

“Banjalučka pivara” a.d. Banja Luka

Annual financial report 31 December 2011

This version of the report is a translation from the original, which was prepared in the Serbian language. In all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

“Banjalučka pivara” a.d. Banja Luka

Annual financial report

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“Banjalučka pivara” a.d. Banja Luka

Management's Report

Management submits their report together with the audited financial statements for the year ended 31 December 2011.

Principal activity

The brewery Banjalučka Pivara a.d. Banja Luka (hereinafter "Company") was originally founded in 1873, and it was nationalized in 1950. From 1975 the Company has entered into the composition of agro-industrial agricultural complexes Bosanska Krajina.

By the decision made by the Government of Republic of Srpska on the 3 February 2005 a special program for the privatization sale of the state capital was approved (53.81% of total capital) using method with various conditions of tender (Note 17).

Management responsibility

Management is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and of the results of its operations and cash flows for that year, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. Management has a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

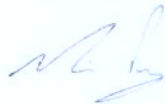
Management is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

Having made appropriate enquiries, Management considers that the Company has sufficient resources to continue its business for the foreseeable future and accordingly the accounts have been prepared on a going concern basis. Further details are disclosed in note 2.

The financial statements were authorised by Management for issue and are signed below to signify this.

Director

Nicholas Penny



03.05.2012



Independent Auditor's Report to the shareholders of Banjalučka Pivara a.d. Banja Luka

We have audited the accompanying financial statements of Banjalučka Pivara a.d. Banja Luka (hereinafter "Company") which comprise the statement of financial position as at 31 December 2011 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting framework of the Republic of Srpska, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 2011, and of its financial performance and its cash flows for the year in accordance with the financial reporting framework of the Republic of Srpska.

KPMG B-H d.o.o. za reviziju

Podružnica Banja Luka
Jovana Dučića 13
78000 Banja Luka,
Republika Srpska, Bosnia and Herzegovina

03.05.2012

For and on the behalf of KPMG B-H d.o.o za reviziju:

Vedran Vukotić
Head of the Banjaluka Branch Office



Senad Pekmez
FBiH certified auditor
Licence No 3090044102

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“Banjalučka pivara” a.d. Banja Luka

Statement of comprehensive income for the year 2011

	<i>Note</i>	2011 BAM	2010 BAM
Revenue	4	24,082,363	23,596,626
Other income	5	875,477	754,321
		<hr/>	<hr/>
Total revenue		24,957,840	24,350,947
Changes in inventory		604,462	(266,163)
Raw materials, Consumables and services used	6	(11,021,865)	(10,237,467)
Staff costs	7	(5,125,440)	(4,792,846)
Depreciation and amortisation expense	11,12	(5,932,654)	(6,947,198)
Other operating expenses	8	(5,944,997)	(5,684,854)
		<hr/>	<hr/>
Total operating loss		(2,462,654)	(3,577,581)
Financial income	9	3,012	2,431
Financial expenses	9	(2,533,672)	(3,110,580)
		<hr/>	<hr/>
Net financial loss	9	(2,530,660)	(3,108,149)
		<hr/>	<hr/>
Loss before taxation		(4,993,314)	(6,685,730)
Income tax expense	10	-	-
		<hr/>	<hr/>
Loss for the year		(4,993,314)	(6,685,730)
		<hr/>	<hr/>
Other comprehensive income:			
Change in fair value of available-for-sale securities		(50,932)	(199,764)
		<hr/>	<hr/>
Total comprehensive loss for the year		(5,044,246)	(6,885,494)
		<hr/>	<hr/>
Loss per share		(0.88)	(0.10)
		<hr/>	<hr/>

