

Bosnalijek d.d.

Annual Financial Statements
31 December 2010

This version of the report is a translation from the original, which was prepared in the Bosnian language. In all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

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Management Board's Report

The Management Board submits its report together with the audited financial statements for the year ended 31 December 2010.

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 statement of comprehensive income on page 4 of the financial statements.

Management Board

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

Mr. Edin Arslanagić, Chief Executive Office
Mr. Šefik Handžić, Executive Director of Finances
Ms. Belma Abazović, Executive Director of Production and Development
Mr. Nedim Vilogorac, Executive Director of Corporate Finance and Communications, resigned 2 July 2010
Mr. Nermin Zubčević, Executive Director of the Quality and Regulation

Supervisory Board

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

Mr. Veljko Trivun	Chairman
Mr. Rifat Klopić	Member
Mr. Umid Šalaka	Member
Ms. Edin Buljubašić	Member
Mr. Abdulhakin Mohamed Al Misurati	Member

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



31 March 2011

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 financial performance 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 35 were authorised by the Management Board on 31 March 2011 for issue to the Supervisory Board and are signed below to signify this.

Edin Arslanagic
Director





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 statement of financial position as at 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 2010, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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



31 March 2011

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Statement of comprehensive income

For the year ended 31 December 2010

	<i>Note</i>	2010 BAM'000	2009 BAM'000
Revenue	6	101,659	109,551
Cost of sales		(38,513)	(38,393)
Gross profit		63,146	71,158
Other income	7	831	634
Administration and distribution expenses		(46,069)	(50,570)
Research and development expenses		(5,438)	(3,482)
Other expenses	8	(6,275)	(5,796)
Profit from operating activities		6,195	11,944
Financial income	11	243	261
Financial expenses	11	(2,256)	(3,216)
Net finance expenses	11	(2,013)	(2,955)
Profit before taxation		4,182	8,989
Income tax expense	12	-	-
Profit for the year		4,182	8,989
Other comprehensive income		-	-
Total comprehensive income for the year		4,182	8,989
Basic and diluted earnings per share	32	0.53	1.15

Statement of financial position

As at 31 December 2010

	<i>Note</i>	31 December 2010 BAM'000	31 December 2009 BAM'000
ASSETS			
Non-current assets			
Property, plant and equipment	<i>13</i>	81,733	84,477
Intangible assets	<i>14</i>	648	1,308
Investments	<i>15</i>	104	12
Loans and deposits	<i>16</i>	847	562
Total non-currents assets		83,332	86,359
Current assets			
Loans and deposits	<i>16</i>	258	712
Trade and other receivables	<i>17</i>	61,838	60,115
Inventories	<i>18</i>	21,465	20,382
Income tax receivables		2,078	2,457
Cash and cash equivalents	<i>19</i>	7,432	3,439
Total current assets		93,071	87,105
Total assets		176,403	173,464
EQUITY AND LIABILITIES			
Equity			
Share capital	<i>20</i>	71,742	71,742
Treasury shares	<i>21</i>	(101)	(182)
Share premium		3,919	3,912
Other reserves	<i>22</i>	30,331	24,432
Retained earnings		12,183	13,988
Total equity and reserves		118,074	113,892
Liabilities			
Non-current liabilities			
Employee benefits	<i>24</i>	1,406	953
Provisions	<i>26</i>	150	34
Loans and borrowings	<i>27</i>	3,611	4,384
Total non-current liabilities		5,167	5,371
Current liabilities			
Employee benefits	<i>24</i>	114	69
Loans and borrowings	<i>27</i>	21,414	20,580
Trade and other payables	<i>28</i>	22,120	24,248
Derivative financial liabilities	<i>29</i>	9,514	9,304
Total current liabilities		53,162	54,201
Total liabilities		58,329	59,572
Total equity and liabilities		176,403	173,464

