTIVITIES
FINANCING ACTIVITIES															CASH FLOW FROM FINANCING ACTIVITIES
Repayment of borrowings	-157.930													-157.930	Cash outflow for the repayment of principal of loans and bonds
Proceeds from borrowings	210.583													210.583	Cash inflow from loans, bonds and other borrowings
Repayment of finance lease	-2.352													-2.352	Cash outflow for the repayment of finance lease
Acquisition of treasury shares	-8.026													-8.026	Cash outflow for buying own shares
Dividend paid	-378													-378	Cash outflow for dividend payout
Net cash flows from financing activities	41.897	0	0	0	0	0	0	0	0	0	0	0	0	41.897	NET CASH OUTFLOWS FROM FINANCING ACTIVITIES
Net increase in cash and cash equivalents	9.008	0	0	0	0	0	0	0	0	0	0	0	0	9.008	Total cash increase
Cash and cash equivalents at 1 January	26.569													26.569	Cash and cash equivalents at beginning of period
Cash and cash equivalents at 31 December	35.577	0	0	0	0	0	0	0	0	0	0	0	0	35.577	Cash and cash equivalents at year end