

BOSNALIJEK d.d. SARAJEVO

Financial statements for the year
ended 31 December 2011
and independent auditor's report

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Responsibility for the Financial Statements

The Management is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB), which give a true and fair view of the state of affairs and results of Bosnalijek d.d. Sarajevo for the year ended on 31 December 2011.

After making enquiries, the 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.

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


Edin Arslanagić, Director



Bosnalijek d.d.

Jukićeva 53

71 000 Sarajevo

Bosnia and Herzegovina

25 April 2012

Independent Auditor's Report

To the Shareholders of Bosnalijek d.d. Sarajevo

We were engaged to audit the accompanying financial statements of Bosnalijek ("the Company"), set out on pages 4 to 41, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the *Basis for Disclaimer of Opinion* paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As at 31 December 2011, property balances includes the amount of KM 8,675,267 which relates to the old warehouse building (Parantralne otopine). During 2011 this building has been partially dismantled and brought into the condition which is necessary in order to use the building as a basis for the construction of the new administrative and quality control building. Contrary to the requirements of the IAS 16 and IAS 36, the disposed items of this property were not expensed, nor has Management performed an appropriate impairment review in order to assess whether the carrying amount of this property has not been impaired. Accordingly, we are unable to estimate the effect of this matter on the Company's financial statements.

As at 31 December 2011, the Asset under construction - new administrative and quality control building includes the amount of KM 919,651 relating to the 19 invoices issued by Metalik d.o.o. Sarajevo. We were not able to satisfy ourselves in respect of the occurrence of these services or the physical delivery of the building materials and goods paid by the Company. The Company has presented to us accounting records, related procurement decisions authorized by the member of the Management, and approved construction journals and other supporting documentation which are inconsistent with the factual condition of the Asset under construction - new administrative and quality control building. Accordingly, as at 31 December 2011 Assets under constructions are overstated by the amount of KM 919,651. Accordingly, due to limitation of the audit engagement, we were no able to judge whether we have identified all such transactions, nor to estimate the effect of this matter on the Company's financial statements.

Basis for Disclaimer of Opinion (Continued)

During the 2010 and 2011, the Company made various adjustments to the cost formulas that are used in the calculation of semi-finished and finished products that has resulted in an overstatement of semi-finished and finished products by the amount of KM 1,219,071. Accordingly, as at 31 December 2010 retained earnings are overstated by the amount of 554,264 KM, as at 31 December 2011 inventory are overstated by the amount of KM 1,219,071 KM and net profit for the year ended 31 December 2011 is overstated by the amount of KM 664,264.

During the current year, the company has recorded additions to intangible assets in the amount of KM 535,630 in respect of pharmaceutical registration and validation costs. We were unable to satisfy ourselves that these additions qualify for capitalisation required under International Accounting Standard 38 "Intangible Assets" (IAS 38). Accordingly as at 31 December 2011 the intangible assets and net profit for the year then ended 31 December 2011 are overstated by the amount of KM 535,630.

We were not able to obtain a written representation letter nor obtain information directly from the Supervisory Board relating to their knowledge of any actual, suspected or alleged fraudulent activities affecting the entity, and obtaining their acceptance of responsibility for such appropriate internal controls as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Under these circumstances we are not able to rely upon the representation letter received from the Management. Exchange of this information and obtaining written representations from the Supervisory board is a requirement of International Auditing Standards 240 "The Auditor's responsibilities relating to fraud in an audit of financial statements". In addition, we were unable to have any meetings with the members of the Supervisory board and Audit Committee in connection with our audit findings.

Disclaimer of Opinion

Because of the significance of the matters described in the *Basis for Disclaimer of Opinion paragraph*, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

Other Matter

The financial statements of the Company for the year ended 31 December 2010 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2011.

Deloitte d.o.o.

Sead Bahtanović, director and licenced auditor



Sarajevo, Bosnia and Herzegovina

25 April 2012



Sabina Softić, licenced auditor



Bosnalijek d.d.
Statement of comprehensive income
for the year ended 31 December 2011
(All amounts are expressed in thousands of KM)

	Note	2011	2010
Revenue	6	106,516	101,659
Cost of sales	7	<u>(38,856)</u>	<u>(39,517)</u>
Gross profit		67,660	62,142
Selling, administrative and general expenses	8	(55,316)	(52,342)
Other operating income	9	924	4,571
Other operating expenses	10	(6,889)	(8,176)
Financial income	11	738	147
Financial expenditures	12	(1,224)	(1,761)
Forex gains / (losses), net		<u>44</u>	<u>(400)</u>
Profit before tax		<u>5,937</u>	<u>4,181</u>
Income tax expense	13	-	-
Net profit		<u>5,937</u>	<u>4,181</u>
Other comprehensive income		-	-
Total comprehensive income		<u>5,937</u>	<u>4,181</u>
Earnings per share			
Basic	14	<u>0.76</u>	<u>0.53</u>
Diluted	14	<u>0.76</u>	<u>0.53</u>

