



Medika d.d.

Zagreb, Capraška 1

**INTERIM REPORT
for first nine months of 2011
Medika d.d. Zagreb**

October 2011

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

Comment on the result for the first nine months of 2011

Sales revenue of Medika in the first nine months of 2011 is by 7.2% higher comparing to the same period of previous year.

The operative profit rate EBIT amounts to HRK 32.9 mil or 2.10% and EBITDA amounts to HRK 44.0 mil or 2.80 %.

The realized net profit amounts to HRK 8.0 million. The lower net profit comparing to the operative profit is result of net finance expense.

Net finance expense is higher comparing to the same period of previous year due to the influence of exchange rate differences.

Key indicators	I-IX 2011	I-IX 2010	Change I-IX 2011 / I-IX 2010
Sales revenue (000 HRK)	1,563,335	1,458,560	7.2%
EBITDA margin	2.80%	2.82%	-0.02%
EBIT margin	2.10%	2.04%	+0.06%
Net profit (000 HRK)	8,019	9,384	-14.5%

Key events

Pharmaceutical market has shown growth in the first nine months of 2011 comparing to the same period of previous year. Despite of sales revenue loss in Gradska Ljekarna Zagreb, sales revenue shows growth comparing to the same period of previous year. Since the percentage of sales revenue growth is identical as percentage of market growth, market share remains at the same level.

In February the long term loan in Medika d.d. in the amount of EUR 22.6 million was reprogrammed to a lower interest rate. At the same time, part of the loan in amount of EUR 6.7 million was converted to a short-term loan in Croatian kuna, which reduced currency risk exposure of Medika.

In 2011 the Company granted 285 of its treasury shares to key management as profit share. In August 2011 The Company has acquired 285 treasury shares.

Based on the General Assembly decision, legal reserves are increased in amount of HRK 4.5 million.

Balance sheet

Total assets have grown by 6.97% comparing to previous year. Growth is result of increased short term receivables.

Long term assets have decreased by 3.16% as result of decrease in all positions of long term assets. Intangible assets are lower for HRK 3.4 million as a result of amortization that amounts to HRK 3.5 million for the first nine months of 2011. Tangible assets are lower by HRK 3.9 million, mainly under the influence of depreciation that amounts to HRK 7.6 million for the first nine months of 2011. At the same time, investments were made in transportation vehicles, electronic and other equipment.

Inventory balance is lower for HRK 29.2 million or 13.27% comparing to previous year due to increase in sales.

Short-term assets amount to HRK 1 billion 489 million, whereof HRK 1 billion 82 million relate to trade receivables. Trade receivables increased by 12.75% comparing to the beginning of the year as a result of increase in sales and slower collection of receivables. A short-term financial assets amount to HRK 45.5 million, whereof HRK 10.4 million relates to bills of exchange receivables and HRK 34.6 million relates to endorsed bills of exchange receivables. Bills of exchange as a payment instrument were endorsed to suppliers and one business bank. Given the fact that the risk of nonpayment is on the Company, at the same time, the Company recorded liability for endorsed bills of exchange in "Liabilities for securities". Comparing to the beginning of the year, receivables for endorsed bills of exchange are lower for HRK 894 thousand.

There was movement in treasury shares and capital gain/loss. Namely, in 2011 the Company released 285 treasury shares as employees' benefit program. In August 2011 the Company acquired 285 treasury shares.

Legal reserves are increased for HRK 4.5 million in accordance with decision of General Assembly on distribution of profit.

Long term liabilities decreased for HRK 55.9 million comparing to beginning of the year. Decrease is result of reprogram of long term debt in euro. Part of the loan in amount of EUR 6.7 million was converted to a short-term loan in Croatian kuna at lower interest rate, which reduced currency risk exposure.

Short-term liabilities amount to HRK 1 billion 278 thousand whereof HRK 1 billion 55 million relates to the liabilities to suppliers, HRK 177.5 million to debt (HRK 177 million relates to short term loans and HRK 477 thousand relates to finance lease), and HRK 34.6 million on liabilities for securities (endorsed bills of exchange), as previously explained.

Risks

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

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

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

Currency risk is a significant financial risk. Most of inventories are purchased from foreign suppliers in foreign currencies. Additionally, part of borrowings from banks has exchange rate clauses. The Company does not use financial instruments to protect itself from currency risk.

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

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

Expectations

Medika d.d. business plan for 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.

Jasminko Herceg, B.Econ.

Board member


Medika d.d.
ZAGREB, Capraškova

Appendix 1.

