

**MEDIKA d.d.**

**AUDITOR'S REPORT AND  
CONSOLIDATED FINANCIAL STATEMENTS  
31 DECEMBER 2010**

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

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### **Financial results in the year 2010**

In the year 2010, Medika Group realized consolidated revenue in the amount of HRK 2,057,636 thousand, an increase of 1.6% in comparison to previous year. Consolidated operating profit of HRK 60,338 thousand grew by 38.5%.

Consolidated profit before tax amounts to HRK 33,762 thousand and consolidated net profit HRK 24,739 thousand, being 46.8% more than 2009.

If analysing operating business segments (note 6 in financial statements), 72.5% of total consolidated income was generated through "pharmacies" segment, and 22.1% through "hospitals" segment. In comparison to prior year, the "pharmacies" segment experienced growth of 9.7%.

Total consolidated assets amount to HRK 1,684,736 thousand, and remain unchanged in comparison to previous year. Consolidated current assets comprise 80.5% of total assets. Trade and other receivables are the most significant part of total assets and have decreased by 3.2% in comparison to prior year.

The equity to assets ratio of the Group shows that 19% of total consolidated assets is financed through own resources.

Total consolidated credit indebtedness of the Medika Group is HRK 311,118 thousand, of which HRK 110,791 thousand relates to short-term loans (loans, commercial bills, finance lease), while the remainder in the amount of HRK 200,327 thousand relates to long-term loans and financial lease.

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

### **Subsequent events**

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

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

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

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

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

### **Treasury shares**

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

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

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

### **Medika Group**

Medika Group consists of a parent company Medika d.d., whose primary activity is the wholesale of medicines and medical products, and subsidiaries Primus nekretnine Ltd., registered in Zagreb and Zdravstvena ustanova Ljekarne Prima Pharme, registered in Split. Both are 100% owned by Medika d.d.

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

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

### **Risks**

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

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

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

Credit risk, liquidity risk, foreign exchange risk and how the Group governs them is explained in more detail in the notes of the financial statements.



### **Corporate governance**

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

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

### **Management and Supervisory Board**

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

The supervisory Board consists of: Mr. Mate Perković, president, Mr. Damjan Možina, vice-president, and members: Mr. Matko Bolanča, Mr. Tomislav Gnjidić, Mr. Mladen Kovačić, Mr. Nikica Gabrić and Mrs. Anka Tikulin – representative of workers.

Zagreb, 7 March 2011

Jasminko Herceg  
*Member of the Management Board*

**Medika** d.d.  
ZAGREB, Croatia

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

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

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

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

The financial statements set out on pages 7 to 46 and alternative presentation and reconciliation set out on pages 47 to 53 were authorised by the Management Board on 7 March 2011 for issue to the Supervisory Board and are signed below to signify this.

By order of the Management Board

Jasmirko Herceg  
*Member of the Management Board*

The logo for Medika d.d. features the company name in a blue, sans-serif font. Below the name, the location 'ZAGREB, Capraška' is written in a smaller, lighter blue font. A small blue square icon is positioned to the left of the company name.

**Medika** d.d.  
ZAGREB, Capraška



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

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

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2010, and of its consolidated financial performance and its consolidated 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 47 to 53 ("the Schedules"), which comprise an alternative presentation of the consolidated statement of financial position as at 31 December 2010, consolidated statement of comprehensive income and consolidated cash flow statement for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules as presented on pages 47 to 53 with the consolidated financial statements as presented on pages 7 to 46. 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 46 on which we have expressed an opinion as set out above.

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

Croatian Certified Auditors

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

Ivana Lučića 2a

10000 Zagreb, Croatia

**KPMG Croatia**  
d.o.o.  
1 Eurotower, 17. kat  
Ivana Lučića 2a, 10000 Zagreb

**7 March 2011**

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



**MEDIKA d.d.**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

*(all amounts are expressed in thousands of HRK)*

	<b>Note</b>	<b>2010</b>	<b>2009</b>
Revenues	5, 6	2,057,636	2,026,086
Cost of trade goods sold	6	(1,811,239)	(1,800,374)
Staff costs	7	(92,295)	(89,884)
Marketing and promotion expenses	8	(13,150)	(15,657)
Depreciation and amortisation	14, 15	(18,946)	(17,023)
Other operating expenses	9	(57,828)	(59,600)
Other gains / (loss) – net	10	(3,840)	18
<b>Operating profit</b>		<b>60,338</b>	<b>43,566</b>
Finance costs – net	11	(26,576)	(20,545)
Share of profits in associates	16	-	412
<b>Profit before tax</b>		<b>33,762</b>	<b>23,433</b>
Income tax	12	(9,023)	(6,581)
<b>Net profit for the year</b>		<b>24,739</b>	<b>16,852</b>
<b>Other comprehensive income</b>			
Changes during the year		-	-
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income</b>		<b>24,739</b>	<b>16,852</b>
Earnings per share:			
- basic (in HRK)	13	<b>862.65</b>	<b>592.95</b>

The consolidated financial statements set out on pages 7 to 46 were approved by the Management Board of the Company in Zagreb on 7 March 2011.

Jasminko Herceg  
Member of the Management Board

**Medika d.d.**  
ZAGREB, Croatia

The accompanying notes on pages 12 to 46 form an integral part of these consolidated financial statements.

**MEDIKA d.d.****CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2010**

<i>(all amounts are expressed in thousands of HRK)</i>	<b>Note</b>	<b>As at 31 December</b>	
		<b>2010</b>	<b>2009</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	14	172,600	173,366
Intangible assets	15	133,846	116,551
Investment in associates	16	17,267	17,556
Deferred tax asset	26	2,732	3,179
Trade and other receivables	18	2,024	975
		<u>328,469</u>	<u>311,627</u>
<b>Current assets</b>			
Inventories	19	243,230	211,607
Trade and other receivables	18	1,081,750	1,117,051
Income tax receivable		22	62
Cash and cash equivalents	20	31,265	50,134
		<u>1,356,267</u>	<u>1,378,854</u>
<b>Total assets</b>		<b><u>1,684,736</u></b>	<b><u>1,690,481</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	21	43,879	36,818
Reserves	22	62,730	62,730
Retained earnings	23	208,770	189,283
		<u>315,379</u>	<u>288,831</u>
<b>Non-current liabilities</b>			
Long-term borrowings	25	200,327	218,368
Deferred tax liability	26	10,650	10,309
Provisions	27	605	720
		<u>211,582</u>	<u>229,397</u>
<b>Current liabilities</b>			
Trade and other payables	24	1,043,534	1,047,898
Income tax liabilities		1,244	3,260
Short-term borrowings	25	110,791	119,853
Provisions	27	2,206	1,242
		<u>1,157,775</u>	<u>1,172,253</u>
<b>Total equity and liabilities</b>		<b><u>1,684,736</u></b>	<b><u>1,690,481</u></b>

The accompanying notes on pages 12 to 46 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

*(all amounts are expressed in thousands of HRK)*

	Note	Share capital	Reserves	Retained earnings	Total
<b>As at 1 January 2009</b>		<b>36,220</b>	<b>32,283</b>	<b>202,878</b>	<b>271,381</b>
<b>Total comprehensive income</b>					
Net profit for the year		-	-	16,852	16,852
Other comprehensive income		-	-	-	-
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>16,852</b>	<b>16,852</b>
<b>Transactions with owners recognized directly in equity</b>					
Transfer to reserves for treasury shares	22	-	30,447	(30,447)	-
Release of treasury shares	21	598	-	-	598
<b>Transactions with owners recognized directly in equity</b>		<b>598</b>	<b>30,447</b>	<b>(30,447)</b>	<b>598</b>
<b>As at 31 December 2009</b>		<b>36,818</b>	<b>62,730</b>	<b>189,283</b>	<b>288,831</b>
<b>As at 1 January 2010</b>		<b>36,818</b>	<b>62,730</b>	<b>189,283</b>	<b>288,831</b>
<b>Total comprehensive income</b>					
Net profit for the year		-	-	24,739	24,739
Other comprehensive income		-	-	-	-
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>24,739</b>	<b>24,739</b>
<b>Transactions with owners recognized directly in equity</b>					
Release of treasury shares	21	1,995	-	-	1,995
Interim dividend	21, 23	5,066	-	(5,252)	(186)
<b>Transactions with owners recognized directly in equity</b>		<b>7,061</b>	<b>-</b>	<b>(5,252)</b>	<b>1,809</b>
<b>As at 31 December 2010</b>		<b>43,879</b>	<b>62,730</b>	<b>208,770</b>	<b>315,379</b>

The accompanying notes on pages 12 to 46 form an integral part of these consolidated financial statements.

