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**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 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation 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 2007, and of its financial performance and its cash flows for the year then ended in accordance with the legislation of Republic of Srpska.

Belgrade, 23 April 2008

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, 23 April 2008

KPMG d.o.o. Beograd



Boris Milošević  
*Partner*



Tamara Stojanović  
*Certified auditor*



**Notes to the financial statements  
for 2007**

**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2007****Year Ended December 31, 2007**

(In CM)

	Notes	2007	2006
<b>OPERATING INCOME</b>			
Sales	4	18,116,839	23,093,661
Other income	5	1,103,733	2,324,388
		19,220,572	25,418,049
<b>OPERATING EXPENSES</b>			
Cost of commercial goods sold		10,021	6,232
Materials, fuel and energy	6	8,819,472	8,033,518
Decrease in value of inventories		8,128	339,658
Staff costs	7	5,328,316	8,921,714
Depreciation and amortization expense	9	10,010,776	10,104,389
Provisions	18	-	140,866
Other operating expenses	8	6,337,275	6,397,158
		30,513,988	33,943,535
<b>LOSS FROM OPERATIONS</b>		<b>(11,293,416)</b>	<b>(8,525,486)</b>
<b>FINANCE INCOME / (EXPENSES)</b>			
Interest income		66,107	39,824
Foreign exchange gains		5	400
Interest expense		(1,723,028)	(3,143,375)
Foreign exchange losses		(236)	(22)
Write off of long-term financial investment	10	(28,957)	-
Other finance expenses	18	(725,171)	-
		(2,411,280)	(3,103,173)
Income Tax		-	-
<b>NET LOSS FOR THE YEAR</b>		<b>(13,704,696)</b>	<b>(11,628,659)</b>

**TRANSLATION***"Banjalučka pivara" a.d. Banja Luka*  
*Notes to the Financial statements***STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Share Capital</b>	<b>Revaluation Reserves</b>	<b>Legal Reserves</b>	<b>Statutory Reserves</b>	<b>Emission premium</b>	<b>Other Reserves</b>	<b>Accumulated Result</b>	<b>Total</b>
Balance, January 1, 2006	47,696,303	-	857,425	5,199,375	-	-	(15,147,267)	38,605,836
Share capital emission and other forms of increase and decrease of core capital and reserves	17,500,000	-	-	-	3,500,000	530,934	-	21,530,934
Loss for the year	-	-	-	-	-	-	(11,628,659)	(11,628,659)
<b>Balance, December 31, 2006</b>	<b>65,196,303</b>	<b>-</b>	<b>857,425</b>	<b>5,199,375</b>	<b>-</b>	<b>-</b>	<b>(26,775,926)</b>	<b>48,508,111</b>
Balance, January 1, 2007	65,196,303	-	857,425	5,199,375	3,500,000	530,934	(26,775,926)	48,508,111
Increase and decrease of core capital and reserves	-	-	-	-	-	518,786	-	518,786
Loss for the year	-	-	-	-	-	-	(13,704,696)	(13,704,696)
<b>Balance, December 31, 2007</b>	<b>65,196,303</b>	<b>-</b>	<b>857,425</b>	<b>5,199,375</b>	<b>3,500,000</b>	<b>1,049,720</b>	<b>(40,480,622)</b>	<b>35,322,201</b>