Reporting period:

1.1.2011

to

30.9.2011

Quarterly financial statements TFI-POD

Registration number (MB): 03209741

Identification number of company (MBS): 080027531

Personal identification number (OIB): 94818858923

Issuer: MEDIKA D.D.

Postal code and city: 10000

ZAGREB

Address: CAPRAŠKA 1

e-mail: medika@medika.hr

web page: www.medika.hr

Code and name of municipality/city: 133 ZAGREB

Code and county name: 21 GRAD ZAGREB

Number of employees: 353
(end of reporting period)

Consolidated statements: NO

Code of NKD: 4646

Consolidating entities (according to IFRS):

Headquarters:

MB:

Bookkeeping service:

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

Telephone number: 012412551

Fax: 012371441

e-mail: medika@medika.hr

Name: HERCEG JASMINKO
(authorised person)**Documentation for publishing:**

1. Financial statements (Balance sheet, Profit and loss account, Cash flow statements, Statements of changes in equity and Notes to financial statements)
2. Interim report,
3. Statement of Liability.

M.P.


 (signature of authorised person)

BALANCE SHEET
balance as at 30.09.2011

Issuer: MEDIKA D.D.			
Description	AOP mark	Previous period	Current period
1	2	3	4
A) RECEIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL	001		
B) NON-CURRENT ASSETS (003+010+020+029+033)	002	247.189.960	239.377.419
I. INTANGIBLE ASSETS (004 to 009)	003	30.743.977	27.338.060
1. Research and development	004		
2. Concessions, patents, licences, trademarks, software and other rights	005	18.664.278	15.302.608
3. Goodwill	006	11.929.586	11.929.586
4. Advances for intangible assets	007		
5. Intangible assets under construction	008	150.113	105.866
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 to 019)	010	154.116.332	150.235.452
1. Land	011	15.994.716	15.994.716
2. Buildings	012	116.653.874	114.041.843
3. Equipment and machinery	013	7.038.304	6.369.686
4. Furniture, fittings and vehicles	014	10.631.567	10.498.246
5. Biological assets	015		
6. Advances for tangible assets	016	62.705	19.508
7. Tangible assets under construction	017	2.957.815	2.582.703
8. Other tangible assets	018	777.351	728.750
9. Investment property	019		
III. NON-CURRENT FINANCIAL ASSETS (021 to 028)	020	61.826.527	61.300.783
1. Investment in subsidiaries and associates	021	60.000.000	60.000.000
2. Loans to related parties	022		
3. Loans given to minority interest	023		
4. Loans given to participating parties	024		
5. Investment in securities	025		
6. Loans given, deposits and similar	026	1.826.527	1.300.783
7. Other non-current financial assets	027		
8. Investments at equity method	028		
IV. RECEIVABLES (030 to 032)	029	0	0
1. Receivables from related parties	030		
2. Receivables for credit sales	031		
3. Other receivables	032		
V. DEFERRED TAX ASSET	033	503.124	503.124
C) CURRENT ASSETS (035+043+050+058)	034	1.369.616.651	1.489.366.454
I. INVENTORY (036 To 042)	035	220.337.783	191.096.956
1. Raw material	036	209.553	149.353
2. Work in progress	037		
3. Finished products	038		
4. Trade goods	039	216.328.084	189.206.980
5. Advances for inventories	040	3.800.146	1.740.623
6. Non-current assets available for sale	041		
7. Biological assets	042		
II. RECEIVABLES (044 to 049)	043	1.083.124.463	1.244.589.536
1. Receivables from related parties	044	118.328.129	155.914.716
2. Trade receivables	045	959.570.333	1.081.958.385
3. Receivables from participating parties	046		
4. Receivables from employees	047	117.316	87.954
5. Receivables from the state and other institutions	048	3.954.251	3.471.177
6. Other receivables	049	1.154.434	3.157.304
III. CURRENT FINANCIAL ASSETS (051 to 057)	050	39.585.807	45.509.872
1. Investment in subsidiaries and associates	051		
2. Loans to related parties	052	1.333.334	
3. Equity investments	053		
4. Loans given to participating parties	054		
5. Investment in securities	055	36.082.060	44.988.206
6. Loans given, deposits and similar	056	2.170.413	521.666
7. Other financial assets	057		
IV. CASH IN BANK AND ON HAND	058	26.568.598	8.170.090
D) PREAPID EXPENSES AND ACCRUED INCOME	059	850.196	1.668.531
E) TOTAL ASSETS (001+002+034+059)	060	1.617.656.807	1.730.412.404
G) OFF BALANCE SHEET ITEMS	061	127.975.856	157.498.635