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

Bosnalijek d.d. Sarajevo
Statement of financial position
as at 31 December 2011

(All amounts are expressed in thousands of KM)

	Note	2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	15	86,421	83,286
Intangible assets	16	676	647
Investments available for sale	17	103	103
Deposits	18	2,179	513
Other LT receivables		-	299
		<u>89,379</u>	<u>84,848</u>
Current assets			
Loan receivables	21	132	253
Inventories	19	21,531	21,725
Trade and other receivables	20	58,276	59,546
Other assets	22	755	781
Prepaid income tax		1,708	2,078
Cash and cash equivalents	23	6,188	7,432
		<u>88,590</u>	<u>91,815</u>
TOTAL ASSETS		<u>177,969</u>	<u>176,663</u>
EQUITY AND LIABILITIES			
Equity and Reserves			
Share capital	24	71,742	71,742
Own shares		(142)	(101)
Share premium		3,914	3,919
Reserves		38,420	30,331
Retained earnings		10,077	12,183
		<u>124,011</u>	<u>118,074</u>
Non-current liabilities			
Long-term loans	25	2,663	3,595
Obligations under finance leases	26	1,560	1,138
Provisions	31	1,821	1,556
		<u>6,044</u>	<u>6,289</u>
Current liabilities			
Current portion of long-term loans	24	2,287	1,225
Current portion of obligations under finance leases	26	483	282
Trade and other payables	27	12,208	13,381
Short-term loans	28	18,089	18,878
Derivatives	29	8,829	9,514
Accrued expenses	30	5,926	8,906
Provisions	31	92	114
		<u>47,914</u>	<u>52,300</u>
TOTAL LIABILITIES AND EQUITY		<u>177,969</u>	<u>176,663</u>

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

Signed on behalf of the Company on 25 April 2012:

Edin Arslanagić
Director




Šefik Handžić
Executive director for finance



Bosnalijek d.d. Sarajevo
Statement of changes in equity
for the year ended 31 December 2011
(All amounts are expressed in thousands of KM)

	Share capital	Treasury shares	Share premium	Reserves	Retained earnings	Total
Balance at 31 December 2009	71,742	(182)	3,912	24,432	13,989	113,893
Net profit for the year	-	-	-	-	4,181	4,181
Other comprehensive income	-	-	-	-	-	-
<i>Total comprehensive income</i>	-	-	-	-	4,181	4,181
Transactions with owners						
Treasury shares	-	81	7	-	(88)	-
Transfer to reserves	-	-	-	5,898	(5,898)	-
	-	81	7	5,898	(5,986)	-
Balance at 31 December 2010	71,742	(101)	3,919	30,330	12,184	118,074
Net profit for the year	-	-	-	-	5,937	5,937
Other comprehensive income	-	-	-	-	-	-
<i>Total comprehensive income</i>	-	-	-	-	5,937	5,937
Transactions with owners						
Treasury shares	-	(152)	-	-	152	-
Transfer to reserves	-	111	(5)	8,090	(8,196)	-
	-	(41)	(5)	8,090	(8,044)	-
Balance at 31 December 2011	71,742	(142)	3,914	38,420	10,077	124,011

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

Bosnalijek d.d. Sarajevo
Cash flow statement
for the year ended 31 December 2011

(All amounts are expressed in thousands of KM)

	2011	2010
Operating activities		
Profit before tax	5,937	4,181
Adjustments for:		
Depreciation of property, plant and equipment	7,006	7,140
Depreciation of intangible assets	408	714
Loss on disposal of property, plant and equipment	91	1,819
Increase in provision for bad and doubtful trade receivables, net	3,295	2,292
Write-off of obsolete and unusable raw materials and finished goods	694	411
Write-off of production in progress and finished goods	962	912
Shortages of goods, net	-	2
Increase in provisions	243	614
(Decrease) / increase in accrued expenses	(2,980)	973
Adjustment for IFC convertible loan expense	(685)	210
Adjustment for cash flow from investing and financing activities	1,201	1,886
<i>Cash flow before changes in operating assets and liabilities:</i>	<i>16,172</i>	<i>21,154</i>
Decrease / (increase) in non-current receivables	297	(284)
Increase in inventories	(1,462)	(2,668)
Increase in trade and other receivables	(1,975)	(4,400)
Decrease in loan receivables	71	394
Decrease in other assets	26	186
Decrease in prepaid income tax	370	222
Decrease in trade and other payables	(1,171)	(2,813)
<i>Cash flow from operating activities</i>	<i>12,328</i>	<i>11,791</i>
Interest paid	(1,130)	(1,457)
Net cash from operating activities	11,198	10,334
Investing activities		
Purchase of property, plant and equipment	(12,678)	(7,614)
Purchase of intangible assets	(547)	(53)
Proceeds from disposal of property, plant and equipment	3,055	2,718
Decrease in investments available for sale	-	(86)
Interest received	53	120
Net cash used in investing activities	(10,117)	(4,915)
Financing activities		
Increase in deposits	(1,665)	(59)
Repayment of loans	(660)	(1,367)
Net cash used in financing activities	(2,325)	(1,426)
Net increase in cash and cash equivalents	(1,244)	3,993
Cash and cash equivalents at beginning of year	7,432	3,439
Cash and cash equivalents at end of year	6,188	7,432

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

Bosnalijek d.d.
Notes to financial statements
for the year ended 31 December 2011

(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 2011, the Company employed 618 employees (2010, 633 employees).

