

BOSNALIJEK d.d. SARAJEVO

Financial statements for the year
ended 31 December 2015 and
Independent Auditor's report

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Responsibility for the financial statements

Legal financial reporting framework includes the Law on Accounting and Auditing in FBiH ("Official Gazette of FBiH", no. 83/09) and accounting standards applicable in FBiH, as published by the Association of Accountants, Auditors and Financial Workers in FBiH (based on the authorisation of the Accounting and Auditing Committee of BiH, no. 5/07).

In preparing the financial statements of Bosnalijek d.d. Sarajevo (the "Company"), which give a true and fair view of the state of affairs and results of the Company, the Management decided to adopt International Financial Reporting Standards, as published by the International Accounting Standards Board, which were in effect in the current period.

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 Law on Accounting and Auditing 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 Management

Nedim Uzunović, Director

Bosnalijek d.d.

Jukićeva 53

71 000 Sarajevo

Bosna i Hercegovina



30 March 2016

Independent Auditor's Report

To the Shareholders of Bosnalijek d.d. Sarajevo:

We have audited the accompanying financial statements of Bosnalijek d.d. Sarajevo (the "Company"), set out on pages 3 to 34, which comprise the statement of financial position as at 31 December 2015, and the statement of profit or loss and other 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 notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting standards and for such internal controls 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 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 controls 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 controls. 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and the results of its performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte d.o.o.

Sead Bahtanović, director and licensed auditor

Sarajevo, Bosnia and Herzegovina

30 March 2016



Sabina Softić, partner and licensed auditor

A handwritten signature in blue ink, appearing to read "Sabina Softić".

Bosnalijek d.d. Sarajevo

Statement of profit and loss and other comprehensive income
for the year ended 31 December 2015

(All amounts are expressed in thousands of KM, unless otherwise stated)

	Note	2015	2014
Sales	6	126,667	119,403
Selling, administrative and general expenses	7	(107,391)	(95,498)
Other operating income	8	721	1,692
Other operating expenses	9	(7,208)	(14,337)
Financial income		179	1,142
Financial expenses	10	(1,696)	(2,210)
Foreign exchange differences, net		(116)	(91)
Profit before tax		11,156	10,101
Income tax expense	11	-	-
NET PROFIT		11,156	10,101
<i>Other comprehensive income</i>		-	-
TOTAL COMPREHENSIVE INCOME		11,156	10,101
Basic earnings per share (in KM)	12	1.44	1.29

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

Bosnalijek d.d. Sarajevo

Statement of financial position
as of 31 December 2015

(All amounts are expressed in thousands of KM, unless otherwise stated)

	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	13	98,377	102,263
Intangible assets	14	8,173	4,564
Financial assets available-for-sale		301	116
Deposits	15	2,148	2,065
		108,999	109,008
Current assets			
Inventories	16	20,307	20,447
Trade and other receivables	17	57,883	71,381
Other assets	18	1,483	1,241
Prepaid income tax		1,400	1,407
Cash and cash equivalents	19	21,685	3,743
		102,758	98,219
TOTAL ASSETS		211,757	207,227
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	20	78,300	78,300
Own shares		(829)	(758)
Share premium		6,608	6,608
Statutory reserves		45,821	45,821
Retained earnings		16,043	7,148
		145,943	137,119
Non-current liabilities			
Borrowings	21	10,150	16,051
Financial lease liabilities	22	252	65
Provisions	25	14,875	14,299
		25,277	30,415
Current liabilities			
Financial lease liabilities	22	225	1,732
Trade and other payables	23	19,420	18,868
Borrowings	21	17,827	16,131
Accrued expenses	24	2,915	2,892
Provisions	25	150	70
		40,537	39,693
TOTAL EQUITY AND LIABILITIES		211,757	207,227

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

Signed on behalf of the Company on 30 March 2016:

Nedim Uzunović
Director



Adnan Hadžić
Acting Executive Director for Finance

Bosnalijek d.d. Sarajevo

Statement of changes in equity
for the year ended 31 December 2015

(All amounts are expressed in thousands of KM, unless otherwise stated)

	Share Capital	Treasury shares	Share premium	Statutory reserves	Retained earnings / (accumulated loss)	Total
Balance as at 31 December 2013	78,300	(390)	6,608	45,708	(3,208)	127,018
Net profit	-	-	-	-	10,101	10,101
Other comprehensive income	-	-	-	-	-	-
<i>Total comprehensive income</i>	-	-	-	-	10,101	10,101
Treasury shares	-	(368)	-	-	368	-
Transfer to statutory reserves	-	-	-	113	(113)	-
Balance as at 31 December 2014	78,300	(758)	6,608	45,821	7,148	137,119
Net profit	-	-	-	-	11,156	11,156
Other comprehensive income	-	-	-	-	-	-
<i>Total comprehensive income</i>	-	-	-	-	11,156	11,156
Treasury shares	-	(71)	-	-	71	-
Transfer to statutory reserves	-	-	-	-	(2,332)	(2,332)
Balance as at 31 December 2015	78,300	(829)	6,608	45,821	16,043	145,943

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 2015

(All amounts are expressed in thousands of KM, unless otherwise stated)

