Bosnalijek d.d.

Annual Financial Statements

31 December 2009

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

Contents

Management Board's Report

The Management Board submits its report together with the audited financial statements for the year ended 31 December 2009.

Principal activity

Bosnalijek d.d. ("the Company") is a shareholding company registered and domiciled in Sarajevo in Bosnia and Herzegovina. The principal activity of the Company is the production and sale of pharmaceutical products.

Results

The results of the Company are set out in the statement of comprehensive income on page 4 of the financial statements.

Management Board

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

Mr. Edin Arslanagić, Chief Executive Office
Mr. Šefik Handžić, Executive Director of General Finances
Ms. Belma Abazović, Executive Director of Production and Development, appointed 1 August 2009
Mr. Nedim Vilogorac, Executive Director of Corporate Finance and Communications, appointed 1 August 2009
Mr. Nermin Zubčević, Executive Director of the Quality and Regulation, appointed 1 August 2009
Mr Akif Mujezin, Executive Director for Production, resigned 31 July 2009
Ms. Ljiljana Kamberović, Executive Director for Development, resigned 31 July 2009

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

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

Audit Committee

The members of the Audit Committee during the year are as follows:

Mr. Željko Kordić, Chairman
Mr. Sead Sarvan, Member
Ms. Rabija Avduli, Member

FARMACEUTSKA I HEMIJSKA INDUSTRIJA, DIONIČKO DRUŠTVO BOSNALIJEK
BOSNALIJEK SARAJEVO
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Edin Arslanagić
Director

20 April 2010

Statement of Management Board's responsibilities

The Management Board is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and of the results of its operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Company together with the annual financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The financial statements set out on pages 4 to 36 were authorised by the Management Board on 20 April 2010 for issue to the Supervisory Board and are signed below to signify this.

Edin Arslanagić
Director

BOSNALIJEK, FARMACEUTSKA I HEMIJSKA INDUSTRIJA, DIONIČKO DRUŠTVO
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Independent auditors' report to the shareholders of Bosnalijek d.d.

We have audited the accompanying financial statements of Bosnalijek d.d. ("the Company"), which comprise the statement of financial position as at 31 December 2009, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2009, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

D.O.O. ZA REVIZIJU KPMG B-H 1 SARAJEVO

20 April 2010

Statement of comprehensive income

For the year ended 31 December 2009

	Note	**2009 BAM'000**	2008 BAM'000
Revenue	*7*	**109,551**	107,128
Cost of sales		**(38,891)**	(42,463)
Gross profit		**70,660**	64,665
Other operating income	*8*	**1,132**	208
Administration and distribution expenses		**(50,570)**	(47,859)
Research and development expenses		**(3,482)**	(3,272)
Other expenses	*9*	**(5,796)**	(4,099)
Profit from operating activities		**11,944**	9,643
Financial income	*12*	**261**	959
Financial expenses	*12*	**(3,216)**	(2,395)
Net finance costs	*12*	**(2,955)**	(1,436)
Profit before taxation		**8,989**	8,207
Income tax expense	*13*	**-**	-
Profit for the year		**8,989**	8,207
Other comprehensive income		-	-
Total comprehensive income for the period		**8,989**	8,207
Basic and diluted earnings per share	*34*	1.15	1.26

Statement of financial position
As at 31 December 2009

	Note	**31 December 2009 BAM'000**	31 December 2008 BAM'000 Restated Note 5	1 January 2008 BAM'000 Restated Note 5
ASSETS				
Non–current assets				
Property, plant and equipment	*14*	**84,477**	82,669	87,584
Intangible assets	*15*	**1,308**	2,247	3,771
Investments	*16*	**12**	2	5
Loans and deposits	*17*	**562**	795	655
Total non-currents assets		**86,359**	85,713	92,015
Current assets				
Loans and deposits	*17*	**712**	813	1,712
Trade and other receivables	*18*	**60,115**	43,585	36,180
Inventories	*19*	**20,382**	22,343	19,769
Income tax receivables		**2,457**	2,457	2,457
Cash and cash equivalents	*20*	**3,439**	2,051	2,227
Total current assets		**87,105**	71,249	62,345
Total assets		**173,464**	156,962	154,360
EQUITY AND LIABILITIES				
Equity				
Share capital	*21*	**71,742**	71,742	52,945
Treasury shares	*22*	**(182)**	-	-
Share premium		**3,912**	3,912	-
Reserves	*23*	**24,432**	19,502	31,537
Retained earnings		**13,988**	11,938	14,405
Total equity and reserves		**113,892**	107,094	98,887
Liabilities				
Non-current liabilities				
Employee benefits	*25*	**953**	707	564
Provisions	*27*	**34**	133	133
Loans and borrowings	*29*	**4,384**	1,159	1,077
Other liabilities	*28*	**-**	85	116
Total non-current liabilities		**5,371**	2,084	1,890
Current liabilities				
Employee benefits	*25*	**69**	**-**	**-**
Loans and borrowings	*29*	**20,580**	22,825	28,819
Trade and other payables	*30*	**24,248**	17,311	16,522
Derivative financial liabilities	*31*	**9,304**	7,648	8,242
Total current liabilities		**54,201**	47,784	53,583
Total liabilities		**59,572**	49,868	55,473
Total equity and liabilities		**173,464**	156,962	154,360

