



## **BUSINESS RESULTS OF THE PODRAVKA GROUP FOR THE PERIOD JANUARY – DECEMBER 2011**

### **Main business characteristics and significant events in the fourth quarter**

1. The total sales of the Podravka Group in the year 2011 amounted to HRK 3,625.2 million, which represents an increase of 3% compared to the year 2010. Sales of the Strategic Business Area (SBA) Food and Beverages totalled HRK 2,828.9 million, which is a sales increase of 2% while the sales of the SBA Pharmaceuticals totalled HRK 796.3 million, representing a sales increase of 7%.
2. A difference in the levels of EBITDA, EBIT and net profit in regard to the unaudited financial statements occurred due to an additional impairment of assets acquired through acquisitions in previous years. The corrected EBITDA, EBIT and gross profit (reduced by non-recurrent items) have slightly changed compared to those earlier disclosed (EBITDA by -0.2%, EBIT by -0.4% and net profit by -2.6%).
3. The realized EBITDA is HRK 415.5 million, which is a growth of 15% while the corrected EBITDA is 11% less.
4. The operating profit (EBIT) of the Podravka Group totals HRK 193.2 million, which represents a 6% decrease, while the operating margin (EBIT) is 5.3%
5. The realised net profit of the Podravka Group is 18% less than last year and amounts to HRK 69.3 million, while the net margin is 1.9%
6. The total value of capital investments in the observed period was HRK 102.2 million.
7. On 23 November 2011 Podravka d.d, OTP Bank Plc and MOL Hungarian Oil and Gas Company, Plc from Budapest concluded a Settlement Agreement discharging all mutual claims and liabilities between contractual parties arising from the Agreement concluded on 27 March 2009 concerning 10.64% of Podravka d.d. shares.

Upon the fulfilment of the contractual liabilities arising from the above mentioned Settlement Agreement, Podravka d.d. shall have positive effect on the business result for 2011 in the amount of HRK 19 million on the grounds of releasing earlier reserved funds.

## Notes

On the sales of the Podravka Group we report as follows:

### SBA "Food and Beverages"

#### 1. **Business program Podravka food**

- Podravka brands
  - Fruit and vegetable products, side dishes and other (Fruit and vegetable products, Side dishes, Mill and bakery products and other)
  - Baby food, sweets and snack
  - Fish and fishery products
- Other

#### 2. **Business program dishes and food seasonings**

- Podravka brands
  - Food seasonings
  - Podravka dishes
- Other

#### 3. **Business program meat**

- Podravka brands
- Other

#### 4. **Business program beverages**

- Podravka brands
- Other

### SBA "Pharmaceuticals"

## Disclaimer

*This release contains certain forward looking statements with respect to the financial condition, results of operations and business of the Podravka Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.*

## Sales per Strategic Business Areas (SBA)

Item no.	SBA	In millions HRK				
		Jan - Dec 2011		Jan - Dec 2010		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1	Food and Beverages	2,828.9	78.0	2,778.1	78.9	102
2	Pharmaceuticals	796.3	22.0	744.2	21.1	107
<b>Total</b>		<b>3,625.2</b>	<b>100.0</b>	<b>3,522.3</b>	<b>100.0</b>	103

Sales revenue of the Podravka Group amounted to HRK 3,625.2 million, which is 3% higher compared to the same period of the year 2010.

Sales of the SBA Food and Beverages totalled HRK 2,828.9 million, which represents a sales increase of 2% compared to the year 2010. This increase results from a higher level of sales on foreign markets (4%) and the foreign market with the highest increase of the SBA Food and Beverages is the market of South-East Europe (7%) with the highest contribution coming from the markets of Serbia (16%), Bosnia and Herzegovina (6%) and Slovenia (4%). The markets of Western Europe, overseas countries and the Orient also achieved an increase in the sales of the SBA Food and Beverages (2%) with a significant growth from the market of Australia (15%), while the markets of Central Europe achieved a sales increase of the aforesaid SBA by 1% with the highest contribution from the market of the Czech Republic (9%).