Management

Supervisory Board

Veljko Trivun	Chairman
Mohamed El Misurati	Member
Abdul-Umid Šalaka	Member
Edin Buljubašić	Member
Rifat Klopčić	Member

Management

Edin Arslanagić	Director
Belma Abazović	Executive director for production and development
Šefik Handžić	Executive director for finance
Bojan Kebe	Executive director for marketing and sales
Nermin Zubčević	Executive director for quality and regulations

Audit Committee

Željko Kordić	Chairman
Sead Sarvan	Member
Rabija Avduli	Member

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- Amendments to IFRS 1 "First-time Adoption of IFRS"- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- Amendments to IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),
- Amendments to various standards and interpretations "Improvements to IFRSs (2010)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
- Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Company's accounting policies.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 "Disclosures of Involvement with Other Entities" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IFRS 7 "Financial Instruments: Disclosures"- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IAS 1 "Presentation of financial statements" -Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
- Amendments to IAS 19 "Employee Benefits" - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013).

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and 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 financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as published by the Board for International Accounting Standards.

Basis for presentation

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

Revenue recognition

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

Specifically, revenue from the sale of goods is recognised when goods are delivered and legal title is passed.

Revenue from a contract to provide services is recognised net of sales taxes and discounts by reference to the stage of completion of the contract.

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

Leasing

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

The Company as lessee

Assets held under finance leases are 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 statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit and loss in the period to which they relate, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with Company's general policy on borrowing costs. Rentals payable under operating leases are charged to profit and loss on a straight-line basis over the term of the relevant lease.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Employee benefits

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

Retirement severance payments

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

These expenses are recorded in the income statement in the period in which retirement severance payment is incurred.

Share-based payment arrangements

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

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

Current tax

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

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised 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 financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset 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. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment are stated at cost or revaluation amount, less accumulated depreciation and any recognized accumulated impairment losses. The purchase cost includes the purchase price and all costs directly related to bringing the asset into operating condition for its intended use. The cost of ongoing maintenance and repairs, replacements and investment maintenance are recorded as a cost upon arising. Cost of significant investment maintenance and replacement are capitalised. Profit or loss on disposal or theft of non-current tangible assets are recorded in the income statement for the period in which they arose. Land and properties under construction are valued at the cost of their purchase minus potential losses for impairment. Depreciation is charged from the moment the fixed asset is ready for its intended use. It is calculated in the basis of the estimated useful life of the asset, using the straight-line method as follows:

	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 retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

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

Intangible assets

Separately acquired intangible assets

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

The following useful lives are used in the calculation of amortization

Capitalized development	5 years
Patents	5 years
Trademarks	5 years
Licenses	5 years

Derecognition of intangible assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

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

Reserves

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

Impairment

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

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises 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 realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the 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 36.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

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 financial position 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (Continued)

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, delays in collecting payments after maturity period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at 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 recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Derecognition of financial assets

The Company 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 continues to recognise financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

Derivative financial instruments include puttable shares measured at fair value with changes in fair value recorded through profit and loss.

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

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

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss 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 36.

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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 Critical judgements in applying accounting policies

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

Useful lives of property, plant and equipment and intangible assets

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

Court proceedings provisions

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

Impairment of trade receivables

As described in the Note 3 and 20, at the end of each month the Company reviews the recoverability of a trade receivables and for all receivables due over 360 days and more creates impairment in 100 % amount. Historical experience is such that receivables that are past due beyond 360 days are generally not recoverable.

Employee benefits

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

Assumptions used in determining the net amount of expense for severance payment include discount rate. The Company determines the appropriate discount rate at the end of each year (2010 –5% and 2009-7%), which represents the interest rate that should be applied when determining the present value of expected future cash payments that are expected to be needed in order to settle liabilities for pensions. In determining the appropriate discount rate, the Company takes into consideration interest rates for long term bank deposits. Other key assumptions for retirement benefits are partly based on existing market conditions.

