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BOSNALIJEK d.d.

AUDITOR'S REPORT
As at 31 December 2012

Sarajevo, 15.03.2013.

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Responsibility for the Financial Statements

Pursuant to the Accounting and Audit Law of Federation of Bosnia and Herzegovina (Official Gazette 83/09), for accounting of the legal entity is responsible person which represents the legal entity. The Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) which give a true and fair view of the state of affairs and results of the company for that period.

After making enquiries, the management has a reasonable expectation that the company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the management continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the management include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and must also, ensure that the financial statements comply with the Accounting Law of Federation of Bosnia and Herzegovina. The Management Board is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

For and on behalf of the Managing Board:

BOSNALIJEK SARAJEVO 1

Dr. Nedžad Polić, director

BOSNALIJEK d.d. Sarajevo
71000 Sarajevo
Jukićeva 53
Bosnia and Herzegovina

15 March 2013

R E V I F O R M d.o.o. SARAJEVO

AUDIT, ACCOUNTING AND CONSULTING
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TO THE OWNERS OF "BOSNALIJEK D.D."

Independent Auditor's Report

We have audited the accompanying financial statements of BOSNALIJEK d.d. ('the Company'), set out on pages 5 to 38, which comprise the balance sheet as at December 31, 2012, 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.

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 misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters
The financial statements of the Company for the year ended 31 December 2011 were audited by another auditor who expressed disclaimer opinion on those statements on 25 April 2012.

REVIFORM d.o.o. Sarajevo.

Edin Proho, director

DRUŠTVO ZA REVIZIJU, KONSALTING I USLUGE REVIFORM d.o.o. SARAJEVO

Safet Proho, certified auditor

Sarajevo, 15 March 2013

Statement of comprehensive income
(INCOME STATEMENT)

for the year ended 31 December 2012

(In '000 KM)	Notes	**2012**	**2011**
			Restated
Revenue	6	111,829	106,516
Cost of sales	7	(45,372)	(38,856)
Gross profit		**66,457**	**67,660**
Selling, administrative and general expenses	8	(51,777)	(55,316)
Other operating income	9	1,652	924
Other operating expenses	10	(7,079)	(7,532)
Financial income	11	69	738
Financial expenditures	12	(2,382)	(1,224)
Forex gains / (losses), net		(42)	44
Subtotal		**59,559**	**62,366**
Profit before tax		**6,898**	**5,294**
Income tax expense	13	-	-
Profit after taxation		**6,898**	**5,294**
Earnings per share			
Basic	14	0.88	0.68
Diluted	14	0.88	0.68

The accompanying notes form an integral part of these financial statements.

Statement of financial position (BALANCE SHEET)
as at 31 December 2012

(In '000 KM)	Notes	2012	2011
			Restated
ASSETS			
Non-current assets			
Property, plant and equipment	15	100,296	86,094
Intangible assets	16	1,915	360
Investment available for sale	17	88	103
Deposits	18	2,174	2,179
Total non-current assets		**104,473**	**88,736**
Current assets			
Loans receivable	21	-	132
Inventories	19	21,338	21,531
Trade and other receivables	20	64,675	58,276
Other assets	22	979	755
Prepaid income tax		1,604	1,708
Cash and cash equivalents	23	4,241	6,188
Total current assets		**92,837**	**88,590**
TOTAL ASSETS		**197,310**	**177,326**
CAPITAL AND LIABILITIES			
Capital			
Share capital	24	78,300	71,742
Own shares		(276)	(142)
Share premium		6,607	3,914
Reserves		42,602	38,420
Retained earnings		10,095	9,434
Total capital		**137,328**	**123,368**
Non-current liabilities			
Long-term loans	25	11,270	2,663
Obligations under finance leases	26	3,846	1,560
Provisions	31	2,739	1,821
Total Non-current liabilities		**17,855**	**6,044**
Current liabilities			
Current portion of long term loans	25	2,516	2,287
Current portion of obligations under finance leases	26	1,832	483
Trade and other payables	27	14,210	12,208
Short term loans	28	21,389	18,089
Short term obligations under finance leases	26	814	-
Derivatives	29	-	8,829
Accrued expenses	30	1,218	5,926
Provisions	31	148	92
Total current liabilities		**42,127**	**47,914**
TOTAL CAPITAL AND LIABILITIES		**197,310**	**177,326**

The financial statements set out on pages 5 to 38 were approved at 15 March 2013

Director

Dr.sc. Nedžad Polić

HEMIJSKA INDUSTRIJA, DIONIČKO DRUŠTVO FARMACEUTSKA BOSNALIJEK SARAJEVO 1

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENT
For the period ended 31 December 2012

(In '000 KM)	**2012**	**2011**
Cash flow from operating activities:		
Profit for the year	6,898	5,294
Depreciation	7,543	7,414
Other adjustments (on capital)	7,062	1,034
Net cash flow before changes on operating assets	**21,503**	**13,742**
(Increase) / decrease of operating assets		
(Increase)/ decrease of inventories	193	194
(Increase)/ decrease of trade and other receivables	(6,399)	1,270
Decrease / (Increase) of other long term receivables	-	299
Decrease / (Increase) of other assets	12	(517)
	(6,194)	**1,246**
Increase (decrease) of operating liabilities:		
(Decrease) / Increase of trade and other payables	2,002	(1,173)
(Decrease) / Increase of other liabilities	(4,652)	(3,002)
(Decrease) / Increase of long term accruals	918	265
	(1,732)	**(3,910)**
Net cash flow from operating activities	**13,577**	**11,078**
Cash flow from investing activities:		
Purchase of intangible assets	(1,744)	(547)
Purchase of tangible assets	(22,782)	(13,301)
Disposals of tangible assets	1,226	3,487
Disposals of intangible assets	-	426
Sale of investment in shares	15	-
Net cash flow from investing activities	**(23,285)**	**(9,935)**
Cash flow from financing activities:		
Decrease / (Increase) of deposits	5	(1,666)
Increase / (decrease) of long term loans	8,607	(932)
(Decrease) of derivatives	(8,829)	(685)
Increase of obligations under finance lease	4,449	623
Increase of short term loans	3,529	273
Net cash flow from financing activities	**7,761**	**(2,387)**
Increase / (Decrease) of cash at bank and in hand	**(1,947)**	**(1,244)**
Cash at bank and in hand at the beginning of the year	6,188	7,432
Cash at bank and in hand at the end of the year	4,241	6,188