Statement of changes in equity

For the year ended 31 December 2010

	Share Capital BAM'000	Treasury shares BAM'000	Share premium BAM'000	Other reserves BAM'000	Retained earnings BAM'000	Total BAM'000
As at 01 January 2009	71,742	-	3,912	19,502	11,938	107,094
Profit for the year	-	-	-	-	8,989	8,989
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	8,989	8,989
Transactions with owners						
Treasury shares (Note 21)	-	(182)	-	-	182	-
Transfer to reserves (Note 22)	-	-	-	4,930	(4,930)	-
Dividends declared (Note 23)	-	-	-	-	(2,191)	(2,191)
	-	(182)	-	4,930	(6,939)	(2,191)
As at 31 December 2009	71,742	(182)	3,912	24,432	13,988	113,892
As at 01 January 2010	71,742	(182)	3,912	24,432	13,988	113,892
Profit for the year	-	-	-	-	4,182	4,182
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	4,182	4,182
Transactions with owners						
Treasury shares (Note 21)	-	81	7	-	(88)	-
Transfer to reserves (Note 22)	-	-	-	5,899	(5,899)	-
	-	81	7	5,899	(5,987)	-
As at 31 December 2010	71,742	(101)	3,919	30,331	12,183	118,074

Statement of cash flows

For the year ended 31 December 2010

	<i>Note</i>	2010 BAM'000	2009 BAM'000
Cash flows from operating activities			
Profit for the year		4,182	8,989
Adjustments for:			
Depreciation and impairment of property, plant and equipment	13	8,561	7,848
Loss on sale of property, plant and equipment		399	1,529
Amortization of intangible fixed assets	14	713	1,517
Interest income	11	(27)	(10)
Interest expense	11	1,551	1,349
Movement in derivative fair value	11	210	1,656
		15,589	22,878
Changes in:			
- trade and other receivables		(1,344)	(16,530)
- inventories		(1,083)	1,960
- trade and other payables		(2,128)	6,260
- provisions and other liabilities		614	216
		11,648	14,784
Cash generated from operating activities		11,648	14,784
Interest paid		(1,551)	(1,349)
		10,097	13,435
Investing activities			
Acquisition of investments	15	(87)	(10)
Acquisition of property, plant and equipment		(6,228)	(11,079)
Acquisition of intangible assets		(53)	(739)
Proceeds from the sale of property, plant and equipment		12	55
Interest received		27	10
Proceeds from collection of loans and deposits		707	1,033
Payments for loans and deposits		(543)	(699)
		(6,165)	(11,429)
Financing activities			
Repayment of loans and borrowings		(7,524)	(17,240)
Proceeds from loans and borrowings		7,585	18,220
Dividends paid	23	-	(1,598)
		61	(618)
Net cash outflow from financing activities			
		61	(618)
Net increase in cash and cash equivalents			
		3,993	1,388
Cash and cash equivalents at beginning of year		3,439	2,051
		7,432	3,439
Cash and cash equivalents at end of year	19	7,432	3,439

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").

These financial statements are a translation of the official statutory financial statements prepared in Bosnian, which were approved by the Management Board on 31 March 2011.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except where stated as otherwise.

(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 37*.

Notes (continued)

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3 Significant accounting policies

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

(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 profit or loss.

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

(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. 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(k).

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 puttable shares are measured at fair value with changes in fair value recorded through profit or loss.

Notes (continued)

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3 Significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as a treasury shares 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. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(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 and equipment	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.

Notes (continued)

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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 that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method. 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 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.

Notes (continued)

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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 profit or loss.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

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.

(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 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.

Notes (continued)

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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

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) Employee benefits

(i) Defined contributions pension fund

Obligations for contributions to defined contribution pension funds are recognised as an expense in the income statement when they are due, which is the period during which services are rendered by employees.

(ii) Retirement benefits

The Company's net obligation in respect of retirement benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the average interest rate on loans of commercial banks, whose maturity dates are approximately the same in terms and conditions of the liabilities of the Company..

(iii) Share-based payments

The Company grants shares to its employees in accordance with local legislation. 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 cost in profit or loss.

Notes (continued)

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3 Significant accounting policies (continued)

(j) 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.

Revenue from the sale of goods is generally recognised at the date the goods are delivered and represents the net invoiced value of goods and excludes value added taxes.