Revenue recognition

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

Income tax

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

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5. SEGMENT INFORMATION

The Company operates in four principal geographical areas:

- Bosnia and Herzegovina
- Ex-Yugoslavia and Albania
- Easter Europe and Russia
- Middle East and Africa

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

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

Revenues for the year ended 31 December 2011

	Bosnia and Herzegovina	Ex-Yugoslavia and Albania	East Europe and Russia	Middle East and Africa	Total
Total revenue	50,264	14,486	40,800	966	106,516
Inter-segment revenue	-	-	-	-	-
External revenue	50,264	14,486	40,800	966	106,516

Balance sheets as of 31 December 2011

	Bosnia and Herzegovina	Ex-Yugoslavia and Albania	East Europe and Russia	Middle East and Africa	Total
Non-current assets	87,901	999	608	15	89,523
Current assets	53,304	12,536	22,469	137	88,758
Total assets	141,205	13,535	23,077	152	177,969
Total liabilities	53,958	-	-	-	53,958
Segment net assets	87,247	13,535	23,077	152	124,011

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5. SEGMENT INFORMATION (CONTINUED)

Revenues for the year ended 31 December 2010

	Bosnia and Herzegovina	Ex-Yugoslavia and Albania	East Europe and Russia	Middle East and Africa	Total
Total revenue	56,126	13,347	30,923	1,263	101,659
Inter-segment revenue	-	-	-	-	-
External revenue	56,126	13,347	30,923	1,263	101,659

Balance sheets as of 31 December 2010

	Bosnia and Herzegovina	Ex-Yugoslavia and Albania	East Europe and Russia	Middle East and Africa	Total
Non-current assets	82,978	1,028	853	24	84,883
Current assets	60,234	11,521	19,613	412	91,780
Total assets	143,212	12,549	20,466	436	176,663
Total liabilities	58,589	-	-	-	58,589
Segment net assets	84,623	12,549	20,466	436	118,074

6. REVENUE

	2011	2010
Domestic sales	50,205	56,055
Foreign sales	56,252	45,470
Services rendered	59	134
	106,516	101,659

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7. COST OF SALES

	2011	2010
Material	18,454	18,481
Merchandise	7,860	8,409
Employee expenses	6,925	6,732
Depreciation	3,404	3,512
Material	1,211	1,294
Energy	1,108	1,045
Marketing	854	702
Maintenance	135	85
Professional services	118	141
Utilities	66	62
Travel expenses	63	29
Education	46	36
Telephone	28	26
Other expenses	27	11
Rent	8	20
Transport	1	1
Change in WIP and finished goods	(1,452)	(1,069)
	38,856	39,517

8. SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

	2011	2010
Employee expenses	15,005	14,507
Marketing	14,168	13,300
Professional services	9,955	8,259
Depreciation	4,010	4,342
Transport	2,699	2,044
Travel expenses	1,575	1,611
Maintenance	1,392	1,513
Energy	1,255	1,107
Education	779	705
Material	772	847
Rent	405	494
Telephone	401	405
Utilities	292	82
Material	258	329
Registration and drug control	81	494
Other expenses	2,269	2,303
	55,316	52,342

Within professional services the amount of KM 4,075 thousand is related to the intermediation and agent fees in respect of the sales in the Russian market paid to or accrued for Peterton Services (2010: KM 2,868 thousand) (Note 30).

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9. OTHER OPERATING INCOME

	2011	2010
Rebates	151	1,074
Bonuses	-	1,064
Written of liabilities	-	297
Other	773	2,136
	<u>924</u>	<u>4,571</u>

10. OTHER OPERATING EXPENSES

	2011	2010
Allowance for bad and doubtful trade and loan receivables, net (notes 20 and 21)	3,162	1,985
Write-off of raw materials	686	403
Donations and sponsorships	602	482
Loss upon disposal of property, plant and equipment, net	91	1,819
Write-off of goods	8	8
Shortages of goods, net	-	2
Write-off of production in progress and finished goods (notes 7 and 19)	962	912
Other	1,378	2,565
	<u>6,889</u>	<u>8,176</u>

11. FINANCIAL INCOME

	2011	2010
Interest income on deposits	24	120
Interest income on cash and cash equivalents	29	27
Change in the fair value of derivative (Note 29)	685	-
	<u>738</u>	<u>147</u>

12. FINANCIAL EXPENDITURE

	2011	2010
Interest on loans	1,148	1,451
Interest on obligations under finance leases	73	-
Change in the fair value of derivative (Note 29)	-	210
Other interest expense	3	100
	<u>1,224</u>	<u>1,761</u>

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13. INCOME TAX EXPENSE

	2011	2010
Profit before tax	5,937	4,181
Income tax at the rate of 10%	594	418
Effect of tax nondeductable expenses	997	881
Income tax relief based on the exports	<u>(1,591)</u>	<u>(1,299)</u>
Income tax expense	<u>-</u>	<u>-</u>
Effective income tax rate (%)	<u>-</u>	<u>-</u>

