

BOSNALIJEK d.d. SARAJEVO

Financial statements for the year
ended 31 December 2007
and independent auditor's report

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Responsibility for the Financial Statements

Management is responsible for ensuring that the financial statements of Bosnalijek d.d. (the "Company") 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 the year ended 31 December 2007.

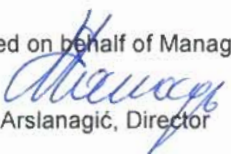
After making enquiries, Management has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, Management continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of 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 will continue in business.

Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the Company. Management must also ensure that the financial statements comply with the Accounting Law of the Federation of Bosnia and Herzegovina. Management 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.

Signed on behalf of Management


Edin Arslanagić, Director

Bosnalijek d.d.

Jukićeva 53
71 000 Sarajevo
Bosnia and Herzegovina

22 February 2008

Independent Auditor's Report

To the Shareholders of Bosnalijek d.d. :

We have audited the accompanying financial statements of Bosnalijek d.d. Sarajevo ('the Company'), set out on pages 4 to 32, which comprise the balance sheet as at 31 December 2007, 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 31 December 2007, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 26, which describes the situations related to the Company's noncompliance with the Loan Agreement between the Company and IFC dated 9 June 2005 (the "Third Loan Agreement").



Deloitte d.o.o.

Sarajevo, Bosnia and Herzegovina

22 February 2008

Bosnalijek d.d.
Statement of income
for the year ended 31 December 2007
(All amounts are expressed in thousands of KM)

	Note	2007	2006
Revenue	5	88,056	84,532
Cost of sales	6	<u>(37,218)</u>	<u>(33,536)</u>
Gross profit		50,838	50,996
Selling, administrative and general expenses	7	(40,688)	(38,498)
Other operating income	8	746	1,951
Other operating expenses	9	<u>(2,708)</u>	<u>(2,246)</u>
Profit from operations		8,188	12,203
Interest income		113	7
Interest expenses		(2,442)	(2,351)
IFC put option expense	22	2,445	(1,678)
Foreign exchange, (losses), net		<u>(508)</u>	<u>(180)</u>
Profit before tax		7,796	8,001
Income tax expense	10	<u>-</u>	<u>(164)</u>
Net profit for the year		7,796	7,837
Earnings per share	11	0.0013	0.0013

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

Bosnalijek d.d. Sarajevo
Balance sheet
as at 31 December 2007

(All amounts are expressed in thousands of KM)

	Note	2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	12	89,384	94,346
Intangible assets	13	2,614	3,505
Non-current receivables	14	938	1,293
Investments available for sale		5	-
		<u>92,941</u>	<u>99,144</u>
Current assets			
Other financial assets, current portion	14	1,712	406
Inventories	15	19,769	17,315
Trade and other receivables	16	35,342	31,042
Other assets	17	2,647	3,473
Cash and cash equivalents	18	2,227	2,233
		<u>61,697</u>	<u>54,469</u>
TOTAL ASSETS		<u>154,638</u>	<u>153,613</u>
EQUITY AND LIABILITIES			
Equity and Reserves			
Share capital	19	51,116	51,116
Reserves		31,537	23,150
Retained earnings		16,892	17,483
		<u>99,545</u>	<u>91,749</u>
Non-current liabilities			
Long-term loans	20	9,227	15,957
Obligations under finance leases	21	15	39
Provisions for retirement benefits		564	470
Deferred tax liabilities	11	-	164
Deferred income	22	79	117
		<u>9,885</u>	<u>16,747</u>
Current liabilities			
Current portion of long-term loans	20	5,722	6,647
Current portion of obligations under finance leases	21	22	23
Trade payables	23	14,048	12,917
Short-term loans	24	23,306	23,589
Accrued Expenses	25	2,110	1,941
		<u>45,208</u>	<u>45,117</u>
TOTAL EQUITY AND LIABILITIES		<u>154,638</u>	<u>153,613</u>

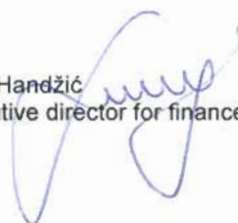
The accompanying notes form an integral part of these financial statements.