**BALANCE SHEET AS OF DECEMBER 31, 2007**As of December 31, 2007  
(In CM)

	Notes	2007	2006
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	9	5,812,771	5,815,732
Property, plant and equipment	9.1.	52,754,214	60,252,930
Long-term financial placements	10	1,641,005	1,210,964
		60,207,990	67,279,626
<b>Current assets</b>			
Inventories	11	4,671,639	4,523,016
Accounts receivable	12	1,795,207	1,414,081
Other current assets and prepayments	13	530,876	364,762
Portion of the long-term loan maturing up to one year	10.1.	43,560	2,073,132
Cash and cash equivalents	15	131,485	1,945,798
		7,172,767	10,320,790
<b>Total assets</b>		<b>67,380,757</b>	<b>77,600,416</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	16	65,196,303	65,196,303
Share premium		3,500,000	3,500,000
Legal reserves		857,425	857,425
Statutory reserves		5,199,375	5,199,375
Other reserves		1,049,720	530,934
Accumulated loss)/Retained earnings		(40,480,623)	(26,775,926)
		35,322,200	48,508,111
<b>Non-current liabilities</b>			
Long-term borrowings	17	18,316,227	19,093,281
Other long-term liabilities	17	200,094	263,310
		18,516,321	19,356,591
<b>Long-term provisions</b>			
	18	690,823	688,361
<b>Current liabilities</b>			
Current portion of long-term liabilities	17	3,767,121	3,021,301
Short-term financial liabilities	17	2,867,805	-
Accounts payable	19	4,411,547	4,164,690
Other current liabilities and accruals	20	1,804,940	1,861,362
		12,851,413	9,047,353
<b>Total equity and liabilities</b>		<b>67,380,757</b>	<b>77,600,416</b>

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2007

(In CM)

	2007	2006
<b>Operating activities</b>		
Cash receipts from customers	26,531,491	32,508,410
Other cash received from operating activities	402,872	449,292
Cash paid to suppliers	(15,844,754)	(14,263,305)
Cash paid to and on behalf of employees	(5,539,194)	(8,853,046)
Interest paid	(1,999,789)	(2,729,953)
Non-income taxes and other duties paid	(9,166,770)	(14,084,447)
<i>Net cash provided by operating activities</i>	(5,616,144)	(6,973,049)
<b>Investing activities</b>		
(Decrease)/Increase in long-term financial placements	11,973	100
(Decrease)/Increase in short-term financial placements	2,052,730	(1,925,543)
Interest received	66,107	39,824
Purchases of property, plant and equipment	(1,063,357)	(4,346,534)
<i>Net cash used in investing activities</i>	1,067,453	(6,232,153)
<b>Financing activities</b>		
(Decrease)/Increase in short-term borrowings	1,842,971	(5,802,890)
(Decrease)/Increase in long-term borrowings	891,407	(76,545)
Increase from shares issues	-	21,000,000
<i>Net cash (used in)/provided by financing activities</i>	2,734,378	15,120,565
<b>Net cash flow</b>	<b>9,417,975</b>	<b>1,915,363</b>
<b>Cash and cash equivalent, beginning of year</b>	<b>1,945,798</b>	<b>30,435</b>
<b>Cash and cash equivalents, end of year</b>	<b>131,485</b>	<b>1,945,798</b>

**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. More details on the privatization are provided in note 16.

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, 2007, the Company had 260 employees (December 31, 2006 - 264 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, as well as other relevant regulations in the Republic of Srpska.

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

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 value added tax (VAT). 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**

<b>In CM</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
USD	-	1.48506
CHF	1.17793	1.21714
EUR	1.95583	1.95583
GBP	2.661717	-

**3.6 Taxes and contributions****Income Taxes**

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

Tax authorities determine monthly advance payment calculation for income tax.

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 (Article 13 of the RS Law on Income Tax) allows for tax losses from the current year stated in the income tax statement to be used to decrease taxable profits for future reporting periods for the period of five years.

### **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 2007 are as follows:

	<b>Useful Life</b>	<b>Rate</b>
	<b>(years)</b>	<b>(%)</b>
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 – 20
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.

Given that significant changes occurred in the Company's economic environment during the observed business year, which adversely affected the Company (such as large increase in raw material prices in the world market, sales reduction trend, etc.), and given the fact that we have been recording losses in the past few years, the Company's management performed an impairment test in order to determine whether there is an impairment loss to be recorded, all in accordance with the International Accounting Standard 36-Asset Impairment.

