

**VETERINARSKI ZAVOD  
“SUBOTICA” A.D., SUBOTICA**

**Financial Statements  
Year Ended December 31, 2010 and  
Independent Auditors’ Report**

**VETERINARSKI ZAVOD "SUBOTICA" A.D.,  
SUBOTICA**

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## INDEPENDENT AUDITORS' REPORT

### To the Shareholders and Director of Veterinarski zavod "Subotica" a.d., Subotica

We have audited the accompanying financial statements of Veterinarski zavod "Subotica" a.d., Subotica, (the "Company"), which comprise the balance sheet as at December 31, 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of the 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 the accounting regulations of the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on 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 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 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 at December 31, 2010, and its financial performance and its cash flows for the year then ended, in accordance with the accounting regulations of the Republic of Serbia.

(continued)

## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Director of Veterinarski zavod "Subotica" a.d., Subotica (continued)

### *Emphasis of Matter*

We draw attention to the following matters:

- a) As disclosed in Note 15 to the financial statements, mortgages over property of the Company with the net book value as at December 31, 2010 of RSD 581,553 thousand arise on: Bank Guarantee Agreement number LG 1933/07, conducted with „Hypo Alpe-Adria-Bank“ a.d. Beograd, as a collateral for long-term foreign currency borrowings granted by „Hypo Group Netherlands Corporate Finance“, Amsterdam and Long-term investment Agreement conducted with „Komercijalna banka“ a.d. Beograd on August 29, 2008. Our opinion is not qualified in respect of this matter.
- b) As disclosed in Note 27 to the financial statements the Company's contingent liabilities as at December 31, 2010 arising in relation to sureties and guarantees amount to RSD 7,156,481 thousand (December 31, 2009 – RSD 3,896,533 thousand). The aforementioned sureties and guarantees were issued in favor of domestic banks for loans granted to the related parties. Our opinion is not qualified in respect of this matter.

Belgrade, February 28, 2011

Jovan Papić  
Certified Auditor

**VETERINARSKI ZAVOD "SUBOTICA" A.D., SUBOTICA**

**INCOME STATEMENT**  
**Year Ended December 31, 2010**  
**(thousands of RSD)**

	<u>Note</u>	<u>2010</u>	<u>2009</u>
<b>OPERATING INCOME</b>			
Sales	5	2,605,204	2,335,434
Own-work capitalized		1,492	31,027
Increase in the value of inventories		15,849	7,094
Other operating income		4,319	1,647
		<u>2,626,864</u>	<u>2,375,202</u>
<b>OPERATING EXPENSES</b>			
Cost of commercial goods sold		(875,876)	(534,248)
Cost of materials	6	(1,063,105)	(1,100,452)
Staff costs	7	(272,281)	(263,938)
Depreciation and amortization	14, 15	(110,787)	(83,637)
Other operating expenses	8	(118,209)	(134,620)
		<u>(2,440,258)</u>	<u>(2,116,895)</u>
<b>PROFIT FROM OPERATIONS</b>		<u>186,606</u>	<u>258,307</u>
Finance income	9	49,403	42,281
Finance expenses	10	(140,030)	(75,342)
Other income	11	5,753	24,401
Other expenses	12	(34,774)	(47,227)
		<u>(119,648)</u>	<u>(55,887)</u>
<b>PROFIT FROM OPERATIONS BEFORE TAX</b>		<u>66,958</u>	<u>202,420</u>
Effects of immaterial prior period errors, net		<u>(553)</u>	<u>(706)</u>
<b>PROFIT BEFORE TAX</b>		<u>66,405</u>	<u>201,714</u>
<b>INCOME TAXES</b>			
Current income tax expense	13v	(4,248)	(12,213)
Deferred tax income		-	377
		<u>(4,248)</u>	<u>(11,836)</u>
<b>PROFIT FOR THE YEAR</b>		<u>62,157</u>	<u>189,878</u>
<b>Basis earnings per share (in Dinars)</b>		<u>27,50</u>	<u>84,01</u>

The accompanying notes on the following pages  
are an integral part of these financial statements

These financial statements were approved by the Management of the Company and submitted to the Serbian Business Register Agency on February 25, 2011.

Sign on behalf of Veterinarski zavod "Subotica" a.d., Subotica:

Nataša Pavićević-Bajić

General Director

Danijela Polić

Chief of accounting department

VETERINARSKI ZAVOD "SUBOTICA" A.D., SUBOTICA

**BALANCE SHEET**  
As at December 31, 2010  
(thousands of RSD)

	Note	December 31, 2010	December 31, 2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	14	201,833	202,533
Intangible assets	14	123,952	142,757
Property, plant and equipment	15	1,543,469	1,533,229
Investment property	15	12,070	12,426
Long-term financial placements	16	8,240	9,039
		<u>1,889,564</u>	<u>1,899,984</u>
<b>Current assets</b>			
Inventories	17	844,273	514,532
Receivables	18	1,066,800	835,928
Receivables for prepaid income taxes		7,964	-
Short-term financial placements	19	367,398	334,525
Cash and cash equivalents	20	10,291	49,714
Value added tax and prepayments	21	29,124	33,196
		<u>2,325,850</u>	<u>1,767,895</u>
<b>Total assets</b>		<u><u>4,215,414</u></u>	<u><u>3,667,879</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	22	946,467	946,467
Reserves		532,978	533,108
Revaluation reserves		585,565	590,703
Retained earnings		473,619	410,287
Repurchased own shares		(267)	-
		<u>2,538,362</u>	<u>2,480,565</u>
<b>Non-current liabilities</b>			
Long-term borrowings	23	368,362	410,519
Other long-term liabilities		-	409
		<u>368,362</u>	<u>410,928</u>
<b>Current liabilities</b>			
Short-term financial liabilities	24	559,765	323,147
Liabilities from operations	25	677,765	376,166
Other current liabilities	26	23,197	21,870
Value added tax and other duties payable and accruals		586	1,312
Income tax payables		1,018	7,532
		<u>1,262,331</u>	<u>730,027</u>
<b>Deferred tax liabilities</b>	13b	<u>46,359</u>	<u>46,359</u>
<b>Total equity and liabilities</b>		<u><u>4,215,414</u></u>	<u><u>3,667,879</u></u>
<b>Off-balance-sheet items</b>	27	<u><u>7,588,656</u></u>	<u><u>4,352,079</u></u>

The accompanying notes on the following pages  
are an integral part of these financial statements

**STATEMENT OF CHANGES IN EQUITY**  
**Year Ended December 31, 2010**  
**(thousands of RSD)**

	<u>Share Capital</u>	<u>Other Capital</u>	<u>Share Premium</u>	<u>Revaluation Reserves</u>	<u>Retained Earnings</u>	<u>Repurchased Own Shares</u>	<u>Total</u>
Balance at January 1, 2009	688,933	19,786	476,748	592,467	219,656	(29,043)	1,968,547
Eight share issue	237,748	-	52,188	-	-	-	289,936
Repurchased own shares sold and share premium effect, net	-	-	4,172	-	-	29,043	33,215
Decrease in revaluation reserves due to disposals of property, plant and equipment	-	-	-	(1,011)	-	-	(1,011)
Transfer of revaluation reserves based on property, plant and equipment sold	-	-	-	(753)	753	-	-
Profit for the year	-	-	-	-	189,878	-	189,878
Balance at December 31, 2009	<u>926,681</u>	<u>19,786</u>	<u>533,108</u>	<u>590,703</u>	<u>410,287</u>	<u>-</u>	<u>2,480,565</u>
Balance at January 1, 2010	926,681	19,786	533,108	590,703	410,287	-	2,480,565
Repurchased own shares	-	-	(130)	-	-	(267)	(397)
Decrease in revaluation reserves due to disposals of property, plant and equipment	-	-	-	(3,963)	-	-	(3,963)
Transfer of revaluation reserves based on property, plant and equipment sold	-	-	-	(1,175)	1,175	-	-
Profit for the year	-	-	-	-	62,157	-	62,157
Balance at December 31, 2010	<u>926,681</u>	<u>19,786</u>	<u>532,978</u>	<u>585,565</u>	<u>473,619</u>	<u>(267)</u>	<u>2,538,362</u>

