Bosnalijek d.d.

Annual Financial Statements

31 December 2008

Contents

Management Board's Report

The Management Board submits its report together with the audited financial statements for the year ended 31 December 2008.

Principal activity

Bosnalijek d.d. ("the Company") is a shareholding company registered and domiciled in Sarajevo in Bosnia and Herzegovina. The principal activity of the Company is the production and sale of pharmaceutical products.

Results

The results of the Company are set out in the income statement on page 4 of the financial statements.

Management Board

The members of the Management Board during the year were as follows:

Mr. Edin Arslanagić, Director
Mr Akif Mujezin, Executive Director for Production
Mr. Šefik Handžić, Executive Director for Finance
Ms. Ljiljana Kamberović, Executive Director for Development

Supervisory Board
The members of the Supervisory Board during the year were as follows:

Mr. Hasan Muratović	Chairman, resigned 18 July 2008
Mr. Veljko Trivun	Chairman, appointed 18 July 2008
Mr. Rifat Klopić	Member,
Mr. Šalaka Umid	Member,
Ms. Edin Buljubašić	Member, appointed 18 July 2008
Mr. Abdulhakin Mohamed Al Misurati	Member, appointed 18 July 2008
Ms. Ljunora Mavrić	Member, resigned 18 July 2008
Mr. Midhad Vehabović	Member, resigned 18 July 2008

Audit Committee

The members of the Audit Committee during the year are as follows:

Mr. Željko Kordić, Chairman
Mr. Sead Sarvan, Member
Ms. Rabija Avduli, Member

Edin Arslanagić
Director

BOSNALIJEK SARAJEVO 1

15 March 2009

Statement of Management Board's responsibilities

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

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

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

The financial statements set out on pages 4 to 36 were authorised by the Management Board on 15 March 2009 for issue to the Supervisory Board and are signed below to signify this.

Edin Arslanagić
Director

BOSNALIJEK FARMACEUTSKA I HEMIJSKA INDUSTRIJA, DIONIČKO DRUŠTVO
BOSNALIJEK
SARAJEVO
1

Independent auditors' report to the shareholders of Bosnalijek d.d.

We have audited the accompanying financial statements of Bosnalijek d.d. ("the Company"), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Company for the year ended 31 December 2007 were audited by another auditor whose report dated 22 February 2008 expressed an unqualified opinion on those statements.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 principles 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 financial statements give a true and fair view of the financial position of the Company as at 31 December 2008, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 34, which describes the situation related to the Company's non-compliance with the Loan Agreement between the Company and IFC dated 9 June 2005 ("Third Loan Agreement"). Non compliance could result in IFC withdrawing facilities from the Company and demanding immediate repayment of its loan.

KPMG B-H d.o.o.
Registered auditors
Fra Anđela Zvizdovića 1
71000 Sarajevo
Bosnia and Herzegovina

D.O.O. ZA REVIZIJU KPMG B-H SARAJEVO

15 March 2009

Income statement
For the year ended 31 December 2008

	Note	2008 BAM'000	Restated 2007 BAM'000
Revenue	*6*	**107,128**	88,056
Cost of sales		**(42,463)**	(37,218)
Gross profit		**64,665**	50,838
Other operating income	*7*	**208**	760
Administration and distribution expenses		**(47,859)**	(37,345)
Research and development expenses		**(3,272)**	(3,343)
Other expenses	*8*	**(4,099)**	(2,722)
Profit from operating activities		**9,643**	8,188
Financial income	*11*	**959**	2,855
Financial expenses	*11*	**(2,395)**	(3,226)
Net finance costs	*11*	**(1,436)**	(371)
Profit before taxation		**8,207**	7,817
Income tax expense	*12*	**-**	-
Profit for the year		**8,207**	7,817
Earnings per share in BAM	*31*	**1.26**	1.33

Balance sheet

As at 31 December 2008

	Note	**2008 BAM'000**	Restated 2007 BAM'000
ASSETS			
Non–current assets			
Property, plant and equipment	*13*	**82,669**	87,584
Intangible assets	*14*	**2,247**	3,771
Investments	*15*	**7**	5
Loans and deposits	*16*	**795**	655
Total non-currents assets		**85,718**	92,015
Current assets			
Loans and deposits	*16*	**813**	1,712
Trade and other receivables	*17*	**43,580**	36,180
Inventories	*18*	**22,343**	19,769
Income tax receivables		**2,457**	2,457
Cash and cash equivalents	*19*	**2,051**	2,227
Total current assets		**71,244**	62,345
Total assets		**156,962**	154,360
EQUITY AND LIABILITIES			
Equity			
Issued capital	*20*	**71,742**	52,945
Share premium	*21*	**3,912**	-
Reserves	*22*	**19,502**	31,537
Retained earnings		**12,318**	14,785
Total capital and reserves		**107,474**	99,267
Liabilities			
Non-current liabilities			
Employee benefits	*23*	**707**	564
Provisions	*24*	**133**	133
Interest bearing loans and borrowings	*26*	**6,764**	9,174
Other liabilities	*25*	**85**	116
Total non-current liabilities		**7,689**	9,987
Current liabilities			
Interest bearing loans and borrowings	*26*	**17,220**	20,722
Trade and other payables	*27*	**16,931**	16,142
Derivative financial liabilities	*28*	**7,648**	8,242
Total current liabilities		**41,799**	45,106
Total liabilities		**49,488**	55,093
Total equity and liabilities		**156,962**	154,360

The accounting policies and other notes on pages 8 to 36 form an integral part of these financial statements

