BOSNALIJEK d.d. SARAJEVO

Financial statements for the year
ended 31 December 2006
and independent auditor's report

Contents

Responsibility for the Financial Statements

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

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

In preparing those financial statements, the responsibilities of Management include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the Company. Management must also ensure that the financial statements comply with the Accounting Law of the Feredation of Bosnia and Herzegovina. Management is also responsible for safeguarding the assets of the Company, and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of Management

Edin Arslanagić, Director

Bosnalijek d.d.

Jukićeva 53
71 000 Sarajevo
Bosnia and Herzegovina

23 February 2007

Deloitte.

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Independent Auditor's Report

To the Shareholders of Bosnalijek d.d. :

We have audited the accompanying financial statements of Bosnalijek d.d. Sarajevo ('the Company'), set out on pages 4 to 24, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2006, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

Deloitte

Deloitte d.o.o.

Sarajevo, Bosnia and Herzegovina

23 February 2007

(All amounts are expressed in thousands of KM)

	Note	2006	2005 (Restated)
Revenue	4	84,532	82,210
Cost of sales	5	(33,536)	(32,244)
Gross profit		**50,996**	**49,966**
Selling, administrative and general expenses	6	(38,498)	(35,297)
Other operating income	7	1,951	1,918
Other operating expenses	8	(2,246)	(5,759)
Profit from operations		**12,203**	**10,828**
Interest income		7	8
Interest expenses		(2,351)	(1,518)
IFC put option expense	23	(1,678)	(1,405)
Foreign exchange, (losses), net		(180)	(262)
Profit before tax		**8,001**	**7,651**
Income tax expense	9	**(164)**	**-**
Net profit for the year		**7,837**	**7,651**
Earnings per share	10	**0.0013**	**0.0013**

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

(All amounts are expressed in thousands of KM)

	Note	2006	2005 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	11	94,346	95,944
Intangible assets	12	3,505	2,801
Non-current receivables	13	1,293	907
		99,144	**99,652**
Current assets			
Current portion of non-current receivables	13	406	447
Inventories	14	17,315	15,432
Trade receivables	15	31,042	25,930
Other receivables	16	3,473	2,351
Cash and cash equivalents	17	2,233	1,694
		54,469	**45,854**
TOTAL ASSETS		**153,613**	**145,506**
EQUITY AND LIABILITIES			
Equity and Reserves			
Share capital	18	51,116	51,116
Reserves		23,150	16,333
Retained earnings		17,483	16,463
		91,749	**83,912**
Non-current liabilities			
Long-term loans	19	15,957	13,671
Obligations under finance leases	20	39	43
Provisions for retirement benefits		470	510
Deferred tax liabilities	9	164	-
Deferred income	21	117	163
		16,747	**14,387**
Current liabilities			
Current portion of long-term loans	19	6,647	6,665
Current portion of obligations under finance leases	20	23	28
Trade payables	22	9,969	11,785
Short-term loans	23	23,589	23,793
Other payables	24	4,889	4,936
		45,117	**47,207**
TOTAL EQUITY AND LIABILITIES		**153,613**	**145,506**

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

Signed on behalf of the Company on 23 February 2007

Edin Arslanagić
Director

Šefik Handžić
Executive director for finance and economy

Bosnalijek d.d.
Statement of changes in equity
for the year ended 31 December 2006
(All amounts are expressed in thousands of KM)

	Share capital	Reserves	Retained earnings	Total
Balance at 31 December 2004 (as originally reported)	**51,116**	**10,027**	**16,361**	**76,261**
Correction of an error (Note 2)	-	-	(1,243)	(1,243)
Balance at 31 December 2004 (Restated)	**51,116**	**10,027**	**15,118**	**76,261**
Transfer (from) / to	-	6,306	(6,306)	-
Net profit for the year (Restated) (Note 2)	-	-	7,651	7,651
Balance at 31 December 2005 (Restated)	**51,116**	**16,333**	**16,463**	**83,912**
Transfer (from) / to	-	6,817	(6,817)	-
Net profit for the year	-	-	7,837	-
Balance at 31 December 2006	**51,116**	**23,150**	**17,483**	**91,749**