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**VETERINARSKI ZAVOD "SUBOTICA" A.D., SUBOTICA**

**CASH FLOW STATEMENT**  
**Year Ended December 31, 2010**  
**(thousands of RSD)**

	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>		
Cash receipts from customers	2,629,612	2,303,323
Interest received	521	25,626
Other cash received from operating activities	70,201	94,017
Cash paid to suppliers	(2,354,034)	(1,919,457)
Cash paid to, and on behalf of employees	(266,690)	(252,076)
Interest paid	(60,899)	(40,942)
Income taxes paid	(18,727)	(5,090)
Non-income taxes and other duties paid	(44,668)	(53,375)
<i>Net cash (used in)/ provided by operating activities</i>	(44,684)	152,026
<b>Cash flows from investing activities</b>		
Sales of intangible assets, property, plant and equipment	-	4,255
Other financial placements (net inflow)	-	85,403
Purchase of shares and stakes (net outflows)	(408)	-
Purchase of intangible assets, property, plant and equipment	(104,204)	(506,191)
Other financial placements (net outflow)	(18,800)	(150,000)
<i>Net cash used in investing activities</i>	(123,412)	(566,533)
<b>Cash flows from financing activities</b>		
Increase in share capital	-	237,748
Long-term and short-term borrowings (net inflow)	129,660	185,888
Other long-term and short-term liabilities	1,600	-
Long-term and short-term borrowings and other liabilities (net outflow)	-	(82,929)
Finance lease	(2,482)	(1,944)
<i>Net cash provided by financing activities</i>	128,778	338,763
<b>Net decrease in cash and cash equivalents</b>	(39,318)	(75,744)
<b>Cash and cash equivalents, beginning of year</b>	49,714	124,981
<b>Foreign exchange (losses)/gains on translation of cash and cash equivalents, net</b>	(105)	477
<b>Cash and cash equivalents, end of year</b>	10,291	49,714

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**VETERINARSKI ZAVOD "SUBOTICA" A.D., SUBOTICA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**1. ESTABLISHMENT AND ACTIVITY**

Veterinarski zavod "Subotica" a.d., Subotica (further referred to as the "Company"), was founded on August 11, 1921 under the name of "Patria" Serum Production Institute Belgrade - Subotica. After World War II it was affiliated to the State Institute for the Production of Veterinary Drugs and Vaccines, with registered office in Belgrade, and it produced and sold serums and vaccines in accordance with the Ministry of Agriculture instructions.

Serum Production Institute Belgrade – Subotica ("Institute") was transformed into a stockholding company in 1991 and in 1998 it became a shareholding company. Privatisation of the Institute under the 1997 Law on Ownership transformation was finalised on November 11, 1998. The Company's legal status was changed pursuant to order FI 3138/98 of the Commercial Court of Subotica.

The Company's registration was transferred to the Register of Companies pursuant to Decision BD 44608/2005 of the Serbian Business Register Agency dated August 1, 2005.

Full corporate name: Veterinarski zavod "Subotica" a.d., Subotica – proizvodnja hrane za životinje, farmaceutskih preparata, pesticida i sredstava za deratizaciju, dezinfekciju i dezinskciju (SC Veterinary Institute "Subotica" – Production of Animal Feed, Pharmaceutical Preparations, Pesticides and Rodent Control, Pest Control and Disinfection Agents). Shortened corporate name: Vetzavod a.d., Subotica.

The Company's primary activity include production of ready-made animal feed, production of pesticides and other agricultural chemicals, cattle breeding, other retail trade, rodent control, pest control and disinfection services.

The Company holds 51% of equity in "Vetzavod Georgi i drugi" d.o.o, Skopje, in FYR Macedonia. On February 23, 2007, the Company's Board of Directors adopted a decision on termination of operations of "Vetzavod Georgi i drugi" d.o.o., Skopje due to a lack of commercial interest in its continued operation. Winding up of the said company in FYR Macedonia is underway. In May 2007, the Company also acquired equity in "Aktivex" d.o.o., Subotica (77.25%). Furthermore, in September 2007 the Company purchased 100% equity in "Symbiofarm" d.o.o., Beograd, a manufacturer of veterinary pharmaceuticals. On January 1, 2008, the Company changed its status by merging with "Symbiofarm" d.o.o. Beograd, which effectively increased its output of veterinary pharmaceutical preparations and its share in the market for these preparations. The said merger added further 38 preparations to the Company's existing range of 42 chemo-pharmaceutical preparations.

The Company's registered office is Beogradski put 123 in Subotica.

As at December 31, 2010 the Company had 335 employees (December 31, 2009 – 332 employees).

Company's tax identification number is 100845844.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

**2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD**

**2.1. Basis of Preparation and Presentation of Financial Statement and Accounting Method**

Pursuant to the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 46 of June 2, 2006 and no. 111 as of December 29, 2009), legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the prevailing legislation and professional rules which include: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as the related interpretations representing an integral part of these standards which were in effect as at December 31, 2006.

The amendments to IAS, as well as the newly-issued IFRS and the related interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC"), in the period between December 31, 2002 and January 1, 2009, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia ("Ministry") and published in the Official Gazette of the Republic of Serbia number 77 of October 25, 2010.

However, until the preparation date of the accompanying financial statements, not all amendments to IAS/IFRS and IFRIC in effect for annual periods beginning on or after January 1, 2009 had been translated. In addition, the accompanying financial statements are presented in the format prescribed under the "Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures" (Official Gazette of the Republic of Serbia, no. 114 of December 22, 2006, no. 119 as of December 26, 2008, no. 9 as of February 6, 2009 and no. 4 as of January 29, 2010). Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, "Presentation of Financial Statements," and differ in some respects, from the presentation of certain amounts as required under the aforementioned standard.

In accordance with amendments and supplements to the Guidelines (Official Gazette of the Republic of Serbia, no. 09/2009, 4/2010 and 3/2011), when preparing the financial statements for FY 2010, legal entities and entrepreneurs have discretion not to present the effects of foreign exchange gains/losses and effects of foreign currency clause with respect to foreign currency denominated long-term receivables or payables within current period income or expense. Instead, the net effect of accrued foreign exchange gains and losses is stated within other prepayments/accruals. At the maturity date of long-term receivables/payables stated in foreign currencies, a proportionate amount of deferred foreign exchange gains/losses are transferred to the accounts of foreign exchange gains and losses. The aforementioned accounting policy departs from the provisions of IAS 21 "Effects of Changes in Foreign Exchange Rates".

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

**2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING METHOD (continued)**

**2.1. Basis of Preparation and Presentation of Financial Statement and Accounting Method (continued)**

As of the financial statements issuance date, the following standards, amendments were issued by the International Accounting Standards Board, but were not officially adopted and translated in the Republic of Serbia for the annual accounting periods commencing on or after January 1, 2010:

1. Amendments to IFRS 1 "First-time Adoption of IFRS" (effective for annual periods beginning on or after January 1, 2010);
2. Amendments to IFRS 7 „Financial Instruments: Disclosures" (effective for annual periods beginning on or after January 1, 2009);
3. Amendments to IAS 38 "Intangible Assets" (effective for annual periods beginning on or after July 1, 2009);
4. Amendments to IFRS 2 "Share-based Payment" (the first revision, effective for annual periods beginning on or after July 1, 2009 and the second revision, effective for annual periods beginning on or after January 1, 2010);
5. Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39) (amendments are to be applied for annual periods beginning on or after January 1, 2010);
6. Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after July 1, 2009);
7. Amendments to IFRIC 16 "Hedging of investments in foreign operations" (changes effective for annual periods beginning on or after July 1, 2009.).