Statement of changes in equity
For the year ended 31 December 2008

	Share Capital BAM'000	**Share premium BAM'000**	**Reserves BAM'000**	**Retained earnings BAM'000**	**Total BAM'000**
As at 1 January 2007 as reported	51,116	-	23,150	17,483	91,749
Prior period adjustments (Note 5a)	-	-	-	(304)	(304)
Prior period adjustments (Note 5b)	-	-	-	5	5
As at 1 January 2007 (restated)	**51,116**	**-**	**23,150**	**17,184**	**91,450**
Transfers	-	-	8,387	(8,387)	-
Profit for the year (restated Note 5)	-	-	-	7,817	7,817
Increase in share capital due to sale of IFC put option shares (restated, Note 5c)	1,829	-	-	(1,829)	-
As at 31 December 2007 (restated)	**52,945**	**-**	**31,537**	**14,785**	**99,267**
As at 01 January 2008 (restated)	**52,945**	**-**	**31,537**	**14,785**	**99,267**
Issuing of shares to existing shareholders (Note 20a)	17,530	-	(17,530)	-	-
Shares under IFC put option (Note 20b)	(1,531)	-	-	1,531	-
Transfer to reserves (Note 22)	-	-	5,495	(5,495)	-
Increase in share capital due to sale of IFC put option shares (Note 20b)	461	-	-	(461)	-
Shares issued to employees as share based payments (Note 20a)	2,337	3,912	-	(6,249)	-
Profit for the year	-	-	-	8,207	8,207
As at 31 December 2008	**71,742**	**3,912**	**19,502**	**12,318**	**107,474**

Statement of cash flows
For the year ended 31 December 2008

	Note	**2008 BAM'000**	Restated 2007 BAM'000
Cash flows from operating activities			
Profit for the year		**8,207**	7,817
Adjustments for:			
Depreciation and impairment of property, plant and equipment		**8,552**	8,476
Amortization of intangible fixed assets		**2,325**	2,411
Interest income		**(119)**	(134)
Interest expense		**1,780**	2,442
Net gain on disposals of fixed assets		**(14)**	(21)
Inventory surpluses/(losses)		**17**	(14)
Impairment of inventories		**920**	300
Net bad debt expenses		**282**	457
Operating profit before working capital changes		**21,950**	21,734
Increase in trade and other receivables		**(7,682)**	(5,147)
Increase in inventories		**(3,511)**	(1,724)
Increase in trade and other payables		**789**	1,284
Decrease in derivative financial liabilities		**(594)**	(2,445)
Increase in provisions and other long term liabilities		**112**	14
Cash from working capital changes		**(10,886)**	(8,018)
Net cash from operating activities before taxation		**11,064**	13,716
Interest paid		**(1,780)**	(2,442)
Net cash from operating activities		**9,284**	11,274
Investing activities			
Increase in investments		**(2)**	(5)
Purchase of property, plant and equipment and intangible assets		**(4,446)**	(5,240)
Proceeds from the disposals of property, plant and equipment		**22**	470
Interest received		**119**	134
Receipts from collection of loans receivable		**899**	339
Payments for loans receivable		**(140)**	(1,306)
Net cash outflow from investing activities		**(3,548)**	(5,608)
Financing activities			
Net repayment of interest bearing loans and borrowings		**(5,912)**	(5,672)
Net cash outflow from financing activities		**(5,912)**	(5,672)
Net decrease in cash and cash equivalents		**(176)**	(6)
Cash and cash equivalents at beginning of year		**2,227**	2,233
Cash and cash equivalents at end of year	*19*	**2,051**	2,227

Notes (*forming part of the financial statements*)

1 Reporting entity

Bosnalijek d.d. (“the Company”) is a shareholding company registered and domiciled in Sarajevo in Bosnia and Herzegovina. The principal activity of the Company is the production and sale of pharmaceutical products. Bosnalijek d.d. is listed on the Sarajevo Stock Exchange.

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The financial statements were approved by the Management Board on 15 March 2009.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value and do not take into account increases in the market value of non-current assets.

(c) Functional and presentation currency

These financial statements are prepared in the currency of Bosnia and Herzegovina, Convertible marks (BAM), which is the Company’s functional currency. All financial information presented in Convertible marks has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the Note 36.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Where necessary, comparative information has been reclassified and restated as explained in Note 5, to achieve consistency in disclosure with current financial year amounts and other disclosures.

(a) Foreign currencies

Transactions in foreign currency are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary assets and items that are measured in terms of historical cost of a foreign currency are not retranslated.

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.

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, loans and deposits, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, that is, the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents for the purpose of preparation of cash flow statement and balance sheet comprise cash balances and call deposits.

Accounting for finance income and expense is discussed in Note 3(l).

Trade and other receivables are measured at amortised costs less impairment (refer Note 3(f)).

Trade and other payables and interest-bearing loans and borrowings are measured at amortised cost.

(ii) Derivative financial instruments

Derivative financial instruments include option to settle the Company shares back to the Company, as described in Note 28. The option is measured at fair value.

3 Significant accounting policies (*continued*)

(b) Financial instruments (continued)

(iii) Issued capital

Repurchase of issued capital

When issued capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased stakes are classified as a treasury stake and are presented as a deduction from total equity.

(c) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses (refer to Note 3(f)).

Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	7 to 33 years
Plant, equipment and motor vehicles	3 to 15 years

Depreciation method, useful lives and residual values are reassessed at the reporting date.

(d) Intangible assets

(i) Intangible assets

Intangible assets are measured initially at cost. After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses (refer to Note 3(f)). The rate of amortisation used for intangible assets is based on the estimated useful life.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement when incurred.

3 Significant accounting policies (*continued*)

(d) Intangible assets (continued)

(iii) Amortisation

Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use.

The estimated useful life for the current and comparative periods as follows:

Software	3 years
Licenses	5 years

Amortisation method, useful lives and residual values are reassessed at the reporting date.