Signed on behalf of the Company on 22 February 2008:

Edin Arslanagić
Director



Šefik Handžić
Executive director for finance and economy



Bosnalijek d.d. Sarajevo
Statement of changes in equity
for the year ended 31 December 2007

(All amounts are expressed in thousands of KM)

	Share capital	Reserves	Retained earnings	Total
Balance at 31 December 2005 (Restated)	51,116	16,333	16,463	83,912
Transfer (from) / to	-	6,817	(6,817)	-
Net profit for the year	-	-	7,837	-
Balance at 31 December 2006	51,116	23,150	17,483	91,749
Transfer (from) / to	-	8,387	(8,387)	-
Net profit for the year	-	-	7,796	7,796
Balance at 31 December 2007	51,116	31,537	16,892	99,545

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

Bosnalijek d.d. Sarajevo
Statement of cash flows
for the year ended 31 December 2007
(All amounts are expressed in thousands of KM)

	2007	2006
Operating activities		
Net profit for the year	7,796	7,837
Adjustments for:		
Depreciation and amortization	10,788	9,018
Loss on disposal of property, plant and equipment	79	51
Disposal of assets in progress	449	-
Adjustment of property, plant and equipment	-	42
(Decrease)/increase in allowance for bad and doubtful trade receivables, net	(78)	178
Write off of obsolete raw material	132	222
Write off of finished goods	168	34
Increase / (decrease) in provisions for employee benefits	94	(40)
Increase in deferred income	-	2
Increase in deferred tax liabilities	-	164
Adjustment for IFC convertible loan cost	(2,445)	1,679
Depreciation for donated equipment	(38)	(48)
Adjustment for cash flow from investing and financing activities	2,329	2,344
<i>Cash flow before changes in operating assets and liabilities:</i>	19,274	21,483
Increase in non-current receivables	(956)	(345)
Increase in inventories	(2,754)	(2,139)
Increase in trade and other receivables	(3,396)	(5,713)
Increase (Decrease) in trade and other payables	1,136	(1,863)
<i>Cash flow from operating activities</i>	13,304	11,423
Interest paid	(2,442)	(2,351)
Income tax paid	-	(699)
Net cash from operating activities	10,862	8,373
Investing activities		
Purchase of property, plant and equipment	(4,733)	(6,613)
Purchase of intangible assets	(751)	(1,669)
Proceeds from disposal of property, plant and equipment	21	65
Interest received	113	7
Net cash used in investing activities	(5,350)	(8,210)
Financing activities		
Repayment of obligations under finance leases	(25)	(9)
Proceeds from short-term loans, net of repayments	2,162	2,268
Repayment of proceeds from short-term loans	(7,655)	(1,883)
Net cash provided (used) by financing activities	(5,518)	376
Net (decrease) increase in cash and cash equivalents	(6)	539
Cash and cash equivalents at the beginning of the year	2,233	1,694
Cash and cash equivalents at the end of the year	2,227	2,233

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

Bosnalijek d.d.
Notes to financial statements
for the year ended 31 December 2007

(All amounts are expressed in thousands of KM)

1. GENERAL

Bosnalijek d.d. (the "Company") is a joint-stock company incorporated in the Federation of Bosnia and Herzegovina with the registered address Jukićeva 53, 71 000 Sarajevo. The Company is primarily engaged in the production and wholesale trade of pharmaceuticals, veterinary medicine products, disinfectants and similar products.

As of 31 December 2007, the Company employed 578 employees (2006, 581 employees).

Management

Supervisory Board

Hasan Muratović Ph D	Chairman
Ljunora Mavrić	Member
Abdul-Umid Šalaka	Member
Midhat Vehabović	Member
Rifat Klopić	Member

Management

Edin Arslanagić	Director
Akif Mujezin	Executive director for production management
Ljiljana Kamberović	Executive director for operations development
Šefik Handžić	Executive director for finance and economy

Audit Committee

Sead Sarvan	Chairman
Ibrahim Imamović	Member
Rabija Avduli	Member

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in the current period

In the current year, the Company has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Company's financial instruments and management of capital (Notes 14, 16, 18, 20, 21, 23, 24, 25 and 29).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these Interpretations has not led to any changes in the Company's accounting policies.