In accordance with the aforementioned and due to the potentially material effects of the departures of the accounting regulations of the Republic of Serbia from IFRS and IAS, the accompanying financial statements cannot be treated as a set of financial statements prepared in accordance with IAS and IFRS.

The accompanying financial statements have been prepared under historical cost convention, unless otherwise stipulated in the accounting policies presented hereunder.

In the preparation of the accompanying financial statements, the Company adhered to the accounting policies described in Note 3.

The Company's financial statements are stated in thousands of dinars (RSD). The dinar is the official reporting currency in the Republic of Serbia.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3.1. Income and Expense Recognition**

Income is measured at the fair value of the consideration received or receivable, net of any discounts and value added taxes. Income from sales is recognized when the risks and rewards associated with the right of ownership are transferred to the customer, which is considered to be upon the delivery of products to the customer. Income for the services presented is recognized when the services are delivered.

Interest income and interest expense are recognized on an accrual basis.

At the time when income is recognized, the related expenditure is also recognized (referred to as the "matching principle"). Maintenance and repair costs of the fixed assets are charged to the accounting period in which they were incurred.

**3.2. Foreign Exchange Gains and Losses**

Transactions denominated in foreign currencies and transactions indexed to a currency clause are translated into dinars at the official exchange rates in effect at the date of each transaction.

Assets and liabilities denominated in foreign currencies or indexed to a currency clause are translated into dinars by applying the official exchange rates determined on the Interbank Foreign Exchange Market prevailing at the balance sheet date.

Foreign exchange gains or losses arising upon the translation of transactions, and assets and liabilities in foreign currencies are credited or charged to the income statement as foreign exchange gains and losses.

Foreign exchange gains and losses arising upon the translation of business transactions and monetary assets and liabilities indexed to a currency clause as of the balance sheet date are credited or charged to the income statement as income or expenses arising from contractually agreed hedges against risk.

**3.3. Income Tax Expense**

**Current Income Taxes**

Current income tax represents an amount that is calculated and paid in accordance with the effective Republic of Serbia Income Tax Law.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carry back period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for duration of no longer than five ensuing years (December 31, 2009, not more than ten years).

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.3. Income Tax Expense (continued)**

**Deferred Income Taxes**

Deferred income taxes are provided using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The currently-enacted tax rates or the substantively-enacted rates at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, and the tax effects of income tax losses and credits are available for carryforward, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the tax loss/credits of the carryforwards can be utilized.

Deferred income taxes are either charged or credited to the Income Statement, except in so far as they relate to items that are directly credited or charged to capital, and in that instance, the deferred taxes are then also recognized under equity.

**3.4. Goodwill and Intangible Assets**

The Company's books included a goodwill which arose from the acquisition of Symbiofarm d.o.o., Belgrade, representing the difference between the purchase price and the book value of the acquired net assets. The subsequent recognition of the goodwill is based on the Company's valuations of the goodwill and reflection of the impairment in its books.

An intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be carried at its cost. For intangible assets whose lifetime is not determined by a contract, amortization is computed using the amortization rate assessed by the Company's management.

**3.5. Property, Plant and Equipment**

Property, Plant and Equipment are considered as such if their useful economic life is longer than a year and whose cost is higher than the average gross salary per employee based on the information issued by the Republican institute responsible for statistics, except for computers and computer equipment which will be considered as property, plant and equipment if their cost is higher than RSD 15 thousand.

The initial recognition of Property, Plant and Equipment is based on the cost. Subsequent to initial recognition, property, plant and equipment are stated at the revalued amount. At December 31, 2005, property has been stated at fair value determined by an independent appraiser. The valuation of the revalued amount is done on the date of the balance sheet by a committee for the valuation of fair value which is appointed by the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6. Depreciation and Amortization**

Depreciation and amortization are individually computed for each property, plant and equipment on a straight-line basis. The calculation of the depreciation of property, plant and equipment begins when these assets are available for use, i.e. the following month in relation to the month in which the fixed asset was acquired.

Useful life of property, plant and equipment, expressed in years, is as listed below:

	<u>Useful life</u>
Buildings and infrastructure	8 – 40
Production equipment	2 – 16
Cars	6 – 8
Computers and other equipment	5

For the purpose of income tax preparation, property, plant and equipment are classified into amortization groups and depreciation is computed at depreciation rates in accordance with the tax regulations.

**3.7. Inventories**

Materials obtained through suppliers are stated at the lower of cost or net realizable value.

Materials produced at the Company are stated at the lower of cost or net realizable value. Cost includes all costs related to the purchase of materials and other attributable expenses. The cost is determined using the weighted-average method.

Work-in-progress and finished goods inventories are stated at the lower cost or net realizable value, which includes direct costs and an appropriate proportion of the respective production overheads.

Inventories of wholesale goods are carried at their selling prices and the margin is calculated so that the amount of goods sold and the amount of goods on stock are stated by applying the weighted average method. Inventories of retail goods are carried at their selling prices (which include VAT).

Provisions charged to "Other expenses" are made where appropriate in order to reduce the value of inventories to management's best estimate of net realizable value. Inventories that are found to be damaged or of a substandard quality are individually written off in full.

**VETERINARSKI ZAVOD "SUBOTICA" A.D., SUBOTICA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.8 Financial Instruments**

Financial assets and liabilities are recognized on the Company's balance sheet at the moment in which the Company has become a party to the contractual provisions of a particular financial instrument.

Financial assets cease to be recognized when the Company loses control of the contractual rights governing such instruments, which occurs when the rights of use of such instruments have been realized, expired, abandoned, or ceded. Financial liabilities cease to be recognized when the Company fulfills the obligations, or when the contractual repayment obligation has either been cancelled or has expired.

***Accounts receivable***

Accounts receivables are stated at their nominal value.

Any allowance for doubtful receivables is performing based on management's estimate as to the likelihood of their collectability. The reversal of allowance for impairment is credited to current period income. Uncollectable receivables are written off based on a court decision, settlement agreement or based on the decision of the Board of Directors.

***Other long-term financial placements***

Other long-term financial placements which relate to housing loans without interest approved to employees are stated at their nominal value, less any repayment of the loan and increased for the revaluation effect by applying retail price index, which differ from the provisions of IAS 39 Financial Instruments: „Recognition and Measurement“. In the opinion of the Company's management, this departure from IAS 39 is immaterial to these financial statements taken as a whole.

***Cash and cash equivalents***

Cash and cash equivalents include cash on hand, cheques, current and foreign currency accounts and gold coins in the Company's vault stated at fair value. Cash on foreign currency accounts are translated into dinars by applying the official exchange rates of the National Bank of Serbia prevailing at the balance sheet date.

***Borrowings and other financial liabilities***

Borrowings and other financial liabilities are initially recognized in the amounts of funds received (nominal value), and thereafter at amortized cost using the contractual interest rate that approximates the effective interest rate.

***Accounts payable***

Accounts payable and other current liabilities are stated at their nominal values.

**VETERINARSKI ZAVOD "SUBOTICA" A.D., SUBOTICA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.8 Employee Benefits**

*a) Taxes and Contributions Made to the Employee Social Security and Insurance Funds*

In accordance with regulatory requirements, the Company is obligated to pay contributions to tax authorities and to various state social security funds that guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Company is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to the applicable government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

*b) Obligations for Retirement Benefits and Employee Jubilee Awards*

In accordance with the Labor Law, the employees are entitled to benefits upon retirement, in the amount of three average salaries earned by an employee in the Republic of Serbia, based on the information issued by the Republican institute responsible for statistics. Besides this, the Company can pay a jubilee award to its employees based on the number of years of service in the amount of the last month's salary. The Company's management finds that the abovementioned provisions for retirement benefits and jubilee awards are immaterial to the financial statements; therefore, no provisions were made in the financial statements on these grounds.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES**

The presentation of the financial statements requires from the Company's management to make best estimates and reasonable assumptions that effect: the assets and liabilities amounts, the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, as well as the income and expenses arising during the accounting period. These estimations and assumptions are based on information available to us, as of the date of preparation of the financial statements.

