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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 2008, 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 2008, and of its financial performance and its cash flows for the year then ended in accordance with the legislation of Republic of Srpska.

Belgrade, 22 July 2009

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, 22 July 2009

KPMG d.o.o. Beograd

Boris Milošević
PartnerTamara Stojanović
Certified auditor

**Notes to the financial statements
for 2008**

STATEMENT OF INCOME
FOR THE PERIOD FROM JANUARY 1, TO DECEMBER 31, 2008

(In CM)

	Notes	2008	2007
OPERATING INCOME			
Sales	4	21,227,583	18,116,839
Povećanje vrijedn. zaliha ucinaka		728,761	-
Other income	5	548,478	1,103,734
		22,504,822	19,220,573
OPERATING EXPENSES			
Cost of commercial goods sold		7,278	10,021
Materials, fuel and energy	6	12,751,415	8,819,472
Decrease in value of inventories		-	8,128
Staff costs	7	5,364,501	5,328,316
Depreciation and amortization expense	9	9,018,372	10,010,776
Provisions	18	40,000	-
Other operating expenses	8	5,708,413	6,337,274
		32,889,979	30,513,988
LOSS FROM OPERATIONS		(10,385,157)	(11,293,416)
FINANCE INCOME / (EXPENSES)			
Interest income		28,068	66,107
Foreign exchange gains		39	5
Interest expense		(2,261,839)	(1,723,028)
Foreign exchange losses		(336)	(236)
Write off of long-term financial investment	10	-	(28,957)
Other finance expenses	18	(525,000)	(725,171)
		(2,759,067)	(2,411,280)
Income Tax			
NET LOSS FOR THE YEAR		(13,144,224)	(13,704,696)

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM JANUARY 1, TO DECEMBER 31, 2008

In CM

	Share Capital	Revaluation Reserves	Legal Reserves	Statutory Reserves	Emission premium	Other Reserves	Accumulated Result	Total
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)
Balance, December 31, 2007	65,196,303	-	857,425	5,199,375	3,500,000	1,049,720	(40,480,622)	35,322,201
Balance, January 1, 2008	65,196,303	-	857,425	5,199,375	3,500,000	1,049,720	(40,480,622)	35,322,201
Increase and decrease of core capital and reserves	-	-	-	-	-	(776,880)	-	(776,880)
Loss for the year	-	-	-	-	-	-	(13,144,224)	(13,144,224)
Balance, December 31, 2008	65,196,303	-	857,425	5,199,375	3,500,000	272,840	(53,624,846)	21,401,097

BALANCE SHEET
As of December 31, 2008
(In CM)

	Notes	2008	2007
ASSETS			
Non-current assets			
Intangible assets	9	5,810,056	5,812,771
Property, plant and equipment	9.1.	49,680,549	52,754,214
Long-term financial placements	10	828,226	1,641,005
		52,318,831	60,207,990
Current assets			
Inventories	11	5,547,097	4,671,639
Accounts receivable	12	3,292,875	1,795,207
Other current assets and prepayments	13	280,561	530,876
Portion of the long-term loan maturing up to one year	10.1.	42,347	43,560
Cash and cash equivalents	15	444,786	131,485
		9,607,667	7,172,767
Total assets		61,926,499	67,380,757
EQUITY AND LIABILITIES			
Equity			
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		272,840	1,049,720
Accumulated loss)/Retained earnings		(53,624,847)	(40,480,623)
		21,401,096	35,322,201
Non-current liabilities			
Long-term borrowings	17	16,484,628	18,316,227
Other long-term liabilities	17	25,142	200,094
		16,509,769	18,516,321
Long-term provisions	18	1,309,245	690,823
Current liabilities			
Current portion of long-term liabilities	17	4,682,058	3,767,121
Short-term financial liabilities		11,772,601	2,867,805
Accounts payable	19	4,477,375	4,411,547
Other current liabilities and accruals	20	1,774,353	1,804,940
		22,706,388	12,851,412
Total equity and liabilities		61,926,499	67,380,757

STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM JANUARY 1, TO DECEMBER 31, 2008**(In CM)**