EQUITY AND LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	303.281.707	311.006.158
I. SHARE CAPITAL	063	60.388.000	60.388.000
II. CAPITAL RESERVES	064	-4.258.313	-6.863.284
III. RESERVES FROM RETAINED EARNINGS (066+067-068+069+070)	065	82.275.985	89.428.724
1. Legal reserves	066	2.729.945	7.277.713
2. Reserves for treasury shares	067	60.000.000	60.000.000
3. Treasury shares	068	12.250.450	9.645.479
4. Statutory reserves	069		
5. Other reserves	070	31.796.490	31.796.490
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR ACCUMULATED LOSS (073-074)	072	146.436.891	160.033.917
1. Retained earnings	073	146.436.891	160.033.917
2. Accumulated loss	074		
VI. PROFIT OR LOSS FOR THE PERIOD (076-077)	075	18.439.144	8.018.801
1. Profit for the period	076	18.439.144	8.018.801
2. Loss for the period	077		
VII. MAJORITY INTERESTS	078		
B) PROVISIONS (080 To 082)	079	402.284	402.284
1. Provisions for retirement, severance payment and similar	080	402.284	402.284
2. Tax provisions	081		
3. Other provisions	082		
C) NON-CURRENT LIABILITIES (084 to 092)	083	193.545.079	137.644.346
1. Liabilities to related parties	084		
2. Borrowings and deposits	085		
3. Liabilities to banks and other financial institutions	086	193.545.079	137.644.346
4. Liabilities for advances received	087		
5. Trade payables	088		
6. Liabilities for securities	089		
7. Liabilities to participating parties	090		
8. Other non-current liabilities	091		
9. Deferred tax liability	092		
D) CURRENT LIABILITIES (094 to 105)	093	1.116.789.228	1.278.258.349
1. Liabilities to related parties	094	1.190.344	830.778
2. Borrowings and deposits	095		
3. Liabilities to banks and other financial institutions	096	86.834.434	177.535.492
4. Liabilities for advances received	097	1.867.124	
5. Trade payables	098	977.925.289	1.055.248.645
6. Liabilities for securities	099	35.482.060	34.588.206
7. Liabilities to participating parties	100		
8. Liabilities to employees	101	5.259.383	4.269.255
9. Liabilities for taxes and contributions	102	2.445.982	2.296.256
10. Dividend payables	103	84.977	1.997
11. Liabilities for non-current assets available for sale	104		
12. Other current liabilities	105	5.699.635	3.487.720
E) DEFERRED INCOME AND ACCRUED EXPENSES	106	3.638.509	3.101.267
F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)	107	1.617.656.807	1.730.412.404
G) OFF BALANCE SHEET ITEMS	108	127.975.856	157.498.635
SUPPLEMENT TO BALANCE SHEET (for consolidated financial statements)			
A) CAPITAL AND RESERVES			
1. Attributable to equity holders	109		
2. Attributable to minority interest	110		

Note 1.: Supplement to balance sheet is filled for consolidated financial statements.

PROFIT AND LOSS
in period 01.01.2011. to 30.09.2011.

Issuer: MEDIKA D.D.