	2015	2014
Operating activities		
Profit before taxation	11,156	10,101
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	8,026	7,094
Amortization of intangible assets	820	748
Loss from disposal of property, plant and equipment, net	368	27
Loss from disposal of intangible assets, net	264	278
Increase of impairment losses of trade receivables, other receivables and given loans, net	1,122	922
Correction of errors on intangible assets	-	7
Impairment of fixed assets	563	-
Impairment of spare parts inventories	700	-
Write-off of obsolete and unused raw materials	146	160
Write-off of work in progress and finished products	672	615
Write-off of merchandise goods	15	24
Surplus of finished products, net	(2)	(10)
Increase in provisions	991	10,237
Release of accrued expenses	(105)	-
Interest income recognized in the statement of profit or loss and other comprehensive income	(179)	(1,142)
Interest expenses recognized in the statement of profit or loss and other comprehensive income	1,696	2,210
<i>Operating cash flows before changes in assets and liabilities:</i>	26,253	31,271
(Increase) / decrease in inventories	(1,391)	346
Decrease / (increase) in trade and other receivables	12,376	(16,643)
Increase in other assets	(242)	(211)
Increase / (decrease) in trade and other payables	2,987	(3,368)
<i>Cash flows from operating activities</i>	39,983	11,395
Interest paid	(1,587)	(2,249)
Net cash generated in operating activities	38,396	9,146
Investing activities		
Purchase of property, plant and equipment	(7,713)	(5,191)
Purchase of intangible assets	(4,672)	(1,762)
Proceeds from property, plant and equipment sold	6	70
Purchase of financial assets available-for-sale	(185)	(28)
Decrease in deposits	(83)	97
Interest received	179	598
Net cash used in investing activities	(12,448)	(6,216)
Financing activities		
Dividend paid	(2,332)	-
Repayment of finance lease arrangements	(1,320)	(1,956)
(Repayments) / proceeds long-term borrowings, net	(5,901)	504
Proceeds from / (repayment of) short-term borrowings, net	1,587	(8,475)
Net cash used in financing activities	(7,966)	(9,927)
Net increase / (decrease) in cash and cash equivalents	17,942	(6,997)
Cash and cash equivalents at the beginning of the year	3,743	10,740
Cash and cash equivalents at the end of the year	21,685	3,743

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

Bosnalijek d.d. Sarajevo

Notes to the financial statements for the year ended 31 December 2015

(All amounts are expressed in thousands of KM, unless otherwise stated)

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 2015, the Company had 674 employees (2014: 650 employees).

Management

Supervisory board

Konstantin Zevlov	Chairman
Vedad Tuzović	Member
Bernadin Alagić	Member
Edin Dizdar	Member
Mirna Sijerčić	Member

Management Board

Nedim Uzunović	Director
Belma Abazović	Executive director for production and development
Hadžić Adnan	Acting Executive director for finance
Kešo Admir	Acting Executive director for marketing and sales
Nermin Zubčević	Executive director for quality and regulations
Milan Lazarević *	Acting Executive director for operations

* Member of Management Board not registered within the court register

Audit committee

Adnan Smajlović	Chairman
Džahid Huseinbegović	Member
Hadis Šuvalija	Member

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in current period

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

- Amendments to IAS 19: "Employee Benefits" – Defined plans of employee benefits: employee contributions (effective for annual periods beginning on or after 1 July 2014);
- Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014);
- Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014);

The adoption of these standards, amendments 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 authorization of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 (2014): "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018);
- IFRS 14: "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016);
- IFRS 15: "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16: "Leases" (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 10: "Consolidated Financial Statements" and IAS 28: "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date postponed indefinitely);
- Amendments to IAS 1: "Presentation of Financial Statements" – Disclosure initiative (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11: "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16: "Property, Plant and Equipment" and IAS 38: "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16: "Property, Plant and Equipment" and IAS 41: "Agriculture" - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 27: "Separate Financial Statements" – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 7: "Statement of Cash Flows" – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12: "Income Taxes" – Recognition of deferred tax assets from non-performed losses (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IFRS 10: "Consolidated Financial Statements", IFRS 12: "Disclosure of Interests in Other Entities" and IAS 28: "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016);
- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016);

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.

Going concern

The financial statements have been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Basis for presentation

The financial statements have been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except leasing transactions that are within the scope of IAS 17 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date; indicators of fair value are those derived from quoted prices on active markets;
- Level 2 inputs are inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements are presented in Convertible marks since that are the functional currency of the Company. The Convertible mark (KM) is officially tied to the Euro (EUR 1 = KM 1.95583).

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses during the reporting period. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Information on amounts where significant uncertainty exists in their estimate and critical judgments in applying accounting policies that have the most impact on the amounts disclosed in these financial statements are disclosed further in the Note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is measured at fair value of fee received or fee receivable. Revenue is reduced for estimated return from customers and rebates.

Sales of finished products and merchandise goods are recognised when they are delivered and title has passed. Sales of services are recognized net of sales taxes and discounts when the services have been provided.

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 charged to the statement of profit or loss and other comprehensive income in the period when they incurred.

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 recognized as assets of the Company at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the 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 profit or loss and other comprehensive 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 reporting period date due to official exchange rate of Central Bank of Bosnia and Herzegovina. Profits and losses arising on exchange are included in the statement of profit or loss and other comprehensive income for the period when they incur.