Statement of changes in equity
For the year ended 31 December 2009

	Share Capital BAM'000	Share premium BAM'000	Reserves BAM'000	Retained earnings BAM'000	Total BAM'000
As at 01 January 2008 reported	**52,945**	**-**	**31,537**	**14,785**	**99,267**
Prior year adjustment (Note 5a)	-	-	-	(380)	(380)
As at 01 January 2008 restated	**52,945**	**-**	**31,537**	**14,405**	**98,887**
Profit for the year	-	-	-	8,207	8,207
Total comprehensive income for the period	**-**	**-**	**-**	**8,207**	**8,207**
Issuing of bonus shares to existing shareholders	17,530	-	(17,530)	-	-
Transfer to reserves	-	-	5,495	(5,495)	-
Movement of IFC shares under put option	(1,070)	-	-	1,070	-
Shares issued to employees under share based payments	2,337	3,912	-	(6,249)	-
As at 31 December 2008 restated	**71,742**	**3,912**	**19,502**	**11,938**	**107,094**
As at 01 January 2009	**71,742**	**3,912**	**19,502**	**11,938**	**107,094**
Profit for the year	-	-	-	8,989	8,989
Total comprehensive income for the period	**-**	**-**	**-**	**8,989**	**8,989**
Treasury shares (Note 22)	(182)	-	-	182	-
Transfer to reserves (Note 23)	-	-	4,930	(4,930)	-
Dividends declared (Note 24)	-	-	-	(2,191)	(2,191)
As at 31 December 2009	**71,560**	**3,912**	**24,432**	**13,988**	**113,892**

Statement of cash flows

For the year ended 31 December 2009

	Note	**2009**	2008
		BAM'000	BAM'000
			Restated
Cash flows from operating activities			
Profit for the year		**8,989**	8,207
Adjustments for:			
Depreciation and impairment of property, plant and equipment		**7,848**	8,546
Amortization of intangible fixed assets		**1,517**	2,325
Interest income		**(10)**	(119)
Interest expense		**1,349**	1,780
Loss on sale of property, plant and equipment		**1,529**	(14)
Movement in derivative fair value		**1,656**	(594)
		22,878	20,131
Increase in trade and other receivables		**(16,530)**	(7,394)
Decrease / (increase) in inventories		**1,960**	(2,574)
Increase in trade and other payables		**6,260**	789
Increase in provisions and other liabilities		**216**	112
Cash generated from operating activities		**14,784**	11,064
Interest paid		**(1,349)**	(1,780)
Net cash from operating activities		**13,435**	9,284
Investing activities			
Increase in investments		**(10)**	(2)
Purchase of property, plant and equipment		**(11,079)**	(3,645)
Purchase of intangible assets		**(739)**	(801)
Proceeds from the disposals of property, plant and equipment		**55**	22
Interest received		**10**	119
Receipts from collection of loans receivable		**1,033**	899
Payments for loans receivable		**(699)**	(140)
Net cash outflow from investing activities		**(11,429)**	(3,548)
Financing activities			
Repayment of loans and borrowings		**(17,240)**	(21,770)
Loans and borrowings received		**18,220**	15,858
Dividends paid	*24*	**(1,598)**	-
Net cash outflow from financing activities		**(618)**	(5,912)
Net decrease in cash and cash equivalents		**1,388**	(176)
Cash and cash equivalents at beginning of year		**2,051**	2,227
Cash and cash equivalents at end of year	*20*	**3,439**	2,051

Notes (*forming part of the financial statements*)

1 Reporting entity

Bosnalijek d.d. ("the Company") is a shareholding company registered and domiciled in Sarajevo in Bosnia and Herzegovina. The principal activity of the Company is the production and sale of pharmaceutical products. Bosnalijek d.d. is listed on the Sarajevo Stock Exchange.

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements are a translation of the official statutory financial statements prepared in Bosnian.

The financial statements were approved by the Management Board on 20 April 2010.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, which are measured at fair value.

(c) Functional and presentation currency

These financial statements are prepared in the currency of Bosnia and Herzegovina, Convertible marks (BAM), which is the Company's functional currency. All financial information presented in Convertible marks has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the *Note 38*.

2 Basis of preparation (continued)

(e) Determination and presentation of operating segments

As of 1 January 2009 the Company determines and presents operating segments based on the information that internally is provided to the CEO, who is the Company's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with IAS 14 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

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

(f) Presentation of financial statements

The Company applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

3 Significant accounting policies

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

Where necessary, comparative information has been reclassified and restated as explained in Note 5, to achieve consistency in disclosure with current financial year amounts and other disclosures.

(a) Foreign currencies

Transactions in foreign currency are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into functional currency at foreign exchange rates ruling at the dates at which the values were determined. Non-monetary assets and items that are measured in terms of historical cost of a foreign currency are not retranslated.

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, loans and deposits, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, that is, the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents for the purpose of preparation of cash flow statement and balance sheet comprise cash balances and call deposits.

Accounting for finance income and expense is discussed in Note 3(k).

Trade and other receivables are measured at amortised costs less impairment (refer Note 3(f)).

Trade and other payables and interest-bearing loans and borrowings are measured at amortised cost.

(ii) Derivative financial instruments

Derivative financial instruments include Company shares that can be put back to the Company, as described in *Note 31*. These puttable shares are measured at fair value with changes in fair value recorded through profit and loss.

3 Significant accounting policies (*continued*)

(b) Financial instruments (continued)

(iii) Share capital

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as a treasury shares and are presented as a deduction from total equity.

(c) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses (refer to Note 3(f)).

