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PIB 100058593

TRANSLATION

TO THE SHAREHOLDERS OF

“BANJALUČKA PIVARA” A.D. BANJA LUKA

Report on the Financial Statements

We have audited the accompanying financial statements of “Banjalučka pivara” a.d. Banjaluka (“the Company”), which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

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

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



Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with the *legislation of Republic of Srpska*.

Belgrade, 24 April 2007

KPMG d.o.o. Beograd

(M.P.)

Boris Milošević
Partner

Tamara Stojanović
Certified auditor

This is a Translation of the Original Report on the Financial Statements issued in Serbian Language. We are responsible for the translation of the Report on the Financial Statements and not for any other documents.

Belgrade, 24 April 2007

Boris Milošević
Partner



KPMG d.o.o. Beograd

Tamara Stojanović
Certified auditor



Notes to the financial statements for 2006

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2006

(In CM)	Notes	2006	2005
			<i>Audited by Another Auditor</i>
OPERATING INCOME			
Sales	4	23,093,661	30,173,243
Other income	5	2,324,388	772,826
		25,418,214	30,946,069
OPERATING EXPENSES			
Cost of commercial goods sold		6,232	5,429
Materials, fuel and energy	6	8,033,518	10,795,167
Decrease in value of inventories		339,658	919,803
Staff costs	7	8,921,714	6,753,453
Depreciation and amortization expense	9	10,104,389	8,109,600
Provisions	18	140,866	1,142,315
Other operating expenses	8	6,397,158	12,349,042
		33,943,535	40,074,809
LOSS FROM OPERATIONS		(8,525,486)	(9,128,740)
FINANCE INCOME /(EXPENSES)		-	-
Interest income		39,824	67,159
Foreign exchange gains		400	-
Interest expense		(3,143,375)	(2,504,730)
Foreign exchange losses		(22)	-
		(3,103,173)	(2,437,571)
NET LOSS FOR THE YEAR		(11,628,659)	(11,566,311)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2006

(In CM)	Share Capital	Revaluation Reserves	Legal Reserves	Statutory Reserves	Share issue premium	Other (Accumulated reserves	Retained Earnings/ Loss)	Total
Audited by Another Auditor								
Balance, January 1, 2005	47,696,303	5,199,375	857,425	-	-	-	125,956	53,879,059
Adjustment of the opening balance	-	-	-	-	-	-	(3,706,911)	(3,706,911)
Transfer to statutory reserves	-	(5,199,375)	-	5,199,375	-	-	-	-
Loss for the year	-	-	-	-	-	-	(11,566,312)	(11,566,312)
Balance, December 31, 2005	47,696,303	-	857,425	5,199,375	-	-	(15,147,267)	38,605,836
Balance, January 1, 2006	47,696,303	-	857,425	5,199,375	-	-	(15,147,267)	38,605,836
Share capital issuance and revaluation of long term financial placements	17,500,000	-	-	-	3,500,000	530,934	-	21,530,934
Loss for the year	-	-	-	-	-	-	(11,628,659)	(11,628,659)
Balance, December 31, 2006	65,196,303	-	857,425	5,199,375	3,500,000	530,934	(26,775,926)	48,508,111

BALANCE SHEET AS OF DECEMBER 31, 2006

*Audited by
Another
Auditor*

(In CM)

	Notes	2006	2005
ASSETS			
Non-current assets			
Intangible assets	9	5,815,732	5,818,691
Property, plant and equipment	9.1	60,252,930	63,429,724
Long-term financial placements	10	1,210,964	744,446
		67,279,626	69,992,861
Current assets			
Inventories	11	4,523,016	5,088,935
Accounts receivable	12	1,414,081	1,955,161
Other current assets and prepayments	13	364,762	277,578
Short term financial placements	10.1	2,073,133	83,436
Cash and cash equivalents	15	1,945,798	30,436
		10,320,790	7,435,546
Total assets		77,600,416	77,428,407
EQUITY AND LIABILITIES			
Equity			
Share capital	16	65,196,303	47,696,303
Share premium		3,500,000	-
Legal reserves		857,425	857,425
Statutory reserves		5,199,375	5,199,375
Other reserves		530,934	-
(Accumulated loss)/Retained earnings		(26,775,926)	(15,147,267)
		48,508,111	38,605,836
Non-current liabilities			
Long-term borrowings	17	19,093,281	21,804,797
Other long-term liabilities	17	263,310	-
		19,356,591	21,804,797
Long-term provisions			
	18	688,361	1,142,315
Current liabilities			
Current portion of long-term liabilities	17	3,021,301	2,814,779
Short-term financial liabilities		-	3,008,135
Accounts payable	19	4,164,690	5,105,858
Other current liabilities and accruals	20	1,861,362	4,946,687
		9,047,353	15,875,459
Total equity and liabilities		77,600,416	77,428,407

These financial statements were approved by the Company's management in Banja Luka on April 24, 2007. As executed on its behalf by:

Nicholas Penny
General Manager

Nada Rvović
Chief of Accountants

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2006

(In CM)	<i>Audited by Another Auditor</i>	
	2006	2005
Operating activities		
Cash receipts from customers	32,508,410	29,291,579
Other cash received from operating activities	449,292	230,736
Cash paid to suppliers	(14,263,305)	(15,674,124)
Cash paid to and on behalf of employees	(8,853,046)	(6,826,434)
Interest paid	(2,729,953)	(1,843,912)
Non-income taxes and other duties paid	(14,084,447)	(575,833)
<i>Net cash provided by operating activities</i>	(6,973,049)	4,602,012
Investing activities		
(Decrease)/Increase in long-term financial placements	100	(275,458)
(Decrease)/Increase in short-term financial placements	(1,925,543)	-
Interest received	39,824	1,032
Purchases of property, plant and equipment	(4,346,534)	(1,011,882)
<i>Net cash used in investing activities</i>	(6,232,153)	(1,286,308)
Financing activities		
(Decrease)/Increase in short-term borrowings	(5,802,890)	(1,922,461)
(Decrease)/Increase in long-term borrowings	(76,545)	(1,414,550)
Increase from shares issue	21,000,000	-
<i>Net cash (used in)/provided by financing activities</i>	15,120,565	(3,337,011)
Net cash flow	1,915,363	(21,307)
Cash and cash equivalent, beginning of year	30,435	51,743
Cash and cash equivalents, end of year	1,945,798	30,436

1. FOUNDATION AND ACTIVITY

The enterprise for production of beer "Banjalučka pivara" A.D., Banja Luka (hereinafter: "the Company") was founded in 1873 and nationalized in 1950. From 1975 the Company operated as a part of Agroindustrijski poljoprivredni kombinat "Bosanska Krajina".