(k) Financial income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets) and positive changes in the fair value of financial instruments at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and negative changes in the fair value of financial instruments at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a gross basis.

(l) 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.

(m) 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.

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.

Notes (continued)

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3 Significant accounting policies (continued)

(n) Earnings per share

The Company presents basic and diluted 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, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(o) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, financial cost and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements. Management believes that none of these will have a material effect on the financial statements of the Company.

Notes (*continued*)

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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 these financial instruments.

The fair value of long term receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at reporting date, as disclosed in *Note 17*.

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 valued 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. 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.

Notes (continued)

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5 Operating segments

The Company has four reportable operating segments in which it sells its products. Manufacturing facilities are located entirely in Bosnia and Herzegovina. In presenting information on the basis of operating segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	Bosnia and Herzegovina		Ex Yugoslavia and Albania		East Europe and Russia		Middle East and Africa		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000
Revenue	56,119	69,858	13,347	12,246	30,930	25,996	1,263	1,451	101,659	109,551
Cost of sales	(25,162)	(26,746)	(5,070)	(4,519)	(7,506)	(6,798)	(775)	(330)	(38,513)	(38,393)
Gross profit	30,957	43,112	8,277	7,727	23,424	19,198	488	1,121	63,146	71,158
Other operating income	831	634	-	-	-	-	-	-	831	634
Administration and distribution expenses	(22,648)	(24,733)	(3,115)	(3,700)	(11,618)	(11,478)	(834)	(1,293)	(38,215)	(41,204)
Depreciation	(7,276)	(8,888)	(107)	(121)	(461)	(345)	(10)	(12)	(7,854)	(9,366)
Profit from segments	1,864	10,125	5,055	3,906	11,345	7,375	(356)	(184)	17,908	21,222
Unallocated expenses	-	-	-	-	-	-	-	-	-	-
Research and development expenses	-	-	-	-	-	-	-	-	(5,438)	(3,482)
Other expenses	-	-	-	-	-	-	-	-	(6,275)	(5,796)
Net finance expenses	-	-	-	-	-	-	-	-	(2,013)	(2,955)
Profit before tax	-	-	-	-	-	-	-	-	4,182	8,989
Reportable segment assets	142,119	145,146	12,550	16,119	21,040	11,531	694	668	176,403	173,464
Reportable segment liabilities	58,329	59,572	-	-	-	-	-	-	58,329	59,572

Notes (continued)

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6 Revenue	2010 BAM'000	2009 BAM'000
Domestic sales of goods	56,055	69,747
Foreign sales of goods	45,533	38,805
Service rendered	71	999
	<u>101,659</u>	<u>109,551</u>
7 Other income	2010 BAM'000	2009 BAM'000
Gain on sale of property, plant and equipment	12	55
Release of provision for legal cases	-	100
Other	819	479
	<u>831</u>	<u>634</u>
8 Other expenses	2010 BAM'000	2009 BAM'000
Inventories written off	1,170	1,292
Impairment of property, plant and equipment	1,420	-
Loss on disposal of property, plant and equipment	411	1,432
Impairment of receivables	1,793	301
Provision for legal cases	116	-
Donations, sponsorships and scholarships	482	514
Other	883	2,257
	<u>6,275</u>	<u>5,796</u>
9 Personnel costs	2010 BAM'000	2009 BAM'000
Wages, salaries and other staff costs	19,420	20,015
Share based payments (Note 25)	552	337
Increase/(decrease) in retirement benefits	(73)	(7)
	<u>19,899</u>	<u>20,345</u>

The number of employees in the Company at year end was 633 (2009: 621). Personnel costs include BAM 3,140 thousand (2009: BAM 2,907 thousand) of defined contribution pension contributions paid into obligatory state pension funds.