**4.1. Estimates and Assumptions**

In the following part includes the key assumptions in respect of the future and other sources of estimations, uncertainties present as of the balance sheet date which represent a significant risk of material adjustments to the amounts of balance sheet items in the following fiscal year.

**4.2. Depreciation and Amortization Charge and Rates Applied**

The calculation of depreciation and amortization, as well as depreciation and amortization rates are based on the economic useful life of property, equipment and intangible assets. The Company assesses the economic useful life based on the current estimates on annual basis.

**4.3. Allowance for Impairment of Receivables**

The allowance for impairment of matured receivables is performed based on the management's assessment charging the Income Statement in order to determine their realizable value.



NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES (continued)

4.4. Deferred Tax Assets

Deferred tax assets are recognized for all unused tax credits as arising from capital expenditures, to the extent that it is probable that taxable profit will be available against which these tax credit carryforwards can be utilized. The Company's management needs to make prudent assessments of deferred tax assets which may be recognized, based on the period when these arise and the amount of future taxable income and tax policy planning strategy.

4.5. Fair Value

It is a policy of the Company to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their recorded amounts. In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result of this, fair value cannot readily or reliably be determined in the absence of an active market. The Company's management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may not have been realized, it recognizes a provision. In the opinion of management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

5. SALES

	<b>Thousands of Dinars</b>	
	<b>2010</b>	<b>2009</b>
Sales of commercial goods:		
- domestic market	883,669	541,525
- foreign market	1,703	1,445
	<u>885,372</u>	<u>542,970</u>
Sales of products and services on domestic market:		
- wholesale	1,416,995	1,501,297
- retail	62,338	53,173
- sales of services	72,373	50,621
	<u>1,551,706</u>	<u>1,605,091</u>
Sales of products and services on foreign market	<u>168,126</u>	<u>187,373</u>
	<u><u>2,605,204</u></u>	<u><u>2,335,434</u></u>

Sales for the year ended December 31, 2010 in the total amount of RSD 2,605,204 thousand (2009 -RSD 2,335,434 thousand) include sales from related party transactions in the amount of RSD 80,447 thousand (2009 - RSD 132,728 thousand) (note 28).

**VETERINARSKI ZAVOD "SUBOTICA" A.D., SUBOTICA**

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2010**

**6. COST OF MATERIALS**

	<b>Thousands of Dinars</b>	
	<b>2010</b>	<b>2009</b>
	<u>          </u>	<u>          </u>
Raw materials	961,534	1,018,195
Cost of other material	12,047	10,045
Electricity and fuel expenses	<u>89,524</u>	<u>72,212</u>
	<u><u>1,063,105</u></u>	<u><u>1,100,452</u></u>

Cost of raw materials for the year ended December 31, 2010 of RSD 961,534 thousand (2009 – RSD 1,018,195 thousand) includes the cost of materials purchased from related parties in the amount of RSD 345,615 thousand (2009 – RSD 356,847 thousand) (note 28).

**7. STAFF COSTS**

	<b>Thousands of Dinars</b>	
	<b>2010</b>	<b>2009</b>
	<u>          </u>	<u>          </u>
Gross and compensations salaries (net)	199,945	197,206
Contributions on salaries and benefits paid by the employer	35,497	34,996
Subcontractor's fee	6,940	8,461
Remunerations to the Board of Directors	2,530	2,530
Other staff costs	<u>27,369</u>	<u>20,745</u>
	<u><u>272,281</u></u>	<u><u>263,938</u></u>

**8. OTHER OPERATING EXPENSES**

	<b>Thousands of Dinars</b>	
	<b>2010</b>	<b>2009</b>
	<u>          </u>	<u>          </u>
Production related services	21,079	29,293
Transportation expense	11,798	12,414
Advertising	2,194	5,126
Other production related services	14,571	12,031
Insurance premiums	9,298	10,675
Indirect taxes and contributions	7,495	7,596
Maintenance cost	7,105	8,674
Entertainment	6,206	5,919
Non-production-related services	6,897	10,030
Rent	12,099	10,198
Membership fees	1,566	1,528
Bank charges	3,175	7,948
Other operating expenses	<u>14,726</u>	<u>13,188</u>
	<u><u>118,209</u></u>	<u><u>134,620</u></u>

Other operating expenses for the year ended December 31, 2010 in the amount of RSD 118,209 thousand (2009 - RSD 134,620 thousand) include expenses from related party transactions in the amount of RSD 2,724 thousand (2009 - RSD 4,668 thousand) (note 28).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

9. FINANCE INCOME

	Thousands of Dinars	
	2010	2009
Interest income	30,617	25,779
Foreign exchange gains	11,920	6,977
Positive effects of foreign currency clause	6,865	9,524
Other finance income	1	1
	<u>49,403</u>	<u>42,281</u>

Interest income for the year ended December 31, 2010 in the amount RSD 30,617 thousand (2009 - RSD 25,779 thousand) include interest income from related party transactions in the amount of RSD 30,064 thousand (note 28).

10. FINANCE EXPENSES

	Thousands of Dinars	
	2010	2009
Interest expenses	63,809	23,152
Foreign exchange losses	71,885	15,926
Negative effects of foreign currency clause	4,336	36,264
	<u>140,030</u>	<u>75,342</u>

11. OTHER INCOME

	Thousands of Dinars	
	2010	2009
Gains on the sale of intangible assets, property, plant and equipment	-	8,412
Gains on the sale of raw materials	70	2,954
Surpluses	1,014	1,158
Collection of previously provided receivables	372	8,953
Write-off of liabilities	-	43
Damage claims collected	449	1,770
Other	3,848	1,111
	<u>5,753</u>	<u>24,401</u>

12. OTHER EXPENSES

	Thousands of Dinars	
	2010	2009
Losses on the disposal of property, plant and equipment	42	532
Losses on the disposal of materials	70	2,700
Shortages	122	396
Write-off of receivables	903	2,760
Losses on the disposal of inventory of materials and goods	7,166	13,608
Impairment of goodwill (note 14)	700	1,000
Impairment of receivables and short-term financial placements	18,719	15,404
Discounts	5,195	4,912
Other	1,857	5,915
	<u>34,774</u>	<u>47,227</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

13. INCOME TAXES

a) Components of Income Tax

	Thousands of Dinars	
	2010	2009
Current income tax expense	(4,248)	(12,213)
Deferred tax income	-	377
	<u>(4,248)</u>	<u>(11,836)</u>

b) Reconciliation of the Tax Expense and the Product of Accounting Results as Multiplied by the Statutory Income Tax Rate

	Thousands of Dinars	
	2010	2009
Profit before tax	66,405	201,714
Reconciliation of expenses:		
- advertising expenses	1,468	1,184
- interests for delay in payments of taxes, contributions and other public duties	-	74
- fines and penalties	100	200
- expenses incurred in activities other than the registered ones	4,947	3,171
- depreciation calculated in the financial statements	110,787	83,637
- depreciation calculated for tax purposes	(100,581)	(79,690)
- allowance for impairment arising on receivables which have never been: income, written off and evidenced as uncollectible	446	2,787
- impairment expenses	812	7,588
Reconciliation of income:		
- Allowance for impairment arising on receivables which have been recognized as an expense and for which, in the tax period when an direct write off is performed, the conditions prescribed by article 16, paragraph 1, items 1 to 3 of the Tax Law, were not fulfilled	579	-
- interest income arising from related party transactions below the market rates	-	20,252
- income adjustment due to transfer price rules	-	3,337
Tax base	<u>84,963</u>	<u>244,254</u>
Tax on profit (10%)	(8,496)	(24,425)
Deduction of income tax based on investments in property, plant and equipment	4,248	12,212
Current income tax expense	(4,248)	(12,213)
Deferred tax income	-	377
Total income tax expense	<u>(4,248)</u>	<u>(11,836)</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