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

14. BASIC AND DILUTED EARNINGS PER SHARE

	2011	2010
Net profit	5,937	4,181
Weighted average number of ordinary shares for the purposes of earnings per share calculation	<u>7,830</u>	<u>7,830</u>
Basic and diluted earnings per share	<u>0.76</u>	<u>0.53</u>

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15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Tangible assets in progress	Advances	TOTAL
COST					
At 31 December 2009	90,709	59,531	9,740	1,932	161,912
Additions	-	-	6,228	2,806	9,034
Disposals	(491)	(914)	(1,129)	(3,091)	(5,625)
Transfers	812	6,485	(7,297)	-	-
At 31 December 2010	91,030	65,102	7,542	1,647	165,321
Additions	-	-	7,052	6,249	13,301
Disposals	(16)	(3,158)	-	(3,065)	(6,239)
Transfers	3,375	6,926	(10,301)	-	-
Transfer to intangible asset	-	-	(14)	-	(14)
Adjustment	-	-	(94)	-	(94)
At 31 December 2011	94,389	68,870	4,185	4,831	172,275
ACCUMULATED DEPRECIATION					
At 31 December 2010	38,044	37,460	-	-	75,504
Charge for the year	3,182	3,958	-	-	7,140
Disposals	(189)	(899)	-	-	(1,088)
Impairment	-	385	-	-	385
At 31 December 2010	41,037	40,904	-	-	81,941
Charge for the year	3,138	3,868	-	-	7,006
Disposals	(16)	(3,077)	-	-	(3,093)
At 31 December 2011	44,159	41,695	-	-	85,854
CARRYING AMOUNT					
At 31 December 2011	50,230	27,175	4,185	4,831	86,421
At 31 December 2010	49,993	24,198	7,448	1,647	83,286

Included in machinery and equipment with a carrying amount of KM 3,967 thousand (2010 – 4,041) are four items held under finance leases (Note 26). The Company has pledged land, buildings, machinery and equipment with a carrying amount of approximately KM 18,282 (2010 – 27,412) to secure loans (Notes 25 and 28).

Tangible assets in progress include the amount of KM 2,826 thousand (2010: KM 889 thousand) related to the construction of the new administrative and quality control building, the amount of KM 940 thousand (2010: KM 2,644 thousand) related to other construction of other administrative and production facilities and amount of KM 419 thousand (2010: KM 3,096 thousand) related to equipment.

16. INTANGIBLE ASSETS

	Licences	Software	Intangible assets in progress	TOTAL
COST				
At 31 December 2009	6,702	3,831	123	10,656
Additions	-	-	53	53
Disposals	(203)	(811)	-	(1,014)
Transfers	53	-	(53)	-
At 31 December 2010	6,552	3,020	123	9,695
Additions	-	-	547	547
Disposals	-	-	(124)	(124)
Transfers	11	-	(11)	-
Transfer from property, plant and equipment	12	2	-	14
At 31 December 2011	6,575	3,022	535	10,132
ACCUMULATED DEPRECIATION				
At 31 December 2009	5,906	3,442	-	9,348
Charge for the year	513	201	-	714
Disposals	(203)	(811)	-	(1,014)
At 31 December 2010	6,216	2,832	-	9,048
Charge for the year	280	128	-	408
At 31 December 2011	6,496	2,960	-	9,456
NET BOOK VALUE				
At 31 December 2011	79	62	535	676
At 31 December 2010	336	188	123	647

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.

In 2011 the Company changed the accounting policy regarding the recognition of the expenses incurred in respect of the registration of medicines. Starting with 2011, such expenses are recognized as intangible asset with an useful life of 5 years, whereas in the previous years such expenses were charged to profit and loss.

As a consequence the intangible assets have increased and net result for the year ended 31 December 2011 have increased by the amount KM 535 thousand (included in investment in progress). To the extent that those changes have had an impact on results reported for 2011, they have had an impact on the amounts reported for earnings per share. Both basic and diluted earnings per share would have been lower by 0.7 KM if the change in accounting policy had not occurred.

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17. INVESTMENTS AVAILABLE FOR SALE

	2011	2010
Mf Invest d.o.o. Sarajevo	2	2
ASA Finance d.d. Sarajevo	10	10
Bosfarm d.o.o. Skoplje	82	82
Bosnalijek d.o.o. Hrvatska	5	5
Fondacija Tenis	4	4
	<u>103</u>	<u>103</u>

18. DEPOSITS

	2011	2010
Intesa SanPaolo d.d. Sarajevo, two term-deposits in the total amount of KM 599,514 with interest rate of 0.5% p.a., given as a security for the repayment of housing loans that bank approved to employees	600	600
Less: fair value adjustment	(96)	(122)
Subtotal	504	478
Sparkasse d.d. Sarajevo – deposit in the amount of KM 1,640,435 with interest rate of 3.8% p.a. matures on 31 January 2014	1,640	-
Other deposits	35	35
	<u>2,179</u>	<u>513</u>