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IAS 23 (Revised) Borrowing Costs - effective for accounting periods beginning on or after 1 January 2009;
- IFRS 8 Operating Segments - effective for accounting periods beginning on or after 1 January 2009;
- IFRIC 13 Customer Loyalty Programmes - effective for accounting periods beginning on or after 1 July 2008;
- IFRIC 11 IFRS 2: Group and Treasury Share Transactions - effective for accounting periods beginning on or after 1 March 2007;
- IFRIC 12 Service Concession Arrangements - effective for accounting periods beginning on or after 1 January 2008; and
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction - effective for accounting periods beginning on or after 1 January 2008.

Management anticipates that all of the above Standards and Interpretations will be adopted in the Company's financial statements for the period commencing 1 January 2008 and 2009 and that the adoption of those Interpretations will have no material impact on the financial statements of the Company in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Company prepares financial statements in accordance with International Financial Reporting Standards (IFRSs) as published by the International Accounting Standards Board.

Basis for presentation

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

Certain amounts in the previously issued financial statements have been reclassified to conform to 31 December 2007 presentation in accordance with IFRS 7 "Financial Instruments: Disclosures".

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed to the customer. Sales of services are recognized net of sales taxes and discounts when the services have been provided.

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable.

Assets under leases

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 recognised 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 balance sheet 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 the statement of income in the period to which they relate. Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease.

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 balance 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Taxation

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

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 recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 realised. 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.

Cash and cash equivalents

Cash and cash equivalents include demand accounts and fixed deposits with an original maturity of three months.

Intangible assets

Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment are started at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalised. Gains or losses on the retirement or disposal of fixed assets are included in the statement of income in the period they occur.

Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use. Depreciation is charged so as to write-off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following annual bases:

	Estimated useful lives	Rate
Buildings	7 to 33 years	3% - 14.3%
Machinery, equipment and software	3 to 15 years	6.7% - 33.3%

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

Impairment

At each balance sheet 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 its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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 revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is comprised of direct materials and, where applicable, direct labour 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 to completion and costs to be incurred in marketing, selling and distribution.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that the Company will be required to settle the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet 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.

Equity reserves are formed in accordance with the local legislation by allocating at least 10% of annual net profit, up to 25% of share capital of the Company.

Financial assets

Investments are recognised and derecognised 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 amortised 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 recognised 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED))

Financial assets (Continued)

Financial assets at FVTPL (Continued)

A financial asset other than a 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 Company 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 assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 29.

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 amortised cost using the effective interest method less any impairment, with revenue recognised 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 recognised 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 recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised 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 balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised 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 amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

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-organisation.

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, an increase in the number of delayed payments in the portfolio past the credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised 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 recognised 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 recognised, the previously recognised 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 amortised cost would have been had the impairment not been recognised.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Derecognition of financial assets

The Company derecognises 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 recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

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.

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 a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Company 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 recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 29.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments issued by the Company (Continued)

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 amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised 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 derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements, 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 recognised 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 Key sources of estimation uncertainty

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

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

Fair value of financial instruments

Directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates. Details of the assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in note 29.

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5. REVENUE

	2007	2006
Domestic sales	66,403	67,554
Foreign sales	21,307	16,914
Services rendered	346	64
	<u>88,056</u>	<u>84,532</u>

6. COST OF SALES

	2007	2006
Raw materials	17,343	15,510
Merchandise	9,162	8,395
Production services	7,634	6,754
Employee expenses	1,898	1,808
Depreciation	1,181	1,069
	<u>37,218</u>	<u>33,536</u>

7. SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

	2007	2006
Employee expenses	11,949	13,201
Depreciation and amortisation	9,607	7,949
Marketing	5,835	4,452
Entertainment	2,898	2,883
Non-production services	2,737	3,175
Energy	1,811	1,766
Per diems and travel expenses	1,585	1,416
Bank fees	430	445
Insurance premium	462	417
Other expenses	3,374	2,794
	<u>40,688</u>	<u>38,498</u>

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8. OTHER OPERATING INCOME

	2007	2006
Subsequently allowed rebates from suppliers	249	-
Donations (Note 21)	38	48
Income from written off liabilities	-	1,072
Other	459	597
	<u>746</u>	<u>1,717</u>

In 2006 the Company has recognized the income in the amount of KM 1,072 in respect of the lapsed liabilities towards former employees.

