

**SARANTIS SKOPJE DOO, Skopje**

**Financial Statements and  
Independent Auditors' Report  
for the year ended December 31, 2011**

*This is an English translation of the original Report issued in Macedonian language.*

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## INDEPENDENT AUDITOR'S REPORT

### TO THE OWNERS OF SARANTIS SKOPJE DOO, Skopje

We have audited the accompanying financial statements (page 3 to 23) of SARANTIS SKOPJE doo, (hereinafter referred to as the "Company"), which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards applicable in the Republic of Macedonia, 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 about 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.

(continued)

JVK

**INDEPENDENT AUDITOR'S REPORT**

**TO THE OWNERS OF SARANTIS SKOPJE DOO, Skopje (continued)**

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards applicable in the Republic of Macedonia.

JVK doo, Skopje



Jovica Stojchevski  
Director



Jovica Stojchevski  
Certified Auditor

Skopje  
15 February 2012

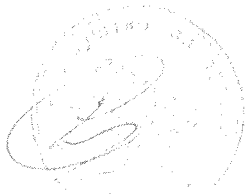
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended December 31, 2011**  
(In thousands of Denars)

	Note	2011	2010 <i>not audited</i>
<b>Revenue</b>			
Revenue from sales			
Other income	5	167.570	164.885
	6	315	992
		<u>167.885</u>	<u>165.877</u>
<b>Expenses</b>			
Purchase value of goods sold		(82.724)	(84.230)
Staff costs	7	(13.375)	(12.201)
Depreciation	11	(2.708)	(1.913)
Bad debts provision and write off		(28)	(1.081)
Other expenses	8	<u>(29.287)</u>	<u>(30.309)</u>
		(128.122)	(129.734)
<b>Profit from operations</b>		39.763	36.143
Financial income/(expenses), net	9	1.654	1.107
<b>Profit before tax</b>		41.417	37.250
Income tax	10	<u>(172)</u>	<u>(187)</u>
<b>Net profit for the year</b>		41.245	37.063
Other comprehensive income, net of tax		-	-
<b>Total comprehensive income for the year</b>		<u>41.245</u>	<u>37.063</u>

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

These financial statements were approved by the Company's management on February 15, 2012.

Petar Labudovic  
Director



Lujza Stevanovska  
Accounting Manager

**STATEMENT OF FINANCIAL POSITION**  
**At December 31, 2011**  
**(In thousands of Denars)**

	<u>Note</u>	<u>2011</u>	<u>2010</u> <i>not audited</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Equipment	11	6.093	6.902
Intangible assets	11	691	488
Investment in available-for-sale financial assets	12	<u>662</u>	<u>662</u>
<b>Total non-current assets</b>		<u>7.446</u>	<u>8.052</u>
<b>Current assets</b>			
Inventories	13	14.851	10.063
Trade and other receivables	14	139.961	71.120
Cash and cash equivalents	15	<u>29.973</u>	<u>60.428</u>
<b>Total current assets</b>		<u>184.785</u>	<u>141.611</u>
<b>TOTAL ASSETS</b>		<u>192.231</u>	<u>149.663</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Paid-in capital	16	30.777	30.777
Reserves	16	11.474	11.474
Retained earnings		<u>138.280</u>	<u>97.035</u>
<b>Total equity</b>		<u>180.531</u>	<u>139.286</u>
<b>Current liabilities</b>			
Trade and other payables	17	<u>11.700</u>	<u>10.377</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>192.231</u>	<u>149.663</u>

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

**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended December 31, 2011**  
**(In thousands of Denars)**

	<u>Paid-in capital</u>	<u>Reserves</u>	<u>Retained earnings</u>	<u>Total</u>
<i>not audited</i>				
<b>Balance, 1 January 2010</b>	30.777	11.474	59.972	102.223
Other comprehensive income for the year, net of tax	-	-	-	-
Net profit for the year	-	-	37.063	37.063
<b>Balance, 31 December 2010</b>	<u>30.777</u>	<u>11.474</u>	<u>97.035</u>	<u>139.286</u>
<b>Balance, 1 January 2011</b>	30.777	11.474	97.035	139.286
Other comprehensive income for the year, net of tax	-	-	-	-
Net profit for the year	-	-	41.245	41.245
<b>Balance, 31 December 2011</b>	<u>30.777</u>	<u>11.474</u>	<u>138.280</u>	<u>180.531</u>