(iv) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in profit or loss as incurred. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories are valued based on purchase price and include the costs of bringing the inventories to a condition ready for use, using the weighted average cost principle.

In the case of manufactured inventories and work in progress, costs include an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

(f) Impairment

The carrying amounts of the Company's assets, other than inventories *(refer to accounting policy e)* and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

3 Significant accounting policies (*continued*)

(f) Impairment (continued)

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 whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or Company of units) and then, to reduce the carrying amount of the other assets in the unit (or Company of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of the Company's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (that is, the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the income statement. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in the income statement, then the impairment loss is reversed, with the amount of the reversal recognised in the income statement.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Significant accounting policies (*continued*)

(g) Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(h) Loans and borrowings

(i) Interest bearing loans and borrowings

Interest bearing loans and borrowings are recognised initially at fair value of the proceeds received, less attributable transaction costs. In subsequent periods, interest bearing loans and borrowings are stated at amortised cost using the effective interest method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement as interest expense over the period of the borrowings on an effective interest basis.

(i) Deferred income

Donations in cash and equipment used as investment in progress, for assets reconstruction and for other operations, are presented in the balance sheet as deferred income, which is recognised in the income statements on a straight-line basis in future periods, so that it can be used in investments or regular operations during the estimated economic life of the donated asset.

(j) Employee benefits

(i) Defined pension funds contributions

Obligations for contributions to defined contribution pension funds are recognised as an expense in the income statement when they are due.

(ii) Retirement benefits

According to the local legislation, the Company is obligated to make retirement severance payments of a minimum of 3 average monthly salaries of the employee in question or 3 average salaries of the Company paid in the period of the last three months, depending on that which is more favourable to the employee.

(k) Revenue

Goods sold and services rendered

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Revenue from services is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date.

Revenues, expenses and assets are recognised net of the amount of value added tax (VAT), except where the amount of VAT incurred is not recoverable from the State. In these circumstances the VAT is recognised as part of the cost of acquisition of the asset or part of an item of the expense.

3 Significant accounting policies (*continued*)

(k) Revenue (continued)

Goods sold and services rendered (continued)

Receivables and payables are stated with the amount of VAT included. The amount of VAT recoverable from the State is included in current receivables. The amount of VAT payable to the State is included in current payables. Revenue from the sale of goods is recognised at the date the goods are delivered and represents the net invoiced value of goods and excludes value added taxes.

(l) Financial income and expenses

Financial income and expenses comprise interest payable on borrowings calculated using the effective interest rate method, penalty interest, interest receivable on funds invested, dividend income, foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset. Dividend income is recognised in the income statement on the date that Company's right to receive payments is established.

(m) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(n) Share-based payments

The Company grants shares to its employees from retained earnings. The grant date fair value of shares granted to the employees is recognised as a decrease in retained earnings with a corresponding increase in share capital per nominal value and increase of share premium for the difference between nominal and the fair value of granted shares.

The fair value of the amount payable to employees in respect of shares which will be settled in cash, is recognised as an employee expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

(o) Income tax expense

Corporate income taxes are computed on the basis of reported income under the laws and regulations of Federation of Bosnia and Herzegovina.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

3 Significant accounting policies (*continued*)

(o) Income tax expense (continued)

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse using tax rates enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposures to each of the above risk, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included through these financial statements.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has no significant exposure to liquidity risk.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rate, interest rates and equity prices will affect the Company's income or value of its holdings of financial instruments. The Company has no significant exposure to market risk.

(q) Earnings per share

The Company 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. There are no shares under option and therefore no diluted EPS is presented.

3 Significant accounting policies (*continued*)

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements.

- IFRS 8, Operating Segments (effective from 1 January 2009) introduces the "management approach" to segment reporting. The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. IFRIC 8, which becomes mandatory for the Company's 2009 financial statements, is not expected to have any impact on the financial statements.

- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Company's 2009 financial statements and will constitute a change in accounting policy for the Company. In accordance with the transitional provisions the Company will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date.

- IFRIC 13, Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Company's 2009 financial statements, is not expected to have any impact on the financial statements.

- Revised IAS1 Presentation of Financial Statements (2007) requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income (effectively combining the income statement and all non-owner changes in equity in a single statement), or in two separate statements (a separate income statement followed by a statement of comprehensive income). Revised IAS1, which becomes mandatory for the Company's 2009 financial statements, will be implemented in full.

- Amendments to IAS 32 Financial Instruments: Presentation, and IAS 1, Presentation of Financial Statements introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if, and only if, they meet certain conditions. The amendments which become mandatory for the Company's 2009 financial statements, is not expected to have any impact on the financial statements.

- Amendment to IFRS 2 Share-based Payment clarifies the definition of vesting conditions and introduces the concept of non-vesting conditions. Non-vesting conditions are to be reflected in grant-date fair value and failure to meet non-vesting conditions will generally result in treatment as a cancellation. The amendments to IFRS 2 which becomes mandatory for the Company's 2009 financial statements, is not expected to have a major impact on the financial statements.

3 Significant accounting policies (*continued*)

(r) New standards and interpretations not yet adopted (continued)

- Revised IAS 27 Consolidated and Separate Financial Statements (2008) the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. Revised IAS 27 becomes mandatory for the Company's 2009 financial statements, is not expected to have any impact on the financial statements.

4 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) On call bank deposits

The carrying value of on call bank deposits approximate their fair value due to their proximity in nature to cash.

(ii) Trade and other receivables/payables

The carrying amount of trade and other receivables/payables is deemed to reflect the fair value due to the short-term maturity of theses financial instruments.

The fair value of long term trade receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at reporting date Note 16.