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

(ii) Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	7 to 33 years
Plant, equipment and motor vehicles	3 to 15 years

Depreciation method, useful lives and residual values are reassessed at the reporting date.

(d) Intangible assets

(i) Intangible assets

Intangible assets are measured initially at cost. After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses (refer to Note 3(f)). The rate of amortisation used for intangible assets is based on the estimated useful life.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement when incurred.

3 Significant accounting policies (*continued*)

(d) Intangible assets (continued)

(iii) Amortisation

Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use.

The estimated useful life for the current and comparative periods as follows:

Software	3 years
Licenses	5 years

Amortisation method, useful lives and residual values are reassessed at the reporting date.

(iv) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories are valued based on purchase price and include the costs of bringing the inventories to a condition ready for use, using the weighted average cost principle.

In the case of manufactured inventories and work in progress, costs include an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

(f) Impairment

The carrying amounts of the Company's assets, other than inventories *(refer to accounting policy e)* and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

3 Significant accounting policies (*continued*)

(f) Impairment (continued)

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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

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

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or Company of units) and then, to reduce the carrying amount of the other assets in the unit (or Company of units) on a pro rata basis.

(i) Calculation of recoverable amount

The recoverable amount of the Company's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (that is, the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Significant accounting policies (*continued*)

(g) Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(h) Loans and borrowings

(i) Interest bearing loans and borrowings

Interest bearing loans and borrowings are recognised initially at fair value of the proceeds received, less attributable transaction costs. In subsequent periods, interest bearing loans and borrowings are stated at amortised cost using the effective interest method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement as interest expense over the period of the borrowings on an effective interest basis.

(i) Employee benefits

(i) Defined contributions pension fund

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

(ii) Retirement benefits

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

(iii) Share-based payments

The Company grants shares to its employees in accordance with local legislation. The grant date fair value of shares granted to the employees is recognised as a decrease in retained earnings with a corresponding increase in share capital per nominal value and increase of share premium for the difference between nominal and the fair value of granted shares. The fair value of the amount payable to employees in respect of shares which will be settled in cash, is recognised as an employee expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel cost in profit or loss.

3 Significant accounting policies (*continued*)

(j) Revenue

Goods sold and services rendered

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Revenue from services is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date.

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

(k) Financial income and expenses

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

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

(l) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(m) Income tax expense

Corporate income taxes are computed on the basis of reported income under the laws and regulations of Federation of Bosnia and Herzegovina.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse using tax rates enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3 Significant accounting policies (*continued*)

(n) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been released and are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these financial statements. The Company has not made an assessment of the likely impact, if any, of these on the 2010 financial statements.

4 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) On call bank deposits

The carrying value of on call bank deposits approximate their fair value due to their proximity in nature to cash.

(ii) Trade and other receivables/payables

The carrying amount of trade and other receivables/payables is deemed to reflect the fair value due to the short-term maturity of theses financial instruments.

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

Trade receivables are estimated on each balance sheet date and are impaired according to the estimate of the probability to collect the amount stated. Each customer is valuated separately based on different parameters ageing of the amount due.

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(iv) Employee benefits

Long-term employee benefit liability is determined using assumption regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate.

(v) Share based payments

The Company granted shares to its employees from retained earnings. The Company has recognised this transaction at the fair value of its shares at the grant date. The Company has recognised employee costs and corresponding liability at fair value of its shares at the balance sheet date.

5 Restatement of prior period

	Note	**As reported 31 December 2008 BAM'000**	Adjustments BAM'000	**Restated 31 December 2008 BAM'000**	Restated 1 January 2008 BAM'000
EQUITY AND LIABILITIES					
Equity					
Share capital		**71,742**	-	**71,742**	52,945
Share premium		**3,912**	-	**3,912**	-
Statutory reserves		**19,502**	-	**19,502**	31,537
Retained earnings	*a)*	**12,318**	(380)	**11,938**	14,405
Total equity and reserves		**107,474**	(380)	**107,094**	98,887
Non-currents liabilities					
Loans and borrowings	*b)*	**6,764**	(5,605)	**1,159**	1,077
Total non-current liabilities		**7,689**	(5,605)	**2,084**	1,890
Current liabilities					
Trade and other payables	*a)*	**16,931**	380	**17,311**	16,522
Loans and borrowings	*b)*	**17,220**	5,605	**22,825**	28,819
Total currents liabilities		**41,799**	5,985	**47,784**	53,583
Total equity and liabilities		**156,962**	-	**156,962**	154,360

Restatement of comparative balance sheet items relates to the following:

a) The adjustment of BAM 380 thousand represents the results of income tax inspection from March 2009. The results of this inspection was that the Company is liable to pay additional amounts to tax authorities related to 2004 to 2007 year. Management believes a position for this liability should have been made in the financial statements from 2004 to 2007 and accordingly have treated this as a prior period error.

b) The Company has restated borrowings from non-current to current of BAM 5,605 thousand as at 31 December 2008 (1 January 2008: BAM 8,097 thousand) due to breaches in loan covenant (see Note 36), which would require early repayment of the long term loan. The Company's management does not believe that the breach in covenants will however cause for a pre-payment.