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

(All amounts are expressed in thousands of KM)

	2006	2005 (Restated)
Operating activities		
Net profit for the year	**7,837**	**7,651**
Adjustments for:		
Depreciation and amortization	9,018	8,708
Loss on disposal of property, plant and equipment	51	349
Adjustment of property, plant and equipment	42	-
Write-off of raw materials and finished goods	-	2,178
Increase in allowance for bad and doubtful trade receivables	178	345
Decrease in retirement benefits	(40)	(9)
Increase in deferred income	2	21
Increase in deferred tax liabilities	164	-
Adjustment for IFC convertible loan cost	1,679	1,405
Depreciation for donated equipment	(48)	(58)
Adjustment for cash flow form investing and financing activities	2,344	1,423
Cash flow before changes in operating assets and liabilities:	*21,227*	*22,013*
Increase in non-current receivables	(345)	(361)
Increase in inventories	(1,883)	(408)
Increase in trade receivables	(5,290)	(1,390)
(Increase) decrease in other receivables	(423)	770
(Decrease) increase in trade payables	(1,816)	11,391
(Decrease) increase in other payables	(47)	84
Cash flow from operating activities	*11,423*	*32,099*
Interest paid	(2,351)	(1,431)
Income tax paid	(699)	-
Net cash from operating activities	**8,373**	**30,668**
Investing activities		
Purchase of property, plant and equipment	(6,613)	(43,752)
Purchase of intangible assets	(1,669)	(1,806)
Proceeds from disposal of property, plant and equipment	65	588
Interest received	7	8
Net cash used in investing activities	**(8,210)**	**(44,962)**
Financing activities		
(Decrease) increase in obligations under finance leases	(9)	71
Proceeds from long-term loans, net of repayments	2,268	6,858
(Repayment of) proceeds from short-term loans	(1,883)	8,135
Net cash provided by financing activities	**376**	**15,064**
Net increase in cash and cash equivalents	**539**	**770**
Cash and cash equivalents at the beginning of the year	**1,694**	**924**
Cash and cash equivalents at the end of the year	**2,233**	**1,694**

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

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 2006, the Company employed 581 employees (2005, 536 employees).

Management

Supervisory Board

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

Management

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

Audit Committee

Sead Sarvan	Chairman
Ibrahim Imamović	Member
Rabija Avduli	Member

2. CORRECTION OF AN ERROR

The Company has restated the financial statements for the years ended 31 December 2005 and 2004 in order to correct an error related to the recognition of the provisions for the long- and short-term employee benefits as required by International Accounting Standard 19 – Employee benefits and recognition of the accruals for employee bonuses as required by the Framework for the Preparation and Presentation of Financial Statements, Underlying assumptions - Accrual basis. Previously, the Company recorded the costs of retirement severance payments and employee bonuses when they became due and were paid to the employees.

As a result of the above, as at 31 December 2005 and 2004, retained earnings have decreased by KM 1,295 thousand and KM 1,243 thousand respectively. In addition, as at 31 December 2005 and 2004, provisions for retirement benefits have increased by KM 510 thousand and KM 519 thousand, and accruals for employee bonuses have decreased by KM 39 thousand and increased by KM 724 thousand, respectively, whereas net result for the year ended 31 December 2005 has increased by KM 48 thousand.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as published by the International Accounting Standards Board. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The financial statements are presented in Convertible marks since that is 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 effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as at the date of the consolidated financial statements and actual results could differ from those estimates.

Certain amounts in the previous year financial statements have been reclassified to conform to the current year presentation.

3.1. Adoption of new and revised standards

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Company's accounting policies.