**MEDIKA d.d.****CONSOLIDATED STATEMENT OF CASH FLOW****FOR THE YEAR ENDED 31 DECEMBER 2010**

<i>(all amounts expressed in thousands of HRK)</i>	<b>Note</b>	<b>2010</b>	<b>2009</b>
<b>Net profit</b>		<b>24,739</b>	<b>16,852</b>
<b>Adjustments for:</b>			
Income tax	12	9,023	6,581
Depreciation and amortisation	14, 15	18,946	17,023
Impairment of receivables	9	1,504	7,265
Impairment of loans given	9	-	569
Inventory impairment	19	3,841	2,621
Unrealised foreign exchange differences		2,142	46
Change in provisions	27	849	(205)
Gains on sale of tangible assets	10	(392)	(183)
Impairment of tangible assets		-	1,109
Impairment of intangible assets		1	3
Interest income	11	(2,796)	(1,791)
Interest expense		24,285	20,588
Release of lease liability		-	(1,166)
Share of (profit)/loss from associates	16	-	(412)
<b>Changes in working capital:</b>			
Inventories		(35,135)	9,091
Trade and other receivables		36,534	98,101
Trade and other payables		(9,391)	(142,601)
<b>Cash generated from operating activities</b>		<b>74,150</b>	<b>33,491</b>
Interest paid		(23,411)	(20,629)
Income tax paid		(10,552)	(5,719)
<b>Cash flows from operating activities</b>		<b>40,187</b>	<b>7,143</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	14	(6,970)	(33,648)
Proceeds from sale of property and equipment		773	314
Purchase of intangible assets	15	(19,956)	(6,788)
Acquisition of subsidiary, net of cash acquired	29	20	(1,310)
Proceeds from the repayment of loans given		3,812	1,535
Loans given		(3,014)	(1,700)
Interest received		2,770	1,646
Dividend received	16	289	-
<b>Cash flows from investing activities</b>		<b>(22,276)</b>	<b>(39,951)</b>

The accompanying notes on pages 12 to 46 form an integral part of these consolidated financial statements.



**MEDIKA d.d.****CONSOLIDATED STATEMENT OF CASH FLOW****FOR THE YEAR ENDED 31 DECEMBER 2010**

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*(all amounts expressed in thousands of HRK)*

	<u>Note</u>	<u>2010</u>	<u>2009</u>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(254,654)	(143,814)
Proceeds from borrowings		220,585	164,162
Repayment of finance lease		(2,608)	(1,904)
Dividend paid	23	(103)	-
<b>Cash flows from financing activities</b>		<u>(36,780)</u>	<u>18,444</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<u>(18,869)</u>	<u>(14,364)</u>
Cash and cash equivalents at beginning of year	20	50,134	64,498
<b>Cash and cash equivalents at end of year</b>	20	<u>31,265</u>	<u>50,134</u>

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The accompanying notes on pages 12 to 46 form an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

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**NOTE 1 – GENERAL INFORMATION**

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

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

	<u>2010</u>	<u>2009</u>
- Zdravstvena ustanova Ljekarne Prima Pharme, Split	100%	100%
- Zdravstvena ustanova Ljekarne Delonga, Okrug Gornji (from May 2007)	100%	100%
- Ljekarna Ines Buhač, Zagreb (from April 2009)	100%	100%
- Ljekarna Mladenka Čobanov, Šibenik (from July 2010)	100%	100%
- Ljekarna Irena Hanžek, Zagreb (acquired in 2010)	-	100%
- Zdravstvena ustanova Ljekarne Jagatić, Zagreb (from November 2008)	49%	49%
- Primus nekretnine d.o.o., Zagreb (established in 2009)	100%	100%

As at 31 December 2010, the Company’s shares were listed on the official market on the Zagreb Stock Exchange. The shareholder structure is shown in note 21.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2.1 Basis of preparation**

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

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

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

**New standards and interpretations not yet adopted**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.2 Consolidation**

*(a) Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

*(b) Associates*

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

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

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

**2.3 Segment reporting**

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.4 Foreign currencies**

*(a) Functional and presentation currency*

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

*(b) Transactions and balances*

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

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

**2.5 Property and equipment**

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

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

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

The estimated useful lives are as follows:

Buildings	10-40 years
Equipment	2-20 years

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.5 Property and equipment (continued)**

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

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

**2.6 Intangible assets**

*(a) Goodwill*

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

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

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

*(b) Licences*

Acquired pharmaceutical service licences are capitalised by the amount for which future economic benefits are expected. These licences are amortized over their estimated useful life of 5 to infinite lifetime. If there is an indication for impairment loss, recoverable amount is estimated.

*(c) Software*

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

*(d) Other rights*

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

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

**2.7 Impairment of non-financial assets**

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

**2.8 Financial assets**

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

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

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

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

**2.9 Leases**

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.10 Inventories**

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

**2.11 Trade and loan receivables**

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

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

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

**2.12 Cash and cash equivalents**

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

**2.13 Share capital**

Ordinary shares are classified as equity.

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

**2.14 Trade payables**

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

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

**2.15 Borrowings**

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

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

**2.16 Income tax**

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

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

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

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

**2.17 Employee benefits**

*(a) Pension obligations and post-employment benefits*

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

*(b) Long-term employee benefits*

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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

**2.17 Employee benefits (continued)**

*(c) Short-term employee benefits*

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

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

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

**2.18 Provisions**

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

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

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

**2.19 Revenue recognition**

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

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

*(a) Sale of goods*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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

**2.19 Revenue recognition (continued)**

*(a) Sale of goods (continued)*

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

*(b) Sale of services*

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

*(c) Interest income*

Interest income arising from fixed-term bank deposits, given loans and interest from customers is recognised in the period when collected.

**2.20 Finance expenses**

Finance expenses comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets and foreign currency losses. All borrowing costs are recognised in profit or loss using the effective interest method.

**2.21 Dividend distribution**

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

**2.22 Value added tax**

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

**2.23 Earnings per share**

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

**2.24 Comparative information**

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



**NOTE 3 – FINANCIAL RISK MANAGEMENT**

**3.1 Financial risk factors**

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

*(a) Market risk*

*(i) Foreign exchange risk*

The Group's sales are predominantly realised on the domestic market in Croatian kuna (HRK). Commercial bills have been issued in HRK and therefore, there is no foreign exchange risk exposure in relation to the above stated. However, the Group's purchase of goods is predominantly realised on the foreign market. Furthermore, a part of the long-term borrowings is linked to foreign currencies. The Group is therefore exposed to foreign exchange risk arising from various changes in foreign exchange rates mainly linked to the EUR, which may have an impact on future operating results and cash flows. In relation to this, the Group does not use derivative instruments to actively hedge foreign exchange risk exposure.

As at 31 December 2010, if the EURO had weakened/strengthened by 1.14% against the HRK (2009: 0.43%), with all other variables held constant, the profit after tax for the reporting period would have been HRK 4,848 thousand higher/lower (2009: 2,131 thousand), mainly as a result of foreign exchange gains/losses on translation of EURO-denominated trade payables and liabilities for issued bonds.

*(ii) Cash flow and fair value interest rate risk*

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

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

The Group does not use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure. However, the Group continuously monitors changes in interest rates.

Various scenarios are simulated taking into account refinancing, renewal of existing positions and alternative financing.

As at 31 December 2010, if the effective interest rate on borrowings (issued at variable rate) had been 0.22% higher/lower on an annual level (2009: 3.43%), the profit after tax for the reporting period would have been HRK thousand lower/higher by HRK 353 thousand (2009: 7,728 thousand).