The SBA Pharmaceuticals achieved sales in the amount of HRK 796.3 million, which represents a sales increase of 7% compared to the same period of the year 2010. The sales increase of the SBA Pharmaceuticals is mostly contributed by foreign markets which recorded a growth of 13%, with the highest contribution coming from the markets of Russia (22%), Bosnia and Herzegovina (8%) and Slovenia (28%). Sales on the Croatian market have also increased (3%) due to a higher level of sales of prescription drugs (2%) and a growth of sales of OTC products (1%). According to the ATC<sup>1</sup> classification the product groups which have achieved the most significant growth are dermatic drugs (14%) and drugs with effect on the nervous system (9%).

<sup>1</sup> Anatomic-therapeutic-chemical system of drug classification

## New products in the fourth quarter of the year 2011



Lino teddy bears (Njammy) are a crunchy chocolate extrudate in the shape of teddy bears which is served as cereal with milk but can also be a delicious snack product. The product contains vitamins, calcium and iron.

Muffins with apple filling is a mixture enriched with cinnamon, clove and anise. Their irresistible scent reminds us of winter and Christmas making the taste of muffins fuller and richer. Apart from the mix, the package also contains apple filling and cake moulds. The inner side of the box of Muffins contains a colouring book for children that can be coloured or used for cutting, as desired.



Lero fruit syrups with the taste of orange-cinnamon, lemon-mint, strawberry-vanilla and raspberry-jasmine are new combinations of fruit aromas and spices that give new flavours to refreshing beverages made from fruit syrups.

Apple and cinnamon fruit spread has a natural colour and taste of apple complemented with a touch of cinnamon. It contains a high percentage of fruit of as much as 60% which is present in the spread in small cubes and as apple puree, and in combination with a reduced content of sugar confirms this is a highly valuable product.



## Sales revenues per product groups

		In millions HRK				
Item no.	PRODUCT GROUP	Jan - Dec 2011		Jan - Dec 2010		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
<b>1</b>	<b>BP PODRAVKA FOOD</b>	<b>1,291.7</b>	<b>35.6</b>	<b>1,210.5</b>	<b>34.4</b>	<b>107</b>
	Podravka brands	987.2	27.2	932.1	26.5	106
	- Fruit and vegetable products, side dishes and other	480.8	13.3	440.2	12.5	109
	- Baby food, sweets and snack	380.1	10.5	370.0	10.5	103
	- Fish and fishery products	126.2	3.5	121.8	3.5	104
	Other	304.5	8.4	278.4	7.9	109
<b>2</b>	<b>BP DISHES AND FOOD SEASONINGS</b>	<b>941.2</b>	<b>26.0</b>	<b>952.7</b>	<b>27.0</b>	<b>99</b>
	Podravka brands	908.8	25.1	918.1	26.1	99
	- Food and seasonings	672.6	18.6	688.9	19.6	98
	- Podravka dishes	236.2	6.5	229.3	6.5	103
	Other	32.5	0.9	34.5	1.0	94
<b>3</b>	<b>BP MEAT</b>	<b>409.7</b>	<b>11.3</b>	<b>405.9</b>	<b>11.5</b>	<b>101</b>
	Podravka brands	371.0	10.2	362.4	10.3	102
	Other	38.7	1.1	43.5	1.2	89
<b>4</b>	<b>BP BEVERAGES</b>	<b>186.2</b>	<b>5.1</b>	<b>209.0</b>	<b>5.9</b>	<b>89</b>
	Podravka brands	171.4	4.7	190.1	5.4	90
	Other	14.9	0.4	18.9	0.5	79
<b>5</b>	<b>Pharmaceuticals</b>	<b>796.3</b>	<b>22.0</b>	<b>744.2</b>	<b>21.1</b>	<b>107</b>
	<b>Total</b>	<b>3,625.2</b>	<b>100.0</b>	<b>3,522.3</b>	<b>100.0</b>	<b>103</b>

The BP Podravka Food achieved a sales increase of 7% compared to the same period of the year 2010, and growth was recorded by all the product groups within this business programme, with the most significant contribution from the product group Fruit and vegetable products, side dishes and other due to their sales increase in Croatia (7%) and Poland (34%). The product group Baby food, sweets and snack recorded a 3% growth with the highest contribution from the markets of Serbia (22%), Slovenia (6) and Bosnia and Herzegovina (5%). The increase of sales of the product group Fish and fishery products in the amount of 4% results from the sales growth on the market of Serbia (9%) and opening of the new market of Romania.