After performing the analysis prescribed by IAS 36 it was concluded that the assets have not been impaired in the observed period, i.e. that an impairment loss has not been generated.

### **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.

**TRANSLATION***"Banjalučka pivara" a.d. Banja Luka*  
*Notes to the Financial statements***4. SALES**

<b>In CM</b>	<b>Year Ended December 31, 2007</b>	<b>Year Ended December 31, 2006</b>
Sales of products and services in domestic market:		
- wholesale of beer	17,806,010	22,716,651
- retail sale of beer	71,712	229,434
- other	187,251	135,707
	<u>18,064,973</u>	<u>23,081,792</u>
Sales of beer in foreign market	51,866	11,869
	-	-
	<b>18,116,839</b>	<b>23,093,661</b>

**5. OTHER OPERATING INCOME**

<b>In CM</b>	<b>Year Ended December 31, 2007</b>	<b>Year Ended December 31, 2006</b>
Income from sales of merchandise	2,775	-
Income from own services	91,109	-
Recovery of bad debts	151,692	95,154
Gains on the sale of fixed assets	6,722	-
Gains on the sale of materials	407	399
Surpluses	45,723	24,118
Release of long-term provisions (Note 18)	593,968	-
Revenues from decrease in obligations to related customers	572	29
Subsequently approved rebates from suppliers	6,098	1,368
Collected penalties, fees and damage compensations	1,252	-
Revenues from returned packaging from inactive customers	-	193,963
Revenues from writting up packaging from inactive customers	-	1,947,919
Other income	203,415	61,438
<b>Total</b>	<b>1,103,733</b>	<b>2,324,388</b>

**6. MATERIALS, FUEL AND ENERGY**

<b>In CM</b>	<b>Year Ended December 31, 2007</b>	<b>Year Ended December 31, 2006</b>
Raw materials	5,278,265	5,050,855
Other materials	1,518,414	1,021,242
Fuel	1,113,946	1,098,792
Water	529,801	483,289
Energy	379,046	379,340
	<b>8,819,472</b>	<b>8,033,518</b>

**7. STAFF COSTS**

<b>In CM</b>	<b>Year Ended December 31, 2007</b>	<b>Year Ended December 31, 2006</b>
Gross employees' salaries	4,473,966	5,325,419
Transportation of employees	148,942	148,442
Employee meals	250,955	170,488
Payments to employees for own car usage for business purposes	4,971	137,389
Severance payments	31,586	38,768
Financial assistance to employees	11,497	14,402
Remuneration to the members of the Management Board and Supervisory Board	51,486	54,961
Severance payment for termination of labour contract	46,518	2,613,216
Annual leave allowance	285,717	415,374
Jubilee awards	19,888	-
Other payments to employees	2,790	3,255
	<b>5,328,316</b>	<b>8,921,714</b>

**8. OTHER OPERATING EXPENSES**

<b>In CM</b>	<b>Year Ended December 31, 2007</b>	<b>Year Ended December 31, 2006</b>
Telecommunication costs	77,003	60,182
Transportation of products to customers	256,912	253,107
Transportation of materials	17,589	8,327
Filling and transportation of bottles	372,181	212,680
Other transportation services	3,806	12,513
Internet connection fee	8,824	-
Maintenance	466,088	385,647
Rentals	66,178	104,285
Marketing services	1,559,401	996,486
Registration of automobiles	15,575	14,675
Professional literature	4,080	3,904
Other services	333,836	240,017
Per diems and travel expenses	54,048	46,284
Contractors' fees	4,450	79,414
Other fees	15,702	49,244
Import commission and customs' duties	88,664	131,722
Education of employees	1,354	2,805
Consulting services	1,006,857	968,715
Other non-manufacturing expenses	73,163	158,568
Entertainment	177,068	306,171
Insurance premiums	305,207	366,826
Bank charges and fees	73,178	87,803
Indirect taxes and contributions	343,370	315,173
Other expenses	34,967	93,679
Losses on the disposal of property, plant and equipment	24,777	10,908
Damages	88,496	76,925
Shortages	148,441	283,547
Provisions	257,153	1,007,188
Write-off of inventories	47,180	-
Other	411,727	120,363
	<b>6,337,275</b>	<b>6,397,158</b>