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN CAPITAL

For the period ended 31 December 2012

(In '000 KM)	**Share capital**	**Treasury shares**	**Share premium**	**Reserves**	**Retained earnings**	**Total**
Balance at 1 January 2011. (as previously reported)	**71,742**	**(101)**	**3,919**	**30,330**	**12,185**	**118,075**
Net income for the year	-	-	-	-	5,937	5,937
Total comprehensive income					**5,937**	**5,937**
Transactions with owners:						
Treasury shares	-	(152)	-	-	152	-
Transfer to reserves	-	111	(5)	8,090	(8,196)	-
Balance 31 December 2011.	**71,742**	**(142)**	**3,914**	**38,420**	**10,078**	**124,012**
Balance at 1 January **2012.** (as previously reported)	**71.742**	**(142)**	**3.914**	**38.420**	**10.078**	**124.012**
Adjustment of the previous period (Note 6)	-	-	-	-	(643)	(643)
Balance at 1 January **2012.** (restated)	**71,742**	**(142)**	**3,914**	**38,420**	**9,435**	**123,369**
Net profit for the year	-	-	-	-	6,898	6,898
Put option	6,558		2,693	-		9,251
Treasury shares	-	(134)	-	-	134	-
Transfer to reserves	-	-	-	4,182	(4,182)	-
Dividends reported	-	-	-	-	(2,190)	(2,190)
Balance at 31December 2012	**78,300**	**(276)**	**6,607**	**42,602**	**10,095**	**137,328**

The accompanying notes on page 10 to 20 form an integral part of these financial statements.

GENERAL

1. Introduction

Bosnalijek d.d. (the "Company") was established in 1951 and through its existence experienced numerous transformations according to legal regulation. At present BOSNALIJEK is doing business as a joint-stock company incorporated in the Federation of Bosnia and Herzegovina with the registered address Jukićeva 53, 71 000 Sarajevo.

The company has been registered by the Municipal Court Sarajevo. According to the Actual excerpt from court's register from 19 December 2012, the Company is registered under number 065-0-RegZ-12-006104.

Registered capital amounts to KM 78,299,870.

2. Activity

The Company is primarily engaged in the production and wholesale trade of pharmaceuticals, veterinary medicine products, disinfectants and similar products – new statistic code 21.20.

3. Number of employees

As of 31 December 2012, the Company employed 654 employees (2011: 618 employees),

4. Company's bodies

Board of directors

Veljko Trivun	Chairman (since 19.07.2012.)
Mahmoud Muhyadin M. Badi	Member (since 09.07.2012.)
Mirna Sijerčić	Member (since 09.07.2012.)
Mirjana Lasić	Member (since 09.07.2012.)
Janez Bojc	Member (since 09.07.2012.)

Audit committee

Adnan Smajlović,	Chairman (since 20.07.2012.)
Džahid Huseinbegović,	Member (since 09.07.2012.)
Hadis Šuvalija	Member (since 09.07.2012.).

Management

Edin Arslanagić	Director, (till 17.10.2012.)
Nedžad Polić, dr.sci.	Director (since 18.10.2012.)
Belma Abazović	Executive director for production and development (acting since 19.07.2012.)
Šefik Handžić	Executive director for finance (acting since 19.07.2012.)
Bojan Kebe	Executive director for marketing and sale (acting since 19.07.2012.)
Nermin Zubčević	Executive director for quality and regulation (acting since 19.07.2012.)

Note:
The Court has not registered change of responsible person which represents the legal entity (the director).
Stock Exchange Commission of the Federation of Bosnia and Herzegovina has not registered changes of the Company's bodies.
Legal activities relating to registration of the bodies are in the course.

2. ADOPTION OF NEW AND REVISED STANDARDS

Standards and interpretations in issue not yet adopted

No one of new standards, interpretations and amendments that relate to periods beginning on or after 1 January 2012, which was not earlier adopted, are not likely to significantly impact financial statements of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted for the preparation of the financial statements are set out below.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as published by the Board for International Accounting Standards.

Basis for presentation

The financial statements have been prepared on the historical cost basis, with the exception of the revaluation of certain financial instruments. They are presented in Convertible Mark ("KM") as most of the Company's transactions are performed in this currency. The Convertible Mark ("KM") is officially tied to the Euro (EUR 1 = KM 1.95583).

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Specifically, revenue from the sale of goods is recognized when goods are delivered and legal title is passed. Revenue from a contract to provide services is recognized net of sales taxes and discounts by reference to the stage of completion of the contract.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably, interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Assets held under finance leases are recognized as assets of the Company at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged to profit and loss in the period to which they relate, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with Company's general policy on borrowing costs. Rentals payable under operating leases are charged to profit and loss on a straight-line basis over the term of the relevant lease.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Foreign currencies

Transactions in currencies other than Convertible Marks are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the financial position sheet date due to official exchange rate of Central Bank of BiH on the particular date. Profits and losses arising on exchange are included in net profit or loss for the period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.
All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Employee benefits

On behalf of its employees, the Company pays pension and health insurance on and from salaries, which are calculated on the gross salary paid, as well as taxes, which are calculated on the net salary paid. The Company is paying the above contributions into the Federal Pension and Health Fund, as per the set legal rates during the course of the year on the gross salary paid. In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the local legislation.