13. INCOME TAXES (continued)

c) Movements on Deferred Tax Assets

	Thousands of Dinars	
	2010	2009
<i>Deferred tax assets</i>		
Balance, beginning of year	11,000	8,594
Increase in deferred tax assets	1,585	2,406
Balance, end of year	<u>12,585</u>	<u>11,000</u>
<i>Deferred tax liabilities</i>		
Balance, beginning of year	57,359	55,331
Increase in deferred tax liabilities	1,585	2,028
Balance, end of year	<u>58,944</u>	<u>57,359</u>
<b>Deferred tax liabilities, net</b>	<u>(46,359)</u>	<u>(46,359)</u>

14. GOODWILL AND INTANGIBLE ASSETS

	Thousands of Dinars	
	Goodwill	Intangible assets
<b>Cost</b>		
Balance January 1, 2010	202,533	194,085
Impairment (note 12)	(700)	(55)
Balance December 31, 2010	<u>201,833</u>	<u>194,030</u>
<b>Accumulated Amortization and/or Depreciation</b>		
Balance January 1, 2010	-	51,328
Charge for the year	-	18,750
Balance December 31, 2010	<u>-</u>	<u>70,078</u>
<b>Net book value:</b>		
- December 31, 2010	<u>201,833</u>	<u>123,952</u>
- January 1, 2010	<u>202,533</u>	<u>142,757</u>

**VETERINARSKI ZAVOD "SUBOTICA" A.D., SUBOTICA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**15. PROPERTY, PLANT, EQUIPMENT AND INVESTMENT PROPERTY**

	Thousands of Dinars					
	<u>Land and Buildings</u>	<u>Equipment</u>	<u>Investments in the third party assets</u>	<u>Constructi on in Progress</u>	<u>Total</u>	<u>Investment property</u>
<b>Cost</b>						
Balance January 1, 2010	1,115,889	758,470	12,797	98,683	1,985,839	12,539
Additions	-	-	5,638	125,450	131,088	309
Transfers	3,397	178,918	-	(182,315)	-	-
Closing of advances	-	-	-	(25,472)	(25,472)	-
Disposals	(5,367)	(3,051)	-	-	(8,418)	-
Balance December 31, 2010	<u>1,113,919</u>	<u>934,337</u>	<u>18,435</u>	<u>16,346</u>	<u>2,083,037</u>	<u>12,848</u>
<b>Accumulated Amortization and/or Depreciation</b>						
Balance January 1, 2010	135,437	315,225	1,948	-	452,610	113
Charge for the year	39,793	50,568	1,011	-	91,372	665
Disposals	(1,431)	(2,983)	-	-	(4,414)	-
Balance December 31, 2010	<u>173,799</u>	<u>362,810</u>	<u>2,959</u>	<u>-</u>	<u>539,568</u>	<u>778</u>
<b>Net book value:</b>						
- December 31, 2010	<u>940,120</u>	<u>571,527</u>	<u>15,476</u>	<u>16,346</u>	<u>1,543,469</u>	<u>12,070</u>
- January 1, 2010	<u>980,452</u>	<u>443,245</u>	<u>10,849</u>	<u>98,683</u>	<u>1,533,229</u>	<u>12,426</u>

As at December 31, 2010 the net book value of the property amounts to RSD 940,120 thousand and include property with the net book value in the amount of RSD 581,553 thousand with the inscribed mortgages based on:

- Bank Guarantee Agreement number LG 1933/07, conducted with „Hypo Alpe-Adria-Bank“ a.d. Beograd, as a security instrument for long-term foreign currency borrowings granted by „Hypo Group Nedherlands Corporate Finance“, Amsterdam;
- Long-term investment Agreement conducted with „Komercijalna banka“ a.d., Beograd on August 29, 2008 (note 23).

VETERINARSKI ZAVOD "SUBOTICA" A.D., SUBOTICA

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

16. LONG-TERM FINANCIAL PLACEMENTS

	%	Thousands of Dinars	
	of share	December 31, 2010	December 31, 2009
Equity investments in related parties:			
- Vetzavod d.o.o., Skoplje	51%	262	262
- Activex d.o.o., Subotica	77.25%	31	31
- Vita farm d.o.o, Beograd	50%	11	-
Less: Allowance for impairment		(50)	(50)
		<u>254</u>	<u>243</u>
Equity investment in other legal entities:			
- Agrozavod a.d., Subotica	immaterial	156	156
- Other		61	20
		<u>217</u>	<u>176</u>
Long-term housing loans to employees		<u>7,769</u>	<u>8,620</u>
		<u>8,240</u>	<u>9,039</u>

17. INVENTORIES

	Thousands of Dinars	
	December 31, 2010	December 31, 2009
Material	451,110	183,960
Spare parts	5,470	6,998
Small tools and fixtures	27,437	24,143
Work-in-progress	68,495	56,704
Finished goods	82,731	78,673
Wholesale goods	202,854	150,912
Retail goods	4,861	6,002
Advances to suppliers	1,315	7,140
	<u>844,273</u>	<u>514,532</u>

VETERINARSKI ZAVOD "SUBOTICA" A.D., SUBOTICA

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

18. ACCOUNTS RECEIVABLE

	Thousands of Dinars	
	December 31, 2010	December 31, 2009
Accounts receivable:		
- related parties (note 28)	4,291	30,830
- domestic	911,080	690,192
- foreign	116,106	106,664
	<u>1,031,477</u>	<u>827,686</u>
Receivables for interest:		
- related parties (note 28)	30,064	-
- other legal entities	3	33
	<u>30,067</u>	<u>33</u>
Other receivables	<u>31,655</u>	<u>21,409</u>
Total receivables:	<u>1,093,199</u>	<u>849,128</u>
Allowance for impairment of:		
- accounts receivable	(25,220)	(12,021)
- other receivables	(1,179)	(1,179)
	<u>(26,399)</u>	<u>(13,200)</u>
	<u>1,066,800</u>	<u>835,928</u>

19. SHORT-TERM FINANCIAL PLACEMENTS

	Thousands of Dinars	
	December 31, 2010	December 31, 2009
Short-term financial placements:		
- related parties (note 28)	277,500	260,000
- employees	19	19
	<u>277,519</u>	<u>260,019</u>
Bills of exchange	94,279	84,860
Allowance for impairment of bills of exchange	(28,594)	(26,821)
	<u>65,685</u>	<u>58,039</u>
Receivables arising on assumed debt Agreement	22,894	16,467
Other short-term financial placements	1,300	-
	<u>367,398</u>	<u>334,525</u>

Short-term financial placement to a related party as at December 31, 2010 amounts to RSD 277,500 thousand (December 31, 2009 - RSD 260,000 thousand) and is approved as assistance in maintaining current liquidity with a maturity up to December 31, 2010. In accordance with the Agreement conducted on January 4, 2010 an annual interest rate at 11.5% would be applied from January 1, 2010.



NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

20. CASH AND CASH EQUIVALENTS

	Thousands of Dinars	
	December 31, 2010	December 31, 2009
Securities - cash equivalents	143	103
Current accounts	7,272	24,318
Cash on hand	22	18
Foreign currency account	1,360	23,174
Gold coins	1,229	1,229
Other cash	265	872
	10,291	49,714
	10,291	49,714

21. VALUE ADDED TAX AND PREPAYMENTS

	Thousands of Dinars	
	December 31, 2010	December 31, 2009
Receivables for overpaid VAT	11,144	28,236
Prepayments	1,206	1,596
Deferred VAT	14,850	3,352
Other	1,924	12
	29,124	33,196
	29,124	33,196

22. BASIC CAPITAL

The Company's basic capital as at December 31, 2010 amounts to RSD 946,467 thousand (December 31, 2009 - RSD 946,467) and comprise of share capital in the amount of RSD 926,681 thousand and other capital in the amount of RSD 19,786 thousand.