**TRANSLATION***"Banjalučka pivara" a.d. Banja Luka*  
*Notes to the Financial statements***9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS**

<b>In CM</b>	<b>Buildings</b>	<b>Equipment, packaging and other fixed assets</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost</b>				
Balance, January 1, 2006	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 to receivables	-	4,476,814	-	4,476,814
Disposal and impairment	-	(2,459,061)	-	(2,459,061)
Balance, December 31, 2006	<b>40,386,685</b>	<b>109,772,649</b>	<b>211,565</b>	<b>150,370,899</b>
Purchases	-	-	2,744,318	2,744,318
Transfer from/to	-	2,825,814	(2,825,814)	-
Disposal and impairment	-	(2,810,382)	(42,269)	(2,852,651)
Balance, December 31, 2007	<b>40,386,685</b>	<b>109,788,081</b>	<b>87,800</b>	<b>150,262,566</b>
<b>Accumulated Depreciation</b>	-	-	-	-
Balance, January 1, 2006	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 to receivables	-	2,276,541	-	2,276,541
Disposal and impairment	-	(2,075,087)	-	(2,075,087)
Balance, December 31, 2006	<b>22,919,165</b>	<b>67,198,804</b>	-	<b>90,117,969</b>
Current charges	850,679	9,157,137	-	10,007,816
Surpluses	-	4,039	-	4,039
Disposal and impairment	-	(2,621,472)	-	(2,621,472)
Balance, December 31, 2007	<b>23,769,844</b>	<b>73,738,508</b>	-	<b>97,508,352</b>
<b>Net book value as of December 31, 2007</b>	<b>16,616,841</b>	<b>36,049,573</b>	<b>87,800</b>	<b>52,754,214</b>
<b>Net book value as of December 31, 2006</b>	<b>17,467,520</b>	<b>42,573,845</b>	<b>211,565</b>	<b>60,252,930</b>



Net book value fixed assets financed from financial leasing as at 31 December 2006 amounts to 448,111 CM. Information on pledged assets are provided in Note 18.

**9.1 INTANGIBLE ASSETS**

<b>In CM</b>	<b>Land right and investments in leased property</b>	<b>Total</b>
<b>Cost</b>		
Balance, January 1, 2006	5,824,859	5,824,859
Purchases	-	-
Balance, December 31, 2006	5,824,859	5,824,859
Purchases	-	-
Balance, December 31, 2007	<b>5,824,859</b>	<b>5,824,859</b>
<b>Accumulated Amortization</b>		
Balance, January 1, 2006	6,168	6,168
Current charges	2,960	2,960
Balance, December 31, 2006	9,128	9,128
Current charges	2,960	2,960
Balance, December 31, 2007	12,088	12,088
<b>Net book values as of December 31, 2006</b>	<b>5,815,732</b>	<b>5,815,732</b>
<b>Net book value as of December, 31, 2007</b>	<b>5,812,771</b>	<b>5,812,771</b>

**10. LONG-TERM FINANCIAL PLACEMENTS**

<b>in CM</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Equity investments in other legal entities:		
- Kosig Dunav Osiguranje A.D., Banja Luka [insurance co.]	1,215,120	696,334
- Krajina Osiguranje A.D., Banja Luka [insurance co.]	14,450	14,450
	1,229,570	710,784
Housing loans to employees	248,918	315,813
Less: Portion of long-term loans with up to 1-year maturities	(66,025)	(73,133)
	182,893	242,680
Provision for housing loans	(28,958)	-
	153,935	242,680
Long-term deposits	257,500	257,500
	<b>1,641,005</b>	<b>1,210,964</b>

Housing loans to employees as of December 31, 2007 in the amount of CM 248,918 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 2005, 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.