Retirement severance payments

According to the local legislation and internal Rulebook on employment, the Company makes retirement severance payments of minimum 4 average monthly salaries of the employee in question or 4 average salaries paid in the Federation of Bosnia and Herzegovina in the period preceding the retirement date, according to the latest data published by the Federal Bureau of Statistics, depending on what is more favorable to the employee. The Company has no other defined post-retirement benefit plans for its employees or Management in Bosnia and Herzegovina.
These expenses are recorded in the income statement in the period in which retirement severance payment is incurred.

Share-based payment arrangements

The Company grants shares to employees in accordance with local regulations. Fair value of liabilities to employees in respect of granted shares that will be settled in cash is recognized as employee expense together with increase of liabilities during the period when employees become unconditionally entitled to receive payment. The liability is reassessed at each reporting date and execution date. Changes in fair value of liabilities are recognized as employee expenses in the income statement.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the financial position date.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Intangible assets

Separately acquired intangible assets

Separately acquired intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.
The following useful lives are used in the calculation of amortization:

	31.12.2012 Years	31.12.2011 Years
Software	5	5
Licenses	5	5
Pharmaceuticals registration	2-5	2-5

Derecognizing of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognizing of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Property, plant and equipment

Property, plant and equipment are stated at cost or revaluation amount, less accumulated depreciation and any recognized accumulated impairment losses. The purchase cost includes the purchase price and all costs directly related to bringing the asset into operating condition for its intended use. The cost of ongoing maintenance and repairs, replacements and investment maintenance are recorded as a cost upon arousal. Cost of significant investment maintenance and replacement are capitalized. Profit or loss on disposal or theft of non-current tangible assets is recorded in the income statement for the period in which they arose. Land and properties under construction are valued at the cost of their purchase minus potential losses for impairment.

Land and property under construction are not depreciated.

Depreciation is charged from the moment the fixed asset is ready for its intended use. It is calculated in the basis of the estimated useful life of the asset, using the straight-line method as follows:

	2012 .		2011 .	
	Years	%	Years	%
Buildings	7-33	3-14.3	7-33	3-14.3
Machinery and equipment	3-15	6.7-33.3	3-15	6.7-33.3

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs comprise direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Cash and cash equivalents

Cash and cash equivalents encompass demand a vista deposits and short-term deposits with a maturity date of up to three months.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the financial position date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Reserves

Equity reserves are formed in accordance with local legislation, by allocating a minimum of 10% of net profit for the year to reserves, up to at least 25% of the company's shareholders' equity.

Impairment

At each financial position date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to the recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a decrease of the revaluation reserve.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial assets

Investments are recognized and derecognized on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss'" (FVTPL), "held to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Company is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial instruments; Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 37.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

AFS financial assets

Unlisted shares and listed redeemable notes held by the Company that are traded in an active market are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.
The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the financial position date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, delays in collecting payments after maturity period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company continues to recognize financial assets.

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities”"

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Derivative financial instruments include puttable shares measured at fair value with changes in fair value recorded trough Profit and loss.
A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the company's documented risk management or investment strategy, and information about the Companying is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 „Financial instruments: recognition and measurement“ permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 36.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

4. CRITICAL ACCOUNINTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY

In the application of the Company's accounting policies, which are described in Note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgments in applying accounting policies

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment and intangible assets

As described in the Note 3, the Company reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each annual reporting period.

Court proceedings provisions

The amount recognized as a provision for court proceedings is the best estimate of the consideration required to settle the present obligation at the balance sheet date, when the probability that the settlement will occur is greater than that it will not.

Impairment of trade receivables

As described in the Note 3 and 20, at the end of each month the company reviews the recoverability of trade receivables and for all receivables due over 365 days and more creates impairment in 100 % amount. Historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

Employee benefits

The present value of liabilities for severance payment depends on many factors determined on an actuarial basis using numerous assumptions. Changes in these assumptions could impact the carrying amount of liabilities.

Assumptions used in determining the net amount of expense for severance payment include discount rate. The Company determines the appropriate discount rate at the end of each year (2012: 6.83%, 2011: 7.5%, 2010: 5%), which represents the interest rate that should be applied when determining the present value of expected future cash payments that are expected to be needed in order to settle liabilities for pensions. In determining the appropriate discount rate, the Company takes into consideration interest rates for long term bank deposits. Other key assumptions for retirement benefits are partly based on existing market conditions.

Revenue recognition

The Company has made provision for financial and other rebates. These provisions are based on the analyses of the contractual obligations, historical trade and management experience. Management is of the opinion that the provision for financial and other rebates is adequate based on the available information.

Income tax

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

5. SEGMENT INFORMATION

The Company operates in four principal geographical areas:
- Bosnia and Herzegovina
- South-East Europe
- C&S and Russia
- Rest of the world

For management purposes, the Company is currently organized into the abovementioned principal geographical areas, and these areas are the basis on which the company reports its primary segment information.

The company's revenue from external customers and inter-segment revenues as well as balance sheets by the geographical location which represent the reportable segments are detailed below:

Revenues for the year ended 31 December 2012:

	BiH	SE Europe	C&S and Russia	Rest of the world	Total
Total revenue	46,384	11,342	54,103	-	111,829
Inter-segment revenue	-	-	-	-	-
External revenue	46,384	11,342	54,103		111,829

Balance sheets as of 31 December 2012:

	BiH	SE Europe	C&S and Russia	Rest of the world	Total
Non-current assets	96,331	1,416	803	-	98,550
Current assets	24,758	10,647	33,790	345	69,540
Total assets	**121,089**	**12,063**	**34,593**	**345**	**168,090**
Total liabilities	**60,538**	**-**	**-**	**-**	**60,538**
Segment net assets	**60,551**	**12,063**	**34,593**	**345**	**107,552**

Revenues for the year ended 31 December 2011:

	BiH	SE Europe	C&S and Russia	Rest of the world	Total
Total revenue	50,264	14,486	40,800	966	106,516
Inter-segment revenue	-	-	-	-	-
External revenue	**50,264**	**14,486**	**40,800**	**966**	**106,516**

Balance sheets as of 31 December 2011:

	BiH	SE Europe	C&S and Russia	Rest of the world	Total
Non-current assets	87,901	999	608	15	89,523
Current assets	53,304	12,536	22,469	137	88,758
Total assets	**141,205**	**13,535**	**23,077**	**152**	**177,969**
Total liabilities	**53,958**	**-**	**-**	**-**	**53,958**
Segment net assets	**82,247**	**13,535**	**23,077**	**152**	**124,011**

5a. ADJUSTMENT OF PREVIOUS PERIOD ERRORS

Income statement as at 31 December 2011

OPIS	As reported 31.12.2011.	Adjustments	Restated 31.12.2011.
Other operating expenses (1)	6,889	327	205
Other operating expenses (2)	6,889	316	7,573
Other operating expenses – cumulative	6,889	643	7,532
Net income	**5,937**	**643**	**5,294**

Balance sheet as at 31 December 2011

Description	As reported 31.12.2011	Adjustments	Restated 31.12.2011
Accumulated income (1)	10,077	(327)	9,750
Property, plant and equipment (1)	86,421	(327)	86,094
Accumulated income (2)	10,077	(316)	9,434
Property, plant and equipment (2)	676	(316)	360
Total ASSETS / LIABILITIES & CAPITAL	**177,969**	**(643)**	**177,326**

Adjustment of previous period errors

Adjustments of the balance sheet and other comprehensive income items relates to the following prior period errors:

Adjustment to the balance sheet and statement of comprehensive income

(1) The adjustment of property, plant and equipment relates to disassembling of parts of the building in amount of KM 327 thousand that was not previously recognized in the books. This amount has been charged to the retained earnings and recorded as decrease of buildings i.e. shown as expense of the previous period.

(2) In the prior year financial statements the Company recognized amount of KM 316 thousand as intangible assets. This amount has been charged to the retained earnings at 1 January 2012, and presented as expense of the previous period in the income statement.

Restatement of comparative income statement items for the year ended 31 December 2011 is as follows:

DESCRIPTION	KM '000
Income reported before the restatements for 2011	**5,937**
Decrease of value of property, plant and equipment (disassembled parts of the building)	(327)
Decrease of value of intangible assets (for capitalized costs)	(316)
Restatements - total	**(643)**
Income for the period - restated	**5,294**

Restatement of comparative retained earnings items for the year ended 31 December 2011 is as follows:

DESCRIPTION	KM '000
Retained earnings as at 31 December 2011 (as previously reported)	**10,077**
Decrease of value of property, plant and equipment (disassembled parts of the building)	(327)
Decrease of value of intangible assets (for capitalized costs)	(316)
Restatements - total	**(643)**
Retained earnings as at 31 December 2011 (restated) **- restated**	**9,434**

6. REVENUE

(In '000 KM)	2012	2011
Domestic sales – finished goods	34,730	38,611
Domestic sales – trading goods (merchandise)	11,605	11,594
Domestic sales (subtotal)	46,335	50,205
Foreign sales	65,445	56,252
Services rendered	49	59
	111,829	**106,516**

7. COSTOF SALES

(In '000 KM)	2012	2011
Material	18,338	18,454
Employee expenses	9,998	6,925
Cost of merchandise	8,361	7,860
Depreciation	4,528	3,404
Energy	1,878	1,108
Marketing	1,430	854
Material	1,259	1,211
Maintenance	380	135
Professional services	308	118
Education	265	46
Travel expenses	171	63
Utilities	165	66
Other expenses	164	27
Rent	74	8
Telephone	51	28
Transport	9	1
Registration expenses	3	
Change in WIP and finished goods	(2,010)	(1,452)
	45,372	**38,856**

8. SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

(In '000 KM)	2012	2011
Employee expenses	20,329	15,005
Marketing	12,807	14,168
Depreciation	3,014	4,010
Professional services	2,963	9,955
Transport	2,623	2,699
Travel expenses	1,628	1,575
Maintenance	1,417	1,392
Energy	851	1,255
Rent	831	405
Education	751	779
Material	548	772
Telephone	482	401
Registration and drug control	431	81
Material	324	258
Utilities	244	292
Other expenses	2,534	2,269
	51,777	**55,316**

9. OTHER OPERATING INCOME

(In '000 KM)	2012	2011
Rebates	-	151
Proceeds from disposal of property, plant and equipment, net	127	
Sundry	1,525	773
	1,652	**924**

10. OTHER OPERATING EXPENSES

(In '000 KM)	2012	2011
Allowance for bad and doubtful trade and loan receivables, net (N 20, 21)	2,000	3,162
Write-off of raw materials	384	686
Donations and sponsorships	379	602
Loss upon disposal of property, plant and equipment, net	-	91
Write-off of trading goods	72	8
Shortages of finished goods, net	-	-
Write-off of production in progress and finished goods (notes 7 and 19)	1,094	962
Other	3,150	1,378
	7,079	**6,889**
Decrease of value of buildings (for disassembled parts of the building)	-	327
Decrease of value of intangible assets (for capitalized expenses)	-	316
Sub-total (Note 5a)	-	**643**
	7,079	**7,532**

11. FINANCIAL INCOME

(In '000 KM)	2012	2011
Interest income on deposits	-	24
Interest income on cash and cash equivalents	69	29
Change in the fair value of derivative (Note 29)	-	685
	69	**738**

12. FINANCIAL EXPENDITURE

(In '000 KM)	2012	2011
Interest on loans	1,587	1,148
Interest on obligations under finance leases	131	73
Change in the fair value of derivative (Note 29)	570	-
Other interest expense	94	3
	2,382	**1,224**

13. INCOME TAX EXPENSE

(In '000 KM)	2012	2011
Profit before tax	6,898	5,937
Profit before tax (after restatement)		
Income tax at the rate of 10%	690	594
Effect of tax nondeductible expenses	762	997
Tax basis	**1,452**	**1,591**
Income tax relief based on the exports	(1,452)	(1,591)
	-	-

Since the company realizes more than 30% of total revenues on the basis of export of goods, in accordance with Corporate income tax law in the Federation of Bosnia and Herzegovina it is exempt from the payment of the income tax.