Employee benefits

On behalf of its employees, the Company pays personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set legal rates during the course of the year on the gross salary. The Company pays the tax and contributions in the favour of the institutions of the Federation of Bosnia and Herzegovina, on federal and cantonal level. In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recorded in the statement of profit or loss and other comprehensive income in the period in which the salary expense is incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Retirement severance payments

According to the local legislation and internal rulebook, the Company makes retirement severance payments in the amount of at least four average employee's salary or four average salaries in Federation of Bosnia and Herzegovina in the period preceding the date of retirement, according to the latest data published by the Federal Bureau of Statistics, depending on what is more favourable to the employee. The Company has no other plans related to payments to employees or Management after the date of retirement in Bosnia and Herzegovina.

The Company records the costs of retirement severance payment when they are due.

Agreements on share-based payment

The Company grants shares to employees in accordance with local regulations. The fair value of commitments to employees in relation to the assigned shares that will be settled in cash is recognized as an employee expense with increasing obligations during the period when the employee is unconditionally entitled to the dividend payment. The obligation is reviewed again at the date of the reporting period and the date of execution. Changes in the fair value of liabilities are recognized as an expense in the statement of profit or loss and other comprehensive income.

Taxation

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

Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income 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 reporting period date.

Deferred income 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 statement of profit or loss and other comprehensive income, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment are stated 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.

Properties in the course of construction for supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use.

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:

	The estimated useful lives	Rate
Buildings	7 to 33 years	3% - 14.3%
Property, plant and software	3 to 15 years	6.7% - 33.3%

Gains or losses on the retirement or disposal of property, plant and equipment are included in the statement of profit or loss and other comprehensive income in the period they occur.

Impairment

At each reporting period date, the Company reviews the carrying amounts of its property, plant and equipment 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. If it is not possible to estimate the recoverable amount of an asset, the Company estimates the recoverable amount of the cash-generating unit which the asset belongs to.

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 is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognized as income immediately.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets with definite useful lives are carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives. The estimated useful lives and depreciation method are reviewed at the end of each reporting period.

The calculation of depreciation is used following useful lives:

Capitalised development	5 years
Patents	5 years
Trademarks	5 years
Licenses	5 years

Gains and losses on the disposal of intangible assets are included in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

Cash and cash equivalents

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

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting period 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. Provisions are released only for such expenditure in respect of which provisions are recognized at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

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.

Financial instruments

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss and other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

a) Financial assets

Financial assets are recognized and derecognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS), 'held-to-maturity, 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 rate method

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

Financial instruments that are "loans and receivables" recognize income based on effective interest rate.

Available-for-sale financial assets

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

The fair value of financial assets available for sale denominated in a foreign currency is determined in that foreign currency and translated at the spot rate on the date of the reporting period. Change in fair value attributable to changes in exchange rates, and which result from a change in amortized cost of the asset is recognized in the statement of profit or loss and other comprehensive income, while other changes are recognized in equity.

Loans and receivables

Loans, trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is 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 are assessed for indicators of impairment at each reporting period 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

a) Financial assets (continued)

Impairment of financial assets (continued)

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the 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 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 through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of profit or loss and other comprehensive income.

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 statement of profit or loss and other comprehensive income 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, 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 the financial asset.

b) Financial liabilities and equity instruments issued by the Company

The 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

b) Financial liabilities and equity instruments issued by the Company (continued)

Financial liabilities

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities". Currently, the Company has no financial liabilities at FVTPL

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.

Equity and reserves

Share capital

Share capital represents the nominal value of paid-in ordinary shares and is expressed in KM.

Treasury shares

When a company buys its shares, paid amount is deducted from total shareholders' equity as treasury shares until they are cancelled. When these shares are subsequently sold or reissued, any received fee, transaction costs in net, are included in the issued share capital.

Statutory reserves

Reserves are formed allocating at least 10% of the profit, as reported in the annual report, until they reach a minimum amount of 25% of the share capital of the Company.

Earnings per share

The Company publishes basic and diluted earnings per share.

Basic earnings per share is calculated by dividing the profit or loss for the current period intended to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

During the 2014 and 2015 there were no dilution effects.

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 Management is 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.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period 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 at Note 3 above, 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 and other receivables

The Management calculates impairment for doubtful accounts based on estimated losses resulting from the inability of our customers to make required payments. The Company's management bases their estimate on the aging of account receivables balance and historical write-off experience when evaluating the adequacy of the impairment loss for doubtful accounts.

Severance payment

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 (2015: 4.624% and 2014: 5.726%), 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.

**4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY
(CONTINUED)****Key sources of estimation uncertainty (continued)*****Impairment of spare parts inventories***

The Management of the Company has recognised impairment of spare parts inventories based on their usability and aging structure of inventories. The Company impaired spare parts at the following rates:

- 25% for spare parts without movements for over 2 years,
- 50% for spare parts without movements for over 3 years,
- 75% for spare parts without movements for over 4 years,
- 100% for spare parts without movements for over 5 years.