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

**STATEMENT OF CASH FLOWS**  
**For the year ended December 31, 2011**  
**(In thousands of Denars)**

	<u>Note</u>	<u>2011</u>	<u>2010</u> <i>not audited</i>
<b>Cash flows from operating activities</b>			
Profit before tax		41.417	37.250
<i>Adjustment for:</i>			
Depreciation		2.708	1.913
Bad debts provision and write off		28	1.081
(Gain)/loss on disposal of fixed assets		(78)	(931)
Interest income		(1.783)	(1.001)
<b>Operating profit before working capital changes</b>		<u>42.292</u>	<u>38.312</u>
(Increase)/decrease of inventories		(4.788)	1.613
(Increase)/ decrease of trade and other receivables		(68.869)	(8.790)
Increase/ (decrease) of trade and other payables		1.350	(1.969)
<b>Cash generated from/ (used in) operating activities</b>		<u>(30.015)</u>	<u>29.166</u>
Income tax paid		(199)	(237)
<b>Net cash flows (used in)/generated from operating activities</b>		<u>(30.214)</u>	<u>28.929</u>
<b>Cash flows from investing activities</b>			
Purchase of equipment		(2.102)	(5.191)
Investment in AFSFA		-	(662)
Proceeds from disposal of fixed assets		78	931
Interest income received		1.783	1.001
<b>Net cash flows used in investing activities</b>		<u>(241)</u>	<u>(3.921)</u>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		(30.455)	25.008
Cash and cash equivalents at 1 January	15	<u>60.428</u>	<u>35.420</u>
<b>Cash and cash equivalents at 31 December</b>	15	<u>29.973</u>	<u>60.428</u>

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



**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

**1. GENERAL INFORMATION**

SARANTIS SKOPJE doo, Skopje (the "Company") is a limited liability company established in Republic of Macedonia. The Company's headquarter is registered on Street Prvomajska bb, Kisela Voda, Skopje. The owners of the Company are: Sarantis doo, Belgrade, Serbia which owns 60% of the Company's stake capital and Gr.Sarantis Cyprus, Nikosia, Cyprus which owns 40% of the SA, Greece a company which Company's stake capital. The Company is registered in the Central Registry of the Republic of Macedonia. Its ID number is 5167574 and its tax number is 4030997255535.

The Company's principal activity is trading of cosmetics products (Codes from the National business classification of business – 46.45 and 47.75).

As of 31 December 2011 the total number of employees was 24 employees (2010: 22 employees).

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

**2.1 Basis of preparation and presentation of the financial statements**

The Company maintains its accounting records and prepares its statutory financial statements in accordance with the Company Law and International Financial Reporting Standards ("IFRS") which are applicable in the Republic of Macedonia (Rulebook for Accounting Standards, Official Gazette of RM no.159/09 and 164/10).

According to the Company Law, the amendments to the newly-issued IFRS released after the adoption of the aforementioned Rulebook, are updated and published on an annual basis and for the year 2011 are still not yet updated and published and accordingly, they have not been applied in the preparation of accompanying financial statements. The management is assessing the impact to the financial statements associated with changes to the newly-issued IFRS and its Interpretations and believes that these changes are not applicable to the Company's operations.

Consequently, the Company's management does not express an explicit and unreserved statement of compliance of the accompanying financial statements with IFRS, which have been applied in the periods presented in the accompanying financial statements.

The Company prepares its annual statements in the format prescribed by the Ministry of Finance, which in some respects differs from the presentation of certain items as required under IAS 1 - Presentation of Financial Statements. Certain reclassifications have been made to present the accompanying financial statements in the format prescribed by that standard.

The financial statements are prepared on the historical cost basis. Current and comparative data are expressed in thousands of Denars, unless otherwise stated. Macedonian Denar is the Company's functional and the presentation currency for statutory purposes.

A summary of the principal accounting policies applied in preparing the statutory financial statements are set out within Note 3 to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

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

**2.2 Use of estimates**

The presentation of the financial statements requires the Company's management make best estimates and reasonable assumptions that influence 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 as of the date of preparation of the financial statements and future actual results may vary from these estimates.