The Company's share capital as at December 31, 2010 amounts to RSD 926,681 thousand and comprise of 2.260.196 shares with nominal value of 410 dinars, per share.

VETERINARSKI ZAVOD "SUBOTICA" A.D., SUBOTICA

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

22. BASIC CAPITAL (continued)

The structure of share capital, as presented in the Central Securities Depository and Clearing House as at December 31, 2010 and 2009 is as follow:

	<u>Number of shares</u>	<u>Share in %</u>
Sojaprotein a.d., Bečej	1.337.501	59.18
Legal entities	273.449	12.09
Individuals	471.846	20.88
Custody account	140.689	6.23
Share Fund	<u>36.711</u>	<u>1.62</u>
	<u>2.260.196</u>	<u>100</u>

23. LONG-TERM BORROWINGS

<u>Bank</u>	<u>Agreement Date</u>	<u>Initial amount in EUR</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>Grace period</u>	<u>In EUR</u>	<u>Thousands of Dinars December 31,</u>	
							<u>2010</u>	<u>2009</u>
Hypo Group Netherlands Corporate Finance Amsterdam	6.11.2007.	1,570,479.44	three months euribor + 1.83%	1.10.2013.		842,081	88,838	116,317
Komercijalna banka a.d., Beograd	29.08.2008.	4,000,000	8%	29.8.2016.	One year	3,439,116	362,822	373,223
Komercijalna banka a.d., Beograd – branch Subotica	12.10.2005.	200,000	2.75%	30.04.2009.	3,5 years	-	-	9,721
						4,281,197	451,660	499,261
Less: - current maturity	(note 24)						<u>(83,298)</u>	<u>(88,742)</u>
<b>Total:</b>							<u>368,362</u>	<u>410,519</u>

Long-term borrowings received from Hypo Group Netherlands Corporate Finance Amsterdam were approved for refinancing of Long-term Loan Agreements Nos. L-642 and L-643 of October 31, 2005 concluded between the Company and Hypo Alpe-Adria-Bank a.d. Beograd. The Company is repaying the principal in quarterly annuities.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

23. LONG-TERM BORROWINGS (continued)

Long-term borrowing in the amount of EUR 4,000,000 approved by Komercijalna banka a.d., Beograd was granted for the purposes of the Company's capital expenditures. After the grace period, the Company has to repay the loan principal with accrued interest in 84 equal monthly annuities. The Company has included the interest on this loan in the purchase value of assets under preparation or assets constructed from the loan. The Company's properties were mortgaged as collateral for this loan (note 15).

24. SHORT-TERM FINANCIAL LIABILITIES

	Thousands of Dinars	
	December 31, 2010	December 31, 2009
Current portion of:		
- long-term borrowings (note 23)	83,298	88,742
- other long-term liabilities (finance lease)	450	2,287
Short-term borrowings	441,983	216,402
Liabilities for interest	1,677	908
Liabilities arising from the Agreement on overdraft loan approved by Komercijalna banka a.d., Beograd	15,562	-
Liabilities arising on assumed debt Agreement	16,795	14,808
	559,765	323,147

a) Short-term borrowings

Short-term borrowings as at December 31, 2010 are listed in the following table:

<u>Bank</u>	<u>Date of Contract</u>	<u>Initial amount in EUR</u>	<u>Annual interest rate</u>	<u>Maturity</u>	<u>In EUR</u>	<u>Thousands of Dinars December 31, 2010</u>
Komercijalna banka a.d., Beograd	18.5.2010	-	6.5%	one year	-	200,000
Komercijalna banka a.d., Beograd	19.4.2010.	2,000,000	5.5%	one year	2,000,000	210,997
Development Fund of Vojvodina	19.7.2010.	292,835.94	4%	6 months	292,835.94	30,986
						441,983

- b) Liabilities based on debt accession Agreement as at December 31, 2010 amounts to RSD 16,795 thousand (December 31, 2009 – RSD 14,808 thousand) and include liabilities to related party in the amount of RSD 15,196 thousand (note 28).

**VETERINARSKI ZAVOD "SUBOTICA" A.D., SUBOTICA**

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2010**

**25. ACCOUNTS PAYABLE**

	<b>Thousands of Dinars</b>	
	<b>December 31, 2010</b>	<b>December 31, 2009</b>
	<u>                    </u>	<u>                    </u>
Advances received from customers	3,757	4,427
Accounts payable:		
- related parties (note 28)	500,796	209,118
- domestic	144,333	134,655
- foreign	21,310	16,128
Other liabilities	7,569	1,552
Liabilities from specific operations	<u>                    -</u>	<u>                    10,286</u>
	<u><u>677,765</u></u>	<u><u>376,166</u></u>

**26. OTHER CURRENT LIABILITIES**

	<b>Thousands of Dinars</b>	
	<b>December 31, 2010</b>	<b>December 31, 2009</b>
	<u>                    </u>	<u>                    </u>
Liabilities for net salaries and fringe benefits except refundable fringe benefits	12,052	11,238
Liabilities for taxes and contributions paid by the employee	4,739	4,345
Liabilities for taxes and contributions paid by the employer	2,983	2,707
Liabilities for net refundable fringe benefits	95	141
Liabilities for taxes and contributions on refundable fringe benefits paid by the employee	36	54
Liabilities for taxes and contributions on refundable fringe benefits paid by the employer	24	35
Liability for interest	345	-
Liability for dividends	1,372	1,372
Liabilities to employees	1,157	1,113
Liabilities to members of the Board of Directors and Supervisory Board	140	140
Liabilities for subcontractors' fees	111	588
Other liabilities	<u>                    143</u>	<u>                    137</u>
	<u><u>23,197</u></u>	<u><u>21,870</u></u>

VETERINARSKI ZAVOD "SUBOTICA" A.D., SUBOTICA

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

27. OFF-BALANCE-SHEET ITEMS

	Thousands of Dinars	
	December 31, 2010	December 31, 2009
Warranties	7,156,481	3,896,533
Mortgages	432,175	451,557
Third-party goods	-	3,989
	<u>7,588,656</u>	<u>4,352,079</u>

During 2010 the Company conducted a number of Warranty Agreements, but the most significant are presented in the following table:

<u>Bank</u>	<u>Debtor</u>	<u>Date of Contract</u>	<u>Duration of the contract</u>	<u>Thousands of Dinars</u>
UniCredit Bank Srbija a.d., Beograd	Victoria Logistic a.d. Novi Sad	08.07.2010.	6 years	4,211,412
	Victoria Logistic a.d. Novi Sad	09.07.2010.	6 years	368,499
	Victoria Logistic a.d. Novi Sad	23.06.2010.	1 year	675,326
	Victoria Group a.d., Novi Sad	27.04.2009.	36 months	1,142,036
	Victoria Group a.d., Novi Sad	27.04.2009.	36 months	756,108
Other				<u>3,100</u>
				<u><b>7,156,481</b></u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 28. RELATED PARTY TRANSACTIONS

Accounts receivable and liabilities as well as income and expenses from related party transactions are listed below:

<i>Balance Sheet</i>	<b>December 31, 2010</b>	<b>December 31, 2009</b>
<b>Assets</b>		
<i>Inventories purchased from related parties:</i>		
Sojaprotein a.d., Bečej	20,270	4,052
Victoria Group a.d., Novi Sad	6,215	33,319
Victoria oil a.d., Šid	23,768	692
Victoria logistic d.o.o., Novi Sad	177,493	1,622
	<u>227,746</u>	<u>39,685</u>
<i>Accounts receivable (note 18):</i>		
Sojaprotein a.d., Bečej	313	55
Victoria oil a.d., Šid	-	35
Victoria logistic d.o.o., Novi Sad	3	25,867
Aktivex d.o.o., Subotica	3,726	4,796
Fertil d.o.o., Bačka Palanka	32	77
Luka Bačka Palanka a.d., Bačka Palanka	217	-
	<u>4,291</u>	<u>30,830</u>
<i>Receivables for interest (note 18):</i>		
Victoria Group a.d., Novi Sad	30,064	-
	<u>30,064</u>	<u>-</u>
<i>Short-term financial placements (note 19):</i>		
Victoria Group a.d., Novi Sad	277,500	260,000
	<u>277,500</u>	<u>260,000</u>
<b>Total assets:</b>	<u>539,601</u>	<u>330,515</u>
<b>Liabilities</b>		
<i>Short-term financial liabilities (note 24):</i>		
Victoria Group a.d., Novi Sad	15,196	-
	<u>15,196</u>	<u>-</u>
<i>Accounts payable (note 25):</i>		
Victoria Group a.d., Novi Sad	94	148,540
Sojaprotein a.d., Bečej	83,051	43,769
Victoria oil a.d., Šid	152,885	4,153
Victoria logistic d.o.o., Novi Sad	263,197	11,182
SP laboratorija a.d., Bečej	1,569	1,474
	<u>500,796</u>	<u>209,118</u>
<b>Total liabilities:</b>	<u>515,992</u>	<u>209,118</u>
<b>Assets, net</b>	<u>23,609</u>	<u>121,397</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

28. RELATED PARTY TRANSACTIONS (continued)

<i>Income Statement</i>	<b>Thousands of Dinars</b>	
	<b>2010</b>	<b>2009</b>
<b>Income:</b>		
<i>Sales (note 5):</i>		
Sojaprotein a.d., Bečej	1,556	8,164
Victoria oil a.d., Šid	384	1,514
Victoria logistic d.o.o., Novi Sad	73,146	29,812
Aktivex d.o.o., Subotica	5,070	8,746
Fertil d.o.o., Bačka Palanka	63	28
Luka Bačka Palanka a.d., Bačka Palanka	103	-
SP laboratorija a.d., Bečej	93	74
Victoria Group a.d., Novi Sad	32	84,390
	<u>80,447</u>	<u>132,728</u>
<i>Finance income (note 9):</i>		
Victoria Group a.d., Novi Sad	30,064	-
	<u>30,064</u>	<u>-</u>
<i>Other income:</i>		
Sojaprotein a.d., Bečej	942	-
Victoria logistic d.o.o., Novi Sad	-	26
	<u>942</u>	<u>26</u>
<b>Total income:</b>	<u>111,453</u>	<u>132,754</u>
<b>Expenses</b>		
<i>Cost of commercial goods sold:</i>		
Sojaprotein a.d., Bečej	115,728	20,859
Victoria Group a.d., Novi Sad	790	-
Victoria oil a.d., Šid	36,851	83,993
	<u>153,369</u>	<u>104,852</u>
<i>Cost of material (note 6):</i>		
Sojaprotein a.d., Bečej	88,051	80,708
Victoria Group a.d., Novi Sad	23,978	230,669
Victoria oil a.d., Šid	84,300	12,726
Victoria logistic d.o.o., Novi Sad	149,286	32,744
	<u>345,615</u>	<u>356,847</u>
<i>Cost of production related services (note 8:)</i>		
Sojaprotein a.d., Bečej	2,484	2,260
Victoria Group a.d., Novi Sad	240	570
Victoria logistic d.o.o., Novi Sad	-	175
SP laboratorija a.d., Bečej	-	1,663
	<u>2,724</u>	<u>4,668</u>
<i>Other expenses:</i>		
Victoria Group a.d., Novi Sad	-	422
<b>Total expenses:</b>	<u>501,708</u>	<u>466,789</u>
<b>Expenses, net</b>	<u>(390,255)</u>	<u>(334,035)</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

**Equity Risk Management**

There is no formal frame delineating the Company's risk management. The Company manages equity risk in order to ensure the continuity of its business operations in foreseeable future and preserve optimal capital structure with a view to decrease the capital-related expenses, and provide dividend to the shareholders.

The persons controlling the finances on the Company level review the equity structure on annual basis. Based on such reviews, the Company's management considered the price of equity and all equity risks.

The indebtedness ratios of the Company as of the year end were as follows:

	<b>Thousands of Dinars</b>	
	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Indebtedness	928,127	734,075
Cash and cash equivalents	<u>10,291</u>	<u>49,714</u>
Net indebtedness	<u>917,836</u>	<u>684,361</u>
Equity	<u>2,538,362</u>	<u>2,480,565</u>
Debt to equity ratio	<u>0.37</u>	<u>0.30</u>
Debt to equity ratio, net	<u>0.36</u>	<u>0.28</u>



NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Significant Accounting Policies Regarding Financial Instruments

Significant accounting policies and principles adopted, including the recognition criteria, basis for measurement and basis for recognition of income and expenses for each category of financial assets, financial liabilities and equity, are set out in Note 3 to the financial statements.

	Thousands of Dinars	
	December 31, 2010	December 31, 2009
<b>Financial assets</b>		
Long-term financial placements	8,240	9,039
Accounts receivable	1,006,257	815,665
Other receivables	60,543	20,263
Short-term financial placements	367,398	334,525
Cash and cash equivalents	10,291	49,714
	<u>1,452,729</u>	<u>1,229,206</u>
<b>Financial liabilities</b>		
Long-term borrowings and other long-term liabilities	368,362	410,928
Short-term financial liabilities	559,765	323,147
Accounts payables	666,439	370,187
Other	30,766	23,422
	<u>1,625,332</u>	<u>1,127,684</u>

**Financial risks**

*Objectives of Financial Risk Management*

Financial risks include market risk (both foreign currency risk and interest rate risk), credit risk and liquidity risk. Financial risks are considered on time basis and are primarily mitigated by reducing the Company's exposure to these risks. The Company does not make use of any financial instruments as a hedge against the effect of financial risks on business operations because such instruments are neither widely used, nor is there an organized market for such instruments in the Republic of Serbia.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risks (continued)

*Market Risk*

In its business operations, the Company is exposed to financial risks inherent in foreign currency and interest rate changes.

*Foreign Currency Risk*

The Company is mainly exposed to the foreign currency risk through the items of cash and cash equivalents, accounts receivable, long-term borrowings and accounts payable denominated in foreign currency. The Company does not use special hedge instruments, since such instruments are uncommon in the Republic of Serbia.

	December 31, 2010			Thousands of Dinars December 31, 2009		
	Impact on the profit +/-			Impact on the profit +/-		
	Translation of			Translation of		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Decrease of 10% in the dinar to EUR	11,747	(71,540)	(59,793)	12,984	(73,408)	(60,424)
Increase of 10% in the dinar to EUR	(11,747)	71,540	59,793	(12,984)	73,408	60,424

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risks (continued)

Market Risk (continued)

Foreign Currency Risk (continued)

The Company is sensitive to the movements in the EUR and American Dollar (USD) exchange rates. The following table gives details on the structure of foreign currency exchange differences presented in the Company's income statement for current and previous year:

	2010		Thousands of Dinars 2009	
	Currency differences		Currency differences	
	Gains	Losses	Gains	Losses
Foreign currency exchange differences arising upon translation of monetary items at the year end:				
- translation of EUR	-	69	620	566
- translation of USD	-	36	98	216
	-	105	718	782
Foreign currency exchange differences arising upon transactions denominated in foreign currencies at the date of each transaction:				
- translation of EUR	11,920	71,780	6,259	15,144
	11,920	71,780	6,259	15,144
Total foreign currency differences:				
- translation of EUR	11,920	71,849	6,879	15,710
- translation of USD	-	36	98	216
	11,920	71,885	6,977	15,926

Interest Rate Risk

The Company is exposed to interest rate risk inherent in assets and liabilities with floating interest rate. This risk depends upon the financial market and the Company does not have any instruments that could alleviate its influence.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risks (continued)

Interest Rate Risk (continued)