5. SEGMENT INFORMATION

The Company operates in four principal geographic areas:

- Bosnia and Herzegovina
- South-eastern Europe Region
- Eastern 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 2015

	Bosnia and Herzegovina	South-eastern Europe Region	Eastern Europe and Russia	Middle East and Africa	Total
Total revenue	44,329	12,317	71,629	-	128,275
	44,329	12,317	71,629	-	128,275

Statement of financial position as of 31 December 2015

	Bosnia and Herzegovina	South-eastern Europe Region	Eastern Europe and Russia	Middle East and Africa	Total
Non-current assets	107,672	893	369	-	108,935
Current assets	67,287	5,462	29,890	170	102,808
Total assets	174,958	6,355	30,259	170	211,742
Total liabilities	65,903	55	-	-	65,958
Net assets per segment	109,056	6,300	30,259	170	145,784

Revenues for the year ended 31 December 2014

	Bosnia and Herzegovina	South-eastern Europe Region	East Europe and Russia	Middle East and Africa	Total
Total revenue	44,551	12,997	65,960	59	123,567
	44,551	12,997	65,960	59	123,567

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Notes to the financial statements for the year ended 31 December 2015

(All amounts are expressed in thousands of KM, unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

Statement of financial position as of 31 December 2014

	Bosnia and Herzegovina	South-eastern Europe Region	East Europe and Russia	Middle East and Africa	Total
Non-current assets	107,760	949	308	-	109,017
Current assets	48,978	6,442	42,731	59	98,210
Total assets	156,738	7,391	43,039	59	207,227
Total liabilities	69,392	127	589	-	70,108
Segment net assets	87,346	7,264	42,450	59	137,119

6. SALES

	2015	2014
Foreign sales	79,292	78,296
Domestic sales	42,748	41,104
Income from release of accrued rebates to customers	4,622	-
Services rendered	5	3
	126,667	119,403

7. SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

	2015	2014
Employee expenses	32,972	32,468
Material	22,489	20,009
Marketing	14,814	10,529
Professional and other services	9,208	2,433
Merchandise	8,975	8,156
Depreciation (notes 13 and 14)	8,846	7,842
Energy	2,658	2,352
Maintenance	1,892	1,670
Transport	1,270	1,575
Travel expenses	1,009	800
Rent	954	1,412
Education	921	718
Insurance	814	801
Telecommunication costs	467	436
Bank services	332	329
Registration and drug control	273	256
Utilities	219	210
Other expenses	1,865	2,119
Change in WIP and finished goods	(2,587)	1,382
	107,391	95,498

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8. OTHER OPERATING INCOME

	2015.	2014.
Release of accrued expenses	105	-
Proceeds from sales of property, plant and equipment, net	2	10
Release of provisions for repurchase of shares and severance payments, net (Note 25)	-	392
Written-off liabilities	-	474
Other income	614	816
	721	1,692

9. OTHER OPERATING EXPENSES

	2015	2014
Impairment of trade receivables, net (Note 17)	1,122	922
Provisions for court proceedings, net (Note 25)	757	616
Impairment of spare parts inventories, net	700	-
Write-off of production in progress and finished goods	672	615
Loss upon disposal of tangible and intangible assets, net	632	305
Impairment of fixed assets (Note 13)	563	-
Donations and sponsorships	349	389
Provisions for retirement severance payments, net (Note 25)	222	13
Written-off raw materials	146	160
Written-off inventories	15	24
Provisions for repurchase of shares, net (Note 25)	12	-
Provisions for penalties and fines (Note 25)	-	10,000
Other	2,018	1,293
	7,208	14,337

10. FINANCIAL EXPENSES

	2015	2014
Interest on borrowings	1,519	1,989
Interest on finance leases	64	55
Other interest expenses	113	166
	1,696	2,210

11. INCOME TAX EXPENSE

	2015	2014
Profit before tax	11,156	10,101
Income tax at the rate of 10%	1,116	1,010
Effect of tax non-deductible expenses	564	609
Income tax relief based on the exports	(1,680)	(1,619)
Income tax expense	-	-
Effective income tax rate (%)	-	-

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 valid for the years ended 31 December and 2014, it is exempt from the payment of the income tax.

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Notes to the financial statements
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12. BASIC EARNINGS PER SHARE

	2015	2014
Net profit (in KM)	11,155,865	10,101,339
Weighted average number of ordinary shares for the purposes of earnings per share calculation	7,770,600	7,810,911
Basic earnings per share (in KM)	1.44	1.29

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Assets in progress	Advances	Total
COST					
At 31 December 2013	76,980	75,640	36,672	1,584	190,876
Additions	-	-	3,868	1,323	5,191
Disposals	(40)	(859)	-	-	(899)
Transfers (from)/to	61	6,942	(7,003)	-	-
Realised advances	-	-	-	(615)	(615)
At 31 December 2014	77,001	81,723	33,537	2,292	194,553
Additions	-	-	5,122	2,591	7,713
Disposals	-	(1,136)	-	-	(1,136)
Impairment allowances (Note 9)	-	(111)	(452)	-	(563)
Transfers (from)/to	12,540	6,938	(19,478)	-	-
Realised advances	-	-	-	(2,636)	-
At 31 December 2015	89,541	87,414	18,729	2,247	197,931
ACCUMULATED DEPRECIATION					
At 31 December 2013	38,127	47,871	-	-	85,998
Charge for the year (Note 7)	2,546	4,548	-	-	7,094
Disposals	(18)	(784)	-	-	(802)
At 31 December 2014	40,655	51,635	-	-	92,290
Charge for the year (Note 7)	2,699	5,327	-	-	8,026
Disposals	-	(762)	-	-	(762)
At 31 December 2015	43,454	56,200	-	-	99,554
NET BOOK VALUE					
At 31 December 2015	46,187	31,214	18,729	2,247	98,377
At 31 December 2014	36,346	30,088	33,537	2,292	102,263