Description	AOP mark	Previous period		Current period	
		Cumulative	Quarter	Cumulative	Quarter
1	2	3	4	5	6
I. OPERATING REVENUES (112+113)	111	1.464.068.934	489.399.196	1.570.852.120	522.165.716
1. Revenues from sale	112	1.458.560.251	488.043.739	1.563.334.809	520.127.857
2. Other operating revenues	113	5.508.683	1.355.457	7.517.311	2.037.859
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	1.434.249.391	473.001.730	1.537.921.553	510.576.016
1. Change in value of work in progress and finished goods	115				
2. Material expenses (117 to 119)	116	1.347.814.128	443.855.324	1.457.538.046	468.679.595
a) Raw materials	117	5.786.530	1.855.796	6.217.216	2.149.828
b) Cost of goods sold	118	1.327.602.758	436.957.335	1.436.490.764	461.912.779
c) Other expenses	119	14.424.839	5.042.193	14.830.066	4.616.988
3. Employee expenses (121 to 123)	120	38.821.062	13.071.748	38.049.396	12.727.135
a) Net salaries	121	21.406.442	7.286.826	21.702.767	7.256.725
b) Tax and contributions from salaries	122	11.732.010	3.871.702	10.764.072	3.602.605
c) Contributions on salaries	123	5.682.610	1.913.220	5.582.557	1.867.805
4. Depreciation and amortization	124	11.539.258	3.864.118	11.080.678	3.504.728
5. Other expenses	125	25.257.547	7.393.144	21.365.762	5.664.558
6. Impairment (127+128)	126	10.365.776	4.365.776	9.887.671	0
a) of non-current assets (financial assets excluded)	127				
b) of current assets (financial assets excluded)	128	10.365.776	4.365.776	9.887.671	
7. Provisions	129	451.620	451.620		
8. Other operating expenses	130				
III. FINANCE INCOME (132 to 136)	131	9.544.305	-2.052.595	3.247.146	-441.040
1. Interests, foreign exchanges and dividend from related parties	132	82.118	82.118	18.157	
2. Interests, foreign exchanges and dividend from non-related parties	133	9.462.187	-2.134.713	3.228.989	-441.040
3. Share of profit from associate	134				
4. Unrealised gains	135				
5. Other financial income	136				
IV. FINANCE EXPENSES (138 to 141)	137	25.957.474	11.802.727	24.722.283	12.649.718
1. Interests, foreign exchanges and dividend from related parties	138				
2. Interests, foreign exchanges and dividend from non-related parties	139	25.957.474	11.802.727	24.722.283	12.649.718
3. Unrealised losses	140				
4. Other finance expenses	141				
V. SHARE OF PROFIT FROM ASSOCIATE	142				
VI. SHARE OF LOSS FROM ASSOCIATE	143				
VII. EXTRAORDINARY - OTHER INCOME	144				
VIII. EXTRAORDINARY - OTHER EXPENSES	145				
IX. TOTAL INCOME (111+131+142 + 144)	146	1.473.613.239	467.346.601	1.574.099.266	521.724.676
X. TOTAL EXPENSES (114+137+143 + 145)	147	1.460.206.865	484.804.457	1.562.643.836	523.225.734
XI. PROFIT OR LOSS BEFORE TAX (146-147)	148	13.406.374	2.542.144	11.455.430	-1.501.058
1. Profit before tax (146-147)	149	13.406.374	2.542.144	11.455.430	0
2. Loss before tax (147-146)	150	0	0	0	1.501.058
XII. INCOME TAX	151	4.021.912	762.643	3.436.629	-450.317
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	9.384.462	1.779.501	8.018.801	-1.050.741
1. Profit for the period (149-151)	153	9.384.462	1.779.501	8.018.801	0
2. Loss for the period (151-148)	154	0	0	0	1.050.741

SUPPLEMENT TO PROFIT AND LOSS (for consolidated financial statements)

XIV. PROFIT OR LOSS FOR THE PERIOD					
1. Attributable to equity holders	155				
2. Attributable to minority interest	156				

OTHER COMPREHENSIVE INCOME REPORT (for IFRS reporting)

I. PROFIT OR LOSS FOR THE PERIOD (= 152)	157	9,384,462	1,779,501	8,018,801	-1,050,741
II. OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX (159 to 165)	158	0	0	0	0
1. Exchange differences on translation of foreign operations	159				
2. Changes in revaluation reserves for non-current tangible and intangible assets	160				
3. Profit or loss from revaluation of financial assets available for sale	161				
4. Gains or losses from efficient cash flow hedging	162				
5. Gains or losses from efficient hedge of net investment abroad	163				
6. Share in other comprehensive profit/loss of associates	164				
7. Actuarial gains/losses on defined benefit plans	165				
III. TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD	166				
IV. NET OTHER COMPREHENSIVE PROFIT OR LOSS FOR THE PERIOD (158-166)	167	0	0	0	0
V. COMPREHENSIVE PROFIT OR LOSS FOR THE PERIOD (157+167)	168	9,384,462	1,779,501	8,018,801	-1,050,741

APPENDIX to Other comprehensive income report (to be filled for consolidated financial statements)

VI. COMPREHENSIVE PROFIT OR LOSS					
1. Attributable to equity holders	169				
2. Attributable to minority interest	170				

STATEMENT OF CASH FLOW - Indirect method
in period 01.01.2011. do 30.09.2011.