6 Geographical segments

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

	Bosnia and Herzegovina		**Ex Yugoslavia and Albania**		**East Europe and Russia**		**Middle East and Africa**		**Total**	
	2009	2008	**2009**	2008	**2009**	2009	**2009**	2008	**2009**	2008
	BAM'000	BAM'000	**BAM'000**	BAM'000	**BAM'000**	BAM'000	**BAM'000**	**BAM'000**	**BAM'000**	BAM'000
Revenue	**69,858**	69,775	**12,246**	11,237	**25,996**	19,148	**1,451**	6,968	**109,551**	107,128
Cost of sales	**(27,244)**	(27,334)	**(4,519)**	(4,516)	**(6,798)**	(6,194)	**(330)**	(4,419)	**(38,891)**	(42,463)
Gross profit	**42,614**	42,441	**7,727**	6,721	**19,198**	12,954	**1,121**	2,549	**70,660**	64,665
Other operating income	**1,132**	208	**-**	-	**-**	-	**-**	-	**1,132**	208
Administration and distribution expenses	**(24,733)**	(23,375)	**(3,700)**	(3,551)	**(11,478)**	(7,859)	**(1,293)**	(2,203)	**(41,204)**	(36,988)
Depreciation	**(8,888)**	(10,457)	**(121)**	(130)	**(345)**	(281)	**(12)**	(3)	**(9,366)**	(10,871)
Profit from segments	**10,125**	8,817	**3,906**	3,040	**7,375**	4,814	**(184)**	343	**21,222**	17,014
Unallocated expenses										
Research and development expenses									**(3,482)**	(3,272)
Other expenses									**(5,796)**	(4,099)
Net finance costs									**(2,955)**	(1,436)
Total unallocated expenses									**(12,233)**	(8,807)
Profit before tax									**8,989**	8,207
Reportable segment assets	**145,146**	137,506	**16,119**	7,774	**11,531**	11,319	**668**	363	**173,464**	156,962
Reportable segment liabilities	**59,572**	49,868	**-**	-	**-**	-	**-**	-	**59,572**	49,868

7 Revenue

	2009 **BAM'000**	2008 BAM'000
Domestic sales	**69,747**	69,652
Foreign sales	**38,805**	37,353
Service rendered	**999**	123
	109,551	107,128

8 Other operating income

	2009 **BAM'000**	2008 BAM'000
Gain on disposal of property, plant and equipment	**55**	14
Credit notes received	**498**	-
Release of provision for court cases	**100**	-
Other income	**479**	194
	1,132	208

9 Other expenses

	2009 **BAM'000**	2008 BAM'000
Inventories written off	**1,292**	937
Impairment of property, plant and equipment	**1,432**	6
Net receivable impairment	**301**	282
Donations, sponsorships and scholarships	**514**	1,097
Accrued withholding tax expenses	**-**	127
Other	**2,257**	1,650
	5,796	4,099

10 Personnel costs

	2009 **BAM'000**	2008 BAM'000
Wages, salaries and other staff costs	**20,015**	17,824
Share based payments (Note 26)	**337**	184
Increase/(decrease) in retirement benefits	**(7)**	(41)
	20,345	17,967

The number of employees in the Company at year end was 621 (2008: 623). Personnel costs include BAM 2,907 thousand (2008: BAM 2,814 thousand) of defined contribution pension contributions paid into obligatory state pension funds.

11 Expenses by nature

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

	2009 BAM'000	2008 BAM'000
Change of inventories of finished goods and work in progress	**(988)**	(1,517)
Raw materials and consumables	**29,041**	34,249
Energy	**2,624**	2,264
Depreciation and amortization	**9,366**	10,871
Personnel costs	**20,345**	17,967
Retirement and other fees to employees	**130**	601
Consultancy fees contracts	**7,769**	5,385
Supervisory board members fees	**110**	118
Transport services	**1,752**	1,485
Maintenance	**2,320**	2,664
Rent expenses	**422**	369
Advertisement	**8,241**	6,763
Insurance	**588**	556
Bank charges	**506**	597
Entertainment	**5,522**	5,407
Travel costs	**1,414**	1,960
Memberships	**136**	120
Phone costs	**683**	920
Other expenses	**2,962**	2,815
	92,943	93,594

Total personnel costs allocated to cost of sales for the year is BAM 6,703 thousand (2008: BAM 6,415 thousand).

12 Net financial expense

	2009 BAM'000	2008 BAM'000
Interest income	**10**	97
Net decrease in derivative liability	**-**	594
Adjustment of long term deposit to fair value	**130**	22
Gross foreign exchange gains	**121**	246
Financial income	**261**	959
Interest expense	**(1,349)**	(1,780)
Net increase in derivative liability	**(1,656)**	-
Gross foreign exchange losses	**(211)**	(615)
Financial expenses	**(3,216)**	(2,395)
Net financial expense	**(2,955)**	(1,436)

13 Income tax expense

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

	2009	2008
	BAM'000	BAM'000
Profit before tax	**8,989**	8,207
Profit tax at 10%	**899**	821
Non-deductible expenses	**506**	605
Tax incentive for export	**(1,405)**	(1,426)
Income tax expense	**-**	-
Average effective income tax rate	0.00%	0.00%