At the date of authorization of these financial statements, the following Standard, relevant for the Company's financial statements, was in issue but not yet effective and not:

• IFRS 7 Financial Instruments: Disclosures and complementary amendments to IAS 1 Presentation of Financial Statements - *Effective for annual periods beginning on or after 1 January 2007.*

At the date of authorization of these financial statements, the following Standard and Interpretations were in issue but not yet effective and not relevant for the Company's financial statements:

• IFRS 8 Operating Segments - *Effective for annual periods beginning on or after 1 January 2009;*

• IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies - *Effective for annual periods beginning on or after 1 March 2006;*

• IFRIC 8 Scope of IFRS 2 - *Effective for annual periods beginning on or after 1 May 2006;*

• IFRIC 9 Reassessment of Embedded Derivatives - *Effective for annual periods beginning on or after 1 June 2006;*

• IFRIC 10 Interim Financial Reporting and Impairment - *Effective for annual periods beginning on or after 1 November 2006;*

• IFRIC 11 IFRS 2 Group and Treasury Share Transaction - *Effective for annual periods beginning on or after 1 March 2007;*

• IFRIC 12 Service Concession Arrangements - *Effective for annual periods beginning on or after 1 January 2008.*

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed to the customer. Sales of services are recognized net of sales taxes and discounts when the services have been provided. Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable.

Borrowing costs

Borrowing costs are charged to the statement of income in the period incurred.

Leasing

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

The Company as lessee
Assets held under finance leases are recognised as assets of the Company at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the statement of income in the period incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Foreign currencies

Transactions in currencies other than KM are initially recorded at the rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates ruling on the balance sheet date. Foreign exchange profits and losses arising on exchange are included in net profit or loss for the period.

Employee benefits

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

Retirement severance payments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

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

(All amounts are expressed in thousands of KM)

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

	2006	**2005**
Buildings	7 to 33 years (3% - 14.3%)	20 to 33 years (3%-5%)
Machinery, equipment and software	3 to 15 years (6.7% - 33.3%)	3 to 7 years (14.3% - 33.3%)

In 2006, the Company has reassessed the estimated useful lives for its property, plant and equipment. The effect of this change on the current and next year's is a decrease in depreciation expense in the amount of about KM 2,343 thousand.

Assets held under finance leases are depreciated over their expected useful life or, where shorter, the term of the relevant lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

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

Cash and cash equivalents

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

Impairment

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

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is comprised of direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Reserves

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets

The Company's principal financial assets are cash and cash equivalents, trade receivables, other receivables and short-term loan receivables.

Trade receivables, other receivables and short-term loan receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liabilities and equity

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Debt instruments issued which carry a right to convert to equity that is dependent on the outcome of uncertainties beyond the control of both the Company and the holder are classified as liabilities except where the possibility of non-conversion is remote.

Significant financial liabilities include long-term loans, trade payables, short-term loans and other payables.

Interest-bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise.

Trade and other payables are stated at their nominal value.

(All amounts are expressed in thousands of KM)

4. REVENUE

	2006	2005
Domestic sales	67,554	71,136
Foreign sales	16,914	10,970
Services rendered	64	104
	84,532	**82,210**

5. COST OF SALES

	2006	2005
Raw materials	15,510	14,861
Merchandise	8,395	9,188
Production services	6,754	5,114
Employee expenses	1,808	1,229
Depreciation	1,069	1,852
	33,536	**32,244**

6. SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

	2006	2005 (Restated)
Employee expenses	13,201	13,340
Depreciation and amortisation	7,949	6,856
Marketing	4,452	4,307
Non-production services	3,175	2,202
Entertainment	2,883	2,404
Energy	1,766	1,156
Per diems and travel expenses	1,416	1,649
Bank fees	445	707
Insurance premium	417	319
Other expenses	2,794	2,357
	38,498	**35,297**

(All amounts are expressed in thousands of KM)

7. OTHER OPERATING INCOME

	2006	2005 (Restated)
Income from written off liabilties	1,072	-
Collected trade receivables for which allowance was made (Note 15)	234	300
Donations (Note 21)	48	58
Subsequently approved discounts from suppliers	-	340
Income from investments*	-	920
Other	597	300
	1,951	**1,918**

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

* In 2005 income from investments in the amount of KM 911 thousand relates to income from sale of appartment complex at Bjelašnica upon completion of construction works.