On December 31, 2007, a provision of CM 28,958 for long-term housing loans receivables that could prove difficult to be collected was booked.

Long-term deposits of CM 257,500 as of December 31, 2007 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 Co-operation of May 5, 2003. Namely, under the terms of the aforementioned 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 2007.

The value of shares of "Kosig Dunav osiguranje" Banja Luka has been increased for CM 518,786 booked based on the market price of "Kosig" shares on Banja Luka Stock Exchange as of December 31, 2007.

## 10.1 SHORT-TERM FINANCIAL PLACEMENTS

<b>In CM</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Current portion of long-term loans	66,025	73,133
Other short-term financial placements	-	2,000,000
Provision for bad debts	(22,465)	-
	<b>43,560</b>	<b>2,073,133</b>

Amount of CM 66,025 relates to current portion of long-term housing loans. On December 31, 2007, a provision for bad debts of CM 22,465 was booked.

**11 INVENTORIES**

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
<b>In CM</b>		
Raw materials	1,436,836	1,104,008
Spare parts	2,221,622	2,086,765
Tools and inventory	12,916	17,566
Fuel and lubricant	82,936	104,622
Work in progress	784,302	1,041,305
Finished products	386,099	242,608
Commercial goods	2,664	2,705
Advances to suppliers	266,353	445,526
	<u>5,193,728</u>	<u>5,045,105</u>
Less: Allowance for impairment (Note 15):	-	-
- materials and spare parts	(268,452)	(268,452)
- advances to suppliers	(253,637)	(253,637)
	<u>(522,089)</u>	<u>(522,089)</u>
	<b><u>4,671,639</u></b>	<b><u>4,523,016</u></b>

**12 ACCOUNTS RECEIVABLE**

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
<b>In CM</b>		
Accounts receivable:		
- domestic	5,050,301	4,728,802
- foreign	-	3,157
	<u>5,050,301</u>	<u>4,731,959</u>
Less: Allowances for impairment of domestic accounts receivable (provision) (Note 14)	-	-
	(3,255,094)	(3,317,878)
	<u>-</u>	<u>-</u>
	<b><u>1,795,207</u></b>	<b><u>1,414,081</u></b>

**13 OTHER CURRENT RECEIVABLES AND PREPAYMENTS**

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
<b>In CM</b>		
Receivables from associates for shortages	214,010	214,010
Other receivables from specific operations	-	10
Receivables for dividends and interests	66,127	66,127
Prepaid taxes and contributions	359,319	79,334
Receivables from employees	3,317	3,543
Other receivables	48,686	50,875
Prepayments	130,726	242,172
	<b>822,185</b>	<b>656,071</b>
Less: Allowances for impairment:	-	
- receivables from associates for shortages	(214,010)	(214,010)
- other receivables	(11,172)	(11,172)
- for interest	(66,127)	(66,127)
	<b>(291,309)</b>	<b>(291,309)</b>
	<b>530,876</b>	<b>364,762</b>

Prepaid taxed and contributions of CM 214,019 refer to payment of customs fee for equipment that is to be registered as increase in share capital (RJ-04/05-3/1-2017-143-15.2/07), dated February 28,2007. We have submitted a request to be exempt from customs fee payment, however, the proceedings are still underway.

CM 144,269 refers to VAT, which was reduced based on credit notes to clients for their annual rebate.

As of December 31, 2007 accruals in the amount of CM 69,067 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, 2007. The amount of CM 55,056 relates to VAT paid in received invoices, whereas CM 6,112 refers to rental of packaging machine.