Sales of the BP Dishes and Food Seasoning is 1% lower due to lower sales of the product group Food seasonings, although this product group recorded a growth of sales on some markets such as Austria, Australia, Serbia and the Czech Republic. The product group Podravka dishes achieved a sales increase of 3% due to the growth on foreign markets with the highest contribution coming from the markets of both Russia and Serbia.

The BP Meat recorded a 1% sales increase due to the sales growth on foreign markets (14%), among which the most prominent is the market of Bosnia and Herzegovina (41%), due to the sales growth of Liver paste. Apart from this, the markets of Kosovo, Italy and Australia also achieved a significant sales growth of this business programme.

The sales of the BP Beverages is lower by 11% compared to the year 2010, which is mostly contributed by the drop of sales on the domestic market (-13%) but also a lower level of sales on the foreign market where a drop of 4% was recorded.

## Sales revenues of the Podravka Group per market <sup>2</sup>

Item no.	MARKETS	In millions HRK				
		Jan - Dec 2011		Jan - Dec 2010		Index 2:4
0	1	2	3	4	5	6
1	Croatia	1,741.8	48.0	1,741.3	49.4	100
2	South-East Europe	877.2	24.2	815.2	23.2	108
3	Central Europe	498.7	13.8	490.1	13.9	102
4	Western Europe, overseas countries and Orient	291.5	8.0	281.6	8.0	103
5	Eastern Europe	216.0	6.0	194.1	5.5	111
<b>Total</b>		<b>3,625.2</b>	<b>100.0</b>	<b>3,522.3</b>	<b>100.0</b>	<b>103</b>

Sales in the amount of HRK 1,741.8 million, which is 48% of the total sales of the Podravka Group was realized on the market of Croatia. The domestic market achieved the same level of sales as the year before provided that the SBA Pharmaceuticals achieved a sales growth of 3%, while sales of the SBA Food and Beverages dropped 1%. Foreign markets recorded sales growth in the amount of HRK 1,883.4 million which represents a 6% increase. Strong sales growth was present on all foreign markets with the highest absolute sales growth realized on the markets of South-East Europe (8%) where the most prominent markets are Bosnia and Herzegovina (7%), Serbia (17%) and Slovenia (5%). The market of Eastern Europe also recorded a significant sales growth (11%) based on a higher level of sales on the market of Russia (17%). The market of Western Europe, overseas countries and the Orient achieved a sales growth of 3% with the highest contribution from the markets of Australia (15%) and Italy (33%), while the markets of Central Europe recorded a sales growth of 2% based on the increase of sales on the markets of the Czech Republic (8%) and Hungary (5%).

<sup>2</sup> South-East Europe – Albania, Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, Slovenia, Serbia  
 Central Europe – Czech Republic, Hungary, Poland, Slovakia  
 Western Europe, overseas countries and the Orient – Austria, Australia, Benelux, France, Italy, Canada, Germany, USA, Scandinavia, Switzerland, Turkey, Great Britain and other overseas countries and Western European countries  
 Eastern Europe – Baltic countries, Romania, Russia, the Ukraine, Bulgaria, and other Eastern European countries

## Structure of operating costs / expenses

In millions HRK						
Item no.	COSTS / EXPENSES	Jan - Dec 2011		Jan - Dec 2010		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1	Cost of goods sold	2,196.5	64.2	2,075.3	63.3	106
2	Selling and distribution costs	527.9	15.4	554.2	16.9	95
3	Marketing expenses	426.3	12.5	401.2	12.2	106
4	General and administrative expenses	272.2	7.9	247.6	7.5	110
<b>Total</b>		<b>3,422.9</b>	<b>100.0</b>	<b>3,278.3</b>	<b>100.0</b>	<b>104</b>

The total operating costs/expenses of the Podravka Group amounted HRK 3,422.9 million, which represents an increase of 4% in the year 2011 compared to the year before due to a significant increase of Costs of goods sold, respectively the price of raw material. Marketing expenses grew 6% in the observed period as a result of higher expenses for *trade* and BTL marketing, primarily due to consumption incentives but also as a result of supporting new products on the market. General and administrative expenses recorded a 10% growth mostly influenced by research and development expenses and higher amortization, while Selling and distribution costs were 5% lower in the observed period.