During 1991, the Company registered as a shareholding entity with mixed ownerships "Banjalučka pivara", Banja Luka, and during 1995 in accordance with regulation applicable in the Republic of Srpska, the Company became state-owned enterprise. Pursuant to the Decision numbered U/I-143/2003 of February 19, 2003, the Company is registered as Shareholding Company "Banjalučka pivara" Banja Luka.

Pursuant to its Decision numbered 02/1-020-138/05 of February 3, 2005, the Government of the Republic of Srpska approved the Special privatization Program for sale of state-owned portion of capital (53.81% of core capital) via tender and variable terms.

The Company's primary business activity is in the production of beer, as well as other soft drinks, malt and brewers' yeast.

The Company is domiciled in Banja Luka, on Slatinska Street 8.

At December 31, 2006, the Company had 264 employees (December 31, 2005 - 370 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

Management of the Company has prepared these financial statements in accordance with Law on accounting and auditing of Republic of Srpska applying generally accepted accounting principles and practice in Republic of Srpska.

Summary of the significant accounting policies is presented in Note 3 to the financial statements.

Financial statements of the Company are presented in Convertible marks (CM). Convertible marks

The figures in the accompanying financial statements have been expressed in convertible marks (CM). The convertible mark is the official reporting currency in the Republic of Srpska.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Income Recognition

Sales are stated at invoiced value, net of discounts, returns, and sales taxes. Income from sales is recognized at the moment of sale.

3.2 Maintenance and Repairs

The maintenance and repair are expensed as incurred at the effective amounts, and have been reported in the Company's income statement.

3.3 Interest Income and Expense and Other Borrowing Costs

Interest income, interest expense and other borrowing costs are recognized on an accrual basis.

3.4 Bad Debt Provision

Accounts receivable are stated at their nominal value less any allowance for impairment. A provision is recognized and charged to the Statement of Income against domestic and foreign trade receivable balances that are more than 120 days past due. The uncollectible receivables are written off in accordance with the Article 88 of Rule on Application of the accounting policies.

3.5 Foreign Exchange Gains and Losses

Assets and liabilities denominated in foreign currencies are translated into convertible marks at the official exchange rates prevailing at the balance sheet date.

Foreign currency transactions made during the year are translated into convertible marks at the official exchange rates in effect at the date of each transaction. Foreign exchange gains and/or losses arising from fluctuations in currency exchange rates upon translation are debited and/or credited as appropriate, to the Statement of income.

The official exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies as of December 31, 2006 and 2005 are as follows:

Exchange rates

In CM	December 31, 2006	December 31, 2005
USD	1.48506	1.6579
CHF	1.21714	1.2577
EUR	1.95580	1.9558

3.6 Taxes and contributions

Income Taxes

Income tax represents an amount calculated and payable as prescribed under the Republic of Srpska Tax Law.

A final statutory income tax of 10 percent is payable on the taxable income reported by the tax paying entity in its annual corporate income tax returns. The taxable income reported in the tax returns includes the profit shown in the statutory statement of income and any adjustments for permanent differences made thereto, as defined under the Republic of Srpska Tax Law. Such adjustments primarily consist of: adding back certain disallowed expenses and of deducting investments in property and equipment, in its own shares or in those of another legal entity, as well as of deducting a portion of the total tax liability that is proportionate to the percentage of a foreign entity's participation in the tax paying entity's total share capital. The income tax amount may be decreased by certain tax facilities envisaged under the effective income tax regulations.

The Republic of Srpska Income Tax Law does not allow any tax losses in the current period to be used as a basis to recover taxes paid within a specific carryback period, nor may the current year losses stated in the income tax statement be used to decrease taxable profits for future reporting periods

3.7 Property, Plant and Equipment

In order to reconcile the value of property, plant and equipment and intangible assets stated in the Company's books of account to their market values, the Company engaged a local, independent certified appraiser to value property, plant and equipment and intangible assets as of December 31, 2003. The net effects of appraisal were recorded in the financial statements for the year ended December 31, 2003 and charged to revaluation reserves in accordance with previously applied accounting regulations.

Additions after January 1, 2004 are recorded at cost, less accumulated depreciation. Cost represents the prices billed by suppliers together with all costs incurred in bringing new fixed assets into use. Cost is decreased for discounts and rebates. Cost of constructed buildings represents their cost as of the date of construction end.

Equipment is capitalized as a fixed asset if it is expected that its useful economic life will exceed one year.

Gains on the disposal of fixed assets are credited directly to "Other income," whereas the losses arising upon the disposal of fixed assets are charged to "Other expenses."

Subsequent expenditure such as modification to property, plant and equipment, adaptation and overhaul is recognized as an increase in the cost of the respective assets. Repairs and maintenance are expensed as incurred and are shown as "Operating expenses."

3.8 Intangible Assets

Intangible assets as of the balance sheet date mainly consist of the value of the land upon which the right of permanent beneficial use has been granted to the Company by the State (pursuant to the Law on the Opening Balance Sheet in the Process of Privatization of State-Owned Capital in Companies) and purchased software. The value of intangible asset was based on the land value specified by the Urbanism Bureau. In accordance with the applicable accounting regulations, the aforementioned land is not amortized.