19. INVENTORIES

	2011	2010
Raw materials	9,695	10,243
Finished goods	7,837	6,718
Merchandise	2,037	2,172
Work-in-progress	1,962	2,592
	<u>21,531</u>	<u>21,725</u>

20. TRADE AND OTHER RECEIVABLES

	2011	2010
Trade receivables, domestic	22,852	27,840
Trade receivables, abroad	34,599	31,208
Bad and doubtful trade receivables	6,578	3,902
Less: allowance for impairment of receivables	(6,578)	(3,902)
Trade receivables, net	57,451	59,048
VAT receivable	422	-
Receivables from state for prepaid taxes	194	149
Other receivables from customers	71	221
Receivables from employees	10	-
Other	128	128
Other receivables	825	498
	<u>58,276</u>	<u>59,546</u>

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20. TRADE AND OTHER RECEIVABLES (CONTINUED)

The average period of collection of trade payables is 197 days (2010 – 212 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.

As at 31 December 2011, out of the total balance of trade receivables the amount of KM 18,176 thousand (2010: KM 11,370) relates to PROTEK Moscow, Russia the largest buyer.

Before accepting a new customer, the Company performs an internal credit assessment of the potential customer and defines credit limits for customers. As of 31 December 2011 there are no receivables older than 360 days for which impairment has not been made.

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

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

	2011	2010
Balance at beginning of the year	3,902	2,159
Impairment losses recognized on trade receivables (Note 10)	3,245	2,292
Amounts recovered during the year (Note 10)	(133)	(247)
Amounts written off as uncollectable	(436)	(302)
Balance at the end of the year	6,578	3,902
	2011	2010
Balance at beginning of the year	49	109
Amounts recovered during the year (Note 10)	-	(60)
Balance at the end of the year	49	49

Aging of overdue unimpaired trade receivables

	2011	2010
15 – 30 days	4,328	4,597
30 – 90 days	5,213	7,643
91 – 180 days	5,559	4,244
181 – 360 days	2,767	5,003
Over 360 days	-	-
	17,867	21,487

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21. LOAN RECEIVABLES

	2011	2010
Loan given to KTK Visoko	130	195
Loan given to Top Sport BiH	50	50
Loans given to employees	2	8
Allowance for loan receivables	(50)	-
	132	253

Movement in the allowance for impairment of loan receivables:

	2011	2010
Balance at beginning of the year	-	-
Impairment losses recognized on trade receivables (Note 10)	50	-
Balance at the end of the year	50	-

22. OTHER ASSETS

	2011	2010
Advances	408	181
Prepaid expenses	347	599
	755	780

23. CASH AND CASH EQUIVALENTS

	2011	2010
Current accounts	3,755	3,411
Foreign currency accounts	2,304	3,863
Cash on hand	129	158
	6,188	7,432

24. SHARE CAPITAL

	2011	2010
7,829,987 common shares with nominal value of KM 10	78,299	78,299
Less: International Finance Corporation (IFC) conversion option	(6,557)	(6,557)
	71,742	71,742
Less: Treasury shares	(142)	(101)
	71,600	71,641

24. SHARE CAPITAL (CONTINUED)

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.

Own shares are employees' shares that were transferred from employees to the Company as they lost the right on these shares. Part of these shares was reissued to employees again.

The ownership structure as of 31 December 2011 and 2010 can be summarised as follows:

	2011		2010	
	% share		% share	
Federation of Bosnia and Herzegovina	19.26	1,508	19.26	1,508
World Bank, Washington D.C. USA (IFC)	8.78	687	8.38	656
General People's Committee of Finance Lybia	8.37	656	8.77	687
Other	63.59	4,979	63.59	4,979
	100.00	7,830	100.00	7,830

25. LONG-TERM LOANS

	2011	2010
<i>Insured – at amortised cost</i>		
UniCredit bank d.d. Mostar	667	1,333
Sparkasse Bank d.d. Sarajevo	1,428	-
Bosna Bank International d.d. Sarajevo	2,855	-
BOR Banka d.d. Sarajevo	-	3,487
<i>Subtotal</i>	4,950	4,820
Less: current portion of long-term loans	(2,287)	(1,225)
Total	2,663	3,595
Amounts are due for settlement as follows:		
- Within one year	2,287	1,225
- In the second year	1,767	1,270
- In the third to fifth years inclusive	896	2,325
- After five years	-	-
	4,950	4,820

The Company has pledged land, buildings, machinery and equipment with a carrying amount of approximately KM 18,282 thousand (2010 – KM 27,412 thousand) to secure loans granted UniCredit Bank d.d. Mostar, Bosnia Bank International d.d. Sarajevo, Sparkasse Bank d.d. Sarajevo and Intesa San Paolo Bank d.d. Sarajevo (Note 12).