	2008	2007
Operating activities		
Cash receipts from customers	29,183,848	26,531,491
Other cash received from operating activities	339,833	402,872
Cash paid to suppliers	(20,423,251)	(15,844,754)
Cash paid to and on behalf of employees	(5,308,724)	(5,539,194)
Interest paid	(2,263,501)	(1,999,789)
Non-income taxes and other duties paid	(8,507,069)	(9,166,770)
<i>Net cash provided by operating activities</i>	(6,978,864)	(5,616,144)
Investing activities		
Increase in long-term financial placements	-	11,973
Increase in short-term financial placements	42,763	2,052,730
Interest received	28,068	66,107
Purchases of property, plant and equipment	(47,187)	(1,063,357)
<i>Net cash used in investing activities</i>	23,644	1,067,453
Financing activities		
(Decrease)/Increase in short-term borrowings	7,268,544	1,842,971
(Decrease)/Increase in long-term borrowings	(23)	891,407
Increase from shares issues	-	-
<i>Net cash (used in)/provided by financing activities</i>	7,268,521	2,734,378
Net cash flow	313,301	(1,814,313)
Cash and cash equivalent, beginning of year	131,485	1,945,798
Cash and cash equivalents, end of year	444,786	131,485

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, 2008, the Company had 253 employees (2007 year - 260 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 are as follows:

Exchange rates

In CM	31.12.2008	31.12.2007
USD	1.387310	
CHF	1.307111	1.177936
EUR	1.955830	1.955830
GBP	2.007627	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 2008 are as follows:

Depreciation

	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 - 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 recognized directly in equity, except for impairment losses and foreign exchange gains and losses, until the financial assets is derecognized, at which time the cumulative gain or loss previously recognized in equity are recognized 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	December 31, 2008	December 31, 2007
Sales of products and services in domestic market:		
- wholesale of beer	20,734,126	17,806,010
- retail sale of beer	94,132	71,712
- other	291,631	187,250
	<u>21,119,889</u>	<u>18,064,973</u>
Sales of beer in foreign market	107,694	51,866
	<u>21,227,583</u>	<u>18,116,839</u>

5. OTHER OPERATING INCOME

In CM	December 31, 2008	December 31, 2007
Income from sales of merchandise	2,109	2,775
Income from own services	120,095	91,109
Recovery of bad debts	88,960	151,692
Gains on the sale of fixed assets	-	6,722
Gains on the sale of materials	11,701	407
Surpluses	172,770	45,723
Release of long-term provisions (Note 18)	32,200	593,968
Revenues from decrease in obligations to related customers	-	572
Subsequently approved rebates from suppliers	288	6,098
Collected penalties, fees and damage compensations	-	1,252
Other income	120,355	203,416
Total	548,478	1,103,734

6. MATERIALS, FUEL AND ENERGY

In CM	December 31, 2008	December 31, 2007
Raw materials	9,242,513	5,278,266
Other materials	1,111,736	1,518,414
Fuel	1,509,100	1,113,946
Water	496,234	592,801
Energy	391,832	379,046
	12,751,415	8,819,472

7. STAFF COSTS

In CM	December 31, 2008	December 31, 2007
Gross employees' salaries	4,611,365	4,473,966
Transportation of employees	134,129	148,942
Employee meals	209,376	250,955
Payments to employees for own car usage for business purposes	814	4,971
Severance payments	11,360	31,586
Financial assistance to employees	12,237	11,497
Remuneration to the members of the Management Board and Supervisory Board	35,005	51,486
Severance payment for termination of labor contract	53,599	46,518
Annual leave allowance	283,457	285,717
Jubilee awards	10,702	19,889
Other payments to employees	2,457	2,790
	5,364,501	5,328,316