9. OTHER OPERATING EXPENSES

	2007	2006
Donations and sponsorships	908	738
Allowance for bad and doubtful trade receivables, net (Note 16)	458	214
Write-off of obsolete and unusable raw materials	132	222
Loss upon disposal of property, plant and equipment, net	79	51
Write-off of finished goods and merchandise	168	34
Other	963	753
	<u>2,708</u>	<u>2,012</u>

10. INCOME TAX EXPENSE

	2007	2006
Profit before tax	7,796	8,001
Non-deductible expenses	3,394	114
Additional depreciation charge for the tax purposes	-	(2,343)
Taxable income	11,190	5,772
Income tax at the rate of 30%	3,357	1,732
Tax relief upon reinvestment of profit in property, plant and equipment	(3,357)	(1,732)
Deferred tax expense	-	164
Tax expense for the year	-	164
Effective tax rate for the year (%)	0%	2.04%

11. EARNINGS PER SHARE

	2007	2006
Net profit for the purposes of basic earnings per share	7,796	7,837
Weighted average number of ordinary shares for the purposes of basic earnings per share	5,843,276	5,843,276
Earnings per share	0.0013	0.0013

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12. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Software	Assets under construction	Advances paid	Total
COST							
At 31 December 2005	2,323	69,824	39,985	1,306	30,103	359	143,900
Additions	-	-	-	-	5,831	782	6,613
Disposals	-	(45)	(1,072)	(40)	-	-	(1,157)
Other	-	-	-	-	(42)	-	(42)
Transfers	-	18,010	13,849	1,868	(33,034)	(693)	-
At 31 December 2006	2,323	87,789	52,762	3,134	2,858	448	149,314
Additions	-	-	-	-	4,538	195	4,733
Disposals	-	-	(276)	(10)	(48)	-	(334)
Other	-	-	-	-	(449)	-	(449)
Transfers	-	1,949	2,814	263	(5,026)	-	-
At 31 December 2007	2,323	89,738	55,300	3,387	1,873	643	153,264
ACCUMULATED DEPRECIATION							
At 31 December 2005	-	24,863	22,098	995	-	-	47,956
Charge for the year	-	3,082	4,492	479	-	-	8,053
Elimination on disposals	-	(17)	(1,019)	(5)	-	-	(1,041)
At 31 December 2006	-	27,928	25,571	1,469	-	-	53,968
Charge for the year	-	3,512	4,864	770	-	-	9,146
Elimination on disposals	-	-	(224)	(10)	-	-	(234)
At 31 December 2007	-	31,440	30,221	2,229	-	-	63,880
CARRYING AMOUNT							
At 31 December 2007	2,323	58,298	25,089	1,158	1,873	643	89,384
At 31 December 2006	2,323	59,861	27,191	1,665	2,858	448	94,346

Included in machinery and equipment with a carrying amount of KM 37 thousand (2006 - KM 103 thousand) are 5 vehicles held under finance leases (Note 21).

The Company has pledged land, buildings, machinery and equipment with a carrying amount of approximately KM 40,478 thousand (2006 - KM 48,421 thousand) to secure loans granted by IFC Washington, HVB Central Profit banka d.d. Sarajevo, Bosnia Bank International d.d. Sarajevo, UPI banka d.d. Sarajevo, Raiffeisen banka d.d. BiH and Union banka d.d. Sarajevo (Notes 20 and 24).