The accompanying notes form an integral part of these financial statements

“Banjalučka pivara” a.d. Banja Luka

Statement of financial position

As at 31 December 2011

	<i>Note</i>	2011 BAM	2010 BAM
ASSETS			
Intangible assets	11	5,956,091	5,810,056
Property Plant and Equipment	12	30,444,532	34,719,087
Long term financial assets	13	479,236	554,186
		<hr/>	<hr/>
Total non-currents assets		36,879,859	41,083,329
		<hr/>	<hr/>
Inventories	14	5,181,416	5,032,656
Trade receivables	15	2,859,254	2,970,582
Other receivables		285,534	277,270
Cash and cash equivalents	16	102,396	2,439,946
		<hr/>	<hr/>
Total current assets		8,428,600	10,720,454
		<hr/>	<hr/>
Total assets		45,308,459	51,803,783
		<hr/> <hr/>	<hr/> <hr/>
EQUITY AND LIABILITIES			
Equity			
Share capital	17	5,680,693	65,196,303
Share premium		-	3,500,000
Legal and statutory reserves		-	6,056,800
Fair value reserve		(9,866)	41,066
Accumulated losses		(4,993,314)	(69,072,410)
		<hr/>	<hr/>
Total equity		677,513	5,721,759
		<hr/> <hr/>	<hr/> <hr/>
Liabilities			
Non-current liabilities			
Loans and borrowings	18	14,891,473	16,539,293
Other long-term provisions	19	2,878,075	2,306,033
		<hr/>	<hr/>
Total non-current liabilities		17,769,548	18,845,326
		<hr/>	<hr/>
Current liabilities			
Loans and borrowings	18	18,862,030	20,176,773
Trade payables and other payables	20	7,999,368	7,059,925
		<hr/>	<hr/>
Total current liabilities		26,861,398	27,236,698
		<hr/>	<hr/>
Total liabilities		44,630,946	46,082,024
		<hr/>	<hr/>
Total equity and liabilities		45,308,459	51,803,783
		<hr/> <hr/>	<hr/> <hr/>

The accompanying notes form an integral part of these financial statements

“Banjalučka pivara” a.d. Banja Luka

Statement of changes in equity

For the year ended 31 December 2011

	Issued Capital BAM	Fair value Reserve BAM	Other Reserves BAM	Accumulated Losses BAM	Total BAM
As at 1 January 2010	65,196,303	240,830	9,556,800	(62,386,680)	12,607,253
Loss for the year	-	-	-	(6,685,730)	(6,685,730)
Change in fair value of available-for-sale securities	-	(199,764)	-	-	(199,764)
As at 31 December 2010	65,196,303	41,066	9,556,800	(69,072,410)	5,721,759
As at 1 January 2011	65,196,303	41,066	9,556,800	(69,072,410)	5,721,759
Transfers (<i>Note 17</i>)	(59,515,610)	-	(9,556,800)	69,072,410	-
Loss for the year	-	-	-	(4,993,314)	(4,993,314)
Change in fair value of available-for-sale securities	-	(50,932)	-	-	(50,932)
As at 31 December 2011	5,680,693	(9,866)	-	(4,993,314)	677,513

The accompanying notes form an integral part of these financial statements

“Banjalučka pivara” a.d. Banja Luka

Statement of cash flows

For the year ended 31 December 2011

	2011	2010
	BAM	BAM
Cash flows from operating activities		
Cash receipts from customers and received advance payments	34,229,569	32,762,955
Other cash received from operating activities	428,728	385,229
Cash paid to suppliers - raw materials, expenses and advanced payments	(16,904,359)	(16,653,179)
Cash paid to and on behalf of employees	(4,929,956)	(4,698,036)
Interest paid	(1,590,200)	(1,703,604)
Non-income taxes and other duties paid	(9,291,574)	(8,839,852)
	<hr/>	<hr/>
<i>Net cash from operating activities</i>	1,942,208	1,253,513
	<hr/>	<hr/>
Cash flow from investing and placement activities		
Increase in short-term financial placements	39,707	38,031
Interest received	2,543	2,374
Decrease in other long-term financial placements	(9,856)	(16,518)
Purchases of property, plant and equipment	(1,225,336)	(1,244,869)
	<hr/>	<hr/>
<i>Net cash from investing activities</i>	(1,192,942)	(1,220,982)
	<hr/>	<hr/>
Financing activities		
(Decrease)/Increase in short-term borrowings	(3,086,816)	2,080,210
	<hr/>	<hr/>
<i>Net cash from financing activities</i>	(3,086,816)	2,080,210
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash	(2,337,550)	2,112,741
Cash and cash equivalents at the beginning of the year	2,439,946	327,205
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	102,396	2,439,946
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The accompanying notes form an integral part of these financial statements

“Banjalučka pivara” a.d. Banja Luka

Notes to financial statements (*continued*)

1 Reporting entity

The company 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 ownership “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 17.