14 Property, plant and equipment

	Land and buildings BAM'000	Plant and equipment BAM'000	Assets under construction BAM'000	Total BAM'000
Cost				
At 1 January 2008	**92,061**	**55,300**	**1,873**	**149,234**
Additions	-	-	3,639	3,639
Disposals and write offs	-	(790)	-	(790)
Transfers	198	3,048	(3,246)	-
At 31 December 2008	**92,259**	**57,558**	**2,266**	**152,083**
At 1 January 2009	**92,259**	**57,558**	**2,266**	**152,083**
Additions	-	-	11,079	11,079
Disposals and write offs	(2,150)	(1,032)	-	(3,182)
Transfers	600	3,005	(3,605)	-
At 31 December 2009	**90,709**	**59,531**	**9,740**	**159,980**
Accumulated depreciation and impairments				
At 1 January 2008	**31,439**	**30,211**	**-**	**61,650**
Charge for the year	3,745	4,801	-	8,546
Disposals and write offs	-	(782)	-	(782)
At 31 December 2008	**35,184**	**34,230**	**-**	**69,414**
At 1 January 2009	**35,184**	**34,230**	**-**	**69,414**
Charge for the year	3,642	4,206	-	7,848
Disposals and write offs	(782)	(977)	-	(1,759)
At 31 December 2009	**38,044**	**37,459**	**-**	**75,503**
Carrying amount				
At 1 January 2008	60,622	25,089	1,873	87,584
At 31 December 2008	57,075	23,328	2,266	82,669
At 1 January 2009	**57,075**	**23,328**	**2,266**	**82,669**
At 31 December 2009	**52,665**	**22,072**	**9,740**	**84,447**

Assets under construction relate to site preparation (BAM 1,089 thousand), reconstruction of "Solid oral forms of drugs" production facility (BAM 1,623 thousand), office premises (BAM 889 thousand), line for packaging (BAM 4,335 thousand) and other of BAM 1,804 thousand.

Total depreciation and amortisation expense allocated to cost of sales is BAM 3,525 thousand (2008: BAM 3,477 thousand).

Security

The Company has pledged plant and equipment with a carrying value of BAM 45,449 thousand (2008; BAM 32,960 thousand) to secure loans granted by IFC Washington, UniCredit banka d.d Mostar, Intesa San Paolo banka d.d. Sarajevo, Bor banka d.d. Sarajevo and BBI Bank. (see Note 28).

15 Intangible assets

	Licences BAM'000	Software BAM'000	Assets under development BAM'000	Total BAM'000
Cost				
At 1 January 2008	**5,682**	**3,387**	**260**	**9,329**
Additions	-	-	801	801
Disposals and write offs	-	-	-	-
Transfers	543	249	(792)	-
At 31 December 2008	**6,225**	**3,636**	**269**	**10,130**
At 1 January 2009	**6,225**	**3,636**	**269**	**10,130**
Additions	-	-	739	739
Disposals, write offs and adjustments	-	(70)	(143)	(213)
Transfers	476	265	(741)	-
At 31 December 2009	**6,701**	**3,831**	**124**	**10,656**
Accumulated amortisation and impairments				
At 1 January 2008	**3,328**	**2,230**	**-**	**5,558**
Charge for year	1,549	776	-	2,325
Disposals and write offs	-	-	-	-
At 31 December 2008	**4,877**	**3,006**	**-**	**7,883**
At 1 January 2009	**4,877**	**3,006**	**-**	**7,883**
Charge for year	1,028	489	-	1,517
Disposals and write offs	-	(52)	-	(52)
At 31 December 2009	**5,905**	**3,443**	**-**	**9,348**
Carrying amount				
At 1 January 2008	2,354	1,157	260	3,771
At 31 December 2008	1,348	630	269	2,247
At 1 January 2009	**1,348**	**630**	**269**	**2,247**
At 31 December 2009	**796**	**388**	**124**	**1,308**

Licences include the cost of developing and licensing new generic medicines, some of which are currently being sold and for the remainder future economic benefit considered are probable. The Company intends to and has sufficient resources to complete development and to sell these generic medicines.

Intangible assets under construction relates to software not brought in use as at 31 December 2009.

16 Investments

	2009	2008
	BAM'000	BAM'000
MF Invest d.o.o. Sarajevo	**2**	2
ASA Finance d.d. Sarajevo	**10**	-
	12	2

17 Loans and deposits

	2009	2008
	BAM'000	BAM'000
Non current loans and receivables		
Loans to employees	**14**	21
Deposit with Intesa San Paolo Bank	**422**	637
Other deposits and receivables	**126**	137
	562	795
Current loans and deposits		
Loan receivables from Brstanica d.o.o.	**600**	800
Loan receivables from Medifarm d.o.o.	**99**	-
Other deposits and receivables	**13**	13
	712	813

The deposit with Intesa San Paolo Bank d.d Sarajevo, with a fair value of BAM 422 thousand (2008. BAM 637 thousand) is held as security for loans given by that Bank to the Company's employees, maturing in 2018 with an interest rate of 0.5% per annum. The nominal value of the deposit is BAM 599 thousand (2008; BAM 899 thousand). Due to the low interest rate, the Company has recognised a fair value of the deposit using a discount rate of 3.98% (2008: 3.5%) and has recognised adjustment of BAM 130 thousand as financial income through profit and loss in the current period.