3.9 Depreciation

The depreciation of property, plant and equipment and intangible assets is provided for on a straight-line basis in order to fully write off the cost of the assets over their estimated useful lives.

The remaining useful lives of major classes of property, plant and equipment and intangible assets as well as their corresponding effective depreciation rates for 2006 are as follows:

	Useful Life (years)	Rate (%)
Software	5	20
Buildings	20 - 77	1.3 - 5
Production equipment	5 - 14	7 - 20
Vehicles	6 - 8	12.5 - 15.5
Computers	5	20
Other equipment	6 - 10	10 - 16.6
Packaging	3 - 5	20 - 33.3

3.10 Impairment

At each balance sheet date, the Company's management reviews the carrying amounts of the Company's tangible and intangible 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 amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognized as an expense of the current period and is recorded under "Other operating expenses," unless the relevant asset is carried at a revalued amount, in which instance, the impairment loss is treated as a revaluation decrease up to its revalued amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable value. However, this is performed so that the increased carrying amount does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which instance, the reversal of the impairment loss is treated as a revaluation increase.

3.11 Long-Term Financial Placements

Long-term financial placements consist of the Company's equity interests held in other legal entities, time deposits with commercial banks, as well as long-term loans granted to the Company's employees. Equity interests in other legal entities are stated at original acquisition cost.

Available-for-sale equity investments are measured at fair value in accordance with IAS 39 Financial instruments: Recognition and Measurement. Gain or loss arising from changes in fair value of available-for-sale investments are recognised directly in equity, except for impairment losses and foreign exchange gains and losses, until the financial assets is derecognised, at which time the cumulative gain or loss previously recognised in equity are recognised in profit or loss.

3.12 Inventories

Inventories are primarily stated at the lower of cost and net realizable value.

The net realizable value is the price at which inventories may be realized throughout the normal course of business, after allowing for the costs of realization.

The cost of raw materials, spare parts and small inventories and tools is determined using the weighted-average cost method. Cost includes the invoiced value, transport and other attributable expenses. Small inventories and tools are fully written off once they are placed into use.

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

3.13 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held in commercial banks and any other highly-liquid investments that are readily convertible to known amounts of cash, and are subject to an insignificant risk of changes in value.

3.14 Provisions

Provisions are recognized and calculated when the Company has a pending, present legal or contractual obligation as a result of a past event, and when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

3.15 Statutory reserves

Statutory reserves represents reserves formed in accordance with the Rules on the Manner and Cut-Off of Valuation, and Recording the Effects of Valuation on the Individual Balance Sheet Positions of Legal Entities (See "Official Gazette of the Republic of Srpska," numbered 9/03, hereinafter referred to as the "Rules"), as the surplus of revaluation reserves formed in previous years, after covering the negative effects of the appraisal of fixed assets and intangible assets (Note 3.7). Pursuant to Article 11 of the Rules, in future reporting periods, specific provisions will be accounted for in accordance with the "Guidelines on the Chart of Accounts and the Content of Accounts within the Chart of Accounts."

3.16 Fair Value

It is the policy of the Company to disclose the fair value information of those financial assets and financial liabilities for which published market information is readily and reliably available, and whose fair value is materially different from their recorded amounts. Sufficient market experience, stability and liquidity do not exist for the purchase and sale of loans and other financial assets or liabilities, given that published market information is not readily available. Hence, fair value cannot reliably be determined. In the opinion of management, the reported recoverable amounts represent the most valid and useful reporting values, given the existing market conditions.

4. SALES

In CM	Year Ended December 31, 2006	Year Ended December 31, 2005
Sales of products and services on domestic market:		
wholesale of beer	22,716,651	29,782,188
retail sale of beer	229,434	348,169
other	135,707	17,913
	<u>23,081,792</u>	<u>30,148,270</u>
Sales of beer on foreign market	11,869	24,973
Total	<u>23,093,661</u>	<u>30,173,243</u>

5. OTHER OPERATING INCOME

In CM	Year Ended December 31, 2006	Year Ended December 31, 2005
Income from recording of assumed receivables from the Trade Union for loans approved to employees (Note 11)	-	404,755
Recovery of bad debt previously provided for in accordance with the court decision (Farmaland A.D., Nova Topola)	-	274,845
Income from previous years	-	45,968
Recovery of bad debts	94,977	36,254
Gains on the sale of materials	399	142
Surpluses	24,118	62
Release of long-term provisions	-	-
Revenues from decrease in obligations related customers	29	-
Subsequently approved rebates from suppliers	1,368	-
Revenues from returning of packaging from inactive customers	193,963	-
Revenues from reversal of provision of packaging from inactive customers	1,947,919	-
Other income	61,438	10,800
Total	<u>2,324,388</u>	<u>772,826</u>

6. MATERIALS, FUEL AND ENERGY

In CM	Year Ended December 31, 2006	Year Ended December 31, 2005
Raw materials	5,050,855	6,541,025
Other materials	1,021,242	1,924,344
Fuel	1,098,792	1,139,993
Water	483,289	737,468
Energy	379,340	452,337
Total	8,033,518	10,795,167

7. STAFF COSTS

In CM	Year Ended December 31, 2006	Year Ended December 31, 2005
Gross employee salaries	5,325,419	6,171,720
Transportation of employees	148,442	157,512
Employee meals	170,488	159,616
Payments to employees for own car usage for business purposes	137,389	95,418
Severance payments	38,768	23,254
Financial assistance to employees	14,402	23,658
Remuneration to the members of the Board of Directors and Supervisory Board	54,961	106,115
Severance from termination of working agreement	2,613,216	-
Regress for annual leave	415,374	-
Other payments to employees	3,255	16,160
	8,921,714	6,753,453