There are assets held under finance leases with a net book value of KM 8,181 thousand (2014: KM 9,035 thousand) that are included in machinery and equipment (Note 22).

The Company has pledged land, buildings, machinery and equipment with a carrying amount of approximately KM 29,439 thousand (2014: KM 31,533 thousand) to secure borrowings (Note 21).

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14. INTANGIBLE ASSETS

	Licences	Software	Drug registration	Investments in progress	Total
COST					
At 31 December 2013	8,818	4,307	464	415	14,004
Additions	-	-	-	1,762	1,762
Disposals	(963)	(743)	(8)	(266)	(1,980)
Transfers (from)/to	156	12	178	(346)	-
At 31 December 2014	8,011	3,575	634	1,565	13,786
Additions	-	-	-	4,692	4,692
Disposals	(601)	(319)	(12)	(16)	(948)
Transfers (from)/to	177	45	275	(497)	-
At 31 December 2015	7,587	3,302	897	5,744	17,530
ACCUMULATED AMORTIZATION					
At 31 December 2013	6,745	3,269	155	-	10,169
Charge for the year (Note 7)	367	268	113	-	748
Adjustments	7	-	-	-	7
Disposals	(956)	(743)	(3)	-	(1,702)
At 31 December 2014	6,163	2,794	265	-	9,222
Charge for the year (Note 7)	396	265	159	-	820
Disposals	(478)	(200)	(7)	-	(685)
At 31 December 2015	6,149	2,858	350	-	9,357
NET BOOK VALUE					
At 31 December 2015	1,438	444	547	5,744	8,173
At 31 December 2014	1,848	781	369	1,566	4,564

15. LONG – TERM DEPOSITS

	31 December 2014	31 December 2013
Sparkasse Bank d.d. Sarajevo (specific deposit given as a security for the repayment of a long term loan; matures on 31 December 2017)	1,600	1,600
Intesa SanPaolo Banka d.d. BiH (specific deposit given as a security for the repayment of loans that bank approved to employees; matures on 31 December 2030)	600	600
Reduction to amortised cost	(149)	(171)
	2,051	2,029
Other deposits	97	36
	2,148	2,065

Annual interest rates on long term deposits were within the range 0.5% - 2.7%

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for the year ended 31 December 2015

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16. INVENTORIES

	31 December 2015	31 December 2014
Raw materials and materials	9,620	9,880
Finished goods	8,577	7,475
Merchandise	1,269	2,223
Work-in-progress	841	869
	20,307	20,447

17. TRADE AND OTHER RECEIVABLES

	31 December 2015	31 December 2014
Trade receivables:		
Trade receivables, domestic	22,484	20,149
Trade receivables, abroad	15,613	48,942
Bad and doubtful trade receivables	13,213	12,091
Less: allowance for impairment of receivables	(13,213)	(12,091)
	38,097	69,091
Other receivables:		
Receivables on factoring arrangement	19,559	-
Receivables from state	152	261
VAT receivables	49	1,464
Receivables from employees	19	19
Other	7	546
	19,786	2,290
	57,883	71,381

The average credit period on sales of goods is 160 days (2014: 186 days).

As at 31 December 2015, out of the total balance of trade receivables the amount of KM 9,779 thousand relates to trade receivables from Grama LLC Russia, currently the largest buyer, secured by bank guarantee (as at 31 December 2014: out of the total balance of trade receivables the amount of KM 40,463 thousand related to CJSC Imperia – Pharm Russia).

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

	2015	2014
Balance at the beginning of the year	12,091	11,348
Impairment losses recognized on trade receivables (Note 9)	1,509	2,013
Amounts recovered during the year (Note 9)	(387)	(1,091)
Amounts written off as uncollectable	-	(179)
Balance at the end of the year	13,213	12,091

Management of the Company believes that no additional impairment allowance should be made.