18 Trade and other receivables

	2009	2008
	BAM'000	BAM'000
Trade receivables – gross	**58,738**	42,601
Trade receivables – impairment	**(2,159)**	(1,943)
Trade receivables – net	**56,579**	40,658
Prepayments for property, plant and equipment	**1,932**	2,367
Receivables from employees	**-**	7
Prepayments to suppliers	**613**	146
VAT prepayment	**497**	-
Other receivables and prepayments	**494**	407
	60,115	43,585

19 Inventories

	2009 **BAM'000**	2008 BAM'000
Raw materials and consumables	**9,042**	12,012
Work in progress	**1,505**	1,510
Finished goods	**9,835**	8,821
	20,382	22,343

20 Cash and cash equivalents

	2009 **BAM'000**	2008 BAM'000
Cash with banks in BAM	**1,972**	833
Foreign currency accounts	**1,355**	1,057
Cash on hand	**112**	161
	3,439	2,051

21 Share capital

	2009		2008	
	Number of shares	**BAM'000**	Number of shares	Restated BAM'000
Common shares with nominal value of BAM 10	**7,829,987**	**78,299**	7,829,987	78,299
Less: IFC puttable shares classified as liabilities (*Note 31*)	**(655,729)**	**(6,557)**	(655,729)	(6,557)
Less: treasury shares (*Note 22*)	**(6,828)**	**(182)**	-	-
	7,167,430	**71,560**	7,174,258	71,742

22 Treasury shares

Treasury shares relate to shares that have been transferred to the Company from employees, as employees have lost right on these shares net of shares that have been reissued to employees.

23 Reserves

During the year the Company transferred BAM 4,930 thousand to statutory reserves. In accordance with the Law on Enterprises the Company is obliged to have under the statutory reserves an amount which represents 25% of share capital.

24 Dividends

The General Assembly at a meeting held on 20 June 2009 approved dividends of BAM 2,191 thousand from the net profit from 2008 which represented BAM 0.28 per share. The amount unpaid at 31 December 2009 is BAM 593 thousand.

25 Employee benefits

	2009 BAM'000	2008 BAM'000
Non current employee benefits		
Retirement awards	**516**	523
Cash-settled share-based payment liability	**437**	184
	953	707
Current employee benefits		
Cash-settled share-based payment liability	**69**	-
	69	-

26 Share based payments

On 28 June 2008 the Company granted 233,731 shares to its employees solely from retained earnings based on the Decision of the General Assembly. Employees granted shares have the immediate right to receive dividends and vote at General Meetings of the Company. The fair value of the shares at the grant date was BAM 6,249 thousand representing 233,731 shares at BAM 26.74 fair value per share. The Company has an obligation to repurchase these shares from its employees provided the following conditions are satisfied: they must remain in the employment of the Company for six years from the grant date, and they must be employed by the company at their retirement date.

Provided the employees meet these conditions then they can sell the shares, at the average market price for the last six months, only to the Company at, or following, retirement. Employees who retire before the six year period have right to sell their shares, at market value, only to the Company. Employees whose employment is cancelled due to reorganization and restructuring before the six year period expire must sell their shares to the Company only, before the end of the vesting period. Employees whose employment is cancelled due to their failure to fulfil their responsibilities lose their rights and shares are returned at no consideration under the scheme.

As at 31 December 2009 the Company has recognised an expense of BAM 337 thousand (2008: BAM 185 thousand) as personnel costs with a corresponding increase in liabilities in relation to the share based payments scheme. This represents that portion of the fair value of the shares that accrue to the participants of the scheme at 31 December 2009. The Company estimates that 56% of the employees participating in the scheme will meet all of the conditions.

27 Provisions

	Court cases BAM'000
As at 1 January 2009	**133**
Provision made during the period	**-**
Provision released during the period	**(99)**
As at 31 December 2009	**34**

28 Other long term liabilities

	2009 **BAM'000**	2008 BAM'000
Other long term liabilities	**-**	85

29 Loans and borrowings

	2009 **BAM'000**	2008 BAM'000
Non current liabilities		
Loan received from BOR Banka d.d Sarajevo	**2,995**	1,159
Loan received from UniCredit Bank	**1,389**	-
	4,384	1,159
Current liabilities		
Loan received from International Finance Corporation ("IFC")*	**5,606**	8,096
Loan received from BOR Banka d.d Sarajevo	**483**	77
Loan received from UniCredit Bank	**611**	-
Other loans	**13,880**	14,652
	20,580	22,825
Total loans and borrowings	**24,964**	23,984

* Due to the breach of IFC loan covenants, IFC loan is classified as current liability (*see Note 36*).

29 Loans and borrowings *(continued)*

The interest rates and terms of repayment for the Company at 31 December 2009 are as follows:

Loans and borrowings	**Total 2009 BAM'000**	**1 year or less BAM'000**	**1-2 years BAM'000**	**2-3 years BAM'000**	**3-4 years BAM'000**	**More than 4 years BAM'000**
Secured						
Variable interest rate instruments						
IFC EUR 7.5 million, 3.514%	**5,606**	5,606	-	-	-	-
UniCredit Bank, EUR 1,023 thousand, 6 months Euribor +6%	**2,000**	611	667	667	55	-
Fixed interest rate instruments						
BOR Bank, USD 890 thousands, 7%	**1,139**	158	170	182	195	434
BOR Bank, USD 1,772 thousands, 7%	**2,339**	325	349	374	401	890
UniCredit Bank, 6.8%	**1,650**	1,650	-	-	-	-
Intesa San Paolo banka d.d., 5.8%	**2,600**	2,600	-	-	-	-
Intesa San Paolo banka d.d., 5.8%	**2,400**	2,400	-	-	-	-
Intesa San Paolo banka d.d., 5.8%	**2,500**	2,500	-	-	-	-
Intesa San Paolo banka d.d., 5.8%	**2,730**	2,730	-	-	-	-
Bosna Bank International d.d., 6.8%	**2,000**	2,000	-	-	-	-
Total loans and borrowings	**24,964**	**20,580**	**1,186**	**1,223**	**651**	**1,324**

The loans are secured by pledged property plant and equipment (see Note 14).