Notes (continued)

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10 Expenses by nature

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

	2010 BAM'000	2009 BAM'000
Change of inventories of finished goods and work in progress	(1,069)	(988)
Raw materials and consumables	29,395	29,041
Energy	2,515	2,624
Depreciation and amortization	7,854	9,366
Personnel costs	19,899	20,345
Other fees to employees	182	130
Consultancy fees contracts	8,347	7,769
Supervisory board members fees	109	110
Transport services	881	1,752
Maintenance	1,853	2,320
Rent expenses	514	422
Advertisement	7,351	8,241
Insurance	679	588
Bank charges	680	506
Promotions, marketing and entertainment	6,651	5,522
Travel costs	1,236	1,414
Memberships	151	136
Telecommunication	1,486	683
Other	1,306	2,464
	<u>90,020</u>	<u>92,445</u>

Total personnel costs allocated to cost of sales for the year is BAM 7,457 thousand (2009: BAM 6,703 thousand).

Total depreciation and amortisation expense allocated to cost of sales is BAM 3,534 thousand (2009: BAM 3,525 thousand).

11 Net financial expenses

	2010 BAM'000	2009 BAM'000
Interest income	27	10
Fair value adjustment to loans and deposits	120	130
Foreign exchange gains	96	121
Financial income	<u>243</u>	<u>261</u>
Interest expense	(1,551)	(1,349)
Change in fair value of derivative liability	(210)	(1,656)
Foreign exchange losses	(495)	(211)
Financial expenses	<u>(2,256)</u>	<u>(3,216)</u>
Net financial expense	<u>(2,013)</u>	<u>(2,955)</u>

Notes (continued)

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12 Income tax expense

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

	2010	2009
	BAM'000	BAM'000
Profit before tax	4,182	8,989
Profit tax at 10%	418	899
Non-deductible expenses	880	506
Tax incentive for export	(1,298)	(1,405)
Income tax expense	-	-
Average effective income tax rate	0.00%	0.00%

Notes (continued)

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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 2009	92,259	57,558	2,266	152,083
Additions	-	-	11,079	11,079
Disposals and write offs	(2,150)	(1,032)	-	(3,182)
Transfers	600	3,005	(3,605)	-
At 31 December 2009	90,709	59,531	9,740	159,980
At 1 January 2010	90,709	59,531	9,740	159,980
Additions	-	-	6,228	6,228
Disposals and write offs	(491)	(914)	(1,129)	(2,534)
Transfers	812	6,485	(7,297)	-
At 31 December 2010	91,030	65,102	7,542	163,674
Accumulated depreciation and impairments				
At 1 January 2009	35,184	34,230	-	69,414
Charge for the year	3,642	4,206	-	7,848
Disposals and write offs	(782)	(977)	-	(1,759)
At 31 December 2009	38,044	37,459	-	75,503
At 1 January 2010	38,044	37,459	-	75,503
Charge for the year	3,182	3,959	-	7,141
Impairment	-	385	-	385
Disposals and write offs	(189)	(899)	-	(1,088)
At 31 December 2010	41,037	40,904	-	81,941
Carrying amount				
At 1 January 2009	57,075	23,328	2,266	82,669
At 31 December 2009	52,665	22,072	9,740	84,477
At 31 December 2010	49,993	24,198	7,542	81,733

Assets under construction

Assets under construction include site preparation (BAM 725 thousand), reconstruction of "Solid oral forms of drugs" production facility (BAM 1,919 thousand), office premises (BAM 889 thousand) and line for packaging (BAM 3,096 thousand).

Security

Property, plant and equipment with a carrying value of BAM 26,710 thousand (2009: BAM 45,449 thousand) are used as security for various loans and borrowings (see Note 27).

Notes (continued)

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14 Intangible assets

	Licences BAM'000	Software BAM'000	Assets under development BAM'000	Total BAM'000
Cost				
At 1 January 2009	6,225	3,636	269	10,130
Additions	-	-	739	739
Disposals and write offs	-	(70)	(143)	(213)
Transfers	476	265	(741)	-
At 31 December 2009	6,701	3,831	124	10,656
At 1 January 2010	6,701	3,831	124	10,656
Additions	-	-	53	53
Disposals and write offs	(203)	(811)	-	(1,014)
Transfers	53	-	(53)	-
At 31 December 2010	6,551	3,020	124	9,695
Accumulated amortisation and impairments				
At 1 January 2009	4,877	3,006	-	7,883
Charge for year	1,028	489	-	1,517
Disposals and write offs	-	(52)	-	(52)
At 31 December 2009	5,905	3,443	-	9,348
At 1 January 2010	5,905	3,443	-	9,348
Charge for year	513	200	-	713
Disposals and write offs	(203)	(811)	-	(1,014)
At 31 December 2010	6,215	2,832	-	9,047
Carrying amount				
At 1 January 2009	1,348	630	269	2,247
At 31 December 2009	796	388	124	1,308
At 31 December 2010	336	188	124	648

Licences include 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.