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(All amounts are expressed in thousands of KM, unless otherwise stated)

17. TRADE AND OTHER RECEIVABLES (CONTINUED)

Aging of overdue unimpaired trade receivables was as follows:

	31 December 2015	31 December 2014
15 – 30 days	1,675	4,336
31 – 90 days	1,019	3,769
91 - 180 days	1,858	1,815
181 – 360 days	2,038	704
Over 360 days	-	368
	6,590	10,992

18. OTHER ASSETS

	31 December 2015	31 December 2014
Prepaid expenses	598	752
Advances given	885	489
	1,483	1,241

19. CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Cash at bank accounts, foreign currencies	11,515	1,270
Cash at bank accounts, KM	9,915	2,404
Cash in hand	291	69
	21,685	3,743

20. SHARE CAPITAL

	31 December 2015	31 December 2014
7,829,987 common shares with nominal value of KM 10	78,300	78,300
	78,300	78,300
Less: Treasury shares	(829)	(758)
	77,471	77,542

The ownership structure as of 31 December 2015 and 2014 can be summarized as follows;

	% share	31 December 2015	% share	31 December 2014
Haden S.A, Luksemburg	29.95	2,345	29.95	2,345
Federation of Bosnia and Herzegovina	19.26	1,508	19.26	1,508
The Economic and Social Development Fund, Libya	8.78	687	8.78	687
Others	42.01	3,290	42.01	3,290
	100.00	7,830	100.00	7,830

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(All amounts are expressed in thousands of KM, unless otherwise stated)

21. BORROWINGS

	31 December 2015	31 December 2014
Long-term borrowings:		
Intesa SanPaolo banka d.d. BiH (KM 11,700,000; matures on 1 December 2018)	7,021	8,852
UniCredit Bank d.d. Mostar (KM 11,700,000; matures on 1 December 2018)	6,982	8,811
Sparkasse Bank d.d. Sarajevo (KM 3,500,000; matures on 20 August 2017)	2,012	3,136
	16,015	20,799
Less: Current portion of long-term loans	(5,865)	(5,805)
	10,184	14,994
Short-term borrowings:		
Intesa SanPaolo Banka d.d. BH (4 short-term revolving loans in amounts of KM 1,000,000; maturity date 15 March 2016)	4,012	-
UniCredit Bank d.d. Mostar (2 short-term revolving loans in amounts of KM 1,000,000; maturity date 2 March 2016)	2,005	-
Intesa SanPaolo Banka d.d. BH (2 short-term revolving loans in amounts of KM 1,000,000; maturity date 12 February 2016)	2,001	-
Intesa SanPaolo Banka d.d. BH (2 short-term revolving loans in amounts of KM 1,000,000; maturity date 13 February 2016)	2,000	-
UniCredit Bank d.d. Mostar (short-term revolving loan in the amount of KM 1,000,000; maturity date 18 February 2016)	1,000	-
Hypo Alpe Adria Bank d.d. Mostar (short-term revolving loan in the amount of KM 1,000,000; maturity date 1 August 2016)	673	-
Vakufska banka d.d. Sarajevo (short-term revolving loan in the amount of KM 260,000; maturity date 14 November 2016)	261	-
UniCredit Bank d.d. Mostar (short-term revolving loan in the amount of KM 10,000; maturity date 17 February 2016)	10	-
UniCredit Bank d.d. Mostar (3 short-term revolving loans in amounts of KM 1,000,000; maturity date 21 January 2015)	-	3,013
UniCredit Bank d.d. Mostar (3 short-term revolving loans in amounts of KM 1,000,000; maturity date 14 February 2015)	-	3,013
Intesa Sanpaolo Banka d.d. BiH (2 short-term loans in amounts of KM 1,000,000; maturity date 2 January 2015)	-	2,008
UniCredit Bank d.d. Mostar (short-term revolving loan in the amount of KM 1,000,000; maturity date 24 February 2015)	-	1,004
Intesa Sanpaolo Banka d.d. BiH (short-term revolving loan in the amount of KM 1,000,000; maturity date 3 January 2015)	-	1,004
Intesa Sanpaolo Banka d.d. BiH (short-term revolving loan in the amount of KM 1,000,000; maturity date 2 January 2015)	-	1,004
Hypo Alpe Adria Bank d.d. Mostar (short-term revolving loan in the amount of KM 500,000; maturity date 1 August 2015)	-	337
	11,962	11,383
Add: Current portion of long-term loans	5,865	5,805
	17,827	17,188
	27,977	32,182

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**Notes to the financial statements
for the year ended 31 December 2015**

(All amounts are expressed in thousands of KM, unless otherwise stated)

21. BORROWINGS (CONTINUED)

Annual interest rates on long term borrowings were within the range 6M EURIBOR+4.80% - 6M EURIBOR+5.20%, and on short term loans interest rates were in the range 3.50% - 5.90%.

	31 December 2015	31 December 2014
Long-term loans are due for settlement as follows:		
- within one year	5,865	5,805
- in the second year	5,505	5,865
- in the third to fifth years inclusive	4,679	9,129
- after five years	-	-
	16,049	20,799

22. FINANCE LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Financial lease liabilities:				
Up to one year	244	1,787	225	1,732
In the second to fifth years inclusive	252	66	252	65
	496	1,853	477	1,797
Less: future finance charges	(19)	(56)	-	-
Present value of finance lease liability	477	1,797	477	1,797
Disclosed in financial statements:				
- amounts due within 12 months	-	-	225	1,732
- amounts due after 12 months	-	-	252	65

The Company has 14 leasing arrangement for machines: automatic line for filling, closing and labelling of non-sterile liquid forms and vehicles with a net book value of KM 8,1818 thousand (2014: KM 9,035 thousand) – Note 13. The average term of finance leases entered into is 5 years. The average effective interest rate contracted approximates 5.03% (2014: 6.32%). Interest rates are fixed as of the contract date. 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 EUR. The fair value of the Company's finance lease liabilities approximates their carrying amount. The Company's finance lease liabilities are secured by the lessor's charge over the leased assets.