Information about significant areas of estimation uncertainty and critical estimates in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in Note 4 to the financial statements.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3.1 Revenue recognition**

The revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of goods is recognized when all of the following conditions are met:

- when significant risks and rewards of ownership of the goods are transferred to the buyer;
- the Company does not hold neither continuing managerial involvement nor effective control over the goods sold;
- these benefits can be measured reliably;
- when it is probable that future economic benefits will flow to the Company; and
- the costs associated with the transaction can be reliably measured.

Revenue are recorded at the moment they accrue. Revenues are measured at the invoiced amount, less discounts and value added tax.

**3.2 Foreign exchange translation**

Transactions denominated in foreign currencies have been translated into Denars at rates set by the National Bank of the Republic of Macedonia as of the transaction date. Assets and liabilities denominated in foreign currencies are translated at the balance sheet date using official rates of exchange.

Net foreign exchange gains or losses, resulting from foreign currency translation, are included in the income statement in the period in which they arose.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

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

**3.3 Employee benefits**

Health, pension and social insurance contributions from gross wages and net salaries are being paid by the Company during the year to the national organizations at the statutory rates. Such contributions represent defined contribution benefit plans and are recognized as an expense when employees have rendered services entitling them to the contributions. There is no additional liability to these plans.

In accordance with the statutory requirements, the Company is obliged to pay to its employees a termination pay upon retirement equal to two monthly average salaries. The Company has not provided for the employees' accrued entitlement to severance pay on retirement as it is considered that the amount that eventually would be included for post-retirement benefits obligations as of December 31, 2011 and 2010 would not be material if an actuarial estimate was completed.

**3.4 Taxes**

**Current income tax**

Income tax expense is consisted of income tax expense calculated on certain tax-non deductible expenses. Income tax rate is 10%. The calculation and payment of the income tax is made in accordance with the provisions of the Income Tax Law upon which the income tax is calculated only on the tax not allowable expenses and payment of dividends and other distribution from the equity, if any.

*Tax on not allowable tax expenses*

According to the Income Tax Law, the model of taxation is consisted of taxation of certain tax non-deductible expenses, corrected by tax credits and other tax allowances, of any. The payment of the monthly tax obligation, made as an advance during the year, relates to tax non-deductible expenses, only.

*Tax on dividends paid and other distributions from the retained earnings*

The amount intended for distribution from retained earnings in form of dividends or other forms, regardless of the monetary nature of such distribution, is taxable at the moment distribution is made. The Company does not have payment of the advance dividends in 2011; therefore, in the line of the current income tax is included the amount of the income tax which relate to non-deductible expenses, only. Income tax on dividends, if distributed would be presented as a separate line within the equity as a deduction from it.

**Deferred tax**

Deferred income tax is 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 at the balance sheet date are used to determine the deferred income tax. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences and the tax effects are carried forward, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference may be utilized. There were no taxable or deductible temporary differences for the year ended December 31, 2011 and 2010 and consequently no deferred taxes have been recognized in these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

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

**3.4 Taxes (continued)**

**Value added tax**

Revenues, expenses and assets are recognized net of the amount of value added tax, except:

- When the value added tax from purchase of assets or services is not reimbursable by the tax authority, in which case the value added tax is recognized as part of the expenses for the acquisition or as part of the cost where appropriate; and
- Receivables and liabilities which are presented with value added tax included.

**3.5 Equipment**

Equipment is recorded at cost less accumulated depreciation and accumulated impairment loss, if any.

The initial cost of equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Maintenance and repairs costs are charged in the income statement as they are incurred.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The annual depreciation rates applied as follows:

Furniture	20%
Computer equipment	25%
Vehicles	20%
Other	10%-20%

When depreciable assets are retired or otherwise disposed of, the related cost and accumulated depreciation is removed from the respective accounts. Any gains or losses on disposal are recognized in profit or loss.

**3.6 Intangible assets**

Intangible assets are comprised of acquired computer software licenses which are capitalized on the basis of costs incurred in acquiring and bringing the specific software into use. These costs are amortized over their estimated useful lives with annual amortization rate of 25%.