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

2 Basis of preparation

(a) Going Concern

The financial statements have been prepared in accordance with the principle of going concern, which implies that the Company will continue its operations for an indefinite period in the foreseeable future.

As at 31 December 2011, the Company’s current liabilities exceed current assets by BAM 18,432,798 (2010: 16,516,244). Significant current liabilities include bank loans of BAM 11,604,317 (the majority of which mature during June 2012) and majority shareholder related loans of BAM 6,649,822 as disclosed in Note 18.

With respect to the current bank loans, the Company is in discussion with the banks to re-extend the loan and maturity date. Based on historical agreements and the successful conclusion of past and recent negotiations, and current indications that the banks have intention to re-extend its short term financing facilities, Management believe there is no significant uncertainty that mutual agreement will not be reached positively for the Company. Management also reasonably believe that the majority shareholder will provide financial assistance if required and will not demand repayment of current loan obligations due to them. Historical and current indications of support from the majority shareholder do not provide indications of significant uncertainty related to such continued and continuing financial and operational support.

Given the net shareholders equity of the Company as at 31 December 2011 is BAM 677,513 (2010: BAM 5,721,759), Management is also in discussion with shareholders with a view to raising additional capital.

Accordingly, Management believe it is reasonable to and appropriate to prepare the financial statements on a going concern basis and that there is no significant uncertainty to indicate otherwise. If for any reason, the Company is unable to continue as a going concern, it would have an impact on the Company’s ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the financial statements.

“Banjalučka pivara” a.d. Banja Luka

Notes to financial statements (*continued*)

2 Basis of preparation (*continued*)

(b) *Statement of compliance*

The financial statements have been prepared in accordance with the Financial Reporting Framework of the Republic of Srpska.

The Financial Reporting Framework includes the Law on accounting and auditing of the Republic of Srpska (Official Gazette of the RS 36/09), accounting standards that apply in the Republic of Srpska, published by the Association of Accountants and Auditors of the Republic of Srpska (under the authority of the Commission for the accounting and auditing of BiH, Official Gazette of BiH, 5/07) and the Regulations on the form and content of financial statements for the companies (Official Gazette RS 84/09, 120/11).

(c) *Basis of measurement*

The financial statements have been prepared on the historical cost basis, unless otherwise stated.

(d) *Functional and presentation currency*

The financial statements are prepared in the currency of Bosnia and Herzegovina, Convertible mark (BAM), which is the Company's functional currency.

(e) *Use of estimates and judgements*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses as disclosed in financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) *Foreign currencies*

Transactions in foreign currency are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into functional currency at foreign exchange rates ruling at the dates at which the values were determined. Non-monetary assets and items that are measured in terms of historical cost of a foreign currency are not retranslated.

“Banjalučka pivara” a.d. Banja Luka

Notes to financial statements (*continued*)

3 Significant accounting policies (*continued*)

(b) *Financial instruments*

Non-derivative financial instruments comprise trade and other receivables, loans and deposits, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, that is, the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period. Equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment.

Cash and cash equivalents for the purpose of preparation of cash flow statement and balance sheet.

(c) *Property, plant and equipment*

(i) *Recognition and measurement*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses..

Cost includes expenditures that are directly attributable to the acquisition of the asset. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(ii) *Subsequent expenditure*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) *Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:

Buildings	20 to 77 years
Plant and equipment	5 to 14 years

Depreciation method, useful lives and residual values are reassessed at the reporting date.

“Banjalučka pivara” a.d. Banja Luka

Notes to financial statements (*continued*)

3 Significant accounting policies (*continued*)

(d) *Intangible assets*

(i) *Intangible assets*

Intangible assets are measured initially at cost. After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The rate of amortisation used for intangible assets is based on the estimated useful life.

(ii) *Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement when incurred.

(iii) *Amortisation*

Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use.

Depreciation method, useful lives and residual values are reassessed at the reporting date.

(e) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Inventories are valued based on purchase price and include the costs of bringing the inventories to a condition ready for use, using the weighted average cost principle.

In the case of manufactured inventories and work in progress, costs include an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

(f) *Impairment*

The carrying amounts of the Company’s assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated.

For intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

“Banjalučka pivara” a.d. Banja Luka

Notes to financial statements (*continued*)

3 Significant accounting policies (*continued*)

(g) Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(h) Loans and borrowings

Interest bearing loans and borrowings are recognised initially at fair value of the proceeds received, less attributable transaction costs. In subsequent periods, interest bearing loans and borrowings are stated at amortised cost using the effective interest method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement as interest expense over the period of the borrowings on an effective interest basis.

(i) Employee benefits

(i) Defined contributions pension fund

Obligations for contributions to defined contribution pension funds are recognised as an expense in the income statement when they are due, which is the period during which services are rendered by employees.

(ii) Retirement benefits

The Company's net obligation in respect of retirement benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the average interest rate on loans of commercial banks, whose maturity dates are approximately the same in terms and conditions of the liabilities of the Company.

(j) Revenue

Goods sold and services rendered

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Revenue from services is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date.

Revenue from the sale of goods is generally recognised at the date the goods are delivered and represents the net invoiced value of goods and excludes value added taxes.

(k) Financial income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets) and positive changes in the fair value of financial instruments at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and negative changes in the fair value of financial instruments at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a gross basis.

“Banjalučka pivara” a.d. Banja Luka

Notes to financial statements (*continued*)

3 Significant accounting policies (*continued*)

(l) *Lease payments made*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(m) *Income tax expense*

Corporate income taxes are computed on the basis of reported income under the laws and regulations of Republic of Srpska.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(n) *Earnings per share*

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(o) *Comparative information*

Where necessary comparative information has been reclassified to ensure consistency with current year presentations and disclosures.

“Banjalučka pivara” a.d. Banja Luka
Notes to financial statements (continued)

4	Revenue		
		2011	2010
		BAM	BAM
	Revenue from the sale of products - domestic	23,620,630	23,385,381
	Revenue from the sale of products - foreign	438,518	196,440
	Revenue from the sale of goods - domestic	23,215	14,805
		<hr/>	<hr/>
		24,082,363	23,596,626
		<hr/> <hr/>	<hr/> <hr/>
5	Other income		
		2011	2010
		BAM	BAM
	Recovery of bad debts	624,651	580,385
	Income from own work capitalized	79,937	55,293
	Income from lease	45,488	43,328
	Stocktake surplus	20,214	19,154
	Sale of materials	17	47
	Other	105,170	56,114
		<hr/>	<hr/>
		875,477	754,321
		<hr/> <hr/>	<hr/> <hr/>
6	Consumables and services used		
		2011	2010
		BAM	BAM
	Raw materials	7,843,388	6,942,275
	Fuel and energy	1,823,278	1,664,452
	Other materials	1,331,260	1,610,883
	Goods sold at cost	23,939	19,857
		<hr/>	<hr/>
		11,021,865	10,237,467
		<hr/> <hr/>	<hr/> <hr/>

“Banjalučka pivara” a.d. Banja Luka
Notes to financial statements (continued)

7 Staff costs

	2011	2010
	BAM	BAM
Wages and salaries	2,637,281	2,671,821
Contributions and taxes	1,731,427	1,434,119
Other staff costs	756,732	686,906
	5,125,440	4,792,846

Number of employees at year end was 238 (2010: 242 employees). Other staff costs include costs of meals, transportation, costs of the Management Board, vacation allowances, severance payments for retirement, jubilee awards, severance payments for termination of employment and per diem.

Staff costs include BAM 1,460,213 KM (2010 , BAM 1,268,290) of contributions paid into the social funds of the Republic of Srpska.