8. OTHER OPERATING EXPENSES

	2006	2005
Donations and sponsorships	738	909
Allowance for bad and doubtful trade receivables (Note 15)	448	727
Write-off of obsolete and unusable raw materials	222	1,568
Loss upon disposal of property, plant and equipment, net	51	349
Write-off of finished goods and merchandise	34	610
Subsequently approved discounts to customers	-	670
Other	753	926
	2,246	**5,759**

9. INCOME TAX EXPENSE

	2006	2005 (Restated)
Profit before tax	**8,001**	**7,651**
Non-deductible expenses	114	2,273
Additional depreciation charge for the tax purposes	(2,343)	
Taxable income	**5,772**	**9,924**
Income tax at the rate of 30%	1,732	2,977
Tax relief – 100% upon reinvestment of profit in property, plant and equipment	(1,732)	(2,977)
Deferred tax expense	164	-
Tax expense for the year	**164**	**-**
Effective tax rate for the year (%)	**2.04%**	**-**

(All amounts are expressed in thousands of KM)

9. INCOME TAX EXPENSE (CONTINUED)

Changes to deferred tax liability can be presented as follows:

	2006	2005
Balance at beginning of year	-	-
Increase	164	-
Balance at the end of year	**164**	**-**

In 2006, the Company has decreased its taxable income by KM 2,434 thousand in respect of the temporary difference between annual depreciation charge for 2006, using the depreciation rates based on the estimated useful lives of property, plant and equipment, and deprecition charge using the maximum allowable depreciation rates for the tax purposes. As a result the Company has recognized the deferred tax liability using effective tax rate of 7% that is expected to apply in the period whan the liabilitiy will be settled.

10. EARNINGS PER SHARE

	2006	2005 (Restated)
Net profit for the purposes of basic earnings per share	7,837	7,651
Weighted average number of ordinary shares for the purposes of basic earnings per share	5,843,276	5,843,276
Earnings per share	**0.0013**	**0.0013**

11. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Software	Assets under construction	Advances paid	Total
COST							
At 31 December 2005	**2,323**	**69,824**	**39,985**	**1,306**	**30,103**	**359**	**143,900**
Additions	-	-	-	-	5,831	782	6,613
Disposals	-	(45)	(1,072)	(40)	-	-	(1,157)
Other	-	-	-	-	(42)	-	(42)
Transfers	-	18,010	13,849	1,868	(33,034)	(693)	-
At 31 December 2006	**2,323**	**87,789**	**52,762**	**3,134**	**2,858**	**448**	**149,314**
ACCUMULATED DEPRECIATION							
At 31 December 2005	**-**	**24,863**	**22,098**	**995**	**-**	**-**	**47,956**
Charge for the year	-	3,082	4,492	479	-	-	8,053
Elimination on disposals	-	(17)	(1,019)	(5)	-		(1,041)
At 31 December 2006	**-**	**27,928**	**25,571**	**1,469**	**-**	**-**	**54,968**
CARRYING AMOUNT							
At 31 December 2006	**2,323**	**59,861**	**27,191**	**1,665**	**2,858**	**448**	**94,346**
At 31 December 2005	**2,323**	**44,961**	**17,887**	**311**	**30,103**	**359**	**95,944**

(All amounts are expressed in thousands of KM)

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in machinery and equipment with a carrying amount of KM 103 thousand (2005 - KM 135 thousand) in respect of assets held under finance leases (Note 20).

The Company has pledged land, buildings, machinery and equipment with a carrying amount of approximately KM 48,421 thousand (2005 – KM 41,723 thousand) to secure loans granted by IFC Washington, CBS Bank d.d. Sarajevo, HVB Central Profit banka d.d. Sarajevo, Investicijska banka Federacije BiH d.o.o. Sarajevo and Bosna Bank International d.d. Sarajevo.