14. BASIC AND DILUTED EARNINGS PER SHARE

(In '000 KM)	2012	2011
Net profit (2011 – restated)	6,898	5,294
Weighted average number of ordinary shares for the purposes of EPS calc.	7,830	7,830
Basic and diluted earnings per share	**0.88**	**0.68**
Previously reported	**-**	**0.76**

15. PROPERTY, PLANT AND EQUIPMENT

(In '000 KM)	Land and buildings	Plant and equipment	Assets in progress	Advances	Total
Cost					
1January 2012	94,389	68,871	4,184	4,831	172,275
Additions	-	-	22,782	-	22,782
Disposals	(748)	(1,674)	-	-	(2,422)
Transfers	1,191	4,623	(5,814)	(1,169)	(1,169)
31 December 2012	**94,832**	**71,820**	**21,152**	**3,662**	**191,466**
Accumulated depreciation					
1January 2012	44,160	41,695	-	-	85,855
Adjustments	327	-	-	-	327
1January 2012 (restated)	**44,487**	**41,695**	**-**	**-**	**86,182**
Charge for the Year	3,207	4,147	-	-	7,354
Disposals	748)	(1,618)	-	-	(2,366)
31 December 2012	**46,945**	**44,224**	**-**	**-**	**91,170**
Net book value					
31 December 2012	**47,886**	**27,596**	**21,152**	**3,662**	**100,296**
31 December 2011	**49,902**	**27,176**	**4,184**	**4,831**	**86,094**

Included in machinery and equipment with a carrying amount of KM 6,492 thousand (2011: 3,967) are 11 items (2011: 4) held under finance leases (Note 26).

The Company has pledged land, buildings, machinery and equipment with a carrying amount of approximately KM 32,350 thousand (2011: 18,282) to secure loans (Notes 25 and 28).

Tangible assets in progress include the amount of KM 8,989 thousand (2011: 2,826) related to the construction of the new administrative and quality control building, the amount of KM 3,296 thousand (2011: 940) related to construction of other administrative and production facilities and amount of KM 8,867 thousand (2011: 419) related to equipment.

16. INTANGIBLE ASSETS

(In '000 KM)	Licenses	Software	Registration of drugs	Assets in progress	Total
Cost					
1January 2012	6.574	3.022	-	536	10.132
Adjustments (Note 5a)	-	-	(299)	(23)	(322)
1January 2012 (restated)	**6.574**	**3.022**	**(299)**	**513**	**9,810**
Additions	-	-	-	1.744	1.744
Transfers	644	842	584	(2.070)	-
31 December 2012	**7.218**	**3.864**	**285**	**187**	**11.554**
Accumulated depreciation					
1January 2012	6.495	2.961	-	-	9.456
Adjustments (Note 5a)	-	-	(6)	-	(6)
1January 2012 (restated)	**6.495**	**2.961**	**(6)**	**-**	**9.450**
Charge for the year	96	73	20	-	189
31 December 2012	**6.591**	**3.034**	**14**	**-**	**9.639**
Net book value					
31 December 2012	**627**	**830**	**271**	**187**	**1.915**
31 December 2011	**79**	**61**	**(293)**	**513**	**360**

Registration of drugs includes the cost of developing and licensing new generic medicines, which are currently marketed or under development. The company intends to and has sufficient resources to complete development and to sell these generic medicines.

In 2011, the Company changed the accounting policy regarding the recognition of the expenses incurred in respect of the registration of medicines. Starting with 2011, such expenses are recognized as intangible asset with a useful life registration terms, whereas in the previous years such expenses where charged to profit and loss.

17. INVESTMENTS AVAILABLE FOR SALE

(In '000 KM)	2012	2011
MF Invest d.o.o. Sarajevo	1	2
ASA Finance d.d. Sarajevo	-	10
Bosfarm d.o.o. Skopje	82	82
Bosnalijek d.o.o. Croatia	5	5
Foundation Tenis	-	4
	88	**103**

18. DEPOSITS

(In '000 KM)	2012	2011
Intesa San Paolo bank d.d. Sarajevo, 2 term dep, i.r. 0,5% p.a. (security for the repayment of housing loans that bank approved to employees)	600	600
Less: fair value adjustment	(244)	(96)
Sub-total	**356**	**504**
Sparkasse d.d. Sarajevo, i.r. 3,8%p.a., term: 31.01.2014.	1,640	1,640
Other deposits	178	35
	2,174	**2,179**

19. INVENTORIES

(In '000 KM)	2012	2011
Raw materials	8,458	9,695
Finished goods	9,283	7,837
Merchandise	2,425	2,037
Work-in-Progress	1,172	1,962
	21,338	**21,531**

20. TRADE AND OTHER RECEIVABLES

(In '000 KM)	2012	2011
Trade receivables, domestic	21,487	22,852
Trade receivables, abroad	40,352	34,599
Bad and doubtful trade receivables	8,238	6,578
Less: allowance for impairment of receivables	(8,238)	(6,578)
Trade receivables, net	**61,839**	**57,451**
VAT receivable	2,356	422
Receivables from state for prepaid taxes	100	194
Other receivables from customers	-	71
Receivables from employees	2	10
Other	378	128
Other receivables	**2,836**	**825**
	64,675	**58,276**

The average period of collection of trade payables is 202 days (2011 - 197 days). No interest is charged for delays in payment. The Company has created an impairment provision for the full value of receivables older than 365 days.

As at 31 December 2012, out of the total balance of trade receivables the amount of KM 11,632 thousand (2011: 0) relates to LLC Orilola, Russia (the largest buyer).

Before accepting a new customer, the Company performs an internal credit assessment of the potential customer and defines credit limits for customers. As of 31 December 2012 there are no receivables older than 365 days for which impairment has not been made.