Intangible assets under construction relates to software under development.

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15 Investments	2010	2009
	BAM'000	BAM'000
MF Invest d.o.o. Sarajevo	2	2
ASA Finance d.d. Sarajevo	10	10
Bosfarm d.o.o. Skopje	82	-
Bosnalijek d.o.o. Hrvatska	5	-
Fondationa Tenis	5	-
	<hr/>	<hr/>
	104	12
	<hr/> <hr/>	<hr/> <hr/>
16 Loans and deposits		
	2010	2009
	BAM'000	BAM'000
<i>Non current</i>		
Loans to employees	6	14
Deposit with banks	479	422
Other deposits and receivables	362	126
	<hr/>	<hr/>
	847	562
	<hr/> <hr/>	<hr/> <hr/>
<i>Current</i>		
Loan receivables:		
- KTK Visoko d.o.o.	195	-
- Top Sport d.o.o.	50	-
- Brstanica d.o.o.	-	600
- Medifarm d.o.o.	-	99
Other	13	13
	<hr/>	<hr/>
	258	712
	<hr/> <hr/>	<hr/> <hr/>
<p>The deposit with banks is held as security for loans given by the 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 599 thousand (2009: BAM 599 thousand) and the Company has recognised a fair value adjustment using a discount rate of 3.98% (2009: 3.98%).</p>		
17 Trade and other receivables		
	2010	2009
	BAM'000	BAM'000
Trade receivables – gross	62,700	58,738
Trade receivables – impairment	(3,652)	(2,159)
	<hr/>	<hr/>
Trade receivables – net	59,048	56,579
Prepayments to suppliers	2,354	2,545
VAT prepayment	-	497
Other receivables and prepayments	436	494
	<hr/>	<hr/>
	61,838	60,115
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

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18 Inventories

	2010 BAM'000	2009 BAM'000
Raw materials and consumables	10,243	9,042
Work in progress	2,592	1,505
Finished goods	8,630	9,835
	21,465	20,382
	21,465	20,382

19 Cash and cash equivalents

	2010 BAM'000	2009 BAM'000
Cash with banks in BAM	3,411	1,972
Foreign currency accounts	3,863	1,355
Cash on hand	158	112
	7,432	3,439
	7,432	3,439

20 Share capital

	2010		2009	
	Number of shares	BAM'000	Number of shares	Restated BAM'000
Common shares with nominal value of BAM 10	7,829,987	78,299	7,829,987	78,299
Less: IFC puttable shares classified as liabilities (Note 29)	(655,729)	(6,557)	(655,729)	(6,557)
	7,174,258	71,742	7,174,258	71,742
Less: treasury shares (Note 21)	(6,447)	(101)	(6,828)	(182)
	7,167,811	71,641	7,167,430	71,560
	7,167,811	71,641	7,167,430	71,560

21 Treasury shares

Treasury shares relate to shares that have been transferred to the Company usually from employees who have lost share rights. These shares are usually reissued to other employees.

22 Reserves

During the year the Company transferred BAM 5,899 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 Dividends

The General Shareholder Assembly on 20 June 2009 approved dividends of BAM 2,191 thousand from the retained profit of 2008 which represented BAM 0.28 per share. The amount unpaid at 31 December 2010 is BAM 338 thousand (2009: BAM 593 thousand). No additional dividends have been proposed by Management to this report date.