Trade receivables are estimated on each balance sheet date and are impaired according to the estimate of the probability to collect the amount stated. Each customer is valuated separately based on different parameters ageing of the amount due.

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(iv) Employee benefits

Long-term employee benefit liability is determined using assumption regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate.

(v) Share based payments

The Company granted shares to its employees from retained earnings. The Company has recognised this transaction at the fair value of its shares at the grant date. The Company has recognised employee costs and corresponding liability at fair value of its shares at the balance sheet date.

5 Restatement of prior period

Income Statement for the year ended 31 December 2007

	Note	**As reported 2007 BAM'000**	**Adjustments BAM'000**	**Restated 2007 BAM'000**
Financial income	*a)*	**3,136**	21	**3,157**
Net finance costs		**(392)**	21	**(371)**
Profit before taxation		**7,796**	21	**7,817**
Profit for the period		**7,796**	21	**7,817**
Earnings per share in BAM		**1.33**	-	**1.33**

Balance sheet as at 31 December 2007

	Note	**As reported 2007 BAM'000**	Adjustments BAM'000	**Restated 2007 BAM'000**
ASSETS				
Non–current assets				
Investments	*b)*	**-**	5	**5**
Long term loans and deposits	*a)*	**938**	(283)	**655**
Total non-currents assets		**92,293**	(278)	**92,015**
Total assets		**154,638**	(278)	**154,360**
EQUITY AND LIABILITIES				
Equity				
Issued capital	*c)*	**51,116**	1,829	**52,945**
Statutory reserves		**31,537**	-	**31,537**
Retained earnings	*a);b); c)*	**16,892**	(2,107)	**14,785**
Total capital and reserves		**99,545**	(278)	**99,267**
Total equity and liabilities		**154,638**	(278)	**154,360**

5 Restatement of prior period (continued)

Restatement of comparative income statement and balance sheet items relates to the following:

a) A long term deposit with Intesa San Paolo Bank of BAM 899 thousand was previously recognised at nominal value bearing interest of 0.5%.

   The adjustment of BAM 21 thousand represents the financial adjustment to income arising from restating the deposit to fair value.

   The adjustment of BAM 283 thousand is the adjustment necessary to restate the deposit at fair value in the Balance Sheet at 31 December 2007.

b) The adjustment of BAM 5 thousand relates to the Company subsidiary in Croatia which was written off prior to 2007. The Company subsidiary is not material by size and is in substance a representative office responsible for marketing of the products of the Company in that market.

c) As explained in Note 20, IFC sold 182,915 shares under the IFC put option during 2007 on the open market.

   This was not accounted for in 2007 and this adjustment restates the equity position due to these shares no longer being subject to the put option.

6 Sales revenue

	Bosnia and Herzegovina BAM'000	Ex Yugoslavia and Albania BAM'000	East Europe and Russia BAM'000	Middle East and Africa BAM'000	Consolidated BAM'000
2008					
External revenue	**69,775**	**11,237**	**19,148**	**6,968**	**107,128**
Segment receivables	**22,877**	**7,235**	**10,229**	**317**	**40,658**
2007					
External revenue	66,749	9,312	11,127	868	88,056
Segment receivables	21,996	6,962	406	5,155	34,519

All fixed and operating assets are located in Bosnia and Herzegovina.

7 Other operating income

	2008 BAM'000	2007 BAM'000
Gain on disposal of property, plant and equipment	**14**	21
Grant income	**38**	38
Other revenues	**156**	701
	208	760

8 Other expenses

	2008 BAM'000	2007 BAM'000
Inventories written off	**937**	300
Impairment of property, plant and equipment	**6**	100
Net receivable impairment	**282**	457
Donations, sponsorships and scholarships	**1,097**	908
Accrued withholding tax expenses	**127**	-
Other expenses	**1,650**	957
	4,099	2,722

9 Personnel costs

	2008	2007
	BAM'000	BAM'000
Net wages, salaries and other staff costs	**11,970**	10,757
Compulsory social security contributions and taxes	**5,854**	5,150
Share based payments (Note 33)	**184**	-
Increase/(decrease) in retirement awards provision	**(41)**	-
	17,967	15,907

The number of employees in the Company at year end was 604 (2007: 557). Personnel costs include BAM 2,814 thousand (2007: BAM 2,741 thousand) of defined contribution pension contributions paid into obligatory state pension funds.

10 Expenses by nature

The following items are allocated to the appropriate headings of expenses by function in the income statement:

	2008	2007
	BAM'000	BAM'000
Change of inventories of finished goods and work in progress	**(1,517)**	(1,603)
Raw materials and consumables	**34,249**	28,362
Energy	**2,264**	2,138
Depreciation and amortization	**10,871**	10,787
Personnel costs	**17,967**	15,907
Bonuses and other fees to employees	**601**	719
Consultancy fees	**5,385**	4,299
Supervisory board members fees	**118**	109
Transport services	**1,485**	997
Maintenance	**2,664**	1,444
Rent expenses	**369**	304
Advertisement	**6,763**	5,532
Insurance	**556**	462
Bank charges	**597**	430
Entertainment	**5,407**	2,898
Travel costs	**1,960**	1,583
Memberships	**120**	145
Phone costs	**920**	571
Other expenses	**2,815**	2,822
	93,594	77,906

Consultancy fees relate to service contracts with doctors.

Total personnel costs allocated to cost of sales for the year is 6,415 thousand.