## Profitability of the Podravka Group

In millions HRK							
Podravka Group	REPORTED RESULTS			CORRECTED RESULTS *		change (2/3)	change (4/5)
	Jan - Dec 2011	Jan - Dec 2010		Jan - Dec 2011	Jan - Dec 2010		
1	2	3	4	5	6	7	
Sales revenue	3,625.2	3,522.3		3,625.2	3,522.3	3%	3%
Gross profit	1,428.6	1,446.9		1,428.6	1,446.9	-1%	-1%
EBITDA**	415.5	360.1		380.8	427.0	15%	-11%
EBIT	193.2	204.9		223.3	271.8	-6%	-18%
Net profit	69.3	84.2		95.7	151.1	-18%	-37%
Profit margins %							
Gross margin	39.4	41.1		39.4	41.1	-170bp	-170bp
EBITDA margin	11.5	10.2		10.5	12.1	130bp	-160bp
EBIT margin	5.3	5.8		6.2	7.7	-50bp	-150bp
Net margin	1.9	2.4		2.6	4.3	-50bp	-170bp

\* without non-recurrent items

\*\*EBITDA is calculated in the manner that EBIT is increased by amortization and adjustments of tangible and intangible assets

Although sales revenue in the year 2011 grew by 3%, respectively HRK 102.9 million, the gross profit recorded a drop of 1% and amounts to HRK 1,428.6 million. Namely, due to a powerful impact from the price increase of raw material, the Costs of sold goods grew much faster than sales revenue which is the main reason for a lower gross profit and drop of gross margin (-170bp). The EBITDA is HRK 415.5 million and is calculated in a manner to increase the EBIT for amortization and value adjustments of both tangible and intangible assets. The operating profit amounts to HRK 193.2 million, which represents a drop of 6% and therefore, the EBIT margin is a level of 5.3%. The net profit of the Podravka Group is HRK 69.3 million and the net margin is 1.9%.

Positive non-recurrent items for which the result has been corrected, arise from the return of insurance funds in the amount of HRK 23.7 million in the SBA Pharmaceuticals, recording of the SMS brand (HRK 7.8 million) and the release of reserves based on the contractual relationship with OTP Bank (HRK 19.1 million). Namely, Podravka d.d., OTP Bank Plc and MOL Hungarian Oil and Gas Company, Plc from Budapest concluded a Settlement Agreement by which all mutual claims and liabilities of the contractual parties have been discharged and as a result of this Podravka has achieved a positive effect on the result due to the release of earlier reserved funds in the year 2010.

Negative non-recurrent items referred to impaired values of long-term assets held for sale (HRK 16.6 million), loss from reduced values of brands and pharmacy rights (HRK 41 million), bond value adjustments (HRK 3.7 million), impairment of goodwill (HRK 7.1 million), value adjustments of fund investments (HRK 3.5 million) and severance payments (HRK 8.7 million).

A difference in the levels of EBITDA, EBIT and net profit occurred referring to the unaudited financial statements due to corrections and reduction of brand values, impairment of long-term assets held for sale and impairment of goodwill, respectively.



Namely, after the disclosure of unaudited financial statements, additional brand value reductions occurred in the amount of HRK 31.2 million (total reduction of brands Warzywko and Lero is HRK 40.3 million, while the reduction of pharmacy rights is HRK 0.7 million). Apart from that, value adjustments of goodwill in the amount of HRK 7.1 million and assets held for sale in the amount of HRK 16.6 million (HRK 14.5 million property in Lero and HRK 2.1 million property in Koprivnica) were made. The corrected EBITDA, EBIT and gross profit (reduced by non-recurrent items) have slightly changed compared to those earlier disclosed (EBITDA by -0.2%, EBIT by -0.4% and net profit by -2.6%).