*(iii) Equity securities risk*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

## 3.1 Financial risk factors (continued)

*(b) Credit risk*

Group's exposure to credit risk is influenced mainly by current assets which comprise cash, trade and other receivables. The Group does not have a significant concentration of credit risk. Group's sales policies ensure that sale is done towards customers with adequate credit history. As for the credit exposure, customers are divided into three categories: pharmacies, hospitals and other customers. Pharmacies present higher credit risk since they have potential going concern issue. On the other hand, collection period for hospitals is longer, but there are no impairment indications, namely, there is no going concern issue. The majority of receivables are either financially dependent or owned by the State causing the Group, from perspective of credit risk exposure, also to be dependent on the State. Other customers are not significant because of dispersion on large number of customers, individually small balances and Group's strict measures of collection of outstanding debts and delivery of goods. The Group insures part of the trade receivables by bills of exchange and promissory notes. Detailed credit risk analysis is shown under notes 17 and 18.

*(c) Liquidity risk*

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

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

<i>(in thousands of HRK)</i>	<b>Less than 1 year</b>	<b>Between 1-3 years</b>	<b>Over 3 years</b>	<b>Total</b>
<b>31 December 2010</b>				
Trade and other payables	1,043,534	-	-	1,043,534
Borrowings	125,791	198,391	11,836	336,018
<i>(in thousands of HRK)</i>	<b>Less than 1 year</b>	<b>Between 1-3 years</b>	<b>Over 3 years</b>	<b>Total</b>
<b>31 December 2009</b>				
Trade and other payables	1,047,493	-	-	1,047,898
Borrowings	145,973	38,123	207,352	391,448

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

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

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

The self-financing ratio is as follows:

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Total equity (capital and reserves)	315,379	288,831
Total assets	<u>1,684,736</u>	<u>1,690,481</u>
<b>Self-financing ratio</b>	<b><u>19%</u></b>	<b><u>17%</u></b>

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

3.3 Fair value estimation

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

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**NOTE 4 – CRITICAL ACCOUNTING ESTIMATES**

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

*Assumptions to determine amount of provisions of trade receivables*

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

As at 31 December 2010, if the amount of uncollectible receivables in total receivables past due had been 1% lower/higher, with all other variables held constant, profit after tax for the reporting period would have been HRK 4,270 thousand higher/lower than the one recorded (2009: HRK 4,959 thousand), i.e., the effect in the hospital segment would be HRK 3,921 thousand (2009: HRK 3,068 thousand), in the pharmacy segment HRK 13 thousand (2009: HRK 1,503 thousand) and in the segment 'other' HRK 336 thousand (2009: HRK 388 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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NOTE 5 - REVENUES

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Revenues	2,047,623	2,017,026
Other income	10,013	9,060
	<u>2,057,636</u>	<u>2,026,086</u>

NOTE 6 – BUSINESS SEGMENT INFORMATION

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

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

Transactions between segments do not exist. The Group applies the same accounting policies for all segments.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 6 – BUSINESS SEGMENT INFORMATION (continued)

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

<i>(in thousands of HRK)</i>	<b>Pharmacies</b>	<b>Hospitals</b>	<b>Other</b>	<b>Total</b>
Sales	1,515,672	454,721	111,506	2,081,899
Sales to related parties	(24,263)	-	-	(24,263)
<b>Total revenues</b>	<b>1,491,409</b>	<b>454,721</b>	<b>111,506</b>	<b>2,057,636</b>
Cost of trade goods sold	(1,317,870)	(399,862)	(93,507)	(1,811,239)
<b>Segment results</b>	<b>173,539</b>	<b>54,859</b>	<b>17,999</b>	<b>246,397</b>
<b>Operating profit</b>				<b>60,338</b>
Finance costs- net				(26,576)
Share of profits in associates				-
<b>Profit before tax</b>				<b>33,762</b>
Income tax				(9,023)
<b>Profit for the year</b>				<b>24,739</b>

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

<i>(in thousands of HRK)</i>	<b>Pharmacies</b>	<b>Hospitals</b>	<b>Other</b>	<b>Total</b>
Sales	1,543,953	390,577	276,390	2,210,920
Sales to related parties	(184,820)	-	(14)	(184,834)
<b>Total revenues</b>	<b>1,359,133</b>	<b>390,577</b>	<b>276,376</b>	<b>2,026,086</b>
Cost of trade goods sold	(1,216,007)	(341,617)	(242,750)	(1,800,374)
<b>Segment results</b>	<b>143,126</b>	<b>48,960</b>	<b>33,626</b>	<b>225,712</b>
<b>Operating profit</b>				<b>43,566</b>
Finance costs				(20,545)
Share of profits in associates				412
<b>Profit before tax</b>				<b>23,433</b>
Income tax				(6,581)
<b>Profit for the year</b>				<b>16,852</b>

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

<i>(in thousands of HRK)</i>	<b>Pharmacies</b>	<b>Hospitals</b>	<b>Other</b>	<b>Total</b>
Trade receivables	502,481	444,684	122,727	1,069,892

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

<i>(in thousands of HRK)</i>	<b>Pharmacies</b>	<b>Hospitals</b>	<b>Other</b>	<b>Total</b>
Trade receivables	588,745	413,077	102,866	1,104,688



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 7 – STAFF COSTS

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Net salaries	47,521	45,897
Tax and surtax	9,837	9,905
Contributions from and on salaries /i/	26,087	25,655
Termination benefits	1,225	2,393
Employee transportation costs	1,696	1,786
Other employee benefits /ii/	2,914	2,805
Bonuses	3,015	1,443
	<u>92,295</u>	<u>89,884</u>

As at 31 December 2010, the Group had 635 employees (2009: 629 employees).

/i/ In 2010, pension contributions calculated by the Group for payment to mandatory pension funds amounted to HRK 13,989 thousand (2009: HRK 13,834 thousand).

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

NOTE 8 – MARKETING AND PROMOTION EXPENSES

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Entertainment	7,536	9,527
Marketing	1,708	2,560
Donations	3,906	3,570
	<u>13,150</u>	<u>15,657</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

**NOTE 9 – OTHER OPERATING EXPENSES**

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Provision for trade receivables (note 18/ii)	1,504	7,265
Provision for trade receivables from long-term loans given (note 18/iv)	-	569
Maintenance of assets, security services and insurance	11,569	11,219
Materials and energy consumed	10,911	9,081
Rental expenses	7,598	7,218
Taxes and contributions irrespective of results	4,290	4,451
Professional training and consultancy services	5,251	5,343
Bank charges and payment transaction costs	3,107	2,854
Telephone, postal and utility services	3,830	2,754
Expenses from bills of exchange discount	277	-
Brokerage services	166	479
Provisions for legal disputes (note 27)	1,553	505
Other expenses	7,772	7,862
	<u>57,828</u>	<u>59,600</u>

**NOTE 10 – OTHER GAINS / (LOSSES) – NET**

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Gains on sale of tangible assets (net)	392	183
Net foreign exchange losses	(4,232)	(165)
	<u>(3,840)</u>	<u>18</u>

**NOTE 11 – FINANCE COSTS - NET**

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
<b>Interest expense:</b>		
Bank borrowings and finance lease	(21,099)	(15,447)
Commercial bills issued	(3,186)	(5,141)
	<u>(24,285)</u>	<u>(20,588)</u>
<b>Foreign exchange gains / (losses) – net</b>		
Foreign exchange gains	7,631	1,618
Foreign exchange losses	(9,922)	(1,575)
	<u>(2,291)</u>	<u>43</u>
	<u>(26,576)</u>	<u>(20,545)</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

**NOTE 12 – INCOME TAX**

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Current tax	8,576	8,385
Deferred tax (note 26)	447	(1,804)
	<u>9,023</u>	<u>6,581</u>

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

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
<b>Profit before taxation</b>	<b>33,762</b>	<b>23,433</b>
Income tax (20%)	6,751	4,687
Income non assessable and tax incentives	(108)	(206)
Expenses not deductible	2,386	2,053
Losses not recognized as deferred tax asset	-	47
Unrecognised losses utilised	(6)	-
Income tax	<u>9,023</u>	<u>6,581</u>
Effective tax rate	<u>26.73%</u>	<u>28.08%</u>

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

**NOTE 13 – BASIC EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the net profit of the Group by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares. Average number of shares in amount of 28,678 is the result of releasing treasury shares in May and December 2010.