11 Net financial income

	2008 **BAM'000**	2007 BAM'000
Interest income	**119**	134
Net decrease in derivative liability	**594**	2,445
Gross foreign exchange gains	**246**	276
Financial income	**959**	2,855
Interest expense	**(1,780)**	(2,442)
Gross foreign exchange losses	**(615)**	(784)
Financial expenses	**(2,395)**	(3,226)
Net financial expense	**(1,436)**	(371)

12 Income tax expense

The following is a reconciliation of income tax expense to effective tax rates:

	2008 **BAM'000**	2007 BAM'000
Profit before tax	**8,207**	7,817
Profit tax at 10% (2007: 30%)	**821**	2,345
Non-deductible expenses	**605**	1,018
Tax incentive for reinvestment of profits	-	(3,363)
Tax incentive for export over 30% of total sales	**(1,426)**	-
Income tax expense	**-**	-
Average effective income tax rate	**0.00%**	0.00%

As of 1 January 2008, a new CPT Law has been implemented in the FBiH introducing a decreased CPT rate of 10%. The new CPT Law introduces a five year tax holiday for a taxpayer who in a period of five consecutive years makes an investment into production on the territory of the FBiH in the total amount of at least BAM 20 million, provided that no less than BAM 4 million is invested in the first year. Also, a taxpayer who in one tax period achieves over 30% of total sales through export is CPT exempt in that year.

Tax losses may be carried forward over a period of five years starting from the year in which the loss was incurred. The period of five years is calculated for each tax loss separately.

13 Property, plant and equipment

	Land and buildings BAM'000	Plant and equipment BAM'000	Assets under construction BAM'000	Total BAM'000
Cost				
At 1 January 2007	**90,112**	**52,762**	**2,858**	**145,732**
Additions	-	-	4,275	4,275
Disposals and write offs	-	(276)	(497)	(773)
Transfers	1,949	2,814	(4,763)	-
At 31 December 2007	**92,061**	**55,300**	**1,873**	**149,234**
At 1 January 2008	**92,061**	**55,300**	**1,873**	**149,234**
Additions	-	-	3,639	3,639
Disposals and write offs	-	(790)	-	(790)
Transfers	198	3,048	(3,246)	-
At 31 December 2008	**92,259**	**57,558**	**2,266**	**152,083**
Accumulated depreciation and impairment losses				
At 1 January 2007	**27,927**	**25,571**	**-**	**53,498**
Charge for the year	3,512	4,864	-	8,376
Disposals and write offs	-	(224)	-	(224)
At 31 December 2007	**31,439**	**30,211**	**-**	**61,650**
At 1 January 2008	**31,439**	**30,211**	**-**	**61,650**
Charge for the year	3,745	4,801	-	8,546
Disposals and write offs	-	(782)	-	(782)
At 31 December 2008	**35,184**	**34,230**	**-**	**69,414**
Carrying amount				
At 1 January 2007	62,185	27,191	2,858	92,234
At 31 December 2007	60,622	25,089	1,873	87,584
At 1 January 2008	**60,622**	**25,089**	**1,873**	**87,584**
At 31 December 2008	**57,075**	**23,328**	**2,266**	**82,669**

Assets under construction relate to site preparation (BAM 1,089 thousand), office premises and equipment under construction (BAM 833 thousand) and other of BAM 344 thousand.

Total depreciation and amortisation expense allocated to cost of sales is 3,477 thousand.

Security

The Company has pledged plant and equipment with a carrying value of BAM 32,960 thousand (2007; BAM 40,478 thousand) to secure loans granted by IFC Washington, UniCredit banka d.d Mostar, Intesa San Paolo banka d.d. Sarajevo and Bor banka d.d. Sarajevo. (see Note 26)

14 Intangible assets

	Licenses BAM'000	Software BAM'000	Assets under construction BAM'000	Total BAM'000
Cost				
At 1 January 2007	**5,193**	**3,134**	**48**	**8,375**
Additions	-	-	964	964
Disposals and write offs	-	(10)	-	(10)
Transfers	489	263	(752)	-
At 31 December 2007	**5,682**	**3,387**	**260**	**9,329**
At 1 January 2008	**5,682**	**3,387**	**260**	**9,329**
Additions	-	-	801	801
Disposals and write offs	-	-	-	-
Transfers	543	249	(792)	-
At 31 December 2008	**6,225**	**3,636**	**269**	**10,130**
Accumulated amortisation and impairment losses				
At 1 January 2007	**1,688**	**1,469**	**-**	**3,157**
Charge for year	1,640	771	-	2,411
Disposals and write offs	-	(10)	-	(10)
At 31 December 2007	**3,328**	**2,230**	**-**	**5,558**
At 1 January 2008	**3,328**	**2,230**	**-**	**5,558**
Charge for year	1,549	776	-	2,325
Disposals and write offs	-	-	-	-
At 31 December 2008	**4,877**	**3,006**	**-**	**7,883**
Carrying amount				
At 1 January 2007	3,505	1,665	48	5,218
At 31 December 2007	2,354	1,157	260	3,771
At 1 January 2008	**2,354**	**1,157**	**260**	**3,771**
At 31 December 2008	**1,348**	**630**	**269**	**2,247**

Licences include the cost of developing and licensing new generic medicines, some of which are currently being sold and for the remainder future economic benefit are probable. The Company intends to and has sufficient resources to complete development and to sell these generic medicines.

Intangible assets under construction relates to software not brought in use as at 31 December 2008.

15 Investments

	2008 **BAM'000**	2007 BAM'000
Bosnalijek d.o.o Croatia	**5**	5
MF Invest d.o.o.	**2**	-
	7	5

The Company has invested BAM 5 thousand for the establishment of a subsidiary in Croatia. The main activity of the subsidiary is the advertising of the Company products in the Croatian market. The assets of the subsidiary at 31 December 2008 were BAM 5 thousand, mostly comprising of cash at bank. On the grounds of immateriality, this entity was not consolidated. If it had been consolidated the underlying investment would be reclassified to cash.