8 Other operating expenses

	2011	2010
	BAM	BAM
Advertising and other marketing services	1,728,779	1,369,462
Transportation	1,047,389	897,379
Non-productive service	961,575	849,768
Entertainment and promotional costs	523,155	408,868
Impairment	467,002	934,357
Maintenance	376,691	332,097
Insurance premium	216,469	245,283
Losses from disposal of materials and goods	146,361	80,867
Tax	139,374	123,378
Banking services	91,429	150,279
Other provisions	66,824	-
Losses from disposal of fixed assets	54,467	118,913
Other miscellaneous costs	37,676	46,669
Contributions costs	11,780	25,652
Shortfalls	11,639	43,011
Membership fees	10,800	5,400
Rent	8,800	4,800
Losses from sale of materials	330	-
Other	44,457	48,671
	5,944,997	5,684,854

“Banjalučka pivara” a.d. Banja Luka
Notes to financial statements (*continued*)

9	Financial income and expenses	2011	2010
		BAM	BAM
	Interest income	2,928	2,374
	Foreign exchange gains	84	57
		<hr/>	<hr/>
	Total financial income	3,012	2,431
		<hr/>	<hr/>
	Interest expense	(2,048,512)	(2,584,811)
	Foreign exchange losses	(98)	(769)
	Preference share finance costs	(485,062)	(525,000)
		<hr/>	<hr/>
	Total financial expenses	(2,533,672)	(3,110,580)
		<hr/>	<hr/>
	Net financial expenses	(2,530,660)	(3,108,149)
		<hr/> <hr/>	<hr/> <hr/>
10	Income tax expense		
		2011	2010
		BAM	BAM
	Loss before taxation	(4,993,314)	(6,685,730)
		<hr/>	<hr/>
	Tax at rate of 10%	(499,331)	(668,573)
	Non-deductible expenses	129,220	184,755
	Tax loss not recognized as deferred tax asset	370,111	483,818
		<hr/>	<hr/>
	Income Tax	-	-
		<hr/>	<hr/>
	<i>Effective tax rate</i>	-	-
		<hr/> <hr/>	<hr/> <hr/>

The Company has significant tax losses which are not recognised as a deferred tax asset and or not disclosed further, as the utilisation of these tax losses in future periods is uncertain.

“Banjalučka pivara” a.d. Banja Luka
Notes to financial statements (*continued*)

11 Intangible assets

	Permanent right to land BAM	Other rights BAM	Total BAM
<i>At Cost</i>			
Balance as at 1 January 2010	5,810,056	14,803	5,824,859
Balance as at 31 December 2010	5,810,056	14,803	5,824,859
Balance as at 1 January 2011	5,810,056	14,803	5,824,859
Additions	-	156,466	156,466
Balance as at 31 December 2011	5,810,056	171,269	5,981,325
<i>Accumulated depreciation and impairment losses</i>			
Balance as at 1 January 2010	-	(14,803)	(14,803)
Charge for the period	-	-	-
Balance as at 31 December 2010	-	(14,803)	(14,803)
Balance as at 1 January 2011	-	(14,803)	(14,803)
Charge for the period	-	(10,431)	(10,431)
Balance as at 31 December 2011	-	(25,234)	(25,234)
<i>Net book value:</i>			
As at 31 December 2010	5,810,056	-	5,810,056
As at 31 December 2011	5,810,056	146,035	5,956,091

Other rights are mostly related to the license for the production of certain beer.

“Banjalučka pivara” a.d. Banja Luka
Notes to financial statements (*continued*)

12 Property, plant and equipment

	Buildings BAM	Equipment and packaging BAM	Fixed assets under construction BAM	Total BAM
<i>At Cost</i>				
Balance as at 1 January 2010	40,427,830	95,255,544	66,315	135,749,689
Additions	-	20,149	1,587,358	1,607,507
Transfers	-	1,583,518	(1,583,518)	-
Disposals	-	(1,811,214)	(297)	(1,811,511)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2010	40,427,830	95,047,997	69,858	135,545,685
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 1 January 2011	40,427,830	95,047,997	69,858	135,545,685
Additions	-	22,877	1,689,857	1,712,734
Transfers	-	1,686,282	(1,686,282)	-
Disposals	-	(1,494,584)	-	(1,494,584)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2011	40,427,830	95,262,572	73,433	135,763,835
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Accumulated depreciation and impairment losses</i>				
Balance as at 1 January 2010	(25,459,132)	(70,076,008)	-	(95,535,140)
Charge for the period	(837,667)	(6,109,531)	-	(6,947,198)
Disposals	-	1,655,740	-	1,655,740
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2010	(26,296,799)	(74,529,799)		(100,826,598)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 1 January 2011	(26,296,799)	(74,529,799)		(100,826,598)
Charge for the period	(827,491)	(5,094,732)	-	(5,922,223)
Disposals	-	1,429,518	-	1,429,518
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2011	(27,124,290)	(78,195,013)	-	(105,319,303)
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
As at 31 December 2010	14,131,031	20,518,198	69,858	34,719,087
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2011	13,303,540	17,067,559	73,433	30,444,532
	<hr/>	<hr/>	<hr/>	<hr/>

All the assets of the Company are pledged as collateral for loans and borrowings.