The carrying values of financial assets and liabilities at the end of the period under review are presented in the following table:

	Thousands of Dinars	
	December 31, 2010	December 31, 2009
<b>Financial assets</b>		
<i>Non-interest bearing</i>		
Long-term financial placements	8,240	9,039
Accounts receivable	1,006,257	815,665
Other receivables	60,543	20,263
Short-term financial placements	89,898	334,525
Cash and cash equivalents	10,291	49,714
	<u>1,175,229</u>	<u>1,229,206</u>
<i>Fixed interest rate</i>		
Short-term financial liabilities	277,500	-
	<u>1,452,729</u>	<u>1,229,206</u>
<b>Financial liabilities</b>		
<i>Non-interest bearing</i>		
Accounts payable	666,439	370,187
Other	30,766	23,422
	<u>697,205</u>	<u>393,609</u>
<i>Fixed interest rate</i>		
Short-term financial liabilities	63,344	217,310
	<u>63,344</u>	<u>217,310</u>
<i>Variable interest rate</i>		
Long-term borrowings and other long-term liabilities	368,362	410,928
Short-term financial liabilities	496,421	105,837
	<u>864,783</u>	<u>516,765</u>
	<u>1,625,332</u>	<u>1,127,684</u>

For the assets and liabilities with variable interest rate, the analysis has been prepared under the assumption that the outstanding balance of assets and liabilities as of the balance sheet date remained constant throughout the year. In accordance with the Company's management assessment, if the interest rates were 1% higher/lower and other variables remained unchanged, the Company would incur a loss/realized finance expenses in the year ended December 31, 2010 in the amount of RSD 8,647 thousand (2009 - RSD 5,168 thousand).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risks (continued)

Credit Risk

Managing Accounts Receivable

Credit risk relates to the exposure inherent in the possibility that the contractual party fails to act upon its contractual commitments and cause the Company to suffer a loss. The Company's exposure to this risk is limited to the amount of accounts receivable as of the balance sheet date. Accounts receivable consist of a large number of customers, of which the largest receivables related to 10 customers for a total amount of RSD 513,939 thousand (December 31, 2009 – for the same 10 customers, RSD 304,904 thousand).

	Thousands of Dinars	
	December 31, 2010	December 31, 2009
Interkomerc a.d., Beograd	112,661	22,963
Kum d.o.o., Šabac	109,218	92,488
VGI RIVIR, Bileća	57,919	51,810
Ribosistem d.o.o., Sremska Mitrovica	38,464	46,921
Polet plus d.o.o.	36,350	-
Biftek, Niš	36,296	11,442
Cool & Frost d.o.o., Jagodina	33,940	42,154
Kapetanski rit, Kanjiža	32,260	28,934
Mlinko Amos d.o.o., Beograd	30,245	-
Agricola d.o.o., Jagodina	26,586	8,192
	<u>513,939</u>	<u>304,904</u>

The structure of accounts receivable as at December 31, 2010 and 2009 is presented in the following table:

	Gross Exposure		Allowance for Impairment		Thousands of Dinars Net Exposure	
	December 31, 2010	2009	December 31, 2010	2009	December 31, 2010	2009
Accounts receivable, not matured	649,079	259,599	-	-	649,079	259,599
Accounts receivable matured, previously provided for	25,220	12,021	(25,220)	(12,021)	-	-
Accounts receivable matured, but not provided for	<u>357,178</u>	<u>556,066</u>	-	-	<u>357,178</u>	<u>556,066</u>
Total	<u>1,031,477</u>	<u>827,686</u>	<u>(25,220)</u>	<u>(12,021)</u>	<u>1,006,257</u>	<u>815,665</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risks (continued)

Credit Risk (continued)

Accounts Receivable, not Matured

Accounts receivable, not matured as at December 31, 2010 in the amount of RSD 649,079 thousand (December 31, 2009 – RSD 259,599 thousand) mainly relate to accounts receivable arising from the selling of goods and services. These receivables matured up to 130 days from the invoice date, depending of the agreed terms of payment. The average period of collecting of receivables in 2010 is 130 days (2009 – 130 days).

*Accounts Receivable Matured, previously Provided for*

As at December 31, 2010, accounts receivable matured and provided for amounted to RSD 25,220 thousand (December 31, 2009 – RSD 12,021 thousand). The respective provisions were made in accordance with the Company's management assessment that the creditworthiness of customers has worsened and that the present value of these receivables will not be collected in full, in order to determine their realizable value.

*Accounts Receivable Matured, but not Provided for*

The Company failed to make allowance for impairment of receivables matured as at December 31, 2010 in the amount of RSD 357,178 thousand (December 31, 2009 – RSD 556,066 thousand) given that the customer creditworthiness has not changed and the part of these receivables was secured with appropriate instruments. The Company holds that the present value of these receivables will be collected in full.

The ageing structure of accounts receivable matured, but not provided for is presented in the following table:

	Thousands of Dinars	
	December 31, 2010	December 31, 2009
Maturity:		
Up to 30 days	89,319	299,224
From 30 to 90 days	93,125	195,652
From 90 to 365 days	136,274	28,736
Over 365 days	38,460	32,454
Total	<u>357,178</u>	<u>556,066</u>

Managing Accounts Payable

Accounts payable as at December 31, 2010 amounts to RSD 666,439 thousand (December 31, 2009 – RSD 370,187 thousand). The major portion of these liabilities in the amount of RSD 469,910 thousand (December 31, 2009 – RSD 261,404 thousand) relate to the liabilities arising from supply of materials, goods and services. In accordance with financial risk management policies, the Company duly settles accounts payable and accordingly, suppliers do not charge penalty to matured liabilities. The average period of accounts payable settlement in 2010 is 90 days (2009 - 90 days).

**VETERINARSKI ZAVOD "SUBOTICA" A.D., SUBOTICA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

**Financial risks (continued)**

**Liquidity Risk**

The ultimate responsibility for liquidity risk management resides with the Company's management, which is also responsible for managing the Company's short-term, medium-term and long-term financing and liquidity management. The Company manages liquidity by maintaining the necessary level of cash reserves, based on continued monitoring over the planned and actual cash flows, as well as by matching the maturities of financial assets and liabilities.

The following table present details of outstanding contractual maturities of the Company's financial assets and financial liabilities as at December 31, 2010 and 2009. The amounts presented are based on the non-discounted cash flows from financial assets and financial liabilities based on the earliest date for the Company's collection of such receivables and on the earliest date upon which the Company will be able to settle such liabilities.

<b>Maturity</b>	<b>Financial assets</b>		<b>Thousands of Dinars</b>	
	<b>December 31,</b>		<b>Financial liabilities</b>	
	<b>2010</b>	<b>2009</b>	<b>December 31,</b>	<b>2009</b>
Less than one month	372,558	352,529	283,920	124,820
From 1 to 3 months	408,135	353,773	607,475	157,974
From 3 months to 1 year	555,419	489,352	365,575	433,962
From 1 to 5 years	116,617	33,552	368,362	410,928
<b>Total:</b>	<b>1,452,729</b>	<b>1,229,206</b>	<b>1,625,332</b>	<b>1,127,684</b>

**30. LITIGATION**

As at December 31, 2010, the Company is not involved in any legal proceedings as a defendant.

The total value of claims against other legal entities (customers) amounts to RSD 40,762 thousand as at December 31, 2010. The Company made provision against these receivables.

**31. TAXATION RISKS**

The Republic of Serbia tax legislation is subject to varying interpretations and changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for five years.

**VETERINARSKI ZAVOD "SUBOTICA" A.D., SUBOTICA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**32. EXCHANGE RATES**

The official exchange rates for major currencies used in the translation of balance sheet components denominated in foreign currencies, into dinars were as follows:

	<b>December 31, 2010</b>	<b>In dinars December 31, 2009</b>
EUR	105,4982	95,8888
USD	79,2802	66,7285