16 Loans and deposits

	2008 **BAM'000**	2007 BAM'000
Non current loans and receivables		
Loans to employees	**21**	25
Deposit with Intesa San Paolo Bank	**637**	616
Other deposits and receivables	**34**	14
Prepaid expenses	**103**	-
	795	655
Current loans and deposits		
Loan receivables from Brstanica d.o.o.	**800**	1,700
Other deposits and receivables	**13**	12
	813	1,712

The deposit with Intesa San Paolo Bank d.d Sarajevo, with a fair value of BAM 637 thousand (2007. BAM 616 thousand) is held as security for loans given by that Bank to the Company's employees, maturing in 2018 with an interest rate of 0.5% per annum. The nominal value of the deposit is BAM 899 thousand (2007; BAM 899 thousand).

Due to the low interest rate, the Company has recognised fair value of the deposit using a discount rate of 3.5% and has recognised impairment of deposit of BAM 283 thousand through retained earnings, as adjustment of the previous period error, and adjustment of BAM 21 thousand as financial income through profit and loss in the current period.

The loan in amount of BAM 800 thousand (2007; BAM 1,700 thousand) to Brštanica d.o.o Sarajevo has a fixed interest rate of 4.5 % per annum and maturity date as of 31 December 2009. The loan was repaid in full amount at 28 January 2009.

17 Trade and other receivables

	2008 BAM'000	2007 BAM'000
Trade receivables – gross	**42,601**	36,924
Trade receivables – impairment	**(1,943)**	(2,405)
Trade receivables – net	**40,658**	34,519
Prepayments for property, plant and equipment	**2,367**	643
Receivables from employees	**7**	-
Prepayments to suppliers	**146**	445
Other receivables and prepayments	**402**	573
	43,580	36,180

18 Inventories

	2008 BAM'000	2007 BAM'000
Raw materials and consumables	**12,012**	10,287
Work in progress	**1,510**	1,188
Finished goods	**8,821**	8,294
	22,343	19,769

As at 31 December 2008, inventory is valued at the lower of cost and net realisable value.

19 Cash and cash equivalents

	2008 BAM'000	2007 BAM'000
Cash with banks	**833**	1,568
Foreign currency accounts	**1,057**	500
Cash on hand	**161**	159
	2,051	2,227

20 Issued capital

	2008		2007	
	Number of shares	**BAM'000**	Number of shares	Restated BAM'000
Common shares with nominal value of BAM 10	**7,829,987**	**78,299**	5,843,276	58,432
Less: IFC conversion option	**(655,729)**	**(6,557)**	(548,746)	(5,487)
	7,174,258	**71,742**	5,294,530	52,945

a) The General Assembly at a meeting held on 28 June 2008 made the following decisions:

i) To increase share capital by BAM 17,530 thousand by issuing 1,752,980 bonus shares from statutory reserves to existing shareholders in the ratio of 3 new issued shares per 10 existing shares.

ii) To increase share capital by BAM 2,337 thousand by the issue of 233,731 shares from retained earnings to its employees as share based payments.

b) As explained in Note 28, IFC had an option granted in 1999 to receive shares in the Company in satisfaction of monies owing to IFC from the Company. The loan conversion option was exercised in August 2001 and the Company settled the loan from IFC of BAM 4,079 thousand by issuing 731,661 new shares to IFC. At that time the Company and IFC entered into a put option agreement, which gives IFC the right to require the Company to repurchase the shares.

Movement in the put option shares	**Number of shares**	**BAM '000**
Issued in 2001	731,661	7,316
Sold by IFC on the market in 2007	(182,915)	(1,829)
As at 31 December 2007	548,746	5,487
Sold by IFC on the market in 2008	**(46,162)**	**(461)**
Bonus issue in 2008	**153,145**	**1,531**
As at 31 December 2008	**655,729**	**6,557**

As a put option exists in respect of these shares they have been reclassified to liabilities.

Court registered shares as at 31 December 2008 were 7,829,987.

21 Share premium

The Company has recognised share premium of BAM 3,912 thousand being the difference between fair value of BAM 6,249 thousand (233,731 shares at 26.74 KM per share) and nominal value of BAM 2,337 thousand in respect of bonus shares issued to its employees at the date of issuance. (see Note 32)

22 Reserves

During the year the Company transferred BAM 5,495 thousand to statutory reserves. In accordance with the Law on Enterprises the Company is obliged to have under the statutory reserves an amount which represents 25% of share capital.

23 Employee benefits

	Retirement awards BAM'000	Share based payments BAM'000	Total BAM'000
Beginning balance	**564**	**-**	**564**
Provision made during the period	**-**	**184**	**184**
Provision released during the period	**(41)**	**-**	**(41)**
Ending balance	**523**	**184**	**707**

24 Provisions

	Court cases BAM'000
Beginning balance	**133**
Provision made during the period	**-**
Provision released during the period	**-**
Ending balance	**133**

25 Other long term liabilities

	2008 BAM'000	2007 BAM'000
Deferred income	**42**	79
Prepayments	**43**	-
Other	**-**	37
	85	116

Deferred income relates to a donations received which will be released to the Income statement in future periods.