On 20 December 2009 the Company arranged a loan with UniCredit Bank d.d. Mostar in the amount of EUR 1,022,584 or KM 2 million in order to finance the investments into fixed assets. The loan bears interest rate of 6-month EURIBOR + 6% and matures on 1 January 2013. The Company provided a mortgage on buildings and land in the amount of KM 2,975,020, insured those assets against general risks, as well as provided the bank with 5 blank bills of exchange.

25. LONG-TERM LOANS (CONTINUED)

Sparkasse Bank d.d. Sarajevo approved a loan for financing of working capital in the amount of EUR 1,022,584 or KM 2 million with interest rate of 6-month EURIBOR + 5%. The loan matures on 28 January 2014. As collateral the Company has provided 10 blank bills of exchange as well as mortgage on production plant "Ampulno".

Loan provided by Bosna Bank International was agreed on 27 October 2011 as a financial partnership for construction of a new plant and for increasing the existing production capacities. The loan amounts to EUR 1,533,875 or KM 3 million and matures on 31 October 2014. It has a nominal profit margin of 6.19% and effective profit margin 6.58%.

26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	2011	2010
Amounts payable under finance leases:				
Within one year	617	363	483	282
In the second to fifth year inclusive	1,736	1,299	1,560	1,138
Less: future finance charges	(310)	(242)		
Present value lease obligations	2,043	1,420	2,043	1,420
Less: amount due within 12 months	(483)	(282)	(483)	(282)
Amount due for settlement after 12 months	1,560	1,138	1,560	1,138

The Company has 4 leasing arrangement for machines: automatic line for filling, closing and labeling of non sterile liquid forms; oyster manesty XLLab02; oyster hutting pilotlab, and a car, Peugeot 3008 premium, with a carrying amount of KM 3.967 thousand (31 December 2010 – KM 4.041 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 7.75%. 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.

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27. TRADE AND OTHER PAYABLES

	2011	2010
Trade payables – foreign	6,701	8,612
Trade payables – domestic	2,235	1,732
Trade payables	8,936	10,344
Employee payables	2,942	2,519
Payables to shareholders	306	346
VAT liabilities, net	-	120
Other	24	52
Other payables	3,272	3,037
	12,208	13,381

The average credit period for trade payables is 35 days (2010 – 41 days). No interest is charged on the trade payables. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The Company has had no delays in the settlement of trade payables and has provided no securement instruments for settlement of trade payables.

28. SHORT-TERM LOANS

Bank	Loan amount	Interest rate	Duration	Colateral	2011	2010
Intesa San Paolo Bank d.d. Sarajevo	6,000-12,230	4.95-5.8%	3-12 months	Note 15	6,011	10,742
UniCredit d.d. Mostar	8,000-11,000	4.95%	1-3 months	Note 15	11,078	8,136
					18,089	18,878

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2011	2010
Opening balance	9,514	9,304
Net (decrease)/increase in fair value (Notes 11 and 12)	(685)	210
Ending balance	8,829	9,514

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

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

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30. ACCRUED EXPENSES

	2011	2010
Invoices which are not yet received – other customers	3,318	2,462
Accruals for rebates and bonuses	2,407	5,520
Other	201	924
	<u>5,926</u>	<u>8,906</u>

Within accrued expenses for the invoices which are not yet received, the greatest balance of KM 2,467 thousand is related to Peterton Services (2010: KM 1,762 thousand) for intermediation and agent fees in respect of the Company's sales of medicines in the Russian market (Notes 5 and 8).

31. PROVISIONS

	Current		Non-current	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Repurchase of employee shares	92	114	1,022	890
Retirement severance payments	-	-	499	516
Court proceedings	-	-	300	150
	<u>92</u>	<u>114</u>	<u>1,821</u>	<u>1,556</u>

Movement in provisions can be presented as follows:

	Repurchase of employee shares	Retirement severance payments	Court proceedings	TOTAL
Balance at 1 January 2009	506	516	34	1,056
Additional provision recognised	552	73	116	741
Reductions arising from payments	(54)	-	-	(54)
Reductions resulting from re-measurement or settlement without cost	-	(73)	-	(73)
Balance at 31 December 2010	1,004	516	150	1,670
Additional provision recognised	150	3	150	303
Reductions arising from payments	-	-	-	-
Reductions resulting from re-measurement or settlement without cost	(40)	(20)	-	(60)
Balance at 31 December 2011	1,114	499	300	1,913

32. SHARE BASED PAYMENTS

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

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

The same method of price calculation for repurchase is used for those employees that retire before the 6-year period. Employees that terminate employments due to reorganization or restructuring before the 6-year period expires must sell shares only to the Company before the mentioned period expires. Employees that terminate employment due to breach of work obligations lose the right on shares and have to return them.

As at 31 December 2011 the company recognized expense in the amount of KM 150 thousand (2010: KM 552 thousand) and corresponding liability arising from share-based payments. This is a part of the shares fair value accumulated to employees until 31 December 2011. The Company has estimated that 75% (2010: 65%) of employees that participate in mentioned payment will fulfill all conditions.