30 Trade and other payables

	2009 BAM'000	2008 BAM'000
Trade payables – foreign	**8,325**	7,997
Trade payables – domestic	**3,311**	1,939
Trade payables	**11,636**	9,936
Salaries payable	**3,742**	2,946
Accrued expenses	**7,396**	3,516
VAT payables	**-**	481
Dividends payable	**593**	-
Advance payments received	**539**	-
Other liabilities	**342**	432
	24,248	17,311

31 Derivative financial instruments

	BAM'000
Beginning balance	**7,648**
Net increase in fair value of derivative liability	**1,656**
Ending balance	**9,304**

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

32 Operating leases

Leases as lessee

Operating lease rentals are payable as follows:

	2009 BAM'000	2008 BAM'000
Less than one year	**385**	**394**
	385	**394**

The Company leases a number of premises for representative offices in Russia, Ukraine, Albania and Moldavia. In addition, leases also include premises in Banja Luka and premise at University in Sarajevo. All leasing contracts are for one year.

33 Financial risk management

Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposures to each of the above risk, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included through these financial statements.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

33 Financial risk management *(continued)*

Financial risk management (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company believes it has no significant exposure to liquidity risk.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rate, interest rates and equity prices will affect the Company's income or value of its holdings of financial instruments. The Company believes it has no significant exposure to market risk.

Capital management

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

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

	2009 **BAM'000**	2008 BAM'000
Total liabilities	**59,572**	49,868
Less: cash and cash equivalents	**(3,439)**	(2,051)
Net debt	**56,133**	47,817
Total equity	**113,892**	107,094
Debt to capital ratio at 31 December	**0.49**	0.45

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

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

33 Financial risk management *(continued)*

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	**2009** **BAM'000**	2008 BAM'000
Loans and receivables	17,18	**61,389**	45,193
Cash and cash equivalents	20	**3,439**	2,051
		64,828	47,244

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

	2009 **BAM'000**	2008 BAM'000
Domestic	**30,262**	22,877
Foreign	**26,317**	17,781
	56,579	40,658

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	2009 **BAM'000**	2008 BAM'000
Wholesale customer	**56,579**	40,658

Impairment losses

The ageing of trade receivables at the reporting date was:

	2009 **BAM'000**	2008 BAM'000
Non past due	**38,371**	32,062
Past due 0 to 90 days	**13,088**	7,226
Past due over 90 days	**5,120**	1,370
	56,579	40,658

33 Financial risk management *(continued)*

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

	2009 BAM'000	2008 BAM'000
Balance at 1 January	**1,943**	2,405
Impairment loss recognised/(reversed)	**216**	(462)
Balance at 31 December	**2,159**	1,943

Liquidity risk

The following are the contractual maturities of financial liabilities:

31 December 2009	**Carrying amount BAM'000**	**Contractual Cash flows BAM'000**	**6 months or less BAM'000**	**6-12 Months BAM'000**	**1-2 Years BAM'000**	**2-5 Years BAM'000**	**More than 5 years BAM'000**
Non-derivative financial liabilities							
Trade and other payables	**11,636**	**11,636**	**11,636**	-	-	-	-
Interest bearing loans and borrowings	**24,964**	**26,697**	**5,815**	**12,695**	**4,020**	**3,456**	**711**
Guarantees given	**1,476**	**1,795**	**492**	**284**	**258**	**322**	**439**

31 December 2008	Carrying Amount BAM'000	Contractual Cash flows BAM'000	6 months or less BAM'000	6-12 Months BAM'000	1-2 Years BAM'000	2-5 Years BAM'000	More than 5 years BAM'000
Non-derivative financial liabilities							
Trade and other payables	9,936	9,936	9,936	-	-	-	-
Interest bearing loans and borrowings	23,984	26,725	3,451	15,704	3,090	4,006	474
Guarantees given	779	1,118	102	103	95	285	533

33 Financial risk management (continued)

Currency risk

Exposure to currency risk

The Company incurs foreign currency risk on sales, purchases and short term loans receivable that are denominated in a currency other than convertible mark. The currencies giving rise to this risk is primarily Euro. These exposures are not currently hedged.

The Company's exposure to foreign currency risk was as follows based in functional currency:

	2009 BAM '000				2008 BAM '000			
	BAM	**EUR**	**USD**	**Other**	BAM	EUR	USD	Other
Short term loans receivable	**1,274**	**-**	**-**	**-**	1,608	-	-	-
Trade receivables	**32,010**	**26,397**	**331**	**-**	24,233	17,995	373	-
Trade payables	**(3,311)**	**(8,069)**	**(224)**	**(32)**	(1,939)	(7,715)	(267)	(15)
Interest bearing loans and borrowings	**(13,880)**	**(7,606)**	**(3,478)**	**-**	(14,622)	(8,127)	(1,235)	-
Gross balance sheet exposure	**16,093**	**10,722**	**(3,371)**	**(32)**	9,280	2,153	(1,129)	(15)

The following significant exchange rate applied during the year:

	Average rate		**Reporting date spot rate**	
	2009	2008	**2009**	2008
EUR	**1.95583**	1.95583	**1.95583**	1.95583
USD	**1.40855**	1.33174	**1.36409**	1.38731