Notes (continued)

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24 Employee benefits

	2010 BAM'000	2009 BAM'000
<i>Non current</i>		
Retirement awards	516	516
Cash-settled share-based payment liability	890	437
	1,406	953
<i>Current</i>		
Cash-settled share-based payment liability	114	69
	114	69

	Retirement awards '000 KM	Cash-settled share-based payment liability '000 KM	Total '000 KM
As at 1 January 2010	516	506	1,022
Provision made during the period	73	552	625
Provision released during the period	(73)	-	(73)
Share-based payments made	-	(54)	(54)
	516	1,004	1,520

25 Share based payments

On 28 June 2008 the Company granted 233,731 shares to its employees solely from retained earnings (as allowed under company law requirements) based on the Decision of the General Shareholder Assembly. Employees granted shares have the immediate right to receive dividends and vote at General Meetings of the Company. The deemed fair value of the shares at the grant date was BAM 6,249 thousand representing 233,731 shares at BAM 26.74 fair value per share. 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 from the grant date, 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 the average market price for the last six months, only to the Company at, or following, retirement. Employees who retire before the six year period have a right to sell their shares, at market value, only to the Company. Employees whose employment is cancelled due to reorganization and restructuring before the six year period expire must sell their shares to the Company only, before the end of the vesting period. Employees whose employment is cancelled due to their failure to fulfil their responsibilities lose their rights and shares are returned at no consideration under the scheme.

For the year ended 31 December 2010 the Company has recognised an expense of BAM 552 thousand (2009: BAM 337 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 2010. The Company estimates that as at 31 December 2010, 65% of the employees participating in the scheme will meet all of the conditions for settlement.

Notes (continued)

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26 Provisions

	Legal cases BAM'000
As at 1 January 2010	34
Provision made during the period	116
Provision released during the period	-
	150
As at 31 December 2010	150

27 Loans and borrowings

	2010 BAM'000	2009 BAM'000
<i>Non current</i>		
Secured bank loans	2,466	4,384
Finance lease liabilities	1,145	-
	3,611	4,384
<i>Current</i>		
Secured bank loans	21,139	20,580
Finance lease liabilities	275	-
	21,414	20,580
Total loans and borrowings	25,025	24,964

Notes (continued)

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27 Loans and borrowings (continued)

The interest rates and terms of repayment for the Company at 31 December 2010 are as follows:

Loans and borrowings	Total 2010 BAM'000	1 year or less BAM'000	1-2 years BAM'000	2-3 years BAM'000	3-5 years BAM'000	More than 5 years BAM'000
<i>Secured bank loans</i>						
<i>Variable interest rate instruments</i>						
UniCredit Bank, EUR 1,023 thousand, 6 months Euribor +6%	1,333	666	667	-	-	-
BOR Banka, USD 237 thousand, Euribor + 6%	308	308	-	-	-	-
<i>Fixed interest rate instruments</i>						
BOR Bank, USD 890 thousands, 7%	1,059	1,059	-	-	-	-
BOR Bank, USD 1,772 thousands, 7%	2,175	376	404	433	962	-
Intesa San Paolo banka d.d., 5.8% p.a.	3,000	3,000	-	-	-	-
Intesa San Paolo banka d.d., 5.8% p.a.	2,730	2,730	-	-	-	-
Intesa San Paolo banka d.d., 5.8% p.a.	2,500	2,500	-	-	-	-
Intesa San Paolo banka d.d., 5.8% p.a.	500	500	-	-	-	-
UniCredit Bank d.d., 4.95% p.a.	2,000	2,000	-	-	-	-
UniCredit Bank d.d., 4.95% p.a.	2,000	2,000	-	-	-	-
UniCredit Bank d.d., 4.95% p.a.	2,000	2,000	-	-	-	-
UniCredit Bank d.d., 4.95% p.a.	2,000	2,000	-	-	-	-
Bosna Bank International d.d., revolving	2,000	2,000	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Secured bank loans	23,605	21,139	1,071	433	962	-
Financial lease	1,420	275	310	325	510	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	25,025	21,414	1,381	758	1,472	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The loans are secured by pledged property plant and equipment (see Note 13).