8. OTHER OPERATING EXPENSES

In CM	31.12.2008	31.12.2007
Telecommunication costs	68,900	77,003
Transportation of products to customers	284,254	256,912
Transportation of materials	2,973	17,589
Filling and transportation of bottles	323,155	372,181
Other transportation services	53	3,806
Internet connection fee	8,297	8,824
Maintenance	356,700	466,088
Rentals	27,614	66,178
Marketing services	1,933,926	1,559,401
Registration of automobiles	18,854	15,575
Professional literature	3,605	4,080
Other services	165,342	333,836
Per diems and travel expenses	41,060	54,048
Contractors' fees	19,797	4,449
Other fees	-	15,702
Import commission and customs' duties	45,793	88,664
Education of employees	6,051	1,354
Consulting services	600,322	1,006,857
Other non-manufacturing expenses	82,124	73,163
Entertainment	326,728	177,068
Insurance premiums	309,206	305,207
Bank charges and fees	72,869	73,179
Indirect taxes and contributions	235,473	343,370
Other expenses	44,073	34,967
Losses on the disposal of property, plant and equipment	227,170	24,777
Damages	26,261	88,496
Shortages	71,448	148,441
Provisions	237,764	257,153
Write-off of inventories	21,468	47,180
Other	147,134	411,726
	5,708,413	6,337,274

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

In CM	Buildings	Equipment, packaging and other fixed assets	Construction in progress	Total
Cost				
Balance, January 1, 2007	40,386,685	109,772,649	211,565	150,370,899
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	40,386,685	109,788,081	87,800	150,262,566
Purchases	-	-	2,078,830	2,078,830
Transfer from/to	41,145	2,057,706	(2,098,851)	0
Surpluses	-	196,733	-	196,733
Disposal and impairment	-	(11,682,012)	-	(11,682,012)
Balance, December 31, 2008	40,427,830	100,360,508	67,779	140,856,117
Accumulated Depreciation				
Balance, January 1, 2007	22,919,165	67,198,804	-	90,117,969
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	23,769,844	73,738,508	-	97,508,352
Current charges	851,622	8,166,750	-	9,018,372
Surpluses	-	21,249	-	21,249
Disposal and impairment	-	(11,372,404)	-	(11,372,404)
Balance, December 31, 2008	24,621,466	70,554,103	-	95,175,569
Net book value as of December 31, 2007	16,616,841	36,049,573	87,800	52,754,214
Net book value as of December 31, 2008	15,806,364	29,806,405	67,779	45,680,548

Net book value fixed assets financed from financial leasing as at 31 December 2008 amounts to 367,614 CM. Information on pledged assets are provided in Note 18.

9.1 INTANGIBLE ASSETS

in CM	Total	
Cost		
Balance, January 1, 2007	5,824,859	5,824,859
Purchases	-	-
Balance, December 31, 2007	5,824,859	5,824,859
Purchases	-	-
Balance, December 31, 2008	5,824,859	5,824,859
Accumulated Amortization		
Balance, January 1, 2007	9,128	9,128
Current charges	2,960	2,960
Balance, December 31, 2007	12,088	12,088
Current charges	2,715	2,715
Balance, December 31, 2008	14,803	14,803
Net book values as of December 31, 2007	5,812,771	5,812,771
Net book value as of December 31, 2008	5,810,056	5,810,056

10. LONG-TERM FINANCIAL PLACEMENTS

in CM	31. December 2008.	31. December 2007.
Equity investments in other legal entities:		
- Kosig Dunav Osiguranje A.D., Banja Luka [insurance co.]	438,240	1,215,120
- Krajina Osiguranje A.D., Banja Luka [insurance co.]	14,450	14,450
	452,690	1,229,570
Housing loans to employees	211,644	248,918
Less: Portion of long-term loans with up to 1-year maturities	(73,755)	(66,025)
	137,890	182,893
Provision for housing loans	(19,853)	(28,957)
	118,036	153,935
Long-term deposits	257,500	257,500
	828,226	1,641,005

Housing loans to employees as of December 31 2008 in the amount of CM 211,644 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 and on December 31, 2008 CM 9,104 was rebooked to provisions for short – term loans.

Long-term deposits of CM 257,500 as of December 31, 2008 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 2008.

The value of shares of "Kosig Dunav osiguranje" Banja Luka has reduced by CM 776.880 booked based on the market price of "Kosig" shares on Banja Luka Stock Exchange as of December 31, 2008.