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23. TRADE AND OTHER PAYABLES

	31 December 2015	31 December 2014
Trade payables:		
Trade payables – foreign	8,021	8,442
Trade payables – domestic	2,598	2,953
	10,619	11,395
Other payables:		
Employee payables	5,325	4,705
Payables to shareholders	3,268	2,607
Other	208	161
	8,801	7,473
	19,420	18,868

The average credit period towards suppliers is 61 days (2014 – 95 days). No interest is charged on the trade payables. The Company has given no collateral for timely repayment of liabilities.

24. ACCRUED EXPENSES

	31 December 2014	31 December 2013
Invoices not yet received	2,595	2,138
Other	320	754
	2,915	2,892

25. PROVISIONS

	Short - term		Long - term	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Repurchase of employee shares	150	70	1,583	1,651
Fees and penalties	-	-	10,000	10,000
Court proceedings	-	-	2,509	1,968
Retirement severance payments	-	-	783	680
	150	70	14,875	14,299

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25. PROVISIONS (CONTINUED)

Movement in provisions can be presented as follows:

	Employee share repurchase	Fees and penalties	Court proceedings	Retirement severance payments	Total
Balance at 31 December 2013	2,350	-	526	689	3,565
Additional provision recognised (Notes 8 and 9)	60	10,000	616	72	10,748
Reductions resulting from re-measurement or settlement without cost (Notes 8 and 9)	(452)	-	-	(59)	(511)
Transfer from accrued expenses	-	-	967	-	967
Reductions due to payments	(237)	-	(141)	(22)	(400)
Balance at 31 December 2014	1,721	10,000	1,968	680	14,369
Additional provision recognised (Notes 8 and 9)	80	-	757	222	1,059
Reductions resulting from re-measurement or settlement without cost (Notes 8 and 9)	(68)	-	-	-	(68)
Reductions due to payments	-	-	(216)	(119)	(335)
Balance at 31 December 2015	1,733	10,000	2,509	783	15,025

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 6,250 thousands 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.

Above mentioned perio of 6 years has expired on 28 June 2014.

During 2015, the Company recognized expense in the amount of KM 12 thousand, net, and release of corresponding liability arising from share-based payments (2014: income of KM 392 thousand, net, and increase in corresponding liability arising from share-based payments). This represents the part of the shares fair value accumulated to employees until 31 December 2015. The Company estimates that 100% (2014: 100%) of employees that participate in mentioned payment will fulfill all conditions.

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26. COMMITMENTS

At 31 December 2015, the Company's rental commitments amount to KM 487 thousand (31 December 2014: KM 814 thousand).

At 31 December 2015, the Company 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 50 thousand (2014: KM 2,363 thousand), as well as KM 675 thousand for building of production plant of liquid and semisolid drug forms.

27. RELATED PARTY TRANSACTIONS

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

	31 December 2015	31 December 2014
Gross salaries	1,076	1,132
Bonuses	1,111	1,040
Other benefits	125	82
	<u>2,312</u>	<u>2,254</u>

28. FINANCIAL INSTRUMENTS

28.1 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 2014. The financial structure of the Company consists of borrowings and financial lease liabilities,

28.1.1 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 December 2015	31 December 2014
Borrowings and financial lease	28,057	33,979
Cash and cash equivalents	(21,685)	(3,743)
Net debt	6,822	30,236
Equity	145,943	137,119
Debt to equity ratio	0.05	0.22

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28. FINANCIAL INSTRUMENTS (CONTINUED)

28.2 Categories of financial instruments

	31 December 2015	31 December 2014
Financial assets		
Loans and receivables:		
- Cash and cash equivalents	21,685	3,743
- Deposits given	2,148	2,065
- Trade and other receivables	57,682	69,656
Financial assets available-for-sale	301	116
	81,816	75,580
Financial liabilities		
At amortized cost:		
- Borrowings	27,977	32,182
- Financial lease liabilities	477	1,797
- Trade and other payables	19,420	18,867
	47,874	52,846

28.3 Financial risk management objectives

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

28.4 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.

28.5 Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
(in thousands of foreign currencies)	31 December 2015	31 December 2014	31 December 2015	31 December 2014
EUR	28,876	30,521	3,850	3,989
USD	123	128	269	393
CHF	-	1	2	12
GBP	1	1	1	1
HRK	1	-	-	-
SEK	1	-	-	-

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28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 Foreign currency risk management (continued)

28.5.1 Foreign currency sensitivity analysis

Since the Convertible Mark (KM) is tied to the Euro, the Company is not exposed to the risk of changes in exchange rates.

The Company is mainly exposed to foreign currency risk related to USD, GBP, CHF, HRK and SEK. 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. 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.

	USD		GBP		CHF		HRK		SEK	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Profit or loss (in KM)	26	43	< 1	< 1	< 1	2	< 1	-	< 1	-

28.6 Interest rate risk management

The Company is exposed to interest rate risk as it places and borrows funds at both fixed and floating interest rates. The Company's exposures to interest rates on financial assets and financial liabilities are detailed in Note 28.8. Liquidity risk management section.