“Banjalučka pivara” a.d. Banja Luka
Notes to financial statements (*continued*)

13 Long term financial assets

	2011	2010
	BAM	BAM
Equity securities	169,983	207,962
Loans to employees	41,897	72,206
Debt securities (bonds)	9,856	16,518
Other deposits	257,500	257,500
	<hr/>	<hr/>
	479,236	554,186
	<hr/> <hr/>	<hr/> <hr/>

Other long term deposits relates to a deposit security given to secure loans provided by a bank to the Company’s employees.

14 Inventories

	2011	2010
	BAM	BAM
Spare parts	4,037,733	4,233,041
Work in progress	592,819	565,663
Finished goods	449,551	227,209
Advances given	81,632	915
Commercial Goods	19,681	5,828
	<hr/>	<hr/>
	5,181,416	5,032,656
	<hr/> <hr/>	<hr/> <hr/>

“Banjalučka pivara” a.d. Banja Luka
Notes to financial statements (continued)

15	Trade receivables		
		2011	2010
		BAM	BAM
	Trade receivables - domestic	6,048,006	6,449,230
	Trade receivables - foreign	180,694	74,992
	Impairment	(3,369,446)	(3,553,640)
		<u>2,859,254</u>	<u>2,970,582</u>
		<u><u>2,859,254</u></u>	<u><u>2,970,582</u></u>
16	Cash and cash equivalents		
		2011	2010
		BAM	BAM
	Giro and current account	101,414	2,436,729
	Cash in hand	982	3,217
		<u>102,396</u>	<u>2,439,946</u>
		<u><u>102,396</u></u>	<u><u>2,439,946</u></u>
17	Capital		
		2011	2010
		BAM	BAM
	Share capital	5,680,693	65,196,303
		<u>5,680,693</u>	<u>65,196,303</u>
		<u><u>5,680,693</u></u>	<u><u>65,196,303</u></u>

The structure of share capital as at 31.12.2011 and 31.12.2010 is as follows:

	2011	2011	2010	2010
	%	BAM	%	BAM
Altima Global Special Situations Fund Ltd	39,4%	2,236,055	39,4%	25,662,800
Altima UK Value Investments Limited	26,8%	1,524,812	26,8%	17,500,000
Internal stakeholders and shareholders on the basis of voucher offer	25,9%	1,471,354	25,9%	16,886,469
PREF a.d. Banja Luka	5,3%	299,224	5,3%	3,434,143
Fond za restituciju RS AD Banja Luka	2,6%	149,248	2,6%	1,712,891
		<u>5,680,693</u>		<u>65,196,303</u>
		<u><u>5,680,693</u></u>		<u><u>65,196,303</u></u>

“Banjalučka pivara” a.d. Banja Luka

Notes to financial statements (*continued*)

17 Capital (*continued*)

The share capital of the Company consists of 4,155,881 common shares and 1,524,812 preferred shares with a nominal value of BAM 1 per share as at 31 December 2011.

On 27 June 2011 the Shareholder's Assembly passed a decision to reduce accumulated losses against existing reserves and share capital. Accumulated losses amounting to BAM 69,072,410 were reduced against Share capital of BAM 59,515,610 and Other reserves: including the Issue premium of BAM 3,500,000, statutory reserves of BAM 5,199,375, legal reserves of BAM 857,425.

Reduction of share capital was made in accordance with the Law on Enterprises, by reducing the number of shares of each shareholder in proportion to its participation in the share capital of the Company.

Registration of reduction of share capital was made by the decision on registration of 08 December 2011 at the District Commercial Court in Banja Luka.