8. OTHER OPERATING EXPENSES

In CM	Year Ended December 31, 2006	Year Ended December 31, 2005
Telecommunication costs	60,182	42,986
Transportation of products to customers	253,107	554,887
Transportation of materials	8,327	152,365
Filling and transportation of bottles	212,680	157,551
Other transportation services	12,513	1,652
Maintenance	385,647	959,306
Rentals	104,285	105,314
Fairs and exhibitions	-	9,909
Marketing	996,486	787,675
Registration of automobiles	14,675	18,615
Professional literature	3,904	12,771
Consulting services	968,715	60,038
Other services	240,017	187,219
Per diems and travel expenses	46,284	79,079
Contractors' fees	79,414	95,641
Other fees	49,244	1,588
Import commission and customs' duties	131,722	280,082
Education of employees	2,805	10,604
Other non-manufacturing expenses	158,568	62,466
Entertainment	306,171	474,813
Insurance premiums	366,826	370,346
Bank charges and fees	87,803	51,707
Indirect taxes and contributions	315,173	214,657
Other expenses	93,679	206,876
Losses on the disposal of property, plant and equipment	10,908	5,825
Damages	76,925	228,431
Expenses from previous years	-	1,898,018
Shortages	283,547	1,403
Provisions	1,007,188	5,099,819
Write-offs	-	126,330
Write-off of inventories	-	82,632
Other	120,363	8,437
Total	6,397,158	12,349,042

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

In CM	Buildings	Equipment, packaging and other fixed assets	Construction in progress	Total
Cost				
Balance, December 1, 2005	36,064,392	93,428,014	18,951,853	148,444,258
Opening balance adjustment	-	-	(621,454)	(621,454)
Purchases	-	-	1,011,882	1,011,882
Transfer from/to	4,209,918	15,069,582	(19,279,500)	-
Transfer of packaging held by inactive customers to receivables	-	(4,476,814)	-	(4,476,814)
Disposal and impairment	(98,150)	(1,014,911)	-	(1,113,061)
Balance, December 31, 2005	40,176,160	103,005,869	62,780	143,244,809
Purchases	-	1,962,536	3,145,801	5,108,337
Transfer from/to	210,525	2,786,491	(2,997,016)	-
Transfer of packaging held by inactive customers from receivables	-	4,476,814	-	4,476,814
Disposal and impairment	-	(2,459,061)	-	(2,459,061)
Balance, December 31, 2006	40,386,684	109,772,649	211,565	150,370,899
Accumulated Depreciation				
Balance, January 1, 2005	21,268,332	53,133,543	-	74,401,875
Current charges	875,885	7,230,754	-	8,106,639
Transfer of packaging held by inactive customers to receivables	-	(2,334,932)	-	(2,334,932)
Disposal and impairment	(76,326)	(282,170)	-	(358,496)
Balance, December 31, 2005	22,067,891	57,747,195	-	79,815,086
Current charges	851,274	9,250,155	-	10,101,429
Transfer of packaging held by inactive customers from receivables	-	2,276,541	-	2,276,541
Disposal and impairment	-	(2,075,087)	-	(2,075,087)
Balance, December 31, 2006	22,919,165	67,198,804	-	90,117,969
Net book value as of December 31, 2006	17,467,520	42,573,845	211,565	60,252,930
Net book value sa of December 31, 2005	18,108,269	45,258,674	62,780	63,429,723

Net book value fixed assets financed from financial leasing as at 31 December 2006 amounts to 448,111 CM.

9.1 INTANGIBLE ASSETS

In CM	Land right and investments in leased property	Total
Cost		
Balance, January 1, 2005	9,054,630	9,054,630
Opening balance adjustment	(3,229,771)	(3,229,771)
Balance, December 31, 2005	5,824,859	5,824,859
Balance, December 31, 2006	5,824,859	5,824,859
Accumulated Amortization		
Balance, January 1, 2005	218,208	218,208
Opening balance adjustment	(215,000)	(215,000)
Current charges	2,960	2,960
Balance, December 31, 2005	6,168	6,168
Current charges	2,960	2,960
Balance, December 31, 2006	9,128	9,128
Net book values as of December 31, 2006	5,815,732	5,815,732
Net book value as of December, 31, 2005	5,818,691	5,818,691

10. LONG-TERM FINANCIAL PLACEMENTS

In CM	December 31, 2006	December 31, 2005
Equity investments in other legal entities:		
Kosig Dunav Osiguranje A.D., Banja Luka [insurance co.]	696,334	165,400
Krajina Osiguranje A.D., Banja Luka [insurance co.]	14,450	14,450
	710,784	179,850
Residential loans to employees	315,813	390,532
Less: Current portion of long-term loans	(73,133)	(83,436)
	242,680	307,096
Long-term deposits	257,500	257,500
	1,210,964	744,446

Residential loans to employees at December 31, 2006 in the amount of CM 315,813, relate to long-term loans extended to Company employees. Loans are approved to employees at the following terms: up to 20-year maturities, at an annual interest rate of 4 percent. During 2006, pursuant to the November 11, 2005 Decision of the Association of Workers "Union of the Banja Luka Brewery," (the "Union"), the Company assumed the receivables from the Union associated with the extended residential loans to employees in the total amount of CM 404,755 (Note 6), which were in previous years approved to employees by the Company, and subsequently such receivables were transferred from the Company to the Union.

Long-term deposits of CM 257,500 at December 31, 2006 entirely relate to the non-interest-earning deposits held with the Razvojna banka Jugoistocne Evrope, A.D, Banja Luka (the "Development Bank of Southeast Europe" A.D., Banja Luka), entered into in accordance with the provisions of the Agreement on Commercial Cooperation of May 5, 2003. Namely, under the terms of the aforesaid agreement, the Company has an obligation to deposit funds in the amount of CM 1,000,000 which are intended to serve as security on the repayment of loans that the Razvojna banka has extended to the Company's employees. These funds have been placed for a period of fifteen years, with the ability to utilize them only subsequent to the expiration of eleven years from the deposit date of the funds. The Company has deposited a total of CM 257,500, while the remainder of CM 742,500 has not yet been deposited with the Razvojna banka as of the date of the financial statements for the year ended 2006.