28.6.1 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the reporting period date. The analysis is prepared assuming the amount of financial instruments outstanding at the reporting period date was outstanding for the whole year. Increase or decrease of 50 basis point (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 higher/lower and all other variables were held constant, the Company's profit for the year ended 31 December 2014 would decrease / increase by KM 132 thousand (2014: KM 159 thousand), based on exposure to interest rate risk.

28.7 Credit risk management

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

Trade receivables, net, 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.

28. FINANCIAL INSTRUMENTS (CONTINUED)**28.7 Interest rate risk management (continued)**

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 of 31 December 2015 trade receivables in the amount of KM 27,392 thousand (2014 KM 20,083 thousand) are secured by blank promissory notes, and trade receivables in the amount of KM 10,620 thousand are secured by bank guarantees.

28.8 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management, 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.

28.8.1 Liquidity and interest risk tables

The following table details the Company's remaining contractual maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted cash flows of financial assets including interest on these assets that will be earned, except for the assets for which the Company expects that will occur in cash flow of next period.

Maturity for non-derivative financial assets

	Weighted average effective interest rate	Less than 1 month	1 - 2 Months	2 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Total
31 December 2015								
Non-interest bearing	-	25,488	3,822	3,803	11,409	34,845	222	79,589
Fixed interest rate instruments	3.00%	606	4	4	11	22	1,794	2,442
		26,094	3,826	3,807	11,420	34,867	2,016	82,030
31 December 2014								
Non-interest bearing	-	53,980	2,015	1,804	1,901	13,331	483	73,514
Fixed interest rate instruments	3.00%	606	4	4	11	22	1,794	2,441
		54,586	2,019	1,808	1,912	13,353	2,277	75,955

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has 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.

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28. FINANCIAL INSTRUMENTS (CONTINUED)

28.8 Liquidity risk management (continued)

28.8.1 Liquidity and interest risk tables (continued)

Maturity for non-derivative financial liabilities

	Weighted average effective interest rate	Less than 1 month	1 - 2 months	2 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Total
31 December 2015								
Non-interest bearing	-	6,211	1,518	1,518	4,871	5,310	-	19,427
Variable interest rate instruments	3.74%	402	402	402	1,206	2,412	9,686	14,510
Fixed interest rate instruments	4.67%	1,100	1,092	1,092	3,280	6,571	825	13,960
		7,713	3,012	3,012	9,357	14,293	10,511	47,897
31 December 2014								
Non-interest bearing	-	9,769	1,819	1,948	3,741	1,596	7	18,880
Variable interest rate instruments	5.29%	571	659	564	1,649	2,959	15,440	21,842
Fixed interest rate instruments	6.20%	11,119	105	105	315	967	2,102	14,713
		21,459	2,583	2,617	5,705	5,522	17,549	55,435

29. FAIR VALUE MEASUREMENT

29.1 Fair value of financial assets and liabilities of the Company measured at fair value on a recurring basis, from period to period

Some financial position of the Company's assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of these financial assets (in particular, the valuation techniques and inputs used) are determined.

Financial assets	Fair value		Fair value hierarchy	Valuation techniques and inputs used
	31 December 2015	31 December 2014		
Non-derivative Financial assets available-for-sale	Capital instruments not quoted on the stock exchange in Bosnia and Herzegovina: • MF Invest d.o.o, Sarajevo – KM 1 thousand	Capital instruments not quoted on the stock exchange in Bosnia and Herzegovina: • MF Invest d.o.o, Sarajevo – KM 1 thousand	Level 2	<u>Discounted cash flows:</u> Valuation is performed by discounting future cash flows, where the yield takes the last available rate on the same or similar equity securities,
	Capital instruments not quoted on the stock exchange in other countries: • Macedonia – KM 82 thousand • Croatia – KM 5 thousand • Serbia – KM 213 thousand	Capital instruments not quoted on the stock exchange in other countries: • Macedonia – KM 82 thousand • Croatia – KM 5 thousand • Serbia – KM 28 thousand		

29. FAIR VALUE MEASUREMENT (CONTINUED)**29.2 Fair value of financial assets and liabilities of the Company that are not measured based on fair value on a recurring basis, from period to period (but the disclosure of their fair value is required)**

Except information presented in the following table, the Management believes that the carrying amounts of financial assets and liabilities recognized in the financial statements approximately correspond their fair values.

	31 December 2015		31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
<i>Financial liabilities held at amortised cost:</i>				
- borrowings	13,960	13,807	14,484	14,278

Fair value hierarchy as of 31 December 2015

	Level 1	Level 2	Level 3	Total
Financial liabilities				
<i>Financial liabilities held at amortised cost:</i>				
- borrowings	-	13,807	-	14,278
Total	-	13,807	-	14,278


The fair value of financial liabilities included in the above category for Level 2 was determined according to generally accepted models of assessment based on an analysis of discounted cash flows, with the discount rate as the most important input data, which reflects the credit risk of counterparties.

30. SUBSEQUENT EVENTS


After the reporting date there were no events that would require adjustment of amounts presented in the financial statements, or disclosure.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Management and authorised for issue on 30 March 2016.


Nedim Uzunović
Director




Adnan Hadžić
Acting Executive Director for Finance