18 Loans and borrowings

	2011	2010
	BAM	BAM
Long-term liabilities		
Hypo Alpe Adria a.d. Banja Luka	14,641,489	15,797,354
Municipality of Banja Luka Republika Srpska	155,925	654,979
UniCredit Leasing d.o.o Sarajevo	94,059	86,960
	<hr/>	<hr/>
	14,891,473	16,539,293
	<hr/>	<hr/>
Short-term liabilities		
Altima Global Special Situations Master Fund Ltd	782,332	782,332
Altima Global Special Opportunities Master Fund Ltd	1,466,872	1,466,872
Altima Partners LLP	4,400,618	4,400,618
Hypo Alpe Adria a.d. Banja Luka	8,224,317	5,430,590
Hypo Alpe Adria d.d. Mostar	3,380,000	8,009,763
Municipality of Banja Luka, Republika Srpska	22,275	22,275
Riverwood GmbH, Njemačka	489,003	12,224
UniCredit Leasing d.o.o Sarajevo	96,613	52,099
	<hr/>	<hr/>
	18,862,030	20,176,773
	<hr/>	<hr/>
	33,753,503	36,716,066
	<hr/> <hr/>	<hr/> <hr/>

“Banjalučka pivara” a.d. Banja Luka

Notes to financial statements *(continued)*

18 Loans and borrowings *(continued)*

Interest rates and repayment terms on 31 December 2011 are as follows:

<i>Interest-bearing loans and borrowings</i>	Interest rate	Total 2011 BAM	1 year or less BAM	1-2 years BAM	2-3 years BAM	3-4 years BAM	More than 4 years BAM
Hypo Alpe Adria a.d. Banja Luka BAM 20,000,000 Maturity to June 2019	6 m Euribor + 4.00%	16,441,369	1,799,880	2,167,398	2,340,789	2,528,052	7,605,250
Municipality of Banja Luka Republika Srpska (utility fees - reprogram). Maturity to December 2020	-	166,979	11,054	11,054	11,054	11,054	122,763
Municipality of Banja Luka, Republika Srpska (building land.).	-	11,221	11,221	-	-	-	-
Hypo Alpe Adria a.d. Banja Luka, BAM 6,000,000. Maturity to June 2012	6.00%	6,000,000	6,000,000	-	-	-	-
Hypo Alpe Adria d.d. Mostar, BAM 3,500,000. Maturity to June 2012	6.00%	3,380,000	3,380,000	-	-	-	-
Hypo Alpe Adria a.d. Banja Luka, BAM 2,500,000 Maturity to June 2012	6.00%	424,437	424,437	-	-	-	-
Riverwood GmbH, Njemačka Maturity to March 2012	-	489,003	489,003	-	-	-	-
Altima Global Special Situations Master Fund Ltd, EUR 400,000	3m Euribor + 5.00%	782,332	782,332	-	-	-	-
Altima Global Special Opportunities Master Fund Ltd, EUR 750,000	3m euribor + 5.00%	1,466,872	1,466,872	-	-	-	-
Altima Partner LLP, EUR 2,250,000	3m euribor + 5.00%	4,400,618	4,400,618	-	-	-	-
UniCredit Leasing d.o.o Sarajevo	7.99%	190,672	96,613	70,208	23,851	-	-
Total		33,753,503	18,862,030	2,248,660	2,375,694	2,539,106	7,728,013

All loans taken from Banks and Leasing companies are secured.

“Banjalučka pivara” a.d. Banja Luka
Notes to financial statements (continued)

19 Long-term provisions

	2011	2010
	BAM	BAM
Provision for dividends on preference shares	2,741,843	2,256,780
Provisions for other financial expenses	136,232	49,253
	2,878,075	2,306,033

Provision for dividends on cumulative preference shares are calculated each year, amounting to 3% of the nominal value of shares. The total amount of provisions calculated for the period ending on 31 December 2011 amounts to BAM 485,062 and is calculated as 3% of the amount of BAM 17,5 million for the period of 11 months, while for the last month of the 2011 the amount of provisions was calculated on the basis of BAM 1,524,812.