Notes (continued)

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28 Trade and other payables

	2010 BAM'000	2009 BAM'000
Trade payables – foreign	8,612	8,325
Trade payables – domestic	1,732	3,311
	<hr/>	<hr/>
Trade payables	10,344	11,636
Salaries payable	2,288	3,742
VAT payables	185	-
Dividends payable	338	593
Other liabilities and accrued expenses	8,965	8,277
	<hr/>	<hr/>
	22,120	24,248
	<hr/> <hr/>	<hr/> <hr/>

29 Derivative financial instruments

	2010 BAM'000	2009 BAM'000
Beginning balance	9,304	7,648
Net increase in fair value of derivative liability	210	1,656
	<hr/>	<hr/>
Ending balance	9,514	9,304
	<hr/> <hr/>	<hr/> <hr/>

IFC has an option to sell all or part of 655,729 shares held in Bosnalijek to Bosnalijek at any time during the exercise period, based on the exercise price agreed in the contract. The exercise period is up until 15 March 2012 and the exercise price is based on the percentage of shareholding multiplied by the net sales of the previous financial year.

30 Operating leases

Leases as lessee

Operating lease rentals are payable as follows:

	2010 BAM'000	2009 BAM'000
Less than one year	459	385
	<hr/>	<hr/>
	459	385
	<hr/> <hr/>	<hr/> <hr/>

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 University in Sarajevo. All contracts are for one year.

Notes (continued)

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

(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 believes it 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 believes it has no significant exposure to market risk.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as result from operating activities divided by total shareholders' equity, excluding non-redeemable preference shares. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company's debt to capital ratio at the end of the reporting period was as follows:

	2010 BAM'000	2009 BAM'000
Total liabilities	58,329	59,572
Less: cash and cash equivalents	(7,432)	(3,439)
Net debt	50,897	56,133
Total equity	118,074	113,892
Debt to capital ratio at 31 December	0.43	0.49

There were no changes in the Company's approach to capital management during the year.

Notes (continued)

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31 Financial risk management (continued)

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	2010 BAM'000	2009 BAM'000
Loans, deposits and receivables	16, 17	62,943	61,389
Cash and cash equivalents	19	7,432	3,439
		<u>70,375</u>	<u>64,828</u>

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

	2010 BAM'000	2009 BAM'000
Domestic	27,840	30,262
Foreign	31,208	26,317
	<u>59,048</u>	<u>56,579</u>

Impairment losses

The ageing of trade receivables at the reporting date was:

	2010 BAM'000	2009 BAM'000
Non past due	36,897	38,371
Past due 0 to 90 days	12,293	13,088
Past due over 90 days	9,858	5,120
	<u>59,048</u>	<u>56,579</u>

Notes (continued)

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31 Financial risk management (continued)

The movement in the allowance for impairment in respect of receivables during the year was as follows:

	2010 BAM'000	2009 BAM'000
Balance at 1 January	2,159	1,943
Impairment loss recognised/(reversed)	1,493	216
	<hr/>	<hr/>
Balance at 31 December	<u>3,652</u>	<u>2,159</u>

Liquidity risk

The following are the contractual maturities of financial liabilities:

31 December 2010	Carrying amount BAM'000	Contractual Cash flows BAM'000	6 months or less BAM'000	6-12 Months BAM'000	1-2 Years BAM'000	2-5 Years BAM'000	More than 5 years BAM'000
Non-derivative financial liabilities							
Trade and other payables	10,344	10,344	10,344	-	-	-	-
Interest bearing loans and borrowings	25,025	26,059	17,855	4,146	1,584	2,474	-
Guarantees given	1,901	1,901	1,800	75	26	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2009							
Non-derivative financial liabilities							
Trade and other payables	11,636	11,636	11,636	-	-	-	-
Interest bearing loans and borrowings	24,964	26,697	5,815	12,695	4,020	3,456	711
Guarantees given	1,476	1,795	492	284	258	322	439
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

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31 Financial risk management (continued)

Currency risk

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:

	2010				2009			
	BAM '000 equivalent				BAM '000 equivalent			
	BAM	EUR	USD	Other	BAM	EUR	USD	Other
Loans and deposits	1,105	-	-	-	1,274	-	-	-
Trade receivables	27,840	31,016	192	-	32,010	26,397	331	-
Trade payables	(1,732)	(8,128)	(450)	(34)	(3,311)	(8,069)	(224)	(32)
Loans and borrowings	(18,730)	(2,753)	(3,542)	-	(13,880)	(7,606)	(3,478)	-
Gross exposure	8,483	20,135	(3,800)	(34)	16,093	10,722	(3,371)	(32)