Issuer: <u>MEDIKA D.D.</u>			
Description	AOP mark	Previous period	Current period
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before tax	001	13.406.374	11.455.430
2. Depreciation and amortisation	002	11.539.258	11.080.678
3. Increase of current liabilities	003	83.796.430	70.851.062
4. Decrease of current receivables	004		
5. Decrease of inventories	005		29.240.828
6. Other increase of cash flow	006	3.921.200	
I. Total increase of cash flow from operating activities (001 to 006)	007	112.663.262	122.627.998
1. Decrease of current liabilities	008		
2. Increase of current receivables	009	112.744.274	161.465.074
3. Increase of inventories	010	1.446.012	
4. Other decrease of cash flow	011	5.019.399	6.959.695
II. Total decrease of cash flow from operating activities (008 to 011)	012	119.209.685	168.424.769
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES (007-012)	013	0	0
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES (012-007)	014	6.546.423	45.796.771
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from sale of tangible and intangible assets	015	712.200	266.064
2. Proceeds from sale of equity and debt securities	016		
3. Interest received	017	997.487	212.602
4. Dividends received	018		
5. Other proceeds from investing activities	019		
III. Total proceeds from investing activities (015 to 019)	020	1.709.687	478.666
1. Purchase of tangible and intangible assets	021	7.980.339	3.878.860
2. Purchase of equity and debt securities	022		
3. Other purchases resulting from investing activities	023		
IV. Total purchases resulting from investing activities (021 to 023)	024	7.980.339	3.878.860
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES (020-024)	025	0	0
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES (024-020)	026	6.270.652	3.400.194
CASH FLOW FROM FINANCING ACTIVITIES			
1. Proceeds from issuance of equity and debt securities	027		
2. Proceeds from borrowings	028	155.753.997	135.654.951
3. Other proceeds from financing activities	029	3.515.927	
V. Total proceeds from financing activities (027 to 029)	030	159.269.924	135.654.951
1. Repayments of borrowings	031	149.755.794	100.855.163
2. Dividends paid	032		377.389
3. Repayments of finance lease	033	1.624.681	1.638.942
4. Purchase of treasury shares	034		1.985.000
5. Other purchases resulting from financing activities	035		
VI. Ukupno novčani izdaci od financijskih aktivnosti (031 to 035)	036	151.380.475	104.856.494
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES (030-036)	037	7.889.449	30.798.457
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES (036-030)	038	0	0
Total increase of cash flow (013 – 014 + 025 – 026 + 037 – 038)	039	0	0
Total decrease of cash flow (014 – 013 + 026 – 025 + 038 – 037)	040	4.927.626	18.398.508
Cash and cash equivalents at beginning of the period	041	41.993.688	26.568.598
Increase of cash and cash equivalents	042		
Decrease of cash and cash equivalents	043	4.927.626	18.398.508
Cash and cash equivalents at end of the period	044	37.066.062	8.170.090

STATEMENT OF CHANGES IN EQUITY
for period from 1.1.2011 to 30.9.2011

Description	AOP mark	Previous period	Current period
1	2	3	4
1. Share capital	001	60.388.000	60.388.000
2. Capital reserves	002	-4.258.313	-6.863.284
3. Reserves from retained earnings	003	82.275.985	89.428.724
4. Retained earnings or accumulated loss	004	146.436.891	160.033.917
5. Profit or loss for the period	005	18.439.144	8.018.801
6. Revaluation of tangible assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluation	009		
10. Total capital and reserves (AOP 001 to 009)	010	303.281.707	311.006.158
11. Foreign exchanges from the foreign investments	011		
12. Current and deferred tax (part)	012		
13. Cash flow hedge	013		
14. Changes of accounting policies	014		
15. Correction of material mistakes from previous period	015		
16. Other changes of equity	016		
17. Total increase or decrease of equity (AOP 011 to 016)	017	0	0
17 a. Attributable to equity holders	018		
17 b. Attributable to minority interest	019		

Stavke koje umanjuju kapital upisuju se s negativnim predznakom

Podaci pod AOP oznakama 001 do 009 upisuju se kao stanje na datum bilance



Medika

Dioničko društvo za trgovinu lijekovima i sanitetskim materijalom

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Zagreb, 27 October 2011

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

MANAGEMENT BOARD'S STATEMENT OF LIABILITY

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

Consolidated and unconsolidated financial statements for the period ended 30 September 2011 present complete and fair view of assets and liabilities, profit and loss, financial position and operations of the Company and the Group.

The interim management report for the period ended 30 September 2011 presents true and fair presentation of development and results of the operations of the Company and the Group with description of significant risks and uncertainties for the Company and the Group.

Jasminko Herceg
Management Board member