## Profitability of SBA Food & Beverages

In millions HRK						
SBA Food & beverages	REPORTED RESULTS		CORRECTED RESULTS *		change (2/3)	change (4/5)
	Jan - Dec 2011	Jan - Dec 2010	Jan - Dec 2011	Jan - Dec 2010		
1	2	3	4	5	6	7
Sales revenue	2,828.9	2,778.1	2,828.9	2,778.1	2%	2%
Gross profit	991.2	1,042.7	991.2	1,042.7	-5%	-5%
EBITDA**	229.1	219.4	217.1	283.5	4%	-23%
EBIT	54.7	106.6	104.5	170.7	-49%	-39%
Net profit	-20.1	32.2	21.2	96.3	-163%	-78%
Profit margins %						
Gross margin	35.0	37.5	35.0	37.5	-250bp	-250bp
EBITDA margin	8.1	7.9	7.7	10.2	20bp	-250bp
EBIT margin	1.9	3.8	3.7	6.1	-190bp	-240bp
Net margin	-0.7	1.2	0.8	3.5	-190bp	-270bp

\* without non-recurrent items

\*\*EBITDA is calculated in the manner that EBIT is increased by amortization and adjustments of tangible and intangible assets

Despite the sales increase of the SBA Food and Beverages of 2%, the gross profit in 2011 recorded a 5% drop due to the price increase of incoming raw material and changes in the sales structure. As a result, the gross margin recorded a drop of 250bp. The operating profit is HRK 54.7 million and is 49% lower than last year, while the net profit is 163% lower. Positive non-recurrent items in the SBA Food and Beverages referred to the release of reserves based on the contractual relationship with OTP Bank (HRK 19.1 million) and recording of the SMS brand (HRK 7.8 million), while negative non-recurrent items referred to severance payments (HRK 7.7 million), value adjustments of fund investments (HRK 3.5 million), impairment of goodwill (HRK 4.9 million), bond value adjustments (HRK 3.7 million), loss from brand value reduction (HRK 40.3 million) and the impairment of long-term assets held for sale (HRK 16.6 million). The EBITDA was corrected by HRK 12 million as the reported EBITDA was already corrected by the impairment of long-term assets held for sale and value adjustments of intangible assets. The EBIT was corrected for non-recurrent items in the amount of HRK 49.8 million, while the net profit was corrected by HRK 41.4 million, as deferred tax assets amounted to HRK 8.4 million.

## Profitability of SBA Pharmaceuticals

In millions HRK						
SBA Pharmaceuticals	REPORTED RESULTS		CORRECTED RESULTS *		change (2/3)	change (4/5)
	Jan - Dec 2011	Jan - Dec 2010	Jan - Dec 2011	Jan - Dec 2010		
1	2	3	4	5	6	7
Sales revenue	796.3	744.2	796.3	744.2	7%	7%
Gross profit	437.4	404.2	437.4	404.2	8%	8%
EBITDA**	186.3	140.7	163.7	143.5	32%	14%
EBIT	138.5	98.3	118.8	101.0	41%	18%
Net profit	89.4	52.0	74.5	54.8	72%	36%
Profit margins %						
Gross margin	54.9	54.3	54.9	54.3	60bp	60bp
EBITDA margin	23.4	18.9	20.6	19.3	450bp	130bp
EBIT margin	17.4	13.2	14.9	13.6	420bp	130bp
Net margin	11.2	7.0	9.4	7.4	420bp	200bp

\* without non-recurrent items

\*\*EBITDA is calculated in the manner that EBIT is increased by amortization and adjustments of tangible and intangible assets