Share in capital of "Kosig Dunav osiguranje" Banja Luka has been increased for CM 530,934 booked based on market the market price of "Kosig " shares as of December 31, 2006.

10.1 SHORT-TERM FINANCIAL PLACEMENTS

In CM	December 31, 2006	December 31, 2005
Short-term loans	73,133	83,436
Other short-term financial placements	2,000,000	-
	2,073,133	83,436

Amount of CM 73,133 relates to current portion of long-term housing loans. Other short-term financial placements in the amount of CM 2,000,000 represent short-term deposits with Hypo bank. The deposit was made based on agreement No. 5833022825/06 dated 20 October 2006 with the following terms: 6 months maturity and interest of 4.1% p.a..

11 INVENTORIES

In CM	December 31, 2006	December 31, 2005
Raw materials	1,104,008	1,654,889
Spare parts	2,086,765	1,789,681
Tools and inventory	17,566	41,158
Fuel and lubricant	104,622	247,982
Work in progress	1,041,305	1,664,326
Finished products	242,608	164,619
Commercial goods	2,705	3,647
Advances to suppliers	445,526	152,300
	5,045,105	5,718,602
Less: Allowance for impairment (Note 14):		
- materials and spare parts	(268,452)	(545,068)
- advances to suppliers	(253,637)	(84,599)
	(522,089)	(629,667)
	4,523,016	5,088,935

12 ACCOUNTS RECEIVABLE

In CM	December 31, 2006	December 31, 2005
Accounts receivable:		
- domestic	4,728,802	4,522,388
- foreign	3,157	73,782
	4,731,959	4,596,170
Less: Allowances for impairment of domestic accounts receivable (Note 14)	(3,317,878)	(2,641,009)
	1,414,081	1,955,161

13 OTHER CURRENT RECEIVABLES AND PREPAYMENTS

In CM	December 31, 2006	December 31, 2005
Receivables from inactive customers for packaging	-	2,141,882
Receivables from associates for shortages	214,010	214,010
Other receivables from specific operations	10	26,857
Receivables for dividends and interests	66,127	66,127
Prepaid taxes and contributions	79,334	32,925
Receivables from employees	3,543	15,123
Other receivables	50,875	32,886
Prepayments	242,172	114,832
	656,071	2,644,642
Less: Allowances for impairment (Note 14):		
- receivables from inactive customers for packaging	-	(2,141,882)
- receivables from associates for shortages	(214,010)	(214,010)
- other receivables	(11,172)	(11,172)
- for interest	(66,127)	-
	(291,309)	(2,367,064)
	364,762	277,578

As of December 31, 2006 accruals in the amount of CM 44,182 entirely relate to deferred expenses for insurance of property and persons, based on the Insurance Agreement with entered into with Kosig Dunav osiguranje A.D., Banja Luka for one-year period commencing on March 31, 2006, and amount of CM 197,990 relates to VAT paid in received invoices.

14 MOVEMENTS ON PROVISION

In CM	Inventories	Advances to Suppliers	Accounts Receivable	Other Receivables	Total
Balance, beginning of year	545,068	84,599	2,641,009	2,367,064	5,637,740
Charge for the year	-	169,038	772,023	66,127	1,007,188
Reversal of provision	-	-	(95,155)	(2,141,882)	(2,237,037)
Write-offs of previously made provision	(276,616)	-	-	-	(276,616)
Balance, end of year	268,452	253,637	3,317,877	291,309	4,131,275

15. CASH AND CASH EQUIVALENTS

In CM	December 31, 2006	December 31, 2005
Current account	1,932,439	14,511
Cash in hand	1,325	2,561
Foreign currency account	12,034	13,364
	1,945,798	30,436

16. SHARE CAPITAL

Based on the December 20, 2002 Decision of the Government of the Republic of Srpska, the state-owned capital of the Company was transformed in the aggregate amount of CM 39,454,774 of which 28.22 percent of the Company's share capital was distributed to internal shareholders, whereas 7.18 percent of the equity was privatized by means of a voucher privatization offering. The remaining 64.60 percent of equity is comprised of: state-owned portion of 53.81 percent, Pension Fund 7.20% and Restitution Fund portion of 3.59 percent. Pursuant to the Decision of the Government of the Republic of Srpska of February 3, 2005, the state-owned portion of capital will be privatized on the basis of a Government of the Republic of Srpska Special Privatization Program, in accordance with Article 7 of the Law on the Privatization of State-Owned Capital in Enterprises (See "Official Gazette of RS," numbered 24/98, 62/02, 38/03 and 65/03). The status changes relating to the Company's ownership transformation have been registered with the Court of First Instance of Banja Luka pursuant to Decision numbered U/I-143/2003 of February 19, 2003.

During 2003 and 2004 increases in share capital were performed from the Company's retained earnings in the amounts of CM 3,825,934 and CM 4,415,595, respectively. The aforementioned changes in equity were registered with the Court of First Instance of Banja Luka on July 11, 2003 and on August 27, 2004.

On December 28, 2005 an Agreement on the Sale of the State-Owned Capital was entered into between the Republic of Srpska Directorate of Privatization and Altima Global Special Situations Fund Ltd., Cayman Islands. In accordance with the terms of the aforesaid agreement, the subject of sale is the state-owned capital stake which represents 53.81 percent of the core capital of the Company, comprised of 25,662,800 ordinary shares with an individual par value of CM 1.00. The sale price of the state-owned stake in the capital was CM 23,000,000.