Measuring and recording of impairment is performed annually. In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further allowance for credit losses required in excess of the allowance for doubtful debts.

Movement in the allowance for impairment of trade and other receivables:

(In '000 KM)	2012.	2011.
Balance at beginning of the year	**6.578**	**3.902**
impairment losses recognized on trade receivables (Note 10)	1.866	3.245
Amounts recovered during the year (Note 10)	(202)	(133)
Amounts written off as uncollectible	(4)	(436)
Balance at the end of the year	**8.238**	**6.578**
Balance at beginning of the year	**49**	**49**
Amounts written off as uncollectible	**206**	-
Balance at the end of the year	**255**	**49**

Aging of overdue unimpaired trade receivables:

(In '000 KM)	2012	2011
15-30 days	5,502	4,328
31-90 days	2,580	5,213
91-180 days	1,018	5,559
181-365 days	1,704	2,767
>365 days	-	-
	10,804	**17,867**

21. LOAN RECEIVABLES

(In '000 KM)	2012.	2011.
Loans given to:		
KTK Visoko	130	130
Top Sport BiH	50	50
Employees	141	2
Allowance for loan receivables	(321)	(50)
	-	**132**

Movement in the allowance for impairment of loan receivables:

	2012	2011
Balance at beginning of the year	**50**	-
impairment losses recognized on trade receivables (Note 10)	271	50
Balance at the end of the year	**321**	**50**

22. OTHER ASSETS

(In '000 KM)	2012	2011
Advances	234	408
Prepaid expenses	745	347
	979	**755**

23. CASH AND CASH EQUIVALENTS

(In '000 KM)	2012	2011
Current accounts	744	3,755
Foreign currency accounts	3,414	2,304
Cash on hand	83	129
	4,241	**6,188**

24. SHARE CAPITAL

(In '000 KM)	2012	2011
7.829.987 common shares with nominal value of KM 10	78,300	78,300
Less: international Finance Corporation (IFC) conversion option	-	(6,558)
	78,300	**71,742**
Less: Treasury shares	(276)	(142)
	78,024	**71,600**

IFC loan conversion option was exercised in August 2001 and the Company increased its share capital by the amount of KM 7,316 thousand. These shares have been stated as debt as required by International Financial Reporting Standards due to the existence of a Put Option, which gives the IFC the right to require the Company to repurchase the shares.

Since the IFC had not used the right to sell shares within the five years period, after of the Put Option Agreement on 15 March 2012, remaining part of the shares in amount of KM 6,558 thousand was stated as share capital plus the premium in amount of KM 2,693 thousand.

The ownership structure as of 31 December 2012 and 2011 can be summarized as follows:

	2012		**2011**	
	%	Quantity '000	%	Quantity '000
Federation of Bosnia and Herzegovina	19.26	1,508	19.26	1,508
Haden S.A. Luxembourg	16.58	1,298	-	-
World Bank, Washington D.C. USA (IFC)	-	-	8.37	656
The Economic and Social Development Fund, Libya	8.78	687	8.78	687
Other	55.38	4,337	63.59	4,979
	100.00	**7,830**	**100.00**	**7,830**

25. LONG.TERM LOANS

(In '000 KM)	2012	2011
Secured - at amortized cost:		
UniCredit bank d.d. Mostar	5,154	667
Sparkasse bank d.d.	1,635	1,428
BBI d.d. Sarajevo	1,899	2,855
Intesa Sanpaolo bank, Sarajevo	5,098	-
Sub-total	**13,786**	**4,950**
Less: current portion of long-term loans	(2,516)	(2,287)
	11,270	**2,663**
Amounts are due for settlement as follows:		
-Within one year	2,516	2,287
- in the second year	3,069	1,767
- in the third to the fifth years inclusive	8,201	896
- After five years	-	-
	13,786	**4,950**

The Company has pledged land, buildings, machinery and equipment with a carrying amount of approximately KM 32,350 thousand (2011: 18,282) to secure loans granted by the above mentioned banks.

Sparkasse Bank d.d. Sarajevo approved a loan for financing working capital in amount of KM 2,000 thousand with interest rate of 6-month EURIBOR + 5%. The loan matures on 31 January 2014.
The same Bank extended a loan in amount of KM 1,000 thousand with EURIBOR+4.5% interest rate, minimum 5.20%. The loan matures on 5 January 2014 and purpose is financing of working capital.

Loan provided by Bosnia Bank International was agreed on 27 October 2011 as a financial partnership for construction of a new plant and for increasing the existing production capacities. The loan amounts to EUR 1,534 or KM 3 million and matures on 31 October 2014. It has a nominal profit margin of 6.19% and effective profit margin 6.58%.

On 29 May 2012 the Company arranged a loan with UniCredit Bank d.d. Mostar in the amount of KM 11,700 thousand in order to finance the investments into fixed assets – the administrative and quality control premise. The loan bears interest rate of 6-month EURIBOR+4.8% and matures on 29 November 2018, including a grace period of 18 months. Utilized portion as at 31 December 2012 amounts to KM 5,154 thousand.

On 28 May 2012 the Company arranged a loan with Intesa SanPaolo bank d.d. Sarajevo in amount of KM 11,700 thousand in order to finance the investments into fixed assets – the administrative and quality control premise. The loan bears interest rate of 6-month EURIBOR+4.8% and matures on 29 November 2018, including 18 months grace period. Utilized portion as at 31 December 2012 amounts to KM 5,098 thousand.