26 Interest-bearing loans and borrowings

	2008 BAM'000	2007 BAM'000
Non current liabilities		
Loan received from International Finance Corporation ("IFC")	**5,605**	8,097
Loan received from BOR Banka d.d Sarajevo	**1,159**	-
Loan received from HVB Central Profit banka d.d Sarajevo	**-**	1,077
	6,764	9,174
Current liabilities		
Short-term portion of IFC loan	**2,491**	2,491
Short-term portion of other loans	**77**	3,231
Short term loans	**14,652**	15,000
	17,220	20,722
Total interest bearing loans and borrowings	**23,984**	29,896

The interest rates and terms of repayment for the Company at 31 December 2008 are as follows:

Interest-bearing loans and borrowings	**Total 2008 BAM'000**	**1 year or less BAM'000**	**1-2 years BAM'000**	**2-3 years BAM'000**	**3-4 years BAM'000**	**More than 4 years BAM'000**
Secured						
Variable interest rate instruments						
IFC EUR 7.5 million, Euribor + 2.8%	**8,097**	2,491	2,491	2,491	624	-
Fixed interest rate instruments						
BOR Bank, USD 890 thousands, 7.23%	**1,235**	77	160	188	170	640
UniCredit Bank, 5.0%	**2,200**	2,200	-	-	-	-
Intesa San Paolo banka d.d., 5.8%	**2,422**	2,422	-	-	-	-
Zavod Zdravstvenog Osiguranja Kantona Sarajevo, 3.35%	**10,000**	10,000	-	-	-	-
Other	**30**	30	-	-	-	-
Total loans and borrowings	**23,984**	**17,220**	**2,651**	**2,679**	**794**	**640**

The loans are secured by pledged property plant and equipment (see Note 13) and by issued bills of exchange to the banks.

27 Trade and other payables

	2008 BAM'000	2007 BAM'000
Trade payables – foreign	**7,997**	9,646
Trade payables – domestic	**1,939**	1,682
	9,936	11,328
Salaries payable	**2,309**	2,259
Tax and contributions on salaries	**637**	469
Accrued expenses	**3,516**	1,608
VAT payables	**481**	478
Other liabilities	**52**	-
	16,931	16,142

28 Derivative financial instruments

	BAM'000
Beginning balance	**8,242**
Net decrease in derivative liability	**(594)**
Ending balance	**7,648**

IFC has an option to sell all or part of the shares to Bosnalijek at any time during the exercise period, based on the exercise price agreed in the contract. The exercise period is up until 2012 and the exercise price was first settled at 13% (representing total percentage of IFC shareholdings in Bosnalijek on 15 March 1999) of the net sales of the previous financial year.

The Company's liability toward IFC is adjusted every year based on the increase in sales revenue of the prior period and the change in percentage of the IFC shareholdings.

29 Operating leases

Leases as lessee

Operating lease rentals are payable as follows:

	2008 BAM'000	2007 BAM'000
Less than one year	**394**	332
	394	332

The Company leases a number of premises for representative offices in Russia, Ukraine, Albania and Moldavia. In addition, leases also include premises in Banja Luka and premise at Veterinarski University in Sarajevo.
All leasing contracts are for one year.

30 Financial risk management

Exposure to credit, interest and currency risk arises in the normal course of the Company's business.

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	**2008 BAM'000**	2007 BAM'000
Loans and receivables	16,17	**45,188**	38,547
Cash and cash equivalents	19	**2,051**	2,227
		47,239	40,774

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2008 BAM'000	2007 BAM'000
Domestic	**22,877**	21,996
Foreign (Note 6)	**17,781**	12,523
	40,658	34,519

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	2008 BAM'000	2007 BAM'000
Wholesale customer	**40,658**	34,519

Impairment losses

The ageing of trade receivables at the reporting date was:

	2008 BAM'000	2007 BAM'000
Non past due	**32,062**	29,960
Past due 0 to 90 days	**7,226**	4,148
Past due over 180 days	**1,370**	411
	40,658	34,519

30 Financial risk management (*continued*)

Liquidity risk

The following are the contractual maturities of financial liabilities:

31 December 2008	**Carrying amount**	**Contractual Cash flows**	**6 months or less**	**6-12 Months**	**1-2 Years**	**2-5 Years**	**More than 5 years**
	BAM'000	**BAM'000**	**BAM'000**	**BAM'000**	**BAM'000**	**BAM'000**	**BAM'000**
Non-derivative financial liabilities							
Trade and other payables	**9,936**	**9,936**	**9,936**	-	-	-	-
Interest bearing loans and borrowings	**23,984**	**26,725**	**3,451**	**15,704**	**3,090**	**4,006**	**474**

31 December 2007	Carrying Amount	Contractual Cash flows	6 months or less	6-12 Months	1-2 Years	2-5 Years	More than 5 years
	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000
Non-derivative financial liabilities							
Trade and other payables	11,328	11,328	11,328	-	-	-	-
Interest bearing loans and borrowings	29,896	32,065	11,762	11,080	3,075	6,148	-

Currency risk Company

Exposure to currency risk

The Company incurs foreign currency risk on sales, purchases and short term loans receivable that are denominated in a currency other than convertible mark. The currencies giving rise to this risk is primarily Euro. These exposures are not currently hedged.

The Company's exposure to foreign currency risk was as follows based in functional currency:

	2008 BAM '000				2007 BAM '000			
	BAM	**EUR**	**USD**	**Other**	BAM	EUR	USD	Other
Short term loans receivable	**1,608**	-	-	-	2,367	-	-	-
Trade receivables	**24,233**	**17,995**	**373**	-	24,335	5,277	7,312	-
Trade payables	**(1,939)**	**(7,715)**	**(267)**	**(15)**	(1,682)	(9,153)	(397)	(96)
Interest bearing loans and borrowings	**(14,622)**	**(8,127)**	**(1,235)**	-	(19,308)	(10,588)	-	-
Gross balance sheet exposure	**9,280**	**2,153**	**(1,129)**	**(15)**	5,712	(14,464)	6,915	(96)

30 Financial risk management (*continued*)

Currency risk Company (continued)

The following significant exchange rate applied during the year:

	Average rate		**Reporting date spot rate**	
	2008	2007	**2008**	2007
EUR	**1.95583**	1.95583	**1.95583**	1.95583
USD	**1,33174**	1,42150	**1,38731**	1,33122

Interest rate risk

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	2008 BAM'000	2007 BAM'000
Fixed rate instruments		
Financial assets	**1,608**	2,367
Financial liabilities	**(15,887)**	(20,722)
	(14,279)	**(18,355)**
Variable rate instruments		
Financial assets	-	-
Financial liabilities	**(8,097)**	(9,174)
	(8,097)	(9,174)

Fair values

The fair value of financial assets and liabilities correspond to their carrying values.