On January 26, 2006, the Company's Shareholders' Assembly elected a new Supervisory Board and Board of Directors, into which representatives of the new majority owner were named. On March 10, 2006, the Securities Commission of the Republic of Srpska enacted Decision numbered 01-03-RE-737/06 with respect to the inscription of the new Company Director, and the new members of the Company's Board of Directors and Supervisory Board.

Based on the Decision of the Assembly no. 01-70/06 dated 03/07/2006 on the increase of the basic capital through new investments in cash and no. 01-70-1/06 dated 03/07/2006, on the fourth issue of shares by means of a sealed offer to the known buyer, dated 03/07/2006, the fourth issue of shares was carried out. **17,500,000** of prioritized, participative-cumulative shares, "B" class, with no right to vote were issued, exchangeable for common shares, nominal value of 1.00 KM per share.

The shares were sold to the buyer **Altima UK Value Investments Limited, George Town, Grand Cayman, Cayman Islands**, at the price of 1.20 KM per share, or for the total amount of 21,000,000 KM. The buyer became the owner of 17,500,000 shares, whereas 3,500,000 KM represents an issue premium. The shares were fully paid for in cash.

The share capital structure as per the Shareholder Register which the Company maintains with the Centralni registar hartija od vrijednosti A.D., Banja Luka [Central Securities Registry] as of December 31, 2005 and as of 2006 is as follows:

In CM	December 31, 2006	December 31, 2005	2006%
Altima	25,664,613	-	39
State-owned capital	-	25,662,800	-
Internal shareholders and shareholders based voucher privatization offer	16,885,250	16,886,469	26
Pension and Disability Fund	3,434,142	3,434,143	5
Share capital – priority shares (Altima)	17,500,000	-	27
Restitution Fund	1,712,297	1,712,891	3
	65,196,302	47,696,303	100

The individual par value of a share as of December 31, 2005 and 2006 is CM 1.00.

The Company's shares are listed on Securities Exchange in Banja Luka. The market value of the share as of December 31, 2006 amounted to CM 1.05.

17. LONG-TERM BORROWINGS

In CM	December 31, 2006	December 31, 2005
Long-term loans	21,986,782	24,619,576
Less: Current portion of long-term liabilities	(2,893,501)	(2,814,779)
	19,093,281	21,804,797
Financial lease	391,110	-
Less: Short term lease	(127,800)	-
	263,310	-
	19,356,591	21,804,797

In CM	Maturity Date	Interest Rate	Initial Amount in Currency	2006	2005
Hypo Alpe Adria Bank A.D, Banja Luka	August 1, 2015	6 month EURIBOR + 5.5% p.a.	20,000,000 CM	18,269,478	19,660,448
Hypo Alpe Adria Bank A.D, Banja Luka	June 1, 2009	6 month EURIBOR + 7% p.a.	2,660,000 CM	1,524,503	2,021,604
Hypo Alpe Adria Bank A.D, Banja Luka	April 1, 2010	6 month EURIBOR + 5.5% p.a.	2,000,000 CM	1,418,287	1,774,442
Zepter Komerc banka A.D., Banja Luka	October 31, 2007	10.4% p.a.	511,292 EUR	362,475	789,266
Hypo leasing D.O.O, Sarajevo	June 1, 2009	Not defined	279,649 EUR	235,384	331,140
Zavod za izgradnju A.D., Banja Luka,	August 15, 2005	Non-interest-bearing	85,351 CM	42,675	42,676
Banjaluka city	Septembar 30, 2009	Non-interest-bearing	210,525 CM	133,980	
Finance leasing	December 03, 2009	2.6%+euribor	405,505 CM	391,110	
				22,377,892	24,619,576

- a) Long-term liabilities based on the loans extended by Hypo Alpe-Adria-Bank A.D., Banja Luka totaling CM 18,269,478 as of December 31, 2006, are associated with the liabilities relating to loans approved for purposes of financing construction and new equipment acquisitions for the Company's new beer filling and bottling facility ("bottling") in the aggregate amount of CM 20,000,000. Under the provisions of the February 16, 2004 loan agreement, this loan is to be repaid in 40 equal, quarterly installments, wherein the first installment is due for payment on September 1, 2005 and the last matures on August 1, 2015. The contractually-defined annual interest rate is the 6-month EURIBOR rate + 5.5%. In order to secure the aforementioned loan, the Company provided six, certified promissory notes bearing "no protest" clauses, as well as six payment orders for fund transfers. Also, the Company provided as collateral pledging rights registered on its commercial property and land surrounding its beer production plant, valued in the amount of CM 34,541,370, as appraised by a permanent court-appointed expert in November of 2003. In addition, the Company pledged the new equipment acquired under the aforecited loan. The current portion on this loan amounts to CM 1,475,629 as of December 31, 2006.