12. INTANGIBLE ASSETS

	Licenses	Intangibles in progress	Total
COST			
At 31 December 2005	**1,434**	**2,090**	**3,524**
Additions	-	1,669	1,669
Transfers	3,759	(3,759)	-
At 31 December 2006	**5,193**	**-**	**5,193**
ACCUMULATED AMORTIZATION			
At 31 December 2005	**723**	**-**	**723**
Charge for the year	965	-	965
At 31 December 2006	**1,688**	**-**	**1,688**
CARRYING AMOUNT			
At 31 December 2006	**3,505**	**-**	**3,505**
At 31 December 2005	**711**	**2,090**	**2,801**

Intangibles in progress include KM 539 thousand in respect of purchased know how and transfer of technology for the development of the new products.

13. NON-CURRENT RECEIVABLES

	2006	2005
Deposits with UPI bank d.d. Sarajevo, held as collateral for loans granted to Company employees, maturing in 2018, bearing interest at the rate of 0.5% per annum	876	876
Receivables for rescheduled payments, repayable in 24 monthly installments starting from 1 December 2006, due on 30 November 2008, interest-free	750	433
Receivables from employees	54	32
Receivables from other individuals	19	13
	1,699	*1,354*
Less: Current portion of non-current receivables	(406)	(447)
	1,293	**907**

(All amounts are expressed in thousands of KM)

14. INVENTORIES

	2006	2005
Finished goods	8,653	7,198
Raw materials	7,352	5,304
Work-in-progress	1,310	2,930
	17,315	**15,432**

Inventories with a carrying amount of KM 4,428 thousand have been pledged as security for revolvling short-term loan liabilities towards Bosnia Bank International d.d. Sarajevo (Note 23).

15. TRADE RECEIVABLES

	2006	2005
Trade receivables	33,525	28,235
Less: allowance for impairment of receivables	(2,483)	(2,305)
	31,042	**25,930**

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

	2006	2005
Balance at the beginning of the year	**2,305**	**1,960**
Increase (Note 8)	448	727
Decrease due to collections (Note 7)	(234)	(300)
Decrease due to write-offs	(36)	(82)
Balance at the end of the year	**2,483**	**2,305**

16. OTHER RECEIVABLES

	2006	2005
Prepaid income tax	2,457	1,758
Other receivables from customers	423	-
Advances given	309	111
Receivables from prepaid expenses	201	96
Receivables from employees	55	62
Receivables from BBM d.o.o. Sarajevo for sold office space	-	324
Other	28	-
	3,473	**2,351**

17. CASH AND CASH EQUIVALENTS

(All amounts are expressed in thousands of KM)

	2006	2005
Current accounts	1,290	1,019
Foreign currency accounts	787	637
Cash on hand	156	38
	2,233	**1,694**

18. SHARE CAPITAL

	2006	2005
5,843,276 common shares with nominal value of KM 10	**58,432**	**58,432**
Less: International Finance Corporation (IFC) conversion option	(7,316)	(7,316)
	51,116	**51,116**

The ownership structure as of 31 December 2006 and 2005 can be summarised as follows:

		2006		2005
	% share		% share	
Federation of Bosnia and Herzegovina	28.90	16,884	28.90	16,884
World Bank, Washington D.C. USA (IFC)	12.52	7,316	12.52	7,316
Other	58.58	34,232	58.58	34,232
	100.00	**58,432**	**100.00**	**58,432**

IFC loan conversion option was exercised in August 2001 and the Company increased its share capital by the amount of 7,316 thousand. These shares have been restated as debt as required by International Financial Reporting Standards due to the existence of a Put Option, which gives the IFC the right to require the Company to repurchase the shares.