The following significant exchange rate applied during the year:

	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
EUR	1.95583	1.95583	1.95583	1.95583
USD	1.48340	1.40855	1.47276	1.36409

Interest rate risk

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

	2010	2009
	BAM'000	BAM'000
Fixed rate instruments		
Financial assets	1,105	1,274
Financial liabilities	(23,384)	(17,358)
	(22,279)	(16,084)
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(1,641)	(7,606)
	(23,920)	(7,606)

Notes (continued)

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31 Financial risk management (continued)

Fair values

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

32 Earnings per share

Basic and diluted earnings per share

	2010	2009
Profit after tax in BAM in thousand	4,182	8,989
Average number of issued shares in thousand	7,823	7,827
Earnings per share (in BAM)	0.53	1.15

33 Related party transactions

Director's and executives remunerations

The remuneration of Key management during the year was as follows:

	2010 BAM'000	2009 BAM'000
Gross salaries	825	824
Bonuses	-	640
Other benefits	27	29
	852	1,493

34 Contingent liabilities

Bank guarantees

Bank guarantees totalling BAM 1,180 thousand (2009: BAM 1,850 thousand) have been provided to third parties on behalf of the Company and BAM 721 thousand (2009: BAM 746 thousand) has been provided to state institutions for custom duty, health insurance and other, which includes BAM 470 thousand to the Privatization Agency (see Note 35 on Bjelašnica mountain project).

Tax inspection

In March 2009, the Company was subject to a tax inspection. The result of this inspection was that the Company is liable to pay additional amounts to tax authorities. The Company does not believe that an amount totalling BAM 575 thousand, claimed as a result of the tax inspection, related to years from 2004 to 2008 is valid. The Company is currently in an appeal procedure against the Tax Authority.

35 Subsequent events

Bjelašnica mountain project

The Company had plans to develop a large tourism complex on the Bjelašnica mountain. Following submission of permits, during February 2011, the Company was informed that its planned development could not be realized due to technical issues related to existing sewage and rainwater channels. Accordingly the Company has initiated legal action against the Privatization Agency to declare previous commitments given by the Company totalling BAM 10 million in planned investments to be declared invalid. The Company also intends to withdraw its BAM 470 thousand guarantee given to the Privatization Agency. Accordingly, as at 31 December 2010, the Company has impaired BAM 1,035 thousand within property, plant and equipment which was related to the above development expenditure. The Company will also attempt to recover these amounts through legal action against the Privatization Agency.

Receivables from Ukraine customer

At 31 December 2010, the Company had receivables from a customer in Ukraine with a carrying value of BAM 831 thousand. In February 2011, the recovery of payment of this claim became uncertain. The Company has impaired the remaining receivables in total of BAM 831 thousand as at 31 December 2010.

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 and judgment 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.

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 valued 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.

Fair value of derivative instruments

Management is of the opinion that provision for derivative financial instruments is adequate based on the available information.

Fair value of share based employee benefits

Management is of the opinion that provision for share based employee benefits is adequate based on the available information.

Notes (continued)

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36 Critical accounting estimates and judgements (continued)

Revenue recognition

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. 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 2010		31 December 2009	
	Number of shares '000	Ownership	Number of shares '000	Ownership
Federation of Bosnia and Herzegovina	1,508	19.26	1,508	19.26
World Bank, Washington D.C. (IFC)	656	8.38	656	8.38
General People's Committee of Finance Libya	687	8.77	687	8.77
Employees	645	8.24	645	8.24
Other shareholders	4,334	55.35	4,334	55.35
	<u>7,830</u>	<u>100.00%</u>	<u>7,830</u>	<u>100.00%</u>

The above ownership structure includes shareholding of IFC (See Note 20) and shares issued to employees as part of a share-based payment arrangement in 2008 (See Note 25).