	<u>2010</u>	<u>2009</u>
Net profit attributable to shareholders <i>(in thousands of HRK)</i>	24,739	16,852
Weighted average number of ordinary shares excluding treasury shares	28,678	28,420
<b>Basic earnings per share <i>(in HRK)</i></b>	<u><b>862.65</b></u>	<u><b>592.95</b></u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 14 – PROPERTY AND EQUIPMENT

(all amounts are expressed in thousands of HRK)

	Land	Buildings	Equipment	Assets under construction	Total
<b>As at 31 December 2008</b>					
Cost	9,248	150,333	89,657	10,207	259,445
Accumulated depreciation	-	(37,452)	(70,167)	-	(107,619)
<b>Net book amount</b>	<b>9,248</b>	<b>112,881</b>	<b>19,490</b>	<b>10,207</b>	<b>151,826</b>
<b>For year ended 31 December 2009</b>					
Opening net book amount	9,248	112,881	19,490	10,207	151,826
Additions	7,904	18,621	7,731	-	34,256
Acquisition of subsidiary (note 29)	-	-	27	-	27
Transfer	(636)	-	636	-	-
Transfer from assets under construction	-	7,257	94	(7,351)	-
Disposals	-	-	(1,196)	(42)	(1,238)
Depreciation	-	(4,107)	(7,398)	-	(11,505)
Closing net book amount	16,516	134,652	19,384	2,814	173,366
<b>As at 31 December 2009</b>					
Cost	16,516	176,211	96,949	2,814	292,490
Accumulated depreciation	-	(41,559)	(77,565)	-	(119,124)
<b>Net book amount</b>	<b>16,516</b>	<b>134,652</b>	<b>19,384</b>	<b>2,814</b>	<b>173,366</b>
<b>For year ended 31 December 2010</b>					
Opening net book amount	16,516	134,652	19,384	2,814	173,366
Additions	-	-	1,573	10,659	12,232
Acquisition of subsidiary (note 29)	-	-	10	-	10
Transfer	-	1,174	9,105	(10,279)	-
Transfer from assets under construction	-	(300)	300	-	-
Disposals	-	-	(381)	-	(381)
Depreciation	-	(4,409)	(8,218)	-	(12,627)
Closing net book amount	16,516	131,117	21,773	3,194	172,600
<b>As at 31 December 2010</b>					
Cost	16,516	177,085	107,556	3,194	304,351
Accumulated depreciation	-	(45,968)	(85,783)	-	(131,751)
<b>Net book amount</b>	<b>16,516</b>	<b>131,450</b>	<b>21,773</b>	<b>3,194</b>	<b>172,600</b>

Revolving loans and finance lease liabilities (note 25) have been secured by pledges over tangible fixed assets with a net book value of HRK 136,254 thousand as at 31 December 2010 (2009: HRK 122,289 thousand).

Delivery and personal vehicles under finance lease are as follows:

	2010	2009
	(in thousands of HRK)	
Cost – capitalised finance lease	9,391	6,076
Accumulated depreciation	(3,941)	(3,434)
<b>Net book amount</b>	<b>5,450</b>	<b>2,642</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 15 – INTANGIBLE ASSETS

<i>(all amounts are expressed in thousands of HRK)</i>	<b>Goodwill</b>	<b>Licences, software and other rights</b>	<b>Asset under construction</b>	<b>Total</b>
<b>As at 31 December 2008</b>				
Cost	29,041	74,213	15,000	118,254
Accumulated amortisation	(1,354)	(17,943)	-	(19,297)
<b>Net book amount</b>	<b>27,687</b>	<b>56,270</b>	<b>15,000</b>	<b>98,957</b>
<b>For the year ended 31 December 2009</b>				
Opening net book amount	27,687	56,270	15,000	98,957
Acquisition of subsidiary (note 29)	5,394	10,933	-	16,327
Additions	649	5,328	811	6,788
Transfers	-	15,750	(15,750)	-
Disposals	-	(3)	-	(3)
Amortisation	-	(5,518)	-	(5,518)
Closing net book amount	33,730	82,760	61	116,551
<b>As at 31 December 2009</b>				
Cost	33,730	106,224	61	140,015
Accumulated amortisation and impairment	-	(23,464)	-	(23,464)
<b>Net book amount</b>	<b>33,730</b>	<b>82,760</b>	<b>61</b>	<b>116,551</b>
<b>For the year ended 31 December 2010</b>				
Opening net book amount	33,730	82,760	61	116,551
Acquisition of subsidiary (note 29)	1,951	1,708	-	3,659
Additions	2,383	17,184	389	19,956
Transfer	-	300	(300)	-
Disposal	-	(1)	-	(1)
Amortisation	-	(6,319)	-	(6,319)
Closing net book amount	38,064	95,632	150	133,846
<b>At 31 December 2010</b>				
Cost	38,064	125,284	150	163,498
Accumulated amortisation and impairment	-	(29,652)	-	(29,652)
<b>Net book amount</b>	<b>38,064</b>	<b>95,632</b>	<b>150</b>	<b>133,846</b>

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

**Goodwill impairment test**

The Group calculated recoverable amount using value-in-use method. Value-in-use cash flow projections were based on 5 year business plan approved by management. Discount rates of 8.11%, growth rate from 1%-9% and income tax rate of 20% were applied when discounting projected cash flow. Recoverable amount exceeds carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 16 – INVESTMENTS IN ASSOCIATES

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

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
As at 1 January	17,556	17,144
Acquisition of associate	(289)	-
Gain / (loss) realized after the acquisition date	-	412
<b>As at 31 December</b>	<b><u>17,267</u></b>	<b><u>17,556</u></b>

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
<b>Financial assets- category: Loans given and receivables</b>		
Loans given and receivables (note 18/v/)	1,077,400	1,109,874
Cash (note 20)	31,265	50,134
	<b><u>1,108,665</u></b>	<b><u>1,160,008</u></b>

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
<b>Financial liabilities - Category: Other liabilities</b>		
Trade payables (note 24)	1,025,174	1,023,554
Other liabilities	18,360	24,344
Long-term debt (note 25)	311,118	338,221
	<b><u>1,354,652</u></b>	<b><u>1,386,119</u></b>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

The credit quality of financial assets that are neither past due nor impaired is monitored based on the customers' exposure to credit risk:

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Hospitals	244,887	172,669
Pharmacies	217,460	306,835
HZZO	49,684	66,862
Other	36,832	35,854
<b>At 31 December</b>	<b>548,863</b>	<b>582,220</b>

NOTE 18 – TRADE AND OTHER RECEIVABLES

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
<b>Non-current receivables:</b>		
Loans given /i/	2,024	975
<b>Current receivables:</b>		
Trade receivables /ii/	1,069,892	1,104,688
Other current receivables /iii/	6,374	8,152
Loans given /i/,/iv/	3,545	2,843
Loans given-current maturity of non-current receivables /i/	1,939	1,368
	<u>1,081,750</u>	<u>1,117,051</u>
	<b>1,083,774</b>	<b>1,118,026</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	<b>Effective interest rate</b>	<b>2010</b>	<b>2009</b>
		<i>(in thousands of HRK)</i>	
Loans given to pharmacies	4.64%	3,761	2,360
Loans given to associations	6.67%	409	605
Other		199	229
Impairment of loans given		(406)	(851)
Total non-current receivables, including current portion		3,963	2,343
Current portion of non-current receivables		(1,939)	(1,368)
<b>Total non-current receivables</b>		<b>2,024</b>	<b>975</b>

The maturity of long-term loans is as follows:

	<b>2010</b>	<b>2009</b>
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	2,024	945
Between 2 and 5 years	-	30
	<b>2,024</b>	<b>975</b>

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

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

	<b>2010</b>	<b>2009</b>
	<i>(in thousands of HRK)</i>	
Domestic trade receivables	1,081,782	1,117,676
Foreign trade receivables	2,664	2,385
Trade receivables – related parties (note 31)	11,535	11,226
	1,095,981	1,131,287
Impairment of trade receivables	(26,089)	(26,599)
	<b>1,069,892</b>	<b>1,104,688</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2010

## NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

The ageing structure of receivables past due is as follows:

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
0-180 days	350,459	334,720
181-360 days	84,775	92,459
Over 360 days	111,884	122,575
	<u>547,118</u>	<u>549,754</u>

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

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
As at 1 January	26,599	20,606
Increase (note 9)	1,504	7,265
Written off	(2,014)	(1,272)
<b>As at 31 December</b>	<u>26,089</u>	<u>26,599</u>

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

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
HRK	1,078,379	1,114,578
EUR	3,371	2,473
	<u>1,081,750</u>	<u>1,117,051</u>

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

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
VAT receivable	4,640	5,593
Prepaid expenses	1,217	928
Other	517	1,631
	<u>6,374</u>	<u>8,152</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Loans given - other	4,114	3,412
	<u>4,114</u>	<u>3,412</u>
Impairment (note 9)	(569)	(569)
	<u>3,545</u>	<u>2,843</u>

/v/ Financial assets by category include the following:

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Loans given	7,508	5,186
Trade receivables	1,069,892	1,104,688
	<u>1,077,400</u>	<u>1,109,874</u>

NOTE 19 – INVENTORIES

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Trade goods	198,928	180,757
Trade goods – related parties (note 31)	39,839	23,808
Advances given	3,992	6,606
Office supplies	471	436
	<u>243,230</u>	<u>211,607</u>

Inventories are stated at the lower of cost or net realisable sales value. At each reporting date, damaged and expired inventories are tested. With respect to differences identified, a provision is made for such inventories, which amounted to HRK 3,841 thousand in 2010 (2009: HRK 2,621 thousand) and which is included in cost of trade goods sold.

NOTE 20 – CASH AND CASH EQUIVALENTS

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Current account	31,054	50,049
Foreign currency account	165	34
Cash in hand and cheques	46	51
	<u>31,265</u>	<u>50,134</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 21 – SHARE CAPITAL

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

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

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

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

The ownership structure of the Company is as follows:

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

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

In May 2010, the company Mavota d.o.o. announced a public takeover offer for the Company. Mavota d.o.o. jointly operated with PLIVA d.d., Zagreb, the Company and Jasminko Herceg. After the public offer had been conducted, Mavota d.o.o. owned 14,503 shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 22 – RESERVES

*(all amounts are expressed in thousands of HRK)*

	Legal reserves	Reserves for treasury shares	Total
<b>As at 31 December 2008</b>	<b>2,730</b>	<b>29,553</b>	<b>32,283</b>
Transfer to reserves for treasury shares	-	30,447	30,447
<b>As at 31 December 2009</b>	<b>2,730</b>	<b>60,000</b>	<b>62,730</b>
Changes during the year	-	-	-
<b>As at 31 December 2010</b>	<b>2,730</b>	<b>60,000</b>	<b>62,730</b>

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

NOTE 23 – RETAINED EARNINGS

Other reserves in the amount of HRK 31,796 thousand (2009: HRK 31,796 thousand) form part of retained earnings.

In December 2010, the Company paid out an interim dividend for 2010 amounting to HRK 5,252 thousand. HRK 5,066 thousand was paid by attributing treasury shares and HRK 186 thousand in cash. As at 31 December 2010, HRK 103 thousand was paid in cash.

Related dividend per share amounted to HRK 182.75.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 24 – TRADE AND OTHER PAYABLES

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Trade payables /i/	1,025,174	1,023,554
Other payables /ii/	18,360	24,344
	<u>1,043,534</u>	<u>1,047,898</u>

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

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Trade payables – domestic	461,643	499,972
Trade payables – foreign	409,860	380,879
Due to related parties (note 31)	153,671	142,703
	<u>1,025,174</u>	<u>1,023,554</u>

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

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
HRK	680,710	667,291
EUR	334,626	344,544
DKK	9,468	11,295
Other currencies	370	424
	<u>1,025,174</u>	<u>1,023,554</u>

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

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Gross salaries to employees	7,684	7,971
Liabilities for the purchase of subsidiaries (note 29)	5,666	12,725
Unused vacation days	1,756	2,108
Other taxes and contributions	127	163
Other	3,127	1,377
	<u>18,360</u>	<u>24,344</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 25 – BORROWINGS

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
<b>Long-term borrowings:</b>		
Loans/i/	196,893	217,076
Finance lease /iv/	3,434	1,292
	<u>200,327</u>	<u>218,368</u>
<b>Short-term borrowings:</b>		
Commercial bills issued /iii/	-	48,023
Loans/ii/	108,607	70,292
Finance lease /iv/	2,184	1,538
	<u>110,791</u>	<u>119,853</u>
<b>Total borrowings</b>	<u><b>311,118</b></u>	<u><b>338,221</b></u>

/i/ Long-term loans relate to financing from various banks for the purpose of maintaining an adequate level of working capital. Long-term loans consist of three loans; one loan is denominated in EUR with maturity within two years and a variable interest rate and the other two loans are denominated in 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 loan is denominated in Croatian kuna (HRK) and the rest are denominated in EUR. Loans have maturity ranging from three months to one year and bear variable interest rate.

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

In year 2009 the eighth, ninth and tenth tranche of commercial bills were issued which were used to refinance the seventh tranche. Eighth tranche was issued in the amount of HRK 4 million at a discount of 10.40 % and a maturity of 365 days. Ninth tranche of commercial bills was issued in the amount of EUR 1 million at a discount of 9.76 % and at a maturity of 274 days. Tenth tranche of commercial bills was issued in the amount of EUR 5,487 thousand at a discount of 9.94 % and at a maturity of 274 days.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 25 – BORROWINGS (continued)

The gross finance lease liability is as follows:

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Up to one year	2,430	1,785
Between 1 and 5 years	3,672	1,300
Future financing costs	(484)	(255)
Net book value of finance lease liability	<u>5,618</u>	<u>2,830</u>

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

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Up to one year	3,434	1,292
Between 1 and 5 years	2,184	1,538
	<u>5,618</u>	<u>2,830</u>

The maturity of long-term borrowings is as follows:

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	189,073	15,303
Between 2 and 5 years	11,254	203,065
	<u>200,327</u>	<u>218,368</u>

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

	<u>2010</u>		<u>2009</u>	
	<u>HRK</u>	<u>EUR</u>	<u>HRK</u>	<u>EUR</u>
	%	%	%	%
<b>Long-term borrowings</b>				
Loans	3.80%-5.70%	6.51%	-	7.00%-7.70%
Finance lease	-	5.29%-5.75%	-	6.50%-7.62%
<b>Short-term borrowings</b>				
Commercial bills issued	-	-	10.40%	9.76%-9.94%
Loans	4.95%-6.51%	5.01%	-	4.40%-8.30%



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 25 – BORROWINGS (continued)

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

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
Up to 3 months	-	10,959
3 - 12 months	292,451	327,262
1 - 3 years	18,667	-
	<u>311,118</u>	<u>338,221</u>

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

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

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of HRK)</i>	
HRK	106,322	9,536
EUR	204,796	328,685
	<u>311,118</u>	<u>338,221</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 26 – DEFERRED INCOME TAX

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

Deferred tax asset

<i>(in thousands of HRK)</i>	<b>Inventory impairment</b>	<b>Impairment of trade receivables</b>	<b>Provision for employee benefits</b>	<b>Transfer of property in the Group</b>	<b>Total</b>
<b>As at 1 January 2009</b>	<b>631</b>	-	<b>744</b>	-	<b>1,375</b>
Tax charged to the income statement	(62)	-	(179)	-	(241)
Tax credited to the income statement	-	216	27	1,802	2,045
<b>As at 31 December 2009</b>	<b>569</b>	<b>216</b>	<b>592</b>	<b>1,802</b>	<b>3,179</b>
<b>As at 1 January 2010</b>	<b>569</b>	<b>216</b>	<b>592</b>	<b>1,802</b>	<b>3,179</b>
Tax charged to the income statement	-	(216)	(377)	-	(593)
Tax credited to the income statement	116	-	-	30	146
<b>As at 31 December 2010</b>	<b>685</b>	-	<b>215</b>	<b>1,832</b>	<b>2,732</b>