If the IFC were to sell their shares at any time in the five years prior to the expiry of the Put Option Agreement on 9 August 2007, the Put Option would lapse and the shares would be restated in the accounts at KM 7,316 thousand plus or minus a discount or premium.

19. LONG-TERM LOANS

(All amounts are expressed in thousands of KM)

	2006	**2005**
IFC, Washington, maturing on 15 December 2012, with the interest at the rate of EURIBOR	13,117	5,884
HVB Central Profit banka d.d. Sarajevo, maturing on 07 April 2009, with interest at the rate of EURIBOR + 3% per annum	3,803	5,430
HVB Central Profit banka d.d. Sarajevo, maturing on 15 November 2011, with interest at the rate of EURIBOR + 3.5% per annum	3,288	3,955
Investicijska banka Federacije BiH d.o.o. Sarajevo, maturing on 06 February 2008, at interest rates ranging between 4% and 7% per annum	835	1,491
Investicijska banka Federacije BiH d.o.o. Sarajevo, maturing on 27 August 2008, with interest at the rate of EURIBOR + 3% per annum	703	1,338
IFC, Washington, maturing on 18 October 2006, with the interest at the rate of LIBOR + 3%	414	1,241
NLB Tuzlanska banka d.d. Tuzla (previously CBS bank d.d. Sarajevo), maturing on 26 September 2007, interest rate EURIBOR +3% per annum	394	787
HVB Central Profit banka d.d. Sarajevo, maturing 01 September 2007, with interest at the rate of 4% per annum	50	150
HVB Central Profit banka d.d. Sarajevo – Canton Sarajevo, maturing on 05 September 2006, with interest at the rate of LIBOR + 1.5% per annum	-	60
	22,604	*20,336*
Less: current portion of long-term loans	(6,647)	(6,665)
	15,957	**13,671**

Amounts are due for settlement as follows:

Within one year	6,647	6,665
In the second year	5,374	6,702
In the third to fifth years inclusive	9,960	6,969
After five years	623	-
	22,604	20,336

20. OBLIGATIONS UNDER FINANCE LEASES

(All amounts are expressed in thousands of KM)

	Minimum lease payments		**Present value of minimum lease payments**	
	2006	**2005**	**2006**	**2005**
Amounts payable under finance leases:				
Within one year	49	38	38	28
In the second to fifth year inclusive	30	62	23	43
	79	100	61	71
Less: future finance charges	(18)	(29)	-	-
Present value lease obligations	**61**	**71**	**61**	**71**
Less: amount due within 12 months	(38)	(28)	(38)	(28)
Amount due for settlement after 12 months	**23**	**43**	**23**	**43**

The Company leases 5 vehicles with a carryng amount of KM 103 thousand (31 December 2005 – KM 135 thousand). The average term of finance leases entered into is 5 years. The interest rate inherent in the leases is fixed at the contract date for all of the lease term and the average effective interest rate contracted approximates 8.83% per annum. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in Euro.

The fair value of the Company's finance lease obligations approximates their carrying amount. The Company's obligations under finance leases are secured by the lessor's charge over the leased assets.

21. DEFERRED INCOME

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

Changes in deferred income can be presented as follows:

	2006	**2005**
Balance at the beginning of the year	**163**	**200**
Donated equipment received	2	21
Release to income (Note 7)	(48)	(58)
Balance at the end of the year	**117**	**163**

22. TRADE PAYABLES

	2006	**2005**
Trade payables – foreign	8,240	8,781
Trade payables – domestic	1,729	3,004
	9,969	**11,785**