10.1 SHORT-TERM FINANCIAL PLACEMENTS

In CM	31. December 2008.	31. December 2007.
Short-term loans	73,755	66,025
Other short-term financial placements	-	-
Correction of value of short-term loans	(31,407)	(22,465)
	42,347	43,560

Amount of CM 73,755 relates to current portion of long-term housing loans.

On December 31, 2007, a provision of CM 22,465 booked for risky receivables for short-term housing loans has been reduced by 162 CM (for paid loan) by December 31, 2008 and increased by CM 9,104 for rebooking of provisions from long-term housing loans.

11 INVENTORIES

In CM	31. December	
	2008.	31. December 2007.
Raw materials	1,728,353	1,436,836
Spare parts	2,158,903	2,221,622
Tools and inventory	12,556	12,916
Fuel and lubricant	82,232	82,936
Work in progress	1,436,978	784,302
Finished products	237,924	386,099
Commercial goods	3,507	2,664
Advances to suppliers	210,422	266,353
	5,870,875	5,193,728
Less: Allowance for impairment (Note 15):	-	
- materials and spare parts	(268,452)	(268,452)
- advances to suppliers	(55,326)	(253,637)
	(323,778)	(522,089)
	5,547,097	4,671,639

12 ACCOUNTS RECEIVABLE

In CM	31. December 2008.	31. December 2007.
Accounts receivable:		
- domestic	6,331,130	5,050,301
- foreign	50,158	-
	<u>6,381,288</u>	<u>5,050,301</u>
Less: Allowances for impairment of domestic accounts receivable (provision) (Note 14)	-	-
	<u>(3,088,413)</u>	<u>(3,255,094)</u>
	-	-
	3,292,875	1,795,207

13 OTHER CURRENT RECEIVABLES AND PREPAYMENTS

In CM	December 31, 2008	December 31, 2007
Receivables from associates for shortages	126,210	214,010
Other receivables from specific operations	-	-
Receivables for dividends and interests	66,127	66,127
Prepaid taxes and contributions	71,279	359,319
Receivables from employees	2,309	3,317
Other receivables	94,727	48,686
Prepayments	112,247	130,725
	<u>472,898</u>	<u>822,184</u>
Less: Allowances for impairment:	-	-
- receivables from associates for shortages	(126,210)	(214,010)
- other receivables	-	(11,172)
- for interest	(66,127)	(66,127)
	<u>(192,337)</u>	<u>(291,308)</u>
	280,561	530,876

Prepaid taxes and contributions of CM 6,053 refer to payment of customs fee for equipment that is to be registered as osnivački ulog (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.

Amount of CM 65,226 relates to deducted VAT based on credit notes to buyers for annual rebates.

Other receivables amounting to CM 94,727 relate to sick leave, which has not been refunded by the Health Insurance Funds Banja Luka and Dobož.

As of December 31, 2008 accruals in the amount of CM 62,736 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, 2008. The amount of CM 49,511 relates to VAT paid in received invoices as well as the VAT in invoices which were booked after VAT return for December, 2008.

14 MOVEMENTS ON PROVISION

In CM	Inventories	Advances to Suppliers	Accounts Receivable	Other Receivables	Total
Balance, beginning of year	268,452	253,637	3,255,094	342,731	4,119,914
Charge for the year	-	-	237,764	-	237,764
Reversal of provision	-	(198,311)	(404,446)	(99,134)	(701,891)
Balance, end of year	268,452	55,326	3,088,412	243,597	3,655,787

15. CASH AND CASH EQUIVALENTS

In CM	December 31, 2008	December 31, 2007
Local currency account	442,094	129,628
Cash in hand	1,614	961
Foreign currency account	1,079	896
	444,786	131,485

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 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.

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 31 December 2007 and as of 2008 is as follows:

In CM	31. December 2008.	31. December 2007.	2008 %
Altima Global Special Situations Fund Ltd.	25,662,800	25,662,800	39.4%
Internal shareholders and shareholders based voucher privatization 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%
	65,196,303	65,196,303	100.0%

The individual nominal value of a share as of 31 December 2007 and 2008 is CM 1.00.