Deferred tax liability

<i>(in thousands of HRK)</i>	<b>Acquisition of subsidiary</b>
<b>As at 1 January 2009</b>	<b>8,122</b>
Tax credited to the income statement	2,187
<b>As at 31 December 2009</b>	<b>10,309</b>
<b>As at 1 January 2010</b>	<b>10,309</b>
Tax arising on acquisition of subsidiary	341
<b>As at 31 December 2010</b>	<b>10,650</b>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 27 – PROVISIONS

<i>(in thousands of HRK)</i>	<b>Provision for employee benefits</b>	<b>Legal disputes</b>	<b>Total</b>
<b>As at 31 December 2009</b>	<b>1,127</b>	<b>835</b>	<b>1,962</b>
Non-current	720	-	720
Current	407	835	1,242
<b>As at 1 January 2010</b>	<b>1,127</b>	<b>835</b>	<b>1,962</b>
Additional provisions	108	1,553	1,661
Release of provision	(54)	-	(54)
Used during the year	(407)	(351)	(758)
<b>As at 31 December 2010</b>	<b>774</b>	<b>2,037</b>	<b>2,811</b>
Non-current	605	-	605
Current	169	2,037	2,206

*Employee benefits*

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

*Legal disputes*

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

NOTE 28 – COMMITMENTS

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

The Group entered into several legal disputes, both as plaintiff and defendant. According to the opinion of the expert legal counsellor who represents the Group in the stated disputes, Management estimates that no material losses shall arise from these disputes for the Group except for three disputes for which a provision was made in the amount of HRK 2,037 thousand (note 27).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 29 – ACQUISITION OF SUBSIDIARIES

**Acquisition of Health Institutions**

In 2010, the Group acquired 100% ownership over one pharmacy (2009: two) for an amount of HRK 3,142 thousand (2009: HRK 14,539 thousand).

If the acquisition had occurred on 1 January, estimated revenue for the year ended 31 December 2010 would have been HRK 15 thousand higher (2009: HRK 10,897 thousand higher), while profit before taxation would have been HRK 3 thousand higher (2009: HRK 497 thousand higher) than stated. These amounts have been calculated using the Group's accounting policies. Details of the net book value of assets acquired and goodwill determined are as follows:

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<i>(in thousands of HRK)</i>	
<b>Purchase consideration</b>	<b>3,142</b>	<b>14,539</b>
- Cash paid	-	1,812
- Liabilities for the purchase of subsidiaries	3,142	12,727
Fair value of assets acquired	(1,191)	(9,145)
<b>Goodwill (note 15)</b>	<b>1,951</b>	<b>5,394</b>

Fair value of acquired asset is as follows:

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<i>(in thousands of HRK)</i>	
Intangible assets (note 15)	1,708	10,933
Property and equipment (note 14)	10	27
Current assets	4,887	11,302
Cash and cash equivalents	20	502
Non-current liabilities	-	(735)
Deferred tax liability (note 26)	(341)	(2,187)
Current liabilities	(5,093)	(10,697)
Net assets acquired	<b>1,191</b>	<b>9,145</b>
Purchase consideration paid in cash	-	1,812
Cash and cash equivalents acquired	(20)	(502)
<b>Cash used in the acquisition</b>	<b>(20)</b>	<b>1,310</b>

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

**NOTE 30 – SUBSEQUENT EVENTS**

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

**NOTE 31 – RELATED PARTY TRANSACTIONS**

The Group enters into transactions with the associated company Zdravstvena ustanova Ljekarne Jagatić and related party Pliva Hrvatska d.o.o., Zagreb which has a 24.71% ownership interest in the Company. However, according to operating business transactions with the Group, it has a significant impact on the Group's current business operations.

Related party transactions relating to balances in the statement of financial position as at 31 December 2010 and 2009 and transactions in the income statement for years then ending are as follows:

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>2010</u>	<u>2009</u>
<b>Trade receivables</b>			
Zdravstvena ustanova Ljekarne Jagatić		11,334	11,226
Pliva Hrvatska d.o.o., Zagreb		201	-
	18	<u>11,535</u>	<u>11,226</u>
<b>Inventories</b>			
Pliva Hrvatska d.o.o., Zagreb	19	39,839	23,808
<b>Trade payables</b>			
Pliva Hrvatska d.o.o., Zagreb	24	153,671	142,703
<b>Sales</b>			
Zdravstvena ustanova Ljekarne Jagatić		24,263	22,303
<b>Purchases</b>			
Pliva Hrvatska d.o.o., Zagreb		209,041	198,989
<b>Key management compensation - salaries and bonuses for five members (2009: salaries and bonuses for five members)</b>		7,186	4,762

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

**FOR THE YEAR ENDED 31 DECEMBER 2010**

**CONSOLIDATED BALANCE SHEET**  
As at 31.12.2010

Name of position	AQP mark	Prior year	Current year
1	2	3	4
<b>ASSETS</b>			
<b>A) SHARE CAPITAL SUBSCRIBED BUT NOT PAID IN</b>	<b>001</b>		
<b>B) NON-CURRENT ASSETS (003+010+020+029+033)</b>	<b>002</b>	313,099,434	328,468,502
I. INTANGIBLE ASSETS (004 to 009)	003	116,558,651	133,845,657
1. Research and development	004		
2. Concessions, patents, licenses, trade marks, software and other rights	005	82,762,524	95,631,738
3. Goodwill	006	33,730,387	38,063,806
4. Advances for intangible assets	007		
5. Intangible assets under construction	008	65,740	150,113
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 to 019)	010	173,358,297	172,600,037
1. Land	011	16,515,477	16,515,477
2. Buildings	012	134,652,157	131,117,126
3. Plant and equipment	013	6,553,743	7,742,665
4. Tools and vehicles	014	11,949,394	13,246,831
5. Biological assets	015		
6. Advances for tangible assets	016	22,075	84,780
7. Tangible assets under construction	017	2,791,607	3,097,407
8. Other tangible assets	018	873,844	795,751
9. Real estate investments	019		
III. NON-CURRENT FINANCIAL ASSETS (021 to 028)	020	20,003,544	19,290,772
1. Shares in related parties	021		
2. Loans to related parties	022		
3. Participating interests	023		
4. Investments in securities	024		
5. Loans given, deposits and similar	025	2,447,771	2,023,549
6. Treasury shares	026		
7. Other non-current financial assets	027		
8. Investments in joint ventures	028	17,555,773	17,267,223
IV. RECEIVABLES (030 do 032)	029	0	0
1. Receivables from related parties	030		
2. Credit sales receivables	031		
3. Other receivables	032		
V. DEFERRED TAX ASSET	033	3,178,942	2,732,036
<b>C) CURRENT ASSETS (035+043+050+058)</b>	<b>034</b>	<b>1,375,280,835</b>	<b>1,354,266,652</b>
I. INVENTORY (036 do 042)	035	211,698,654	243,283,950
1. Raw materials	036	404,898	471,517
2. Work-in-progress	037		
3. Finished goods	038		
4. Commercial goods	039	204,503,378	238,821,264
5. Advances for inventories	040	6,790,378	3,991,169
6. Other assets held for sale	041		
7. Biological assets	042		
II. RECEIVABLES (044 do 049)	043	1,106,671,993	1,041,464,985
1. Receivables from related parties	044		
2. Trade receivables	045	1,093,888,629	1,031,314,985
3. Receivables from participating companies	046		
4. Receivables from employees and members	047	623,672	4,139,567
5. Receivables from state and other institutions	048	4,637,914	4,139,880
6. Other receivables	049	7,521,778	1,870,553
III. CURRENT FINANCIAL ASSETS (051 do 057)	050	7,072,141	38,266,670
1. Shares in related parties	051		
2. Loans given to related parties	052		
3. Participating interests	053		
4. Investments in securities	054	6,926,042	36,096,257
5. Loans given, deposits and similar	055	146,099	2,170,413
6. Treasury shares	056		
7. Other financial assets	057		
IV. CASH AT BANK AND ON HAND	058	49,838,047	31,251,047
<b>D) PREPAID EXPENSES AND ACCRUED INCOME</b>	<b>059</b>	<b>927,765</b>	<b>1,217,043</b>
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>	<b>1,689,308,034</b>	<b>1,683,952,197</b>
<b>F) OFF BALANCE SHEET ITEMS</b>	<b>061</b>	<b>20,436,127</b>	<b>127,975,856</b>