23. SHORT-TERM LOANS

	2006	**2005**

IFC Convertible Loan (see Note 18)	10,687	9,009
Bosna Bank International d.d. Sarajevo, partnership agreements for purchase of raw materials and semi-finished products expiring in 2007, with profit margin ranging between 7.93% and 14.20% (2005-expiring in 2006, with profit margin ranging between 9.60% and 10.49%)	6,889	2,904
HVB Central Profit banka d.d. Sarajevo, working capital loans maturing in 2007 (2005-15.06.2006) with interest at the rate of 5.5% per annum	3,007	3,007
Raiffeisen bank d.d. BiH Sarajevo, working capital loan maturing on 07.04.2007 (2005-07.04.2006) with interest at the rate of EURIBOR+3.45% per annum (2005-EURIBOR+3.75%)	3,006	2,010
HVB Central Profit banka d.d Sarajevo, working capital loan for financing of building and equipment of PDC maturing on 15.04.2006 with interest of the rate of Euribor + 3,75 % per annum.	-	6,863
	23,589	**23,793**

24. OTHER PAYABLES

	2006	**2005 (Restated)**
Salaries	1,739	3,000
Accrued expenses	1,231	46
Bonuses	710	741
VAT payables	539	-
Contributions	345	720
Other taxes payable	256	258
Salary taxes	55	157
Other	14	14
	4,889	**4,936**

25. CONTINGENT LIABILITIES

As of 31 December 2006, court proceedings were initiated against the Company in the total amount of KM 416 thousand related to former employee and supplier litigation issues (2005 – KM 497 thousand). Management is of the opinion that these court proceedings are without merit and therefore, no amounts have been recorded in the accompanying financial statements. Amounts, if any, will be recorded in the period of settlement, if settlement occurs.

25. CONTINGENT LIABILITIES (CONTINUED)

Noncompliance with covenants included in Project Loan Agreement with EBRD

(All amounts are expressed in thousands of KM)

According to the Loan Agreement between the Company and IFC dated 9 June 2005 (the "Third Loan Agreement"), the Company is obliged to maintain procedures, records and accounts adequate to reflect the operations in accordance with internationally accepted accounting standards and certain financial conditions. We note that the Company failed to comply with the terms, covenants, provisions, or conditions of Article VI, section 6.02 Negative Covenants of the Loan Agreement between the Company and IFC dated 9 June 2005 (the "Third Loan Agreement") as they relate to financial and accounting matters. The Company did not comply with the “Peak Debt Service Coverage Ratio” and “Current Ratio” provisions of Section 6.02 (c).

Management is not aware of any circumstances or information which would lead it to believe that these non-compliances will cause neither early repayment of the IFC loan nor additional liabilities for the Company and consequently no provisions are included in the financial statements in respect of these matters.

26. CAPITAL COMMITMENTS

At 31 December 2006, the Company had capital commitments for 2007 in the amount of KM 1,276 thousand (2005 - KM 7,645 thousand for 2006).

27. RELATED PARTY TRANSACTIONS

Directors' and executives' remuneration

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

	2006	**2005 (Restated)**
Gross salaries	710	502
Bonuses	710	684
Other benefits	78	69
	1,498	**1,255**

28. OTHER FINANCIAL ASSETS AND LIABILITIES

Trade and other receivables comprise amounts receivable for the sale of goods. The average credit period taken on sale of goods is 123 days (2005 – 113). An allowance has been made for estimated irrecoverable amounts from the sale of goods of KM 2,483 thousand (2005 – KM 2,305 thousand). This allowance has been determined by reference to past default experience. Management considers that the carrying amount of trade and other receivables approximates to their fair value.

Credit risk

The Company’s credit risk is primarily attributable to its trade and other receivables. The amounts presented in the balance sheet are net of allowanced for doubtful receivables, estimated by the Company’s Management based on prior experience and the current economic environment. The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

28. OTHER FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. Management considers that the carrying amount of trade and other payables approximates to their fair value.

Foreign currency risk

The Company raises funds from loans and other liabilities. Therefore, the Company is exposed to market risk related to possible foreign currency fluctuations. The Company does not have financial instruments to reduce these risks.

Interest rate risk

Interest rate risk is the risk that the value of the Company's long-term debt will fluctuate due to changes in market interest rates. The Company does not have financial instruments to reduce these risks.

29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorized for issue on 23 February 2007:

Edin Arslanagić	Šefik Handžić
Director	Executive director for finance and economy