- b) Long-term liabilities based on the loan originated by Hypo Alpe-Adria-Bank A.D., Banja Luka as of December 31, 2006 in the amount of CM 1,524,503 relate to obligations relating to approved loans for permanent working capital in the total amount of CM 2,660,000. Pursuant to the terms of the loan agreement of May 12, 2004, it was defined that the loan is to be repaid in 60 equal, monthly annuities, wherein the first annuity matures for payment on July 1, 2004 and the last matures on June 1, 2009. The contractually-agreed annual interest rate on this loan is equal to the 6-month EURIBOR rate + 7%. As collateral on the aforementioned funds, the Company provided six certified promissory notes with "no protest" clauses, as well as six payment orders for the transfer of funds. Also, as collateral the Company provided a lien registered against on its commercial property and land situated within the Beer production plant complex, valued in the amount of CM 34,541,370, as appraised by a permanent court-appointed expert in November of 2003, a lien on equipment with an appraised value of CM 16,300,000, and a lien registered on it equipment acquired under the previously-described loan valued at CM 20,000,000. The current portion of this loan is CM 545,031 as of December 31, 2006.
- c) Long-term liabilities based on a loan received from Hypo Alpe-Adria-Bank A.D., Banja Luka as of December 31, 2006 amount to CM 1,418,287 and are associated with the obligations on the loan approved for the purposes of financing the completion of construction of the access bridge in Banja Luka in the total amount of CM 2,000,000. Under the terms of this loan agreement dated December 25, 2003, it was established that the loan is to be repaid in 60, equal monthly annuities, wherein the first annuity matures on May 1, 2005 and the last one matures on April 1, 2010. The contractual annual interest rate is equal to the 6-month EURIBOR rate + 5.5%. So as secure the aforementioned funds, the Company certified six promissory notes with "no protest" clauses as well as six payment orders for fund transfers. Also, the Company registered a lien on the commercial building and property situated within the Beer production plant complex, valued at CM 34,541,370 as appraised in November 2003 by a permanent court-appointed expert. The Company also provided a registered lien and pledged its new equipment acquired with the loan proceeds. The current portion on this loan is CM 384,678 as of December 31, 2006.
- d) Long-term liabilities arising on the loan extended by Zepter Komerc Banka A.D., Banja Luka amount to CM 362,475 as of December 31, 2006, and relate to the obligations arising on the approved loan for the purpose of financing working capital requirements in the total amount of CM 1,000,000. Under the terms of the loan agreement entered into on of September 29, 2004, it was defined that the loans is to be repaid in 36, equal monthly annuities, including a grace period of six months. The contractually-defined annual interest rate is 10.4 percent. As collateral on this loan, the Company provided two, certified promissory notes and ten payment orders for the transfer of funds. Also, the Company registered a lien on the commercial building and property situated within the Beer production plant complex. The current portion on this loan is CM 362,475 as of December 31, 2006.
- e) Long-term liabilities based on the loan extended by Hypo Leasing D.O.O., Sarajevo total CM 235,384 at December 31, 2006 and related to assumed liabilities, in accordance with the terms of the July 7, 2004 Agreement on Assignment, for the repayment of debt which the Company assumed from the entity, Integral Inženjering D.O.O., Laktaši. Namely, having assumed the obligations to settle the loan which Hypo Leasing D.O.O., Sarajevo extended to Integral Inženjering D.O.O., Laktaši for the purchase of equipment, the Company settled its obligations towards Integral Inženjering D.O.O., Laktaši. The Company repaid the assumed debt liabilities in 60 equal, monthly annuities in the amount of EUR 4,660.81, as increased by the sales taxes based on the amount of the loan. The final annuity matures on June 1, 2009. The current portion on this loan is CM 83,013 as of December 31, 2006.

- f) Long-term liabilities toward the Zavod za izgradnju A.D., Banja Luka [Building Association] amount to CM 42,676 as of December 31, 2006 and are associated with the remaining long-term obligations arising on fees for the usage of construction land and utilities (communal) for the period ended June 30, 2002. Namely, on June 30, 2002 the Company obtained an Official Notice from the Zavod za izgradnju A.D., Banja Luka, pursuant to which the Company's total liability of CM 170,702 was reduced by 50%, in the amount of CM 85,351, whereby the remaining portion of the obligation is to be settled in 36 equal, monthly installments. The full amount of the remaining liabilities totaling CM 42,676 matured on December 31, 2006.
- g) Long-term liabilities toward the Grad Banja Luka (Banja Luka City Hall) amount to CM 133,980 as of December, 2006 and are associated with the obligation arising on fees for construction site planning determined by the Decision of the Planning Department of the Banja Luka City Hall numbered 03-364-4681/03 of 22nd June, 2004 at the amount of CM 298,934.55 and on rental fee on construction of first phase of beer filling and bottling facility at the amount of CM 51,940. Under the provision of the Contract between the Company and the Banja Luka City Hall no 03-364-274/04 of 24th December, 2004, it was defined that 40 per cent of the obligation is to be paid within 8 days, and 60 per cent in 33 equal, monthly installments with the grace period of 1 year.
- h) Long-term liabilities under financial leasing as of December 31, 2006 amount to 391,110 and are associated with the obligation to purchase vehicles as follows:

RENAULT KANGOO – 15 cars (delivery)
RENAULT MEGAN – 5 cars (travel)
RENAULT LAGUNA – 1 car (travel)

The current portion on this obligation is CM 127,800 as of December 31, 2006.

Maturities of long-term loans are as follows:

In CM	2006
Current portions	3,021,301
	-
From one to two years	2,935,846
From two to three years	2,816,477
From three to four years	2,058,192
From four to five years	2,063,927
After five years	9,482,149
Total portion of long-term loans and other long-term liabilities	19,356,591
	22,377,892

18. LONG-TERM PROVISIONS

In CM	December 31, 2006	December 31, 2005
Provisions for contingent liabilities arising on the Tax Determination Decision	593,968	577,452
Provisions for rebates	9,042	564,863
Provisions for the ZIBL	85,351	-
	688,361	1,142,315

Provisions for contingent liabilities arising on the Tax Determination Decision as of December 31, 2005 totaling CM 577,452 entirely relate to the provisions for contingent liabilities arising on the Tax Determination Decision of the Republic of Srpska Tax Authority based upon which the Company has filed an appeal. Namely, the RS Tax Authority has performed an audit on the Company's tax statements, calculations and payments for the period from November 1, 2003 up to December 31, 2004. Upon determining inaccuracies, the RS Tax Authority submitted to the Company its Decision on Assessed Tax Liabilities numbered 01/0303/490-5.4/05 of April 18, 2005, in which it has ordered the Company to remit public revenue in the amount of CM 986,817. Of the aforementioned amount, CM 556,757 relates to the principal tax liability, whereas CM 430,060 relates to the interest liability for late payments of taxes. In its financial statements for the year ended 2004, the Company recorded a portion of a liability in the amount of CM 143,897 based on utility liabilities related to water and forest preserves (Note 22), for which the remaining portion of the principal debt and applicable interest, has been separated from the appeal filed with the RS Tax Authority. In the financial statements for the year ended 2005, the Company formed a provision for potential losses in the amount of CM 577,452. The Company's management judges that the remaining amount of CM 265,468, not including the effects of potential penalty interest, for which the Company has not formed a provision, would not have a negative effect on the Company's results and that the Company will not be exposed to materially significant potential losses.