33. COMMITMENTS

At 31 December 2011, the Company's rental commitments amount to KM 1,016.

At 31 December 2011, the Company's had commitments toward Ans Drive d.o.o. Sarajevo for the reconstruction and building of the new Administrative and quality control building in the amount of KM 8.022 thousand (contracted amount of KM10.472 thousand decreased by the advance given in the amount of KM 2.450 thousand).

34. POTENTIAL LIABILITIES

The following performance guarantees are issued by Bosna Bank International d.d. on behalf of the Company:

Beneficiary	Period	Amount
ZOI 84 d.o.o. Sarajevo	24/05.2011 – 24/05/2016	470
Municipality Court Sarajevo	8/4/2011 - 8/4/2012	150
Indirect tax authorities of B&H	8/4/2011 - 8/4/2012	75
Health Insurance Bureau of Canton Sarajevo	30/6/2010 - 30/6/2012	6
Health Insurance Bureau of Herzegovina and Neretva Canton	8/6/2011 - 8/6/2012	10
JZU dom zdravlja sa poliklinikom Dr Mustafa Šehovic Tuzla	3/11/2011 - 3/11/2012	3

35. RELATED PARTY TRANSACTIONS

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

	2011	2010
Gross salaries	713	825
Bonuses	416	-
Other benefits	146	27
	<u>1,275</u>	<u>852</u>

36. FINANCIAL INSTRUMENTS

36.1 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 2010. The capital structure of the Company consists of debt, which includes the borrowings, financial leases and derivative financial instrument – puttable shares (note 25, 26, 28 and 29).

36.1.1. 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:

	31.12.2011	31.12.2010
Borrowings (Note 25, 26, 28 and 29)	34,220	34,874
Cash and cash equivalents (Note 23)	(6,188)	(7,432)
Net debt	28,032	27,442
Equity	124,013	118,074
Debt to equity ratio	0.23	0.23

36.2 Categories of financial instruments

	31.12.2011	31.12.2010
Financial assets		
Loans and receivables (including cash and cash equivalents)	66,777	68,043
TOTAL	66,777	68,043
Financial liabilities		
Amortised cost	8.829	9.514
At fair value through profit and loss	37.599	38.741
TOTAL	46.428	48.255

36.3 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.

36.4 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.

36. FINANCIAL INSTRUMENTS

36.5 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	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
EUR	17,617	15,858	4,894	5,688
USD	111	151	110	2,710
GBP	-	-	7	-
CHF	-	-	-	21

36.5.1 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		GBP Impact		CHF Impact	
	2011	2010	2011	2010	2011	2010	2011	2010
Profit or loss	2,489	1,989	1	365	2	-	-	2

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.

36. FINANCIAL INSTRUMENTS

36.6 Interest rate risk management

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

36.6.1 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 2011 would decrease/increase by KM 61 thousand (2010: KM 73 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.

36.7 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.

As at 31 December 2011 trade receivables in the amount of KM 15,669 thousand (2010: 20,357 thousand) are secured by the blank bills of exchange.

36. FINANCIAL INSTRUMENTS

36.8 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.

36.8.1 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>
2011								
Non-interest bearing	-	25,013	10,542	23,395	5,443	205	-	64,598
Variable interest rate instruments	-	-	-	-	-	-	-	-
Fixed interest rate instruments	1.6	-	-	-	-	-	2,301	2,301
		25,013	10,542	23,395	5,443	205	2,301	66,899
2010								
Non-interest bearing	-	29,757	10,360	17,934	8,018	1,461	-	67,530
Variable interest rate instruments	-	-	-	-	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-	543	543
		29,757	10,360	17,934	8,018	1,461	543	68,073

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36. FINANCIAL INSTRUMENTS (CONTINUED)

36.8 Liquidity risk management (Continued)

36.8.2 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 KM	1-2 months KM	2 to 3 months KM	3 to 6 months KM	6 to 12 months KM	1 to 5 years KM	Total KM
2011								
Non-interest bearing	-	4,172	2,477	3,616	1,943	-	-	12,208
Variable interest rate instruments	7.75	-	208	529	765	1,594	4,697	7,793
Fixed interest rate instruments	7.22	77	77	10,885	232	8,464	-	19,735
		4,249	2,762	15,030	2,940	10,058	4,697	39,736
2010								
Non-interest bearing	-	4,560	2,185	3,867	2,767	-	-	13,379
Variable interest rate instruments	7.37	261	105	364	501	1,007	5,704	7,942
Fixed interest rate instruments	5.46	77	77	10,885	232	8,464	-	19,735
		4,898	2,367	15,116	3,500	9,471	5,704	41,056

36.9 Fair value of financial instruments

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


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

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorized for issue on 25 April 2012:

Edin Arslanagić

Director




Šefik Handžić

Executive director for finance