31 Basic earnings per share

The calculation of basic earning per share is based on:

	2008	2007
Profit after tax in BAM	**8,207,645**	7,817,172
Average number of issued shares	**6,505,513**	5,843,276
Basic earnings per share (in BAM)	**1.26**	1.33

There are no shares under option and therefore no diluted earnings per share information is presented.

32 Related party transactions

Director's and executives remunerations

The remuneration of management and Supervisory Board members during the year was as follows

	2008	2007
	BAM'000	BAM'000
Gross salaries	**884**	665
Bonuses	**668**	458
Other benefits	**108**	80
	1,660	1,203

33 Share based payments

On 28 June 2008 the Company granted 223,371 shares to its employees from retained earnings based on the Decision of the General Assembly. The Company has an obligation to repurchase these shares from its employees provided the following conditions are satisfied:

- They must remain in the employment of the company for six years, and
- They must be employed by the company at their retirement date.

- Provided the employees meet these conditions then they can sell the shares, at market value, to the Company at, or following, retirement.
- Employees who retire before the six year period may opt to sell their shares, at fair value, only to the Company.
- Employees whose employment is cancelled due to reorganization and restructuring before the six year period expire are entitled to sell their shares only to the Company before the end of the vesting period.
- Employees whose employment is cancelled due to their failure to fulfil their responsibilities lose their rights under the scheme.
- Shares are exercisable at the average market price in the last six months before selling date.
- Employees granted shares have the right to receive dividends and vote at General Meetings of the Company.

The fair value of the shares at the grant date was BAM 6,249 thousand being 233,731 shares per 26.74 KM fair value per share.

Personnel costs

As at 31 December 2008 the Company has recognised an expense of BAM 184 thousand as personnel costs with a corresponding increase in liabilities in relation to the share based payments scheme. This represents that portion of the fair value of the shares that accrue to the participants of the scheme at 31 December 2008.

The Company estimates that 56% of the employees participating in the scheme will meet all of the conditions.

34 Contingent liabilities

Court cases

As of 31 December 2008, court proceedings of BAM 294 thousand (2007: BAM 371 thousand) were initiated against the Company. The Company have made a provision for BAM 133 thousand whilst for the remaining amount the management is of the opinion that these court proceedings are without merit.

Bank guarantees

Contingent liabilities for bank guarantees issued to BOR Banka d.d amount to BAM 800 thousand (2007: BAM 1,302 thousand) as of 31 December 2008.

Noncompliance with covenants included in Project Loan Agreement with IFC.

According to the Loan Agreement between the Company and IFC dated 9 June 2005 (the "Third Loan Agreement"), the Company is obliged to maintain procedures, records and accounts adequate to reflect the operations in accordance with internationally accepted accounting standards and certain financial conditions. We note that the Company failed to comply with the terms, covenants, provisions, or conditions of Article VI, section 6.02 Negative Covenants of the Loan Agreement between the Company and IFC dated 9 June 2005 (the "Third Loan Agreement") as they relate to financial and accounting matters. The Company did not comply with the following covenants:

- "Guarantee or assume the Liabilities of others" provision of section 6.02 (f);
- "Mortgages" provision of section 6.02 (g);
- "Branches or subsidiaries" provision of section 6.02 (j);

Management is not aware of any circumstances or information which would lead it to believe that these non-compliances will cause either early repayment of the IFC loan or additional liabilities for the Company and consequently no provision is included in the financial statements in respect of these matters.

35 Commitments

At 31 December 2008 the Company has no capital commitments (2007: nil).

36 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on expectations of future events that are believed to be reasonable under the circumstances.

Certain accounting estimates in applying Company's and Company's accounting policies are described below:

Provisions

Provisions have been estimated on each balance sheet date taking into account probability of future sacrifice of economic benefits and taking into account the risk and uncertainties surrounding the obligation.

36 Critical accounting estimates and judgements (continued)

Impairment of receivables

Trade receivables are estimated on each balance sheet date and are impaired according to the estimate of the probability to collect the amount stated. Each customer is valuated separately based on the ageing of the amount due, security of payment and estimated probability to collect the outstanding amount.

Income tax

Tax calculations are performed based on the Company's interpretation of current tax laws and regulations. These calculations which support the tax return may be subjected to review and approval by the local tax authority.

Revenue recognition

As at 31 December 2008 the Company has made provision for financial and other rebates. These provisions are based on the analysis of the contractual obligations, historical trends and management experience. The management is of the opinion that provision for financial and other rebates is adequate based on the available information.

37 Ownership structure

The ownership structure of the Company is as follows:

	31 December 2008		31 December 2007	
	Number of shares '000	Ownership	Number of shares '000	Ownership
Federation of Bosnia and Herzegovina	1,508	19.26	1,160	19.85
World Bank, Washington D.C (IFC)	656	8.37	549	9.39
General People's Committee of Finance Libya	687	8.78	529	9.05
Employees	645	8.24	326	5.57
Other shareholders	4,334	55.35	3,280	56.14
	7,830	**100.00%**	5,844	100.00%

The above ownership structure includes shareholding of IFC. (See Note 20).