26. OBLIGATIONS UNDER FINANCE LEASES

(In '000 KM)	Minimum lease payments		Present value of minimum lease payments	
	2012	2011	2012	2011
Amounts payable under finance leases:				
Within one year	2,949	617	2,646	483
in the second to fifth year inclusive	4,095	1,736	3,846	1,560
Total	**7,044**	**2,353**	**6,492**	**2,526**
Less: future finance charges	(552)	(310)	-	-
Present value lease obligations	6,492	2,043	6,492	2,043
Less: amount due within 12 months	(2,646)	(483)	(2,646)	(483)
Amount due for settlement after 12 months	3,846	1,560	3,846	1,560

The Company has 15 leasing arrangement for machines: automatic line for filling, closing and labeling of non sterile liquid forms; oystar manesty XLLab02; oystar huttling pilotlab, and a car, Peugeot 3008 premium, Heino inselman blister, Heino inselman cartoner, Heino inselman banding, Heino inselman checkweigher (OCS), Heino inselman uv printer covering alu foil, Heino inselman blister BMP-250R, Heino inselman cartoner CMP-100, i capsule machine module C-MS, with a carrying amount of KM 7,044 thousand (31 December 2011: 2,353). The average term of finance leases entered into is 5 years. The average effective interest rate contracted approximates 7.72% (2011: 7.75%). The interest rate inherent in the leases is fixed at the contract date for all of the lease term. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in Euro. The fair value of the company's finance lease obligations approximates their carrying amount. The company's obligations under finance leases are secured by the lessor's charge over the leased assets.

27. TRADE AND OTHER PAYABLES

(In '000 KM)	2012	2011
Trade payables – foreign	8,185	6,701
Trade payables – domestic	2,143	2,235
Trade payables	**10,328**	**8,936**
Employee payables	2,639	2,942
Payables to shareholders	1,218	306
VAT liabilities, net	-	-
Other	25	24
Other payables	**3,882**	**3,272**
	14,210	**12,208**

The average credit period for trade payables is 39 days (2011 - 35 days). No interest is charged on the trade payables. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The Company has had no delays in the settlement of trade payables and has provided no securement instruments for settlement of trade payables.

28. SHORT TERM LOANS

Bank	*Loan amount*	*%*	*Duration (months)*	*Collateral*	2012.	2011.
Intesa. SP d.d Sa	6,000-12,230	4.95	3-12	Note 15	7,297	6,011
UniCredit d.d. Mo	8,000-11,000	4.95	1-3	Note 15	14,092	11,078
					21,389	**18,089**

29. DERIVATIVE FINANCIAL INSTRUMENTS

(In '000 KM)	2012	2011
Opening balance	**8,829**	**9,514**
Net (decrease)/increase in fair value (Notes 11 and 12)	-	(685)
Transfer to equity	(8,829)	-
Ending balance	**-**	**8,829**

International Finance Corporation (IFC) has the right to either sell all shares or a part of shares consisting of 655,729 shares at any time during the period of option execution per price at the execution date in accordance with the agreement. The period of option execution lasts until 15 March 2012 and the execution price is based on the ownership share multiplied by previous year's net sales.

As at 15 March 2012 the option to sell the shares granted to IFC has elapsed. Accordingly the shares at fair value are reclassified to equity.

30. ACCRUED EXPENSES

(In '000 KM)	2012	2011
Invoices which are not yet received	914	3,318
Accruals for rebates and bonuses	-	2,407
Other	304	201
	1,218	**5,926**

Within accrued expenses for the invoices which are not yet received, the greatest balances related to the various invoices not yet received, but respective expenses incurred.

31. PROVISIONS

(In '000 KM)	Current		Non-current	
	2012	2011	2012	2011
Repurchase of employee shares	148	92	1,653	1,022
Retirement severance payments	-	-	718	499
Court proceedings	-	-	368	300
	148	**92**	**2,739**	**1,821**

Movement in provisions can be presented as follows:

	Repurchase of employee shares	Retirement Severance payments	Court proceedings	TOTAL
Balance at 31 December 2010	**1,004**	**516**	**150**	**1,670**
Additional provision recognized	150	3	150	303
Reductions arising from payments	-	-	-	-
Reductions resulting from remeasurement or settlement without cost	(40)	(20)	-	(60)
Balance at 31 December 2011	**1,114**	**499**	**300**	**1,913**
Additional provision recognized	687	219	68	974
Balance at 31 December 2012	**1,801**	**718**	**368**	**2,887**

32. SHARE BASED PAYMENTS

As at 28 June 2008 the Shareholders' Assembly made decision to increase the share capital by issuing 233,731 shares to employees from the profits. At grant date the fair value of shares amounted to KM 6,249 thousand at fair value of KM 26.74 each. Own shares were issued to all employees employed permanently at the date of decision.

The Company is obliged to repurchase the employee shares if the following conditions are met: employees must remain employed for 6 years after the issue of shares and be employed at retirement date. Employees that meet these conditions can sell these shares per weighted average price in previous six months only to the Company. The same method of price calculation for repurchase is used for those employees that retire before the 6-year period.

Employees that terminate employments due to reorganization or restructuring before the 6-year period expires must sell shares only to the company before the mentioned period expires. Employees that terminate employment due to reach of work obligations lose the right on shares and have to return them.

As at 31 December 2012 the company recognized expense in the amount of KM 727 thousand (2011: 181) and corresponding liability arising from share-based payments. This is a part of the shares fair value accumulated to employees until 31 December 2012. The Company has estimated that 85% (2011: 75%) of employees that participate in mentioned payment will fulfill all conditions.

33. OUTSTANDING COMMITMENTS

At 31 December 2012, the company's rental commitments amounted to KM 905 thousand (2011: 413).

As at 31 December 2012, contracted outstanding liabilities toward the ANS Drive d.o.o. Sarajevo amounted to KM 17,758 thousand (2011: 10,472). The Company recorded 12 temporary invoices during 2012 in amount of KM 8,587 thousand. Contracted amount of KM 30,326 thousand was decreased by KM 12,748 thousand, out of which KM 4,161 thousand relates to the advance payments (2011: 2,450).

34. POTENTIAL LIABILITIES

The following performance guarantees are issued by Bosnia Bank international d,d. on behalf of the Company:

Beneficiary	Period	KM '000
Municipality Court Sarajevo	24.05.2011.-24.05.2016.	470
Indirect tax authorities of B&H	08.04.2012.-08.04.2013.	150
Indirect tax authorities of B&H	08.04.2012.-08.04.2013.	75
Indirect tax authorities of B&H	12.03.2012.-12.06.2013.	20
Indirect tax authorities of B&H	20.07.2012.-23.07.2013.	31
Total		**746**

In addition, tax authorities may anytime perform inspection of accounting records for the last 5 years period and may state additional tax liabilities and penalties. The company's management is not aware of any circumstance that can cause significant contingency regarding this issue.