Interest rate risk

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

	2009 BAM'000	2008 BAM'000
Fixed rate instruments		
Financial assets	**1,274**	1,608
Financial liabilities	**(17,358)**	(15,887)
	(16,084)	(14,279)
Variable rate instruments		
Financial assets	**-**	-
Financial liabilities	**(7,606)**	(8,097)
	(7,606)	(8,097)

33 Financial risk management (continued)

Fair values

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

34 Earnings per share

Basic and diluted earnings per share

	2009	2008
Profit after tax in BAM	**8,989**	8,207
Average number of issued shares	**7,827**	6,505
Earnings per share (in BAM)	**1.15**	1.26

35 Related party transactions

Director's and executives remunerations

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

	2009 BAM'000	2008 BAM'000
Gross salaries	**824**	884
Bonuses	**640**	668
Other benefits	**29**	108
	1,493	1,660

36 Contingent liabilities

Bank guarantees

Contingent liabilities for bank guarantees issued to BOR Banka d.d amount to BAM 1,100 thousand (2008: BAM 800 thousand), Intesa Sanpaolo d.d. amount to BAM 450 thousand (2008: nil) and Triglav BH Osiguranje d.d. amount to BAM 300 thousand (2008: nil) and relate to obligations of third parties to these banks, Bosna Bank International d.d. amount to BAM 245 thousand to Indirect Tax Authorities, BAM 31 thousand to Department of Health Insurance and BAM 470 thousand to Cantonal Agency for Privatization, UniCredit Bank amount to BAM 295 thousand to SFC Umwelttechnik GmbH Salzburg.

Tax inspection

In March 2009, the Company was subject to tax inspection. The results of this inspection was that the Company is liable to pay additional amounts to tax authorities. The Company does not believe that an amount totalling BAM 925 thousand, claimed as a result of the tax inspection, related to years from 2004 to 2008 is valid and has appealed against this claim to Federal Ministry of Finance. Federal Ministry of Finance has issued a resolution which abolishes the decision made by tax authorities and the case was returned back to tax authorities for reconsideration.

36 Contingent liabilities *(continued)*

Noncompliance with covenants included in Project Loan Agreement with IFC

According to the Loan Agreement between the Company and IFC dated 9 June 2005 (the "Third Loan Agreement"), the Company is obliged to maintain procedures, records and accounts adequate to reflect the operations in accordance with internationally accepted accounting standards and certain financial conditions. The Company failed to comply with the terms, covenants, provisions, or conditions of Article VI, section 6.02 Negative Covenants of the Loan Agreement between the Company and IFC dated 9 June 2005 (the "Third Loan Agreement") as they relate to financial and accounting matters. The Company did not comply with the following covenants:

- "Derivatives transactions" 6.02 (e);
- "Guarantee or assume the Liabilities of others" provision of section 6.02 (f);
- "Mortgages" provision of section 6.02 (g);
- "Branches or subsidiaries" provision of section 6.02 (j);

Due to the above breaches the total loan was classified as current, as early repayment of the long term loans could be demanded.

37 Commitments

At 31 December 2009 the Company has capital commitments of BAM 10 million (2008: BAM 10 million). The Company has signed agreement with KJP ZOI'84 OCS d.o.o. regarding development of the tourism complex on the Bjelašnica mountain. The deadline for the finalisation of the development is two years, starting from the date when the Company obtains all blinding permits. The Company is still waiting on approval from Water and Sanitary Inspection. The Company has given BAM 470 thousand to Cantonal Agency for Privatization as a guarantee for the execution of investment commitments

38 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on expectations of future events that are believed to be reasonable under the circumstances.

Certain accounting estimates in applying Company's and Company's accounting policies are described below:

Provisions

Provisions have been estimated on each balance sheet date taking into account probability of future sacrifice of economic benefits and taking into account the risk and uncertainties surrounding the obligation.

Impairment of receivables

Trade receivables are estimated on each balance sheet date and are impaired according to the estimate of the probability to collect the amount stated. Each customer is valuated separately based on the ageing of the amount due, security of payment and estimated probability to collect the outstanding amount.

Income tax

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

Fair value of derivative instruments

As at 31 December 2009 the Company has made provision for IFC PUT option, *see Note 31*. The management is of the opinion that provision for derivative financial instruments is adequate based on the available information.

38 Critical accounting estimates and judgements

Fair value of share based employee benefits

As at 31 December 2009 the Company has made provision for share based employee benefits option, *see Note 26.* The management is of the opinion that provision for share based employee benefits is adequate based on the available information.

Revenue recognition

As at 31 December 2009 the Company has made provision for financial and other rebates. These provisions are based on the analysis of the contractual obligations, historical trends and management experience. The management is of the opinion that provision for financial and other rebates is adequate based on the available information.

39 Ownership structure

The ownership structure of the Company is as follows:

	31 December 2009		31 December 2008	
	Number of shares '000	Ownership	Number of shares '000	Ownership
Federation of Bosnia and Herzegovina	1,508	19.26	1,508	19.26
World Bank, Washington D.C (IFC)	656	8.38	656	8.38
General People's Committee of Finance Libya	687	8.77	687	8.77
Employees	645	8.24	645	8.24
Other shareholders	4,334	55.35	4,334	55.35
	7,830	**100.00%**	7,830	100.00%

The above ownership structure includes shareholding of IFC (*See Note 21*) and shares issued to employees as part of a share-based payment arrangement in 2008 (*See Note 26*).