Sales of the SBA Pharmaceuticals increased by 7% compared to the same period of the year before with the highest contribution from foreign markets (13%), but the domestic market also achieved a sales growth (3%). As more profitable products have recorded a growth within the structure of sales, the gross profit grew 8% so the gross margin for the observed period was 54.9%. The level of EBITDA, EBIT and net margin recorded positive shifts due to earlier mentioned positive non-recurrent items based on income from insurance in the amount of HRK 23.7 million, while the negative non-recurrent items amounted to HRK 4 million (HRK 1.1 million severance payments, HRK 2.2 million impairment of goodwill and HRK 0.7 million based on the reduction of pharmacy rights). The corrected EBITDA is reduced by HRK 22.6 million as pharmacy rights reduced in the amount of HRK 0.7 million and the loss from the impairment of goodwill (HRK 2.2 million) have already been included in the reported EBITDA. The corrected EBIT is reduced by HRK 19.7 million, while the level of corrected net profit is reduced by HRK 14.9 million as tax liabilities amounted to HRK 4.9 million based on the return of insurance and HRK 0.1 million of deferred tax assets.

## CONSOLIDATED STATEMENT OF INCOME

(in thousands of HRK)

	Jan - Dec 2011	Jan - Dec 2010
Sales	3,625,162	3,522,272
Cost of goods sold	(2,196,530)	(2,075,312)
<b>Gross profit</b>	<b>1,428,632</b>	<b>1,446,960</b>
Investment revenue	13,334	13,048
Other (losses) / gains, net	(20,465)	(50,856)
General and administrative expenses	(272,215)	(247,649)
Selling and distribution costs	(527,896)	(554,156)
Marketing expenses	(426,309)	(401,216)
Other expenses	(1,918)	(1,273)
<b>Profit from operations</b>	<b>193,163</b>	<b>204,858</b>
Finance costs	(100,010)	(95,521)
<b>Profit before tax</b>	<b>93,153</b>	<b>109,336</b>
Income tax expenses	(23,724)	(25,262)
<b>Net profit</b>	<b>69,429</b>	<b>84,074</b>
Profit for the period attributable:		
<b>To the equity holders of the parent</b>	<b>69,281</b>	<b>84,235</b>
Non-controlling interests	148	(161)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of HRK)

	31 December 2011	31 December 2010
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1,519,649	1,642,820
Goodwill	41,129	44,293
Intangible assets	270,798	308,040
Deferred tax assets	56,022	52,330
Other financial assets	4,323	9,142
<b>Total non-current assets</b>	<b>1,891,921</b>	<b>2,056,625</b>
<b>Current assets</b>		
Inventories	700,583	692,094
Trade and other receivables	1,058,040	1,083,543
Financial assets at fair value through profit or loss	559	14,796
Cash and cash equivalents	145,960	152,363
	1,905,142	1,942,796
Non-current assets held for sale	57,657	8,768
<b>Total current assets</b>	<b>1,962,799</b>	<b>1,951,564</b>
<b>TOTAL ASSETS</b>	<b>3,854,720</b>	<b>4,008,189</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>		
Share capital	1,582,966	1,580,734
Reserves	119,645	126,937
Accumulated loss	(41,611)	(107,200)
<b>Attributable to the equity holders of the parent</b>	<b>1,661,000</b>	<b>1,600,471</b>
Non-controlling interests	34,787	34,347
<b>Total shareholders' equity</b>	<b>1,695,787</b>	<b>1,634,818</b>
<b>Non-current liabilities</b>		
Long-term debt	897,616	558,957
Provisions	34,326	30,037
Deferred tax liability	6,997	7,141
<b>Total non-current liabilities</b>	<b>938,939</b>	<b>596,135</b>
<b>Current liabilities</b>		
Financial liabilities at fair value through profit or loss	-	371,100
Trade and other payables	710,789	800,591
Short-term borrowings	485,733	581,691
Provisions	23,472	23,854
<b>Total current liabilities</b>	<b>1,219,994</b>	<b>1,777,236</b>
<b>Total liabilities</b>	<b>2,158,933</b>	<b>2,373,371</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,854,720</b>	<b>4,008,189</b>

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of HRK)