**14 MOVEMENTS ON PROVISION**

<b>In CM</b>	<b>Inventories</b>	<b>Advances to Suppliers</b>	<b>Accounts Receivable</b>	<b>Other Receivables</b>	<b>Total</b>
Balance, beginning of year	268,452	253,637	3,317,877	291,309	4,131,275
Charge for the year	-	-	234,688	51,422	286,110
Reversal of provision	-	-	(297,472)	-	(297,472)
<b>Balance, end of year</b>	<b>268,452</b>	<b>253,637</b>	<b>3,255,094</b>	<b>342,731</b>	<b>4,119,913</b>

**15. CASH AND CASH EQUIVALENTS**

<b>In CM</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Local currency account	129,628	1,932,439
Cash in hand	961	1,325
Foreign currency account	896	12,034
	<b>131,485</b>	<b>1,945,798</b>

**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 aforementioned 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 nominal 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.

**TRANSLATION***"Banjalučka pivara" a.d. Banja Luka*  
*Notes to the Financial statements*

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, 2006 and as of 2007 is as follows:

<b>In CM</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>	<b>2007 %</b>
Altima Global Special Situations Fund Ltd.	25,662,800	25,662,800	39.4%
Internal shareholders and shareholders based voucher privatisation offer	16,886,469	16,886,469	25.9%
Pension and Disability Fund	3,434,143	3,434,143	5.3%
Share capital – priority shares (Altima UK Value Investments Ltd.)	17,500,000	17,500,000	26.8%
Restitution Fund	1,712,891	1,712,891	2.6%
	<b>65,196,303</b>	<b>65,196,303</b>	<b>100.0%</b>

The individual nominal value of a share as of December 31, 2006 and 2007 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, 2007 amounted to CM 0.80.

**17. LONG-TERM BORROWINGS AND SHORT-TERM FINANCIAL LIABILITIES**

<b>In CM</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Long-term loans	21,903,152	21,986,782
Less: Current portion of long-term liabilities	(3,586,925)	(2,893,501)
	18,316,227	19,093,281
	-	-
Financial lease	380,291	391,110
Less: Short term lease	(180,197)	(127,800)
	200,094	263,310
	<b>18,516,321</b>	<b>19,356,591</b>

<b>In CM</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Short-term financial liabilities <sup>(a)</sup>	2,867,805	-

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<b>In CM</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Initial Amount in Currency</b>	<b>Outstanding on 31.12.2007.</b>	<b>Outstanding on 31.12.2006.</b>
Hypo Alpe Adria Bank A.D, Banja Luka <sup>(b)</sup>	August 1, 2015	6 month EURIBOR + 3.5% p.a.	20,000,000 CM	17,912,093	18,269,478
Hypo Alpe Adria Bank A.D, Banja Luka <sup>(c)</sup>	July 1, 2009	6 month EURIBOR + 3.5% p.a.	2,660,000 CM	1,481,087	1,524,503
Hypo Alpe Adria Bank A.D, Banja Luka <sup>(d)</sup>	April 1, 2010	6 month EURIBOR + 3.5% p.a.	2,000,000 CM	1,387,448	1,418,287
Zepter Komerc banka A.D., Banja Luka <sup>(e)</sup>	October 31, 2007	10.4% p.a.	511,292 EUR	-	362,475
Hypo leasing D.O.O, Sarajevo <sup>(f)</sup>	June 1, 2009	Not defined	279,649 EUR	151,557	235,384
Zavod za izgradnju A.D., Banja Luka <sup>(g)</sup>	August 15, 2007	Non-interest-bearing	85,351KM	-	42,675
Banja Luka city <sup>(g)</sup>	September 30, 2009	Non-interest-bearing EURIBOR + 2.6% p.a.	210,525KM	-	133,980
Finance leasing <sup>(h)</sup>	December 03, 2009	p.a.	405.505 CM	380,291	391,110
Hypo Alpe Adria Bank A.D, Banja Luka <sup>(e)</sup>	Marth 1, 2010	6 month EURIBOR + 3.5% p.a.	1,239,031 CM	970,966	-
				<b>22,283,442</b>	<b>22,377,892</b>
Current portions				(3,767,122)	(3,021,301)
				<b>18,516,320</b>	<b>19,356,591</b>