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13. INTANGIBLE ASSETS

	Licenses	Investments in progress	Total
COST			
At 31 December 2005	1,434	2,090	3,524
Additions	-	1,669	1,669
Transfers	3,759	(3,759)	-
At 31 December 2006	5,193	-	5,193
Additions	-	751	751
Transfers	489	(489)	-
At 31 December 2007	5,682	262	5,944
ACCUMULATED AMORTIZATION			
At 31 December 2005	723	-	723
Charge for the year	965	-	965
At 31 December 2006	1,688	-	1,688
Charge for the year	1,642	-	1,642
At 31 December 2007	3,330	-	3,330
CARRYING AMOUNT			
At 31 December 2007	2,353	261	2,614
At 31 December 2006	3,505	-	3,505

14. LONG-TERM RECEIVABLES

	2007	2006
Loan receivables	1,700	-
Deposit	899	876
Long-term trade receivables	-	750
Receivables from employees	37	54
Receivables from other individuals	14	19
	2,650	823
Less: Current portion of non-current receivables	(1,712)	(406)
	938	417

Loan in the amount of KM 1,700 thousand related to the loan approved to Brštanica d.o.o. Sarajevo with interest rate of 4.5% and maturity as of 31 December 2008. The Company does not hold any collateral for this loan.

Deposit with UPI banka d.d. Sarajevo in the amount of KM 899 thousand (2006 – KM 876 thousand) held as instrument of securing of loans given to Company's employees, maturing in 2018 with an interest rate of 0.5% per annum.

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15. INVENTORIES

	2007	2006
Finished goods	8,294	8,653
Raw materials	10,287	7,352
Work-in-progress	1,188	1,310
	<u>19,769</u>	<u>17,315</u>

As of 31. december 2007, inventories with a carrying amount of KM 4,428 thousand have been pledged as security for revolving short-term loan liabilities towards Bosnia Bank International d.d. Sarajevo (Note 24).

16. TRADE AND OTHER RECEIVABLES

	2007	2006
Trade receivables	36,919	33,525
Less: allowance for impairment of receivables	<u>(2,405)</u>	<u>(2,483)</u>
Trade receivables, net	34,515	31,042
Other receivables from customers	298	423
Advances given	445	309
Receivables from employees	-	55
Other	84	28
Other receivables	827	815
	<u>35,342</u>	<u>31,857</u>

The average period of collection of trade payables is 143 days (2006 – 134 days). No interest is charged for delays in payment. The Company has created an impairment provision for the full value of receivables older than 360 days as it is the Company's experience that such receivables are generally uncollectable.

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 2007 there are no receivables older than 360 days for which impairment has not been made. Out of the total balance of trade payables at year-end, KM 5,051 thousand (2006: KM 4,159) relates to Medimpex d.o.o. Sarajevo, the largest buyer. 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 credit provision required in excess of the allowance for doubtful debts.

The impairment recognised represents the difference between the carrying amount of these trade receivable and the present value of the expected proceeds. Measuring and recording of impairment is performed annually.

Changes in the allowance for impairment of receivables can be presented as follows:

	2007	2006
Balance at the beginning of the year	2,483	2,305
Increase	873	448
Decrease due to collections	(415)	(234)
Decrease due to write-offs	<u>(536)</u>	<u>(36)</u>
Balance at the end of the year	2,405	2,483

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17. OTHER ASSETS		
	2007	2006
Prepaid income tax	2,457	2,457
Prepaid expenses	190	201
	<u>2,647</u>	<u>2,658</u>
18. CASH AND CASH EQUIVALENTS		
	2007	2006
Current accounts	1,568	1,290
Foreign currency accounts	500	787
Cash on hand	159	156
	<u>2,227</u>	<u>2,233</u>
19. SHARE CAPITAL		
	2007	2006
5,843,276 common shares with nominal value of KM 10	58,432	58,432
Less: International Finance Corporation (IFC) conversion option	(5,487)	(7,316)
	<u>52,945</u>	<u>51,116</u>

The ownership structure as of 31 December 2007 and 2006 can be summarised as follows:

	2007	2006
	% share	% share
Federation of Bosnia and Herzegovina	19.85	28.90
World Bank, Washington D.C. USA (IFC)	9.39	12.52
General People's Committee of Finance Lybia	9.05	-
Other	61.71	58.58
	<u>100.00</u>	<u>100.00</u>
	58,432	58,432

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 restated 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.