In 2006 the Company paid CM 38,999 for the interest on salary contributions and have provided additional amount of CM 55,515 based on Tax Partial Decision of the Tax Authority numbered 06/1.10/0303/490-1.37/06 of November 6, 2006 for the period of control starting from January 1, 2005 to June 30, 2006.

Provisions for rebates as of December 31, 2006 totaling CM 9,042 entirely relate to the calculated rebates for 2006 that the Company will approve in 2007 according to current sales contracts.

19. ACCOUNTS PAYABLE

In CM	December 31, 2006	December 31, 2005
Accounts payable:		
- Domestic accounts payable	1,809,798	3,187,171
- Foreign accounts payable	2,354,892	1,918,687
	4,164,690	5,105,858

20. OTHER CURRENT LIABILITIES

In CM	December 31, 2006	December 31, 2005
Sales taxes	-	1,990,363
Other taxes	185,942	1,779,293
Accrued salaries and other payments to employees	268,180	317,147
Accrued interest	622,394	210,818
Liabilities for water used and compensation for forest	200,089	222,120
Accrued taxes and contributions on employee salaries	137,408	167,993
Accrued expenses	214,744	59,500
Contributions to chambers	12,434	43,640
Liabilities for other taxes, contributions and levies	205	1,039
Liabilities for VAT	90,221	-
Other liabilities	26,106	4,500
Advances received	65,486	112,121
Other liabilities	38,153	38,153
	1,861,362	4,946,687

21. LITIGATION

The Company is involved in various legal proceedings that have been filed by its suppliers in which it has been named as a defendant. As of December 31, 2006 the damages sought in legal actions initiated by the Company against its debtors amounted to CM 4,152,736. As of December 31, 2006 the total of potential damages arising from litigation filed against the Company by its debtors amounted to CM 546,166 which does not include the effects of possible penalty interest. The Company's management judges that material losses are not likely to be sustained, hence a provision for potential losses arising in connection with the pending litigation has not been recorded in the financial statements for the year ended December 31, 2006.

22. CONTINGENT LIABILITIES AND COMMITMENTS

The RS Tax Authority has performed an audit of the Company's tax statements, calculations and payments for the period from November 1, 2003 up to December 31, 2004. Upon determining inaccuracies, the RS Tax Authority submitted to the Company its Decision on Assessed Tax Liabilities numbered 01/0303/490-5.4/05 of April 18, 2005, in which it has ordered the Company to remit public revenue in the amount of CM 986,817. Of the aforementioned amount, CM 556,757 relates to the principal tax liability, whereas CM 430,060 relates to the interest liability for late payments of taxes. In its financial statements for the year ended 2004, the Company recorded a portion of this liability in the amount of CM 143,897 relating to utility liabilities related to water and forest preserves, for which the remaining portion of the principal liability and applicable interest, has been separated from the appeal filed with the RS Tax Authority. In the financial statements for the year ended 2005, the Company formed a provision for potential losses in the amount of CM 577,452 (Note 18). Until the date of disclosing these statements, the Company has paid CM 38,999 for the interest on salaries contributions.

The RS Tax Authority has performed an audit of tax statements, calculations and payments for the period from January 1, 2005 up to June 30, 2006 and submitted its Partial Decision for Payment numbered 06/01/0303/490-1.37/06 of November 6, 2006 at the amount of CM 366,681, out of which CM 51,658 relates to the principle, and CM 315,023 relates to interest. On December 27, 2006 the rescheduling request numbered 2573/06 was submitted based on the Decision from 2005 and from 2006 at the amount of CM 736,535, out of which the principle is CM 608,415, and the interest is CM 128,120. The ruling on this request is in progress.

23. COMMITMENTS

In accordance with the provisions of the Agreement on Commercial Cooperation numbered 01-25/03 of May 5, 2003 entered into with the Razvojna Banka Jugoistocne Evrope A.D., Banja Luka, the Company has assumed an obligation to deposit to a non-interest-earning account the amount of CM 1,000,000 for a fixed term of 15 years, to serve as security on long-term loans that the Razvojna Banka has agreed to extend to the Company's employees. As of the date of issuance of the accompanying financial statements, the Company has deposited the total amount of CM 257,500 in favor of the contractual deposit (Note 10).

24. RELATED LEGAL ENTITIES

The Company is related party with its parent companies and its directors and managers.

During 2006 the Company has a transactions with a related parties as follows:

In CM	2006.	2005.
ASSETS	-	-
LIABILITIES	-	-
REVENUES	-	-
COSTS	1,642,776	-

Out of the total amount of costs, CM 674,061 relates to interest charged to the Company in respect of three short-term unsecured bridging loans for working capital requirements granted by Altima Global Special Situations Fund Ltd. in 2006. Interest was charged on arm's length basis, being the EURIBOR + 7.25% p.a.. The loans were fully repaid by 28th December, 2006.

The amount of CM 968,715 relates to expenses of consultancy services provided by Altima UK Value Investments Ltd in 2006 based on the contract signed between the Company and Altima UK Value Investments Ltd on 31st October, 2006. The charges in respect of the services were determined on arm's length basis.

25. REMUNERATION TO MANAGERS

In CM	2006.	2005.
Salaries and other short-term remuneration		
- Management Board	36,641	18,513
- Managing Director	77,775	42,933
Total	114,416	61,446

The management of the Company is consisted of the Managing Director and of executive managers.