	Share capital	Reserves	Accumulated loss / Retained earnings	Total	Non-controlling interest	Total
<b>Balance at 31 December 2010</b>	1,580,734	126,937	(107,200)	1,600,471	34,347	1,634,818
Net profit for the year	-	-	69,281	69,281	148	69,429
Exchange differences - other comprehensive income	-	(10,984)	-	(10,984)	292	(10,692)
<b>Total comprehensive profit</b>	-	(10,984)	69,281	58,297	440	58,737
Purchase of treasury shares	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-
Options exercised	-	-	-	-	-	-
Fair value of share options	2,232	-	-	2,232	-	2,232
Transfer from other and legal reserves	-	3,692	(3,692)	-	-	-
<b>Balance at 31 December 2011</b>	<b>1,582,966</b>	<b>119,645</b>	<b>(41,611)</b>	<b>1,661,000</b>	<b>34,787</b>	<b>1,695,787</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of HRK)

	<u>2011</u>	<u>2010</u>
<b>Net profit</b>	<b>69,429</b>	<b>84,074</b>
Income tax	23,724	25,262
Depreciation and amortization	157,488	155,292
Losses on impairment of values of brands and pharmacy rights	41,041	-
Losses on impairment of values of long-term assets held for sale	16,642	-
Losses on impairment of goodwill	7,134	-
Losses on value adjustments of financial assets, net	3,500	1,649
Losses / (gains) on value adjustments of share-based payments	2,232	(2,957)
Losses / (gains) on disposal of non-current assets, net	384	(4,661)
Value adjustment of liabilities at fair value through profit or loss	3,632	34,157
Unrealized (gains) / losses on Swap contract	(830)	4,137
(Gains) / losses on option contract	(16,537)	21,008
SMS Brand	(7,800)	-
Value adjustment of current assets	5,367	22,991
Increase in long-term and short-term provisions	3,907	177
Interest received	(9,216)	(9,191)
Interest paid	84,485	88,376
Effect of changes in foreign exchange rates	15,860	16,534
Other items not affecting cash	(1,823)	(406)
<b>Changes in working capital</b>		
Increase in inventories	(7,371)	(49,942)
(Increase) / Decrease in trade receivables	(32,358)	99,055
Increase in other current assets	(18,174)	(14,335)
Increase / (decrease) in trade payables	26,037	(21,321)
Decrease in other liabilities	(96,920)	(136,922)
<b>Net cash from operations</b>	<b>269,833</b>	<b>312,977</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(in thousands of HRK)

	2011	2010
<b>Cash flows from operating activities</b>		
Cash from operations	269,833	312,977
Income taxes paid	(21,118)	(25,574)
Interest paid	(95,444)	(90,634)
<b>Net cash from operating activities</b>	<b>153,271</b>	<b>196,769</b>
<b>Cash flows from investing activities</b>		
Proceeds from insurance	23,723	-
Payments made for property, plant and equipment, and intangible assets	(102,249)	(91,068)
Sale of tangible and intangible assets	8,249	10,446
Long-term loans given and deposits given	(10)	(309)
Repayment of long-term loans given and deposits given	3,587	1,002
Purchase of trading securities	(97,843)	(68,300)
Sale of trading securities	111,102	74,176
Short-term loans and deposits given	(280)	(2,108)
Recovery of short-term loans and deposits given	46,652	2,078
Collected interest	9,237	9,191
Acquisition of subsidiaries, net of cash acquired	(6,843)	-
Proceeds from disposed units in Pharma Net d.o.o.	-	1,000
<b>Net cash used in investing activities</b>	<b>(4,675)</b>	<b>(63,892)</b>
<b>Net cash flows from financing activities</b>		
Proceeds from long-term borrowings	602,508	239,206
Repayment of long-term borrowings	(612,808)	(129,891)
Proceeds from short-term borrowings	76,960	519,693
Repayment of short-term borrowings	(221,659)	(754,791)
<b>Net cash used in financing activities</b>	<b>(154,999)</b>	<b>(125,783)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(6,403)</b>	<b>7,094</b>
Cash and cash equivalents at beginning the period	152,363	145,269
Cash and cash equivalents at the end of the period	145,960	152,363

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