35. LEGAL PROCEEDINGS

Plaintiff
As at 31 December 2012 there were 32 legal actions instigated by the company against its debtors in amount of KM 7,652 thousand as well as KM 1,308 thousand for various reason.

Defendant

As at 31 December 2012 there were 17 court procedures against the Company in amount of KM 368 thousand, out of which total amount was provisioned (Note 31).

36. RELATED PARTY TRANSACTIONS

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

(U '000 KM)	2012	2011
Gross salaries	1,126	713
Bonuses	758	416
Other benefits	1,039	146
	2,923	**1,275**

37. FINANCIAL INSTRUMENTS

37.1 Capital risk management

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The general Company's strategy did not change in comparison to 2011. The capital structure of the Company consists of debt which includes the borrowings and financial leases (note 25, 26 and 28).

37.1.1. Gearing (solvency) ratio

The Management reviews the capital structure on a monthly basis. As part of this review, the Management considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end was as follows:

(In '000 KM)	2012	2011
Borrowings (Note 25, 26,28 and 29)	42,218	34,220
Cash and cash equivalents (Note 23)	(4,241)	(6,188)
Net debt	**37,977**	**28,032**
Equity	137,321	123.369
Debt to equity ratio	**0.28**	**0.23**

37.2 Categories of financial instruments

(In '000 KM)	2012	2011
Financial assets:		
Loans and receivables (including cash and cash equivalents)	71,646	66,777
Total	**71,646**	**66,777**
Financial liabilities:		
Amortized cost	55,620	37,599
At fair value trough profit and loss	-	8,829
Total	**55,620**	**46,428**

37.3 Financial risk management objectives

The Company's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

37.4 Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

37.5 Foreign currency risk management

The company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing foreign exchange contracts. The carrying amounts of the company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2012	2011	2012	2011
EUR	20,631	17,617	4,107	4,894
USD	-	111	122	110
GBP	-	-	-	-
CHF	-	-	-	21

37.5.1. Foreign currency sensitivity analysis

The company is mainly exposed to EUR and USD. The Company is performing sensitivity analysis following 10% increase and decrease in KM against the relevant foreign currencies. A 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where KM strengthens 10% against the relevant currency. For a 10% weakening of KM against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

In Management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk since in accordance with the Law on central Bank of Bosnia and Herzegovina the Convertible Mark (KM) is officially tied to the Euro. Change in the exchange rate would require the amendments of the law and approval by parliamentary Assembly of Bosnia and Herzegovina.

37.6. Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at floating interest rates. The Company's exposures to interest rates on financial assets and financial liabilities are detailed in Note 36.8 liquidity risk management.

37.6.1 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liabilities outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease (0.5%) is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points (0,5%) higher/lower and all other variables were held constant, the Company's:

- profit for the year ended 31 December 2012 would decrease/increase by KM 49 thousand (2011: 61). This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings.

The Company's sensitivity to interest rates has decreased during the current period mainly due to the reduction in variable rate debt instruments.

37.7. Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. The Company does not have any significant credit risk exposure to any single counterparty or any Company of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities.

Except as noted in the tables below, the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk without, taking account of the value of any collateral obtained.

As at 31 December 2012 trade receivables in the amount of KM 20,414 thousand (2010: 15,669) are secured by the blank bills of exchange.

37.8 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

37.8.1 Liquidity and interest risk tables

The following tables detail the company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

(2011)	Weighted average Effective interest rate (%)	Mature 0-1 year	Over 1 year	Total
Non-interest bearing	-	64,598	-	64,598
Variable interest rate instruments	-	-	-	-
Fixed interest rate instruments	1.6	-	2,301	2,301
Total		**25,013**	**2,301**	**66,899**

(2012)	Weighted average Effective interest rate (%)	Mature 0-1 year	Over 1 year	Total
Non-interest bearing	-	68,916	-	68,916
Variable interest rate instruments	-	-	-	-
Fixed interest rate instruments	1.6	-	2,262	2,262
Total		**68,916**	**2,262**	**71,178**

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

(2011)	Weighted average Effective interest rate (%)	Mature 0-1 year	Over 1 year	Total
Non-interest bearing	-	12,208	-	12,208
Variable interest rate instruments	7,75	3,096	4,697	7,793
Fixed interest rate instruments	7,22	19,735	-	19,735
Total		**35,049**	**4,697**	**39,736**

(2012)	Weighted average Effective interest rate (%)	Mature 0-1 year	Over 1 year	Total
Non-interest bearing	-	14,210	-	14,210
Variable interest rate instruments	5,99	9,766	11,270	21,036
Fixed interest rate instruments	6,82	16,785	3,846	20,631
Total		**40,761**	**15,116**	**55,877**

37.9. Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The carrying amounts of financial assets and financial liabilities recorded at amortized cost in the financial statements are approximate to their fair values;
- The fair value of employee benefits is determined using the assumption regarding the likely number of staff to whom the benefit will be payable, estimated benefit and the discount rate;
- The share based payments to the employees are recognized at fair value of the shares at the balance sheet date using the assumption of the number of employees which are expected to fulfill the conditions under which the shares are granted.

38. POST BALANCE SHEET EVENTS

No other events have occurred since the balance sheet date, which significantly affect the state of affairs of the company at the balance sheet date or which require additional disclosure.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorized for issue on 15 March 2013:

BOSNALIJEK, FARMACEUTSKA I HEMIJSKA INDUSTRIJA, DIONIČKO DRUŠTVO
BOSNALIJEK
SARAJEVO
1

Dr. sc. Nedžad Polić, Director

Šefik Handžić, Executive director for finance