If the IFC were to sell their shares at any time in the five years prior to the expiry of the Put Option Agreement on 15 March 2012, the Put Option would lapse and the shares would be restated in the accounts at KM 7,316 thousand plus or minus a discount or premium.

The Federal Ministry of Energy, Mining and Industry sold 528,661 shares to General People's Committee of Finance Lybia in 2007.

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20. LONG-TERM LOANS

	2007	2006
Insured – at amortised cost		
IFC, Washington, maturing on 15 December 2012, with interest rate of EURIBOR + 2%	10,627	13,117
HVB Central Profit banka d.d. Sarajevo, maturing on 07 April 2009, with interest rate of EURIBOR + 3% per annum	2,174	3,803
HVB Central Profit banka d.d. Sarajevo, maturing on 15 November 2011, with interest rate of EURIBOR + 3.5% per annum	2,148	3,288
Investicijska banka Federacije BiH d.o.o. Sarajevo, maturing on 06 February 2008, at interest rates ranging between 4% and 7% per annum	-	835
Investicijska banka Federacije BiH d.o.o. Sarajevo, maturing on 27 August 2008, with interest rate of EURIBOR + 3% per annum	-	703
IFC, Washington, maturing on 18 October 2006, with the interest rate of LIBOR + 3%	-	414
NLB Tuzlanska banka d.d. Tuzla (previously CBS bank d.d. Sarajevo), maturing on 26 September 2007, interest rate EURIBOR +3% per annum	-	394
HVB Central Profit banka d.d. Sarajevo, maturing 01 September 2007, with interest rate of 4% per annum	-	50
	<u>14,949</u>	<u>22,604</u>
Less: current portion of long-term loans	<u>(5,722)</u>	<u>(6,647)</u>
	9,227	15,957
Amounts are due for settlement as follows:		
- Within one year	5,722	6,647
- In the second year	3,568	5,374
- In the third to fifth years inclusive	5,606	9,960
- After five years	-	623
	<u>14,896</u>	<u>22,604</u>

The Company has pledged land, buildings, machinery and equipment with a carrying amount of approximately KM 40,478 thousand (2006 – KM 48,421 thousand) to secure loans granted by IFC Washington, HVB Central Profit banka d.d. Sarajevo, Bosnia Bank International d.d. Sarajevo, UPI banka d.d. Sarajevo, Raiffeisen banka d.d. BiH and Union banka d.d. Sarajevo (Note 12).

21. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	2007	2006
Amounts payable under finance leases:				
Within one year	22	49	15	38
In the second to fifth year inclusive	31	30	22	23
	53	79	37	61
Less: future finance charges	(16)	(18)	-	-
Present value lease obligations	37	61	37	61
Less: amount due within 12 months	(15)	(38)	(15)	(38)
Amount due for settlement after 12 months	22	23	22	23

The Company leases 5 vehicles with a carrying amount of KM 37 thousand (31 December 2006 – KM 103 thousand). The average term of finance leases entered into is 5 years. The interest rate inherent in the leases is fixed at the contract date for all of the lease term and the average effective interest rate contracted approximates 8.83% per annum. 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.

22. DEFERRED INCOME

Deferred income is comprised of donated equipment, which is amortised into income at the same rate as the depreciation expense recognised for the respective equipment.

Changes in deferred income can be presented as follows:

	2007	2006
Balance at the beginning of the year	117	163
Donated equipment received	-	2
Release to income (Note 8)	(38)	(48)
Balance at the end of the year	79	117

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23. TRADE AND OTHER PAYABLES

	2007	2006
Trade payables – foreign	9,646	8,240
Trade payables – domestic	1,682	1,729
<u>Trade payables</u>	11,328	9,969
Salaries	1,769	1,739
PDV liabilities, net	478	539
Contributions	398	345
Salary tax	75	55
Other taxes	-	256
Other	-	14
<u>Other payables</u>	2,720	2,948
	14,048	12,917

The average credit period for trade payables is 111 days (2006 – 109 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.