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

**FOR THE YEAR ENDED 31 DECEMBER 2010**

**CONSOLIDATED BALANCE SHEET**

**As at 31.12.2010**

Name of position	AOP mark	Prior year	Current year
1	2	3	4
<b>EQUITY AND LIABILITIES</b>			
<b>A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)</b>	<b>062</b>	<b>288,830,332</b>	<b>315,376,800</b>
I. SHARE CAPITAL	063	60,388,000	60,388,000
II. CAPITAL RESERVES	064	4,401,478	-4,258,313
III. PROFIT RESERVES (066+067-068+069+070)	065	66,555,382	82,275,985
1. Legal reserves	066	2,729,945	2,729,945
2. Reserves for treasury shares	067	60,000,000	60,000,000
3. Treasury shares (excluding figure)	068	27,971,053	12,250,449
4. Statutory reserves	069		
5. Other reserves	070	31,796,490	31,796,489
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR ACCUMULATED LOSS	072	140,633,899	152,232,994
1. Retained earnings	073	140,633,899	152,232,994
2. Accumulated loss	074		
VI. PROFIT OR LOSS FOR THE YEAR	075	16,851,573	24,738,134
1. Profit for the year	076	16,851,573	24,738,134
2. Loss for the year	077		
VII. MINORITY INTEREST	078		
<b>B) PROVISIONS (080 to 082)</b>	<b>079</b>	<b>513,883</b>	<b>605,321</b>
1. Provisions for pensions, severances and similar liabilities	080	513,883	605,321
2. Provisions for tax liabilities	081		
3. Other provisions	082		
<b>C) LONG-TERM LIABILITIES (084 to 092)</b>	<b>083</b>	<b>228,676,390</b>	<b>210,976,855</b>
1. Liabilities towards related parties	084		
2. Liabilities for loans, deposits and similar	085		
3. Liabilities towards banks and other financial institutions	086	218,367,710	200,326,490
4. Liabilities for advances received	087		
5. Trade payables	088		
6. Liabilities from securities	089		
7. Liabilities to companies with participating interests	090		
8. Other long-term liabilities	091		
9. Deferred tax liability	092	10,308,680	10,650,365
<b>D) CURRENT LIABILITIES (094 to 105)</b>	<b>093</b>	<b>1,167,114,084</b>	<b>1,153,175,184</b>
1. Liabilities to related parties	094	72,791,720	
2. Liabilities for loans, deposits and similar	095		
3. Liabilities towards banks and other financial institutions	096	119,182,470	92,771,459
4. Liabilities for advances received	097	4,680	1,867,125
5. Trade payables	098	919,607,134	984,558,130
6. Liabilities for securities	099		35,482,060
7. Liabilities to companies with participating interests	100		
8. Liabilities to employees	101	7,357,741	7,592,790
9. Liabilities for taxes and contributions	102	6,282,321	4,701,840
10. Liabilities arising from share of result	103		84,977
11. Liabilities arising from non-current assets held for sale	104		
12. Other current liabilities	105	41,888,018	26,116,803
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>106</b>	<b>4,173,345</b>	<b>3,818,037</b>
<b>F) TOTAL - EQUITY AND LIABILITIES (063+079+083+093+106)</b>	<b>107</b>	<b>1,689,308,034</b>	<b>1,683,952,197</b>
<b>G) OFF BALANCE SHEET ITEMS</b>	<b>108</b>	<b>20,436,127</b>	<b>127,975,856</b>



APPENDIX 1: OTHER LEGAL AND REGULATORY REQUIREMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

For the period from 1.1.2010 to 31.12.2010

Naziv pozicija	ACP	Prethodna godina	Tekuća godina
	oznaka		
1	2	3	4
<b>I. OPERATING INCOME (112+113)</b>			
1. Revenue from sales	111	2,039,207,951	2,073,512,313
2. Other operating income	112	2,008,688,646	2,048,249,491
<b>II. OPERATING EXPENSE (115+116+120+124+125+126+129+130)</b>	113	30,519,305	25,262,822
1. Change in value of work-in-progress and finished goods	114	1,996,370,864	2,012,246,266
2. Material expenses (117 do 119)	115		
a) Raw materials	116	1,828,252,240	1,849,068,163
b) Cost of goods sold	117	9,491,305	10,958,160
c) Other external expenses	118	1,788,925,156	1,807,362,975
3. Employee expenses (121 do 123)	119	29,835,779	30,747,028
a) Salaries and wages	120	82,156,344	83,445,620
b) Taxes and contributions from salaries	121	46,139,259	47,521,525
c) Contributions on salary	122	22,100,879	23,763,541
4. Amortisation and depreciation	123	13,916,206	12,160,554
5. Other expenses	124	17,023,043	18,946,125
6. Impairment (127+128)	125	48,100,632	40,929,984
a) of long-term assets (except for financial assets)	126	20,199,125	18,126,504
b) of current assets (except for financial assets)	127		
7. Provisions	128	20,199,125	18,126,504
8. Other operating expenses	129	639,480	1,729,870
130			
<b>III. FINANCIAL INCOME (132 do 136)</b>	131	16,191,709	14,169,089
1. Interest, foreign exchange gains, dividends and similar income from related parties	132		
2. Interest, foreign exchange gains, dividends and similar income from third and other	133	16,191,709	14,169,089
3. Income from joint ventures and participating interests	134		
4. Unrealized gains (Income)	135		
5. Other financial income	136		
<b>IV. FINANCIAL EXPENSE (138 do 141)</b>	137	35,601,406	41,673,620
1. Interest, foreign exchange losses and other related party expenses	138		
2. Interest, foreign exchange losses and other expenses from third and other parties	139	35,601,406	41,673,620
3. Unrealized gains (losses) on financial assets	140		
4. Other financial expense	141		
<b>V. SHARE OF PROFIT FROM ASSOCIATED COMPANIES</b>	142		
<b>VI. SHARE OF LOSS OF ASSOCIATED COMPANIES</b>	143		
<b>VII. EXTRAORDINARY- OTHER INCOME</b>	144	4,962	
<b>VIII. EXTRAORDINARY- OTHER LOSSES</b>	145	26	
<b>VII. TOTAL INCOME (111+131+142 + 144)</b>	146	2,055,404,622	2,087,681,402
<b>VIII. TOTAL EXPENSES (114+137+143 + 145)</b>	147	2,031,972,296	2,053,919,886
<b>XI. PROFIT OR LOSS BEFORE TAX (146-147)</b>	148	23,432,326	0
1. Profit before tax (146-147)	149	23,432,326	33,761,516
2. Loss before tax (147-146)	150	0	0
<b>XII. INCOME TAX</b>	151	6,580,753	9,023,382
<b>XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	152	16,851,573	0
1. Profit for the year (149-151)	153	16,851,573	24,738,134
2. Loss for the year (151-148)	154	0	0

APPENDIX 1: OTHER LEGAL AND REGULATORY REQUIREMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

CONSOLIDATED STATEMENT OF CASH FLOW - Indirect method  
For the period from 1.1.2010 to 31.12.2010