The Company's shares are listed on Securities Exchange in Banja Luka. The market value of the share as of 31 December 2008 amounted to CM 0.216.

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

In CM	December 31, 2008	December 31, 2007
Long-term loans	20,990,640	21,903,151
Less: Current portion of long-term liabilities	(4,506,012)	(3,586,925)
	16,484,628	18,316,227
Financial lease	201,188	380,291
Less: Short term lease	(176,046)	(180,196)
	25,142	200,094
	16,509,769	18,516,321

TRANSLATION

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

In CM	31. December 2008.	31. December 2007.
Short-term financial liabilities ^(a+b+c)	11,772,601	2,867,805

TRANSLATION

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

In CM	Maturity Date	Interest Rate	Initial Amount in Currency	Outstanding on 31.12.2008.	Outstanding on 31.12.2007.
Hypo Alpe Adria Bank A.D, Banja Luka ^(d)	July 6, 2015	6 month EURIBOR + 3.5% p.a.	20,000,000 CM	17,307,117	17,912,093
Hypo Alpe Adria Bank A.D, Banja Luka ^(e)	July 1, 2009	6 month EURIBOR + 3.5% p.a.	2,660,000 CM	1,094,302	1,481,087
Hypo Alpe Adria Bank A.D, Banja Luka ^(f)	April 1, 2010	6 month EURIBOR + 3.5% p.a.	2,000,000 CM	1,175,999	1,387,448
Hypo Alpe Adria Bank A.D, Banja Luka ^(g)	March 1, 2010	6 month EURIBOR + 3.5% p.a.	1,239,031 CM	815,846	970,967
Finance leasing ⁽ⁱ⁾	December 03, 2009	EURIBOR + 2.6% p.a.	405.505 CM	201,188	380,291
Hypo leasing D.O.O, Sarajevo ^(h)	June 1, 2007	Not defined	279,649 EUR	53,186	151,557
Riverwood, Germany ^(k)	March 10, 2012	-	513,451	513,451	-
Bolero, Dobož ^(j)	November 1, 2010	-	48,115	30,739	-
				21,191,827	22,283,442
Current portions				(4,682,058)	(3,767,121)
				16,509,769	18,516,321

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 installments (rather than in quarterly installments, as used to be the case), with the same maturity. The overall effect of this are substantial savings in financial expenditures, realized 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 aforementioned 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 2,650,000 CM, with maturity on March 1, 2009, and interest rate of 7.75%, fixed, was signed. As of December 31, 2008, the outstanding amount of the overdraft was used in the amount of CM1,721,507. Within the Contract on approving a financial framework loan dated on February 22, 2008, a Contract on a short-term loan of 3,000,000 CM, with maturity on March 1, 2009, and interest rate of 7.75%, fixed, was signed. Both loans were approved for financing of working capital. The remaining part of the framework facility amounting to 350,000 CM is regularly used to obtain bank guarantees for import duties and letters of credit for purchases abroad.

We remind that within the Contract on approving a financial framework from February 2007 a Contract on a short-term overdraft loan of 5,500,000 was signed (remaining 500,000 CM is used to obtain bank guarantees for import duties and letters of credit for purchases abroad). It was closed when the above-mentioned contracts came into effect.

- b) On June 9, 2008 the Company Management signed a Contract on a short-term loan of 4,000,000 CM with EURO fx clause with Hypo Alpe Adria Bank D.D., Mostar with maturity on June 1, 2009 and interest rate 8.00%. The loan was approved for financing of working capital.

- c) Altima

On February 29, 2008 the Company Management signed Contracts on short-term loans with related legal entities: a loan of EUR 750,000 maximum with Altima Global Special Opportunities Master Fund Ltd and a loan of EUR 2,250,000 maximum with Altima Global Special Situations Master Fund Ltd with interest rate of three-month EURIBOR + 5,00%. As of December 31, 2008, loans were used in the full amount of 3,051,095 CM. Loans are approved for financing of working capital.

- d) 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, 2008, the current portion of this loan amounts CM 2,054,488.