Aiming to reduce the Company's financial burden and help to restructure business, the Company Management entered negotiations with Hypo Alpe Adria Bank A.D., Banja Luka in February 2007, to reduce margins on long-term loans, and defer principal repayment. Negotiations resulted in a reduction of margins for all loans to 3.5% from different previous levels that were as high as 7%. In addition, a grace period of 12 months (until February 1, 2008) was approved in support of the Company's cash flow. It was also agreed that loans would be repaid in equal monthly instalments (rather than in quarterly instalments, as used to be the case), with the same maturity. The overall effect of this are substantial savings in financial expenditures, realised despite increase in interest rates in the world market (EURIBOR, too, steadily increased throughout 2007), and a positive effect on the Company's cash flow.

In order to secure the aforementioned loans, the Company provided certified promissory notes bearing "no protest" clauses, payment orders for fund transfers, as well as collateral pledging rights registered on its commercial property and land surrounding its beer production plant, and a pledge on the new equipment acquired under the aforesaid loans.

- a) In February of 2007, the Company Management signed a Contract on approving a financial framework loan of 6,000,000 CM, with a three-year period of usage (maturity March 1, 2010). Based upon this, a Contract on short-term overdraft loan of 5,500,000 CM, with maturity on March 1, 2008, and interest rate of 7.75%, fixed, was signed. As of December 31, 2007, the outstanding amount of the overdraft loan was CM 2,867,805. The remaining part of the framework facility amounting to 500,000 CM is regularly used to obtain bank guarantees for import duties and letters of credit for purchases abroad.
- b) A loan from Hypo Alpe Adria Bank A.D., Banja Luka totaling 20,000,000 CM was approved for the construction of and equipping the beer filling and bottling facility ("bottling"). As of December 31, 2007, the current portion of this loan amounts CM 1,676,311.
- c) A loan from Hypo Alpe Adria Bank A.D., Banja Luka totaling CM 2,660,000 was approved for long-term working capital. As of December 31, 2007, the current portion of this loan amounts CM 884,710.
- d) A loan from Hypo Alpe Adria Bank A.D., Banja Luka totaling CM 2,000,000 was approved for the purpose of financing the completion of construction of the access bridge in Banja Luka. As of December 31, 2007, the current portion of this loan amounts CM 536,427.
- e) A loan from Hypo Alpe Adria Bank A.D., Banja Luka totaling CM 1,239,031 was approved for long-term working capital and the repayment of debt which was due to Zepter bank. As of December 31, 2007, the current portion of this loan amounts CM 391,130.
- f) Loan from Hypo leasing D.O.O., Sarajevo of EUR 279,649 EUR relates 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 current portion of this loan is CM 98,347 as of December 31, 2007.



- g) Obligations to Zavod za izgradnju A.D. Banja Luka and the Citz of Banja Luka, were reclassified from long-term obligations, i.e. loans, to obligations (payables) to suppliers. The obligation to Zavod za izgradnju A.D. Banja Luka relates to fees for usage of construction land and utilities (communal fee), whereas the obligation to the City of Banja Luka relates to fees for construction site planning, and to rental fee for construction of first phase of beer filling and bottling facility.
- h) Long-term liabilities under financial leasing relate to purchase of vehicles, as follows:
- RENAULT KANGOO – 19 cars (cargo)  
RENAULT MEGAN – 8 cars (passenger)  
RENAULT LAGUNA – 1 car (passenger)

As of December 31, 2007, the current portion of this loan amounts CM 180,196.