24. SHORT-TERM LOANS

	2007	2006
<i>Insured – at amortised cost</i>		
IFC Convertible Loan (see Note 19)	8,242	10,687
UPI banka d.d. Sarajevo – loan matures on 3 September 2008 and bears interest at a rate of EURIBOR plus a fixed rate, so that interest does not exceed 5.8% per annum. Collateral is lien on warehouse and equipment, 5 bianco bills of exchange and 5 approved payment orders	5,025	-
HVB Central Profit banka d.d. Sarajevo, working capital loans maturing in 2007 with interest at the rate of 5.5% per annum; Galensko plant is mortgaged as collateral	3,007	3,007
Raiffeisen bank d.d. BiH Sarajevo, working capital loan maturing on 07.04.2006 with interest rate of EURIBOR+3.45% per annum (2005-EURIBOR+3.75%)	3,012	3,006
Union banka d.d. Sarajevo – loan bears interest at 7% and matures on 15 November 2007; 7 bianco bills of exchange represent collateral	2,008	-
Bosna Bank International d.d. Sarajevo, partnership agreements for purchase of raw materials and semi-finished products expiring in 2006, with profit margin ranging between 9.60% and 10.49%	2,002	6,889
Triglav BH Osiguranje – loan in the amount of KM 3 million matured on 25 December 2007, the remaining liability reates to interest. Interest rate at 4.5% per annum. Collaterals are 3 bianco bills of exchange and 3 payment orders	10	-
	23,306	23,589

25. ACCRUED EXPENSES

	2007	2006
Accrued expenses for purchase and other accrued expenses	1,491	1,231
Management and employees bonuses	619	710
	<u>2,110</u>	<u>1,941</u>

26. CONTINGENT LIABILITIES

As of 31 December 2007, court proceedings were initiated against the Company in the total amount of KM 371 thousand related to former employee and supplier litigation issues (2006 – KM 416 thousand). Management is of the opinion that these court proceedings are without merit and therefore, no amounts have been recorded in the accompanying financial statements. Amounts, if any, will be recorded in the period of settlement, if settlement occurs. Contingent liabilities for bank guarantees amount to KM 1,302 thousand as of 31 December 2007.

Noncompliance with covenants included in Project Loan Agreement with EBRD

According to the Loan Agreement between the Company and IFC dated 9 June 2005 (the "Third Loan Agreement"), the Company is obliged to maintain procedures, records and accounts adequate to reflect the operations in accordance with internationally accepted accounting standards and certain financial conditions. We note that the Company failed to comply with the terms, covenants, provisions, or conditions of Article VI, section 6.02 Negative Covenants of the Loan Agreement between the Company and IFC dated 9 June 2005 (the "Third Loan Agreement") as they relate to financial and accounting matters. The Company did not comply with the "Peak Debt Service Coverage Ratio" and "Current Ratio" provisions of Section 6.02 (c). Management is not aware of any circumstances or information which would lead it to believe that these non-compliances will cause neither early repayment of the IFC loan nor additional liabilities for the Company and consequently no provisions are included in the financial statements in respect of these matters.

27. CAPITAL COMMITMENTS

At 31 December 2007, the Company does not have capital commitments for 2008. (2006 - KM 1,276 thousand for 2007).

28. RELATED PARTY TRANSACTIONS

Directors' and executives' remuneration

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

	2007	2006
Gross salaries	665	710
Bonuses	458	710
Other benefits	80	78
	<u>1,203</u>	<u>1,498</u>

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29. FINANCIAL INSTRUMENTS

29.1 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 maximising the return to stakeholders through the optimisation of the debt and equity balance. The general Company's strategy did not change in comparison to 2006. The capital structure of the Company consists of debt, which includes the borrowings and financial leases (note 20, 21 and 24).