- e) 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, 2008, the current portion of this loan amounts CM 1,094,302.
- f) 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, 2008, the current portion of this loan amounts CM 630,011.
- g) 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, 2008, the current portion of this loan amounts CM 645,762.
- h) Loan from Hypo leasing D.O.O., Sarajevo of EUR 279,649 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 53,186 as of December 31, 2008.
- i) 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, 2008, the current portion of this loan amounts CM 176,046.
- j) Bolero – loan relates to assumed liability of paying expenses for adaptation and reconstruction of business facilities in Dobož which has been rented to “Bolero” Dobož according to contract 1254/07 from 21.08.2007. Works on reconstruction amount to CM 41,145.25- VAT not included. The current portion of this loan is CM 16,038 as of December 31, 2008.
- k) Riverwood – loan according to contract 130/08 from 17.11.2008 in the amount of CM 525,675 relates to payment of packaging machine. The current portion of this loan is CM 12,224 as of December 31, 2008.

Maturities of long-term loans are as follows:

In CM	December 31, 2008	December 31, 2007
Current portions	4,682,058	3,767,121
From one to two years	3,002,393	2,280,539
From two to three years	2,441,977	4,095,006
From three to four years	3,119,135	2,296,354
From four to five years	5,998,561	2,480,062
After five years	1,947,703	7,364,360
Total portion of long-term loans and other long-term liabilities	16,509,769	18,516,321
Curent portions and long-term liabilities	21,191,827	22,283,442

18. LONG-TERM PROVISIONS

In CM	December 31, 2008	December 31, 2007
Jubilarnе nаgrаdе	-	-
Provisions for rebates	49,042	9,042
Provisions for dividend on preference shares	1,206,781	681,781
Invoices booked in 2009	53,422	-
Konsultantske usluge (Altima)	-	-
	1,309,245	690,823

The company provided CM 1,206,781 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 31st December 2008 (please, see note 16).

Provisions for rebates as of December 31, 2008 totaling CM 49,042 entirely relate to the calculated rebates for 2005 totaling 9,042 CM and annual rebate totaling 40,000 CM. The amount of CM53,422 relates to the invoices dated January, 2009 while expenses relate to 2008.

19. ACCOUNTS PAYABLE

In CM	December 31, 2008	December 31, 2007
Accounts payable:		
- Domestic accounts payable	2,652,547	2,506,122
- Foreign accounts payable	1,824,829	1,905,425
	4,477,375	4,411,547

20. OTHER CURRENT LIABILITIES

In CM	December 31, 2008	December 31, 2007
Liabilities for VAT	170,540	54,027
Other liabilities	43,073	7,630
Advances received	47,637	88,408
Other business-related liabilities	-	-
Other taxes	113,873	147,500
Accrued salaries and other payments to employees	274,234	248,740
Accrued interest	264,266	265,418
Liabilities for water usage and compensation for forest	159,983	207,591
Accrued taxes and contributions on employee salaries	146,261	123,701
Accrued expenses	77,590	102,447
Contributions to chambers	11,568	15,141
Liabilities for other taxes, contributions and levies	465,328	544,338
	1,774,353	1,804,940

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, 2008 the damages sought in legal actions initiated by the Company against its debtors amounted to CM 3,121,190. As of December 31, 2008 the total of potential damages arising from litigation filed against the Company by its debtors amounted to CM 427,470 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 2008.

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 2008 the Company had transactions with related parties as follows:

In CM	31 December 2008	31 December 2007
ASSETS	-	-
LIABILITIES	912,260	1,046,553
REVENUES	-	-
COSTS	600,322	1,006,857

The amount of CM 600,322 relates to expenses of consultancy services provided by Altima UK Value Investments Ltd in 2008 based on the contract signed between the Company and Altima UK Value Investments Ltd on 31st October, 2006. The outstanding liabilities of CM 912,260 were generated by these expenses. The charges in respect of the services were determined on arm's length basis.

24. REMUNERATION TO MANAGERS

In CM	31 December 2008	31 December 2007
Salaries and other short-term remuneration		
- Management Board	50,817	51,486
- Managing Director	78,342	78,290
Total	129,159	129,776

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.