**3.7 Impairment of fixed assets**

The Company regularly reviews the carrying amount of its tangible assets. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

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

**3.8 Inventories**

Inventories are measured at the lower of cost and net realizable value. Cost consists of the costs of purchase and other costs of bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**3.9 Financial instruments**

Financial assets and financial liabilities are recognized in the Company's balance sheet on the date upon which the Company becomes counterparty to the contractual provisions of a specific financial instrument. Financial assets are derecognized 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, and/or ceded. Financial liabilities are derecognized when the Company fulfills the obligations, or when the contractual repayment obligation has either been cancelled or has expired.

*Available-for-sale financial assets*

Available-for-sale financial assets are recorded at cost, less any impairment, if any.

*Trade and other receivables*

Trade and other receivables are stated at their nominal value less allowance for impairment that is based on the management's best estimate of the collectability of such amounts. Provisions for impairment of the receivables are formed in case there is objective evidence that the Company will not be able to collect its receivables in full under contractually agreed terms. Significant financial difficulties of customers, probability that the customer will enter liquidation proceedings or will not be able to settle its dues in a timely manner are all indications of the impairment in such receivables.

*Provisions for impairment losses*

The provision for impairment losses is based upon the year-end evaluation of trade and other receivables taking into consideration their deemed recoverability, which is based on the level of overdue receivables, on an assessment of the debtor's financial position, and on the quality of any collateral secured. Provisions for impairment losses are charged against income and are shown as a reducing item of the assets in the balance sheet.

*Cash and cash equivalents*

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in denars and foreign currency at banks and cash box.

*Trade and other payables*

Trade payables and other liabilities are stated at their fair value. After initial recognition, trade and other payables are measured at amortized cost.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011****4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The presentation of the financial statements requires the Company's management to make best estimates and reasonable assumptions that influence assets and liabilities amounts, the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, as well as disclosed income and expenses arising during the accounting period. These estimations and assumptions are based on information available as of the date of preparation of the financial statements and future actual results may vary from these estimates. Key assumptions relating to the future events and other significant sources of uncertainties in rendering an estimate as of the balance sheet date, which bears the risk that may lead to significant restatement of the carrying amount of assets and liabilities are the following:

*Provision for bad and doubtful receivables*

Provision for bad and doubtful receivables is calculated based on the estimated losses arising from inability of the clients to fulfill their obligations by applying relevant management decisions. In assessing adequacy of the provision, the estimate is based on historical experience, client's asset ability and their future clients' behavior and corresponding collection. The management believes that no additional provision is required of trade debtors for the years 2011 and 2010 as there is no doubt in their solvency and payments are made regularly on an ongoing basis.

*Fair value*

In the Republic of Macedonia, 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, the fair value cannot readily or reliably be determined in the absence of an active market. In the opinion of management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

*Global market crises*

The Company has been impacted by the recent financial crisis and deteriorating economic conditions. Due to the current global crisis in the market and its effects on the local market in Macedonia, the Company will probably operate in more difficult and uncertain economic environment in 2012, and possibly beyond. The impact of this crisis on the Company's business operations is currently not possible to fully predict and therefore there is an element of general uncertainty. So far, the ongoing financial crisis has had a limited impact on the financial position and performance of the Company. The deteriorating economic situation in the country will probably impact the position of certain industries and abilities of some clients to meet their obligations on time. This may consequently influence the amount of the Company's calculation of provisions in 2012 and other areas that require estimates to be made by management. The key priorities of the Company in 2012 will be attention on the management of the Company's client portfolio by adjusting it to the changing economic environment and maintaining the Company's position on the market.

*Useful life of assets*

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic, industry factors or local market. The appropriateness of the estimated useful lives is reviewed regularly, or whenever there is an indication of significant changes in the underlying assumptions.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

**5. REVENUE FROM SALES**

	<b>In thousands of Denars</b>	
	<b>Year ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
Revenue from sales of goods on domestic market	135.625	131.609
Revenue from sales of goods on foreign market	31.945	33.276
	<u>167.570</u>	<u>164.885</u>

**6. OTHER REVENUE**

	<b>In thousands of Denars</b>	
	<b>Year ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
Sale of fixed assets	78	931
Other	237	61
	<u>315</u>	<u>992</u>