Maturities of long-term loans are as follows:

<b>In CM</b>	<b>2007</b>	<b>2006</b>
	3,767,121	3,021,301
	-	-
From one to two years	2,280,539	2,935,846
From two to three years	4,095,006	2,816,477
From three to four years	2,296,354	2,058,192
From four to five years	2,480,062	2,063,927
After five years	7,364,360	9,482,149
Total portion of long-term loans and other long-term liabilities	18,516,321	19,356,591
	<b>22,283,442</b>	<b>22,377,892</b>

## 18. LONG-TERM PROVISIONS

<b>In CM</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Provisions for contingent liabilities arising on the Tax Determination Decision	-	593,968
Provisions for rebates	9,042	9,042
Provisions for the ZIBL	-	85,351
Provisions for dividend on preference shares	681,781	-
	<b>690,823</b>	<b>688,361</b>

In accordance with a Decision from Tax Administration, the Company's obligations to Tax Administrations were reprogrammed. The due amount of a total of CM 736,534 will be paid in equal monthly instalments during the coming 15 years (until July 10, 2022).

The company provided CM 681,781 for dividend for preference shares defined as 3% of nominal share value, reported in the Income Statement as a part of other finance expenses and covering the period from the disbursement of 21,000,000 paid for the purchase of 17,500,000 preference shares till 31<sup>st</sup> December 2007 (please, see note 16).

Provisions for rebates as of December 31, 2007 totaling CM 9,042 entirely relate to the calculated rebates for 2005.

**19. ACCOUNTS PAYABLE**

<b>In CM</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Accounts payable:		
- Domestic accounts payable	2,506,122	1,809,798
- Foreign accounts payable	1,905,425	2,354,892
	<b>4,411,547</b>	<b>4,164,690</b>

**20. OTHER CURRENT LIABILITIES**

<b>In CM</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Liabilities for VAT	54,027	90,221
Other liabilities	7,630	26,106
Advances received	88,407	65,486
Other business-related liabilities	-	38,153
Other taxes	147,500	185,942
Accrued salaries and other payments to employees	248,740	268,180
Accrued interest	265,418	622,394
Liabilities for water usage and compensation for forest	207,591	200,089
Accrued taxes and contributions on employee salaries	123,701	137,408
Accrued expenses	102,447	214,744
Contributions to chambers	15,141	12,434
Liabilities for other taxes, contributions and levies	544,338	205
	<b>1,804,940</b>	<b>1,861,362</b>

**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, 2007 the damages sought in legal actions initiated by the Company against its debtors amounted to CM 3,428,396. As of December 31, 2007 the total of potential damages arising from litigation filed against the Company by its debtors amounted to CM 640,910 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, 2007.

**22. COMMITMENTS**

In accordance with the provisions of the Agreement on Commercial Co-operation ref. 01-25/03 dated on 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).

**23. RELATED LEGAL ENTITIES**

The Company is related party with its parent companies and its directors and managers. During 2006 the Company had transactions with related parties as follows:

<b>In CM</b>	<b>2007</b>	<b>2006</b>
ASSETS	-	-
LIABILITIES	1,046,553	968,715
REVENUES	-	-
COSTS	1,006,857	1,642,776

The amount of CM 1,006,857 relates to expenses of consultancy services provided by Altima UK Value Investments Ltd in 2007 based on the contract signed between the Company and Altima UK Value Investments Ltd on 31<sup>st</sup> October, 2006. The outstanding liabilities of CM 1,046,553 were generated by these expenses.

The charges in respect of the services were determined on arm's length basis.

**24. REMUNERATION TO MANAGERS**

<b>In CM</b>	<b>2007</b>	<b>2006</b>
Salaries and other short-term remuneration		
- Management Board	51,486	36,641
- Managing Director	78,290	77,775
<b>Total</b>	<b>129,776</b>	<b>114,416</b>

The management of the Company consists of the Managing Director and of executive managers.

**25. EVENTS FOLLOWING BALANCE SHEET DATE**

In the period following the balance sheet date, there have been no events that would require any changes to what has already been stated in the notes to accompany the financial reports or that would require publishing in financial reports or notes to accompany the financial reports.