Naziv pozicije	AOP oznaka	Prethodna godina	Tokuća godina
1	2	3	4
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
1. Profit before tax	001	23,432,326	33,761,516
2. Amortization and depreciation	002	17,023,042	18,946,125
3. Increase in current liabilities	003		
4. Decrease in current receivables	004	114,381,748	65,207,008
5. Decrease in inventories	005	11,657,966	
6. Other cash inflows	006	1,563,090	
<b>I. Total cash inflows from operating activities (001 to 006)</b>	<b>007</b>	<b>168,058,172</b>	<b>117,914,649</b>
1. Decrease in current liabilities	008	161,174,787	22,806,654
2. Increase in current receivables	009		
3. Increase in inventories	010		31,585,295
4. Other cash outflows	011		4,163,351
<b>II. Total cash outflows from operating activities (008 to 011)</b>	<b>012</b>	<b>161,174,787</b>	<b>58,555,300</b>
<b>A1) NET CASH INFLOWS FROM OPERATING ACTIVITIES</b>	<b>013</b>	<b>6,883,385</b>	<b>59,359,349</b>
<b>A2) NET CASH OUTFLOWS FROM OPERATING ACTIVITIES</b>	<b>014</b>	<b>0</b>	<b>0</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>			
1. Cash receipts from the sale of tangible and intangible assets	015	314,854	702,863
2. Cash receipts from sale of equity and debt instruments	016		
3. Cash receipts from interest	017	1,646,326	2,732,948
4. Cash receipts from dividends	018		288,551
5. Other cash receipts	019	1,534,674	3,634,585
<b>III. Total cash receipts from investment activities (015 to 019)</b>	<b>020</b>	<b>3,495,854</b>	<b>7,358,946</b>
1. Cash outflows from the purchase of tangible and intangible assets	021	40,436,000	26,926,450
2. Cash outflow for acquiring equity and debt instruments	022	1,310,320	
3. Other cash outflows	023	1,700,000	3,013,856
<b>IV. Total cash outflows from investment activities (021 up to 023)</b>	<b>024</b>	<b>43,446,320</b>	<b>29,940,306</b>
<b>B1) NET CASH INFLOWS FROM INVESTMENT ACTIVITIES</b>	<b>025</b>	<b>0</b>	<b>0</b>
<b>B1) NET CASH OUTFLOWS FROM INVESTMENT ACTIVITIES</b>	<b>026</b>	<b>39,950,466</b>	<b>22,581,359</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
1. Cash receipts from issuing equity and debt instruments	027		
2. Cash inflow from loans, bonds and other borrowings	028	164,162,323	220,585,345
3. Other cash inflows from financing activities	029		
<b>V. Total cash inflow from financing activities (027 to 029)</b>	<b>030</b>	<b>164,162,323</b>	<b>220,585,345</b>
1. Cash outflow for the repayment of principal of loans and bonds	031	143,813,968	254,652,602
2. Cash outflow for dividend payout	032		103,068
3. Cash outflow for the repayment of finance lease	033	1,904,016	2,607,665
4. Cash outflow for redemption of own shares	034		
5. Ostali novčani izdaci od financijskih aktivnosti	035		
<b>VI. Total cash outflow from financing activities (031 to 035)</b>	<b>036</b>	<b>145,717,984</b>	<b>257,363,335</b>
<b>C1) NET CASH INFLOWS FROM FINANCING ACTIVITIES</b>	<b>037</b>	<b>18,444,339</b>	<b>0</b>
<b>C2) NET CASH OUTFLOWS FROM FINANCING ACTIVITIES</b>	<b>038</b>	<b>0</b>	<b>36,777,990</b>
Total cash increase (013 – 014 + 025 – 026 + 037 – 038)	039	0	0
Total cash decrease (014 – 013 + 026 – 025 + 038 – 037)	040	14,622,742	0
Cash and cash equivalents at beginning of period	041	64,460,789	49,838,047
Increase in cash and cash equivalents	042		
Decrease in cash and cash equivalents	043	14,622,742	18,587,745
Cash and cash equivalents at year end	044	49,838,047	31,250,302



APPENDIX 1: OTHER LEGAL AND REGULATORY REQUIREMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

Reconciliation of consolidated statement of financial position (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	Liabilities for customs and freight services	VAT receivable	Receivables from credit cards	Profit for the year	Capital loss	Own shares	Reserves resulting from hyperinflation	Liabilities for advances received	Accruals	Provisions for employees	Provisions for legal disputes	Income tax liabilities	Dividend payable	Trades 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	Reconciling items in accordance with Regulation on the structure of AFS	ASSETS
In thousands of HRK																												
PROPERTY, PLANT AND EQUIPMENT	172,600																											172,600
Intangible asset	133,646																											133,646
Financial assets	1,207	2,024																										1,207
Deferred tax asset	10,297																											10,297
Trade and other receivables	2,024	-2,024																										2,024
Total non-current assets	338,488																											338,488
Investments in subsidiaries	243,230																											243,230
Income tax receivable	1,091,790	-232	-1,930		-36,082	-1,217	54	-508	14																			1,091,790
Trade and other receivables	31,286	232	1,930		36,082																							31,286
Cash and cash equivalents	1,384,207	0	0	0	-4,217	64	-838	0	-14	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,384,207	
Total current assets	1,864,734	0	0	0	0	1,217	64	-838	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,864,734
TOTAL ASSETS	1,864,734	0	0	0	0	1,217	64	-838	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,864,734
EQUITY AND LIABILITIES																												
Share capital	43,879										4,256	12,250																43,879
Reserves	62,720										-4,256	-12,250	31,798															62,720
Retained earnings	208,170												-31,798															208,170
Total equity	314,769																											314,769
Long term borrowings	200,326																											200,326
Deferred tax liability	10,650																											10,650
Non-current provision	600																											600
Trade and other liabilities	211,891																											211,891
Liabilities towards banks and other financial institutions	1,043,554																											1,043,554
Short term borrowings	110,791																											110,791
Income tax liability	1,244																											1,244
Current provisions	2,206																											2,206
Total non-current liabilities	1,187,774																											1,187,774
Trade payables	994,550																											994,550
Liabilities for advances received	35,460																											35,460
Liabilities from securities	0																											0
Liabilities towards banks and other financial institutions	1,867																											1,867
Liabilities for employees	7,593																											7,593
Liabilities for taxes and contributions	4,702																											4,702
Liabilities arising from share of result	66																											66
Other liabilities	1,185,179																											1,185,179
Total liabilities	1,389,239																											1,389,239
TOTAL EQUITY AND LIABILITIES	1,864,734	0	0	0	0	1,217	64	-838	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,864,734



MEDIKA d.d.

APPENDIX I: OTHER LEGAL AND REGULATORY REQUIREMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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

	Statement of cash flow in accordance with IFRS	Income tax	Bill of exchange receivable	Impairment of receivables	Inventory impairment	Liabilities for customs and freight services	Exchange of bills of exchange discounted by creditors	Non cash reconciliation of income	Purchase of tangible and intangible asset through finance lease	Income from asset disposal	Income from asset disposal	Acquisition of subsidiary net of cash received	Receipt from loans given	Loan given	Interest income	Other movements in liabilities	Other movements in receivables	Decrease in receivables	Interest paid	Income tax paid	Redemption of cheques and credit cards	Standardized annual financial statements in accordance with Regulation on the structure of AFS	CASH FLOWS FROM OPERATING ACTIVITIES	
CASH FLOWS FROM OPERATING ACTIVITIES																								
Net profit	24,739	9,023																						33,762
Income tax	9,023	-9,023																						0
Depreciation and amortisation	18,946																							18,946
Impairment of receivables	1,504			-1,504																				0
Inventory impairment	3,641				-3,641																			0
Change in provisions	2,162																							0
Foreign exchange differences	624																							0
Gain on sale of property and equipment	-322																							0
Intangible asset written off	1																							0
Interest expense	-2,796																							0
Interest income	24,285																							65,207
Working capital changes	82,142																							65,207
Inventories (increase)/decrease	-35,135																							117,915
Trade and other receivables (increase)/decrease	36,534																							-31,565
Trade and other payables (increase)/decrease	-9,391																							0
Cash flows generated by operating activities	74,150																							13,938
Interest paid	-23,411																							-13,938
Income tax paid	-10,552																							-31,813
Net cash flows from operating activities	40,187																							0
INVESTING ACTIVITIES																								0
Purchase of tangible assets	-6,970																							-6,970
Proceeds from sale of tangible assets	773																							773
Purchase of intangible assets	-19,556																							-19,556
Acquisition of subsidiary net of cash received	20																							20
Proceeds from repayment of loans given	3,612																							3,612
Loans given	-3,014																							-3,014
Interest received	2,770																							2,770
Dividend received	289																							289
Net cash flows from investing activities	-22,276																							-22,276
FINANCING ACTIVITIES																								0
Repayment of borrowings	-254,654																							-254,654
Loans received	220,585																							220,585
Repayment of finance lease	-2,608																							-2,608
Dividend paid	-103																							-103
Net cash flows from financing activities	-36,780																							-36,780
Net increase in cash and cash equivalents	-16,868																							-16,868
Cash and cash equivalents at 1 January	50,134																							48,838
Cash and cash equivalents at 31 December	31,265																							31,250