**7. STAFF COSTS**

	<b>In thousands of Denars</b>	
	<b>Year ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
Net salaries	9.375	8.486
Taxes and social contributions on salaries	4.000	3.715
	<u>13.375</u>	<u>12.201</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

**8. OTHER EXPENSES**

	<b>In thousands of Denars</b>	
	<b>Year ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
Materials	352	361
Energy and gasoline	1.873	1.602
Communication costs	637	673
Maintenance	753	762
Rent	2.772	2.709
Services	4.071	3.779
Advertising and promotion	10.466	12.140
Insurance	669	452
Bank charges	393	242
Credit notes for sale of goods (annual etc)	5.739	5.888
Other expenses	1.562	1.701
	<u>29.287</u>	<u>30.309</u>

**9. FINANCIAL INCOME/(EXPENSES), NET**

	<b>In thousands of Denars</b>	
	<b>Year ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
Interest income	1.783	1.001
Exchange gains	201	414
Exchange losses	(330)	(308)
	<u>1.654</u>	<u>1.107</u>

**10. INCOME TAX**

	<b>In thousands of Denars</b>	
	<b>Year ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
Tax on expenses not allowable for tax purposes	<u>172</u>	<u>187</u>

As disclosed in Note 3.4, income tax is calculated on tax non-deductable expenses. This income tax for the fiscal 2011 amounted to Denar 172 thousand (2010: 187 thousand).



NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

11. EQUIPMENT AND INTANGIBLE ASSETS

	In thousand of Denars		
	Equip- ment and furniture	Intangible assets	Total
<b>Cost</b>			
Balance, 1 January 2010	12.991	1.576	14.567
Additions	5.090	101	5.191
Disposals	(3.280)	-	(3.280)
<b>Balance, 31 December 2010</b>	<b>14.801</b>	<b>1.677</b>	<b>16.478</b>
Balance, 1 January 2011	14.801	1.677	16.478
Additions	1.689	413	2.102
Disposals	(554)	-	(554)
<b>Balance, 31 December 2011</b>	<b>15.936</b>	<b>2.090</b>	<b>18.026</b>
<b>Accumulated depreciation</b>			
Balance, 1 January 2010	9.486	969	10.455
Disposals	(3.280)	-	(3.280)
Charge for the year	1.693	220	1.913
<b>Balance, 31 December 2010</b>	<b>7.899</b>	<b>1.189</b>	<b>9.088</b>
Balance, 1 January 2011	7.899	1.189	9.088
Disposals	(554)	-	(554)
Charge for the year	2.498	210	2.708
<b>Balance, 31 December 2011</b>	<b>9.843</b>	<b>1.399</b>	<b>11.242</b>
<b>Net book value</b>			
At 31 December 2010	6.902	488	7.390
At 31 December 2011	6.093	691	6.784

12. INVESTMENT IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Investment in entities which are not listed on stock exchange	662	662

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

**13. INVENTORIES**

	<b>In thousands of Denars</b>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2011</b>	<b>2010</b>
	<u>          </u>	<u>          </u>
Small inventory	429	303
Provision for small inventory	(429)	(303)
Trade goods	<u>14.851</u>	<u>10.063</u>
	<u>14.851</u>	<u>10.063</u>

**14. TRADE AND OTHER RECEIVABLES**

	<b>In thousands of Denars</b>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2011</b>	<b>2010</b>
	<u>          </u>	<u>          </u>
Trade receivables domestic	41.355	34.956
Trade receivables foreign	3.175	-
Short-term financial placement	30.752	-
Advances given	58.520	31.702
Prepaid expenses and other receivables	<u>6.159</u>	<u>4.462</u>
	<u>139.961</u>	<u>71.120</u>

**15. CASH AND CASH EQUIVALENTS**

	<b>In thousands of Denars</b>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2011</b>	<b>2010</b>
	<u>          </u>	<u>          </u>
Cash in banks in Denars	17.547	9.614
Cash in cash-box in Denars	26	156
Cash in banks in foreign currency	-	25.858
Time deposits in banks in Denars	<u>12.400</u>	<u>24.800</u>
	<u>29.973</u>	<u>60.428</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

**16. PAID-IN CAPITAL AND RESERVES**

**Paid-in capital**

The Company's paid-in capital as of 31 December 2011 and 2010 consists of fully paid-in capital of the following owners:

	<u>% of ownership</u>
Sarantis doo, Belgrade, Serbia	60%
Gr.Sarantis Cyprus, Nikosia, Cyprus	40%
	<u>100%</u>

**Reserves**

*Legal reserves*

The legal reserves are regulated by the local Company Law, according to which companies are required to allocate to this reserve not less than 15% of their annual net profit. Such allocation is made until the balance of the reserve reaches 1/5 of the Company's stake capital. The statutory reserve may be used only for covering losses if the balance does not exceed the above legal minimum; any excess above this amount based on the previous decision of the stakeholders may be distributed for dividends. These reserves at 31 December 2011 amount to Denar 5.503 thousand (2010: 5.503 thousand).

*Revaluation reserves*

Those reserves arise from prior revaluation of fixed assets based on prior regulation. These reserves at 31 December 2011 and 2010 amount to Denar 5.971 thousand.

**17. TRADE AND OTHER PAYABLES**

	<b>In thousands of Denars</b>	
	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Trade payables domestic	4.684	7.915
Trade payables foreign	6.094	1.154
Advances received	-	117
VAT payable	906	1.148
Other payables	16	43
	<u>11.700</u>	<u>10.377</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

**18. RELATED PARTY TRANSACTIONS**

	<b>In thousands of Denars</b>	
	<b>December 31,</b>	<b>December 31.</b>
	<b>2011</b>	<b>2010</b>
	<u>          </u>	<u>          </u>
<b>Sarantis SA, Greece</b>		
Trade debtors foreign	-	-
Advances given	58.487	31.650
Trade payables foreign	-	-
<b>Sarantis doo, Belgrade, Serbia</b>		
Trade debtors foreign	-	-
Trade payables foreign	4.568	387
<b>Gr. Sarantis Cyprus, Nicosia, Cyprus</b>		
Short-term financial placement	30.752	-
Trade payables foreign	-	-

Sarantis SA, Greece represents ultimate parent company. Other entities are fellow subsidiaries of Sarantis Group of companies. Transactions with the above related parties are performed at mutually agreed terms.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

**19. FINANCIAL INSTRUMENTS**

**19.1 Capital risk management**

The Company manages its capital in the manner which needs to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders.

The structure of Company's equity comprises the paid-in capital, reserves and retained earnings.

The management reviews the capital structure on a regular basis. As a part of this review, the Management considers the cost of capital and the risks associated with each class of capital.

*Gearing ratio*

The gearing ratio as of December 31, 2011 and 2010 was as follows:

	<b>In thousand of Denars</b>	
	<b>31 December</b>	
	<b>2011</b>	<b>2010</b>
Loans and borrowings	-	-
Less: Cash and cash equivalents	(29.973)	(60.428)
Total equity	(180.531)	(139.286)
Debt to equity ratio	n/a	n/a

*n/a – not applicable*

*Minimum paid-in capital*

In accordance with the Company Law, the minimum amount of paid-in capital equals to EUR 5.000. As of December 31, 2011, the Company's paid-in capital was Denar 30.777 thousand.

**19.2 Significant accounting policies related to financial instruments**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized in respect of each class of financial asset and financial liabilities are disclosed in Note 3 to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

**19. FINANCIAL INSTRUMENTS (continued)**

**19.3 Categories of financial instruments**

	<b>In thousand of Denars</b>	
	<b>31 December</b>	
	<b>2011</b>	<b>2010</b>
<b>Financial assets</b>		
Trade and other receivables	139.961	71.120
Cash and cash equivalents	29.973	60.428
	<u>169.934</u>	<u>131.548</u>
<b>Financial liabilities</b>		
Trade and other payables	11.700	10.377

**Financial risks management objectives**

Financial risks include market risk (primarily currency risk while interest risk is not applicable at the moment as the Company does not have any loans and borrowings with the variable interest rate), credit risk and liquidity risk. Financial risks are monitored on a timely basis, and are mitigated primarily through the reduction of the Company's exposure to those risks. The Company does not use any special financial instruments to hedge against these risks since such instruments are not commonly used in the Republic of Macedonia.