29.1.1. 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:

	31.12.2007	31.12.2006
Borrowings (Note 20 and 21)	38,292	46,255
Cash and cash equivalents (Note 18)	<u>(2,227)</u>	<u>(2,233)</u>
Net debt	36,065	44,022
Equity	<u>99,545</u>	<u>91,749</u>
Debt to equity ratio	36%	48%

29.2 Categories of financial instruments

	31.12.2007	31.12.2006
Financial assets		
Loans and receivables (including cash and cash equivalents)	<u>40,224</u>	<u>35,789</u>
TOTAL	40,224	35,789
Financial liabilities		
Amortised cost	<u>54,450</u>	<u>61,113</u>
TOTAL	54,450	61,113

29.3 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 analyse 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.

29.4 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.

29. FINANCIAL INSTRUMENTS

29.5 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 utilising forward 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	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
EUR	3,133	2,523	10,094	13,375
USD	5,525	4,279	298	1,129

29.5.1 Foreign currency sensitivity analysis

The Company is mainly exposed to EUR and USD. The following table details the Company's sensitivity to a 10% increase and decrease in KM against the relevant foreign currencies. 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.

	EUR Impact		USD Impact	
	2007	2006	2007	2006
Profit or loss	1,336	2,148	691	442

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.

29.6 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 30.8 liquidity risk management.

29.6.1 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 liability 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 2007 would decrease/increase by KM 178 thousand (2006: KM 227 thousand). 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.

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.7 Credit risk management

Credit risk refers to the risk that a 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 table 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.

Credit exposure and collaterals

Financial Assets	Value of Collateral	Financial Asset
31 December 2007		
Bills of exchange	10.755	10.755
31 December 2006		
Bills of exchange	4.362	4.362

29.8 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.

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.8 *Liquidity risk management (Continued)*

29.8.1 *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.

Maturity for non-derivative financial assets

	<i>Weighted average effective interest rate</i>	<i>Due</i>	<i>1-2 months</i>	<i>2 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 5 years</i>	<i>Total</i>
	<i>%</i>	<i>KM</i>	<i>KM</i>	<i>KM</i>	<i>KM</i>	<i>KM</i>	<i>KM</i>	<i>KM</i>
2007								
Non-interest bearing	-	2,672	13,064	6,909	5,097	9,827	45	37,614
Variable interest rate instruments	-	-	-	-	-	-	-	-
Fixed interest rate instruments	4	-	16	7	23	1,736	923	2,705
		2,672	13,080	6,916	5,120	11,563	968	40,319
2006								
Non-interest bearing	-	12,146	10,406	5,667	4,667	1,211	829	34,927
Variable interest rate instruments	-	-	-	-	-	-	-	-
Fixed interest rate instruments	2	-	1	1	1	1	891	894
		12,146	10,407	5,668	4,668	1,212	1,720	35,821

29. FINANCIAL INSTRUMENTS (CONTINUED)

29.8 Liquidity risk management (Continued)

29.8.1 Liquidity and interest risk tables (Continued)

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.

Maturity for non-derivative financial liabilities

	Weighted average effective interest rate %	Due	1-2	2 to 3	3 to 6	6 to 12	1 to 5	Total
		KM	months	months	months	months	years	
2007								
Non-interest bearing	-	-	13,776	1,028	819	8,853	10,304	34,779
Variable interest rate instruments	5.72	-	748	1,197	10,282	10,402	-	32,969
Fixed interest rate instruments	6.96	-	-	-	-	-	-	-
		-	14,524	2,225	11,101	19,255	10,304	57,408
2006								
Non-interest bearing	-	4,312	5,364	1,337	3,423	11,120	215	25,771
Variable interest rate instruments	5.72	-	1,635	1,170	10,755	6,041	18,201	37,622
Fixed interest rate instruments	6.96	-	-	-	-	-	-	-
		4,312	6,999	2,507	14,178	17,161	18,236	63,393

29.9 Fair value of financial instruments

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

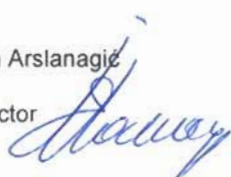
- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorized for issue on 22 February 2008:

Edin Arslanagić

Director



Šefik Handžić

Executive director for finance and economy