Responsibility for the strategy and control of managing risks lies with the management of the Company. All identified risks on the level of the Company are measured with methods that are approved from the Company's management and on the level of Sarantis Group, which is responsible for improvement and development of the methods, models and procedures in use, as well as recommendations for their implementation within the Group. There are clear organizational structure and risk management processes in place covering all categories under control of the Company.

Risk management is performed on the basis of the policies and approved by the management of the Company and Sarantis Group.

**Foreign currency risk management**

The Company's activities are exposed primarily to the financial risks related to changes in foreign currency exchange rates. There has been no change to the Company's exposure to this risk or in the manner in which it manages and measures it.

The Company is exposed to foreign currency risk primarily to trade receivables and trade payables denominated in foreign currencies. The Company does not apply any special financial instruments as a hedge against these risks since such instruments are not in common use in the Republic of Macedonia. The Company is exposed to EUR fluctuations.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

**19. FINANCIAL INSTRUMENTS (continued)**

**19.3 Categories of financial instruments (continued)**

**Interest rate risk management**

The Company is not exposed to interest rate risk arising from changes in interest rates as it does not have financial assets and financial liabilities with variable interest rates when they have been placed/obtained.

**Credit risk management**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss in the Company.

Trade receivables domestic relate to a relatively big number of customers from different geographical areas in the Republic of Macedonia. As of 31 December 2011, the Company did not have significant concentration of credit risk towards specified customers, except to bigger trading companies (Tinex, Veropulos, SP Market etc).

The carrying amount of financial assets stated in the financial statements and its gross value less allowances for impairment represents the maximum exposure to credit risk. Financial assets are not secured with respective collateral.

Financial assets which are between 90-180 days past due, as well as amounts due from a client that has no financial and liquidity problems are not treated as impaired, except in case where there is objective evidence of the opposite.

**Liquidity risk management**

Liquidity risk represents a risk of the Company's inability to provide sufficient monetary assets to settle its monetary liabilities when they come due.

Liquidity risk could be result of inability to sell financial assets at their fair value, inability to settle liabilities arising from the contracts, liabilities for payment come due earlier then their expected time or inability to generate enough cash in accordance with the expectations.

The most significant risk the Company is facing are repayments of trade payables foreign which majority relate to parent company and other companies of Sarantis Group, and is managed based on appropriate ratio of collection from trade debtors and advances given to parent company and other entities from Sarantis Group.

The Company has cash and deposits in bank, as well as possibility for continuing support from its parent company, to protect itself from unpredictable risk in order to be able to repay its liabilities and contingent liabilities as they mature.

The Company's remaining contractual maturity of its financial liabilities is short-term.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2011**

**19. FINANCIAL INSTRUMENTS (continued)**

**19.4 Fair value of financial instruments**

*Carrying amount to fair value*

The following table presents the carrying amount of the financial assets and financial liabilities to their fair value as of December 31, 2011 and 2010:

	31 December 2011		In thousand of Denars 31 December 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Trade and other receivables	139.961	139.961	71.120	71.120
Cash and cash equivalents	29.973	29.973	60.428	60.428
	<u>169.934</u>	<u>169.934</u>	<u>131.548</u>	<u>131.548</u>
<b>Financial liabilities</b>				
Trade and other payables	11.700	11.700	10.377	10.377

*Assumptions used in determining the fair value of financial assets and liabilities*

Considering the fact that sufficient market experience, stability and liquidity do not exist for the purchase and sale of financial assets or liabilities, given that published market information is not readily available for the purposes of disclosing the fair value information of the aforementioned financial assets and liabilities, the Company considers that there is no significant discrepancy between the carrying amounts of its financial assets and liabilities compared to their fair value if it applies well known valuation technique that relies upon discounted cash flow analyses, using current market information for similar transactions in order to provide reliable estimates of prices obtained in actual market transactions.

**20. TAXATION RISK**

The Republic of Macedonia 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 activities of the Company may not concur with the views of the Company's management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest. The periods remain open to review by the tax authorities with respect to tax liabilities for ten years.



**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2011**21. EXCHANGE RATES**

Official exchange rate of the National Bank of the Republic of Macedonia applied for balance sheet items denominated in foreign currency as of December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<b>In Denars</b> <u>2010</u>
EUR	61.5050	61.5050