20 Trade payables and other payable

	2011	2010
	BAM	BAM
Foreign trade payables	2,985,076	2,490,085
Domestic trade payables	1,758,080	1,544,460
Liabilities for interest	1,579,864	1,122,105
Non income taxes	482,606	572,860
Excise duty	391,722	451,546
Liabilities for VAT	234,691	330,429
Accrued expenses	223,264	234,538
Taxes and contributions	144,046	124,826
Liabilities to employees	16,922	17,234
Fees for forests, water and fire protection	16,448	15,473
Other liabilities	166,649	156,369
	7,999,368	7,059,925

“Banjalučka pivara” a.d. Banja Luka

Notes to financial statements (*continued*)

21 Risk Management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Information about the Company's exposure to the risks described above, objectives of the Company, policies and processes for measuring and managing risk and capital management, and further quantitative disclosures are included throughout these financial statements. Note 2 provides additional information related to liquidity and capital management under going concern discussions.

(i) *Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's receivables from customers.

(ii) *Liquidity risk*

Liquidity risk is the risk that the Facility will not be able to meet its financial obligations as they fall due. The Company has significant exposure to liquidity risk

(iii) *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rate, interest rates and equity prices will affect the Company's income or value of its financial instruments.

“Banjalučka pivara” a.d. Banja Luka

Notes to financial statements (*continued*)

21 Risk Management (*continued*)

Liquidity risk

The following are the contractual maturities of the financial obligations:

	Net-book value	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	More than 5 years
31. December 2011.							
Trade and other payables	7,999,369	7,999,369	7,999,369	-	-	-	-
Borrowings on which interest is paid	33,753,503	38,343,108	8,569,374	11,923,414	2,812,682	8,189,240	6,848,398
	<u>41,752,872</u>	<u>46,342,477</u>	<u>16,568,743</u>	<u>11,923,414</u>	<u>2,812,682</u>	<u>8,189,240</u>	<u>6,848,398</u>
31. December 2010.							
Trade and other payables	7,059,926	7,059,926	7,059,926	-	-	-	-
Borrowings on which interest is paid	36,716,064	41,591,890	10,730,032	14,034,840	4,307,230	7,218,432	5,301,356
	<u>43,775,990</u>	<u>48,651,816</u>	<u>17,789,958</u>	<u>14,034,840</u>	<u>4,307,230</u>	<u>7,218,432</u>	<u>5,301,356</u>

The Company has significant liabilities maturing within the next 6 and 12 months, which is discussed further in Note 2 on going concern.

“Banjalučka pivara” a.d. Banja Luka
Notes to financial statements (*continued*)

22 Related party transactions

Significant transactions with related parties are given below:

	2011	2010
	BAM	BAM
<i>Balance sheet</i>		
<i>Loans and borrowings</i>		
Altima Global Special Situations Master Fund Ltd	782,332	782,332
Altima Global Special Opportunities Master Fund Ltd	1,466,872	1,466,872
Altima Partners LLP	4,400,618	4,400,618
	<u>6,649,822</u>	<u>6,649,822</u>
	<u><u>6,649,822</u></u>	<u><u>6,649,822</u></u>
<i>Short-term liabilities on the basis of accumulated dividends</i>		
Altima UK Value Investments Limited	2,741,843	2,256,780
	<u>2,741,843</u>	<u>2,256,780</u>
	<u><u>2,741,843</u></u>	<u><u>2,256,780</u></u>
<i>Interest liability</i>		
Altima Group (GSO & GSS Master Fund, Altima Partners)	1,461,151	977,052
	<u>1,461,151</u>	<u>977,052</u>
	<u><u>1,461,151</u></u>	<u><u>977,052</u></u>
<i>Income Statement</i>		
<i>Interest</i>		
Altima Group (GSO & GSS Master Fund, Altima Partners)	484,099	1,000,372
<i>Preference shares finance costs</i>		
Altima UK Value Investments Limited	485,062	525,000
<i>Consultancy fees</i>		
Altima UK Value Investments Limited	690,619	638,336
	<u>1,656,780</u>	<u>2,163,708</u>
	<u><u>1,656,780</u></u>	<u><u>2,163,708</u></u>

“Banjalučka pivara” a.d. Banja Luka

Notes to financial statements (*continued*)

22. Related party transactions (*continued*)

	2011 BAM	2010 BAM
<i>Salaries and other short term benefits to management</i>		
Remuneration to key management	188,405	163,179
	<u> </u>	<u> </u>

Remuneration to key management relates to the salaries and other short term benefits that are received by general manager, management board and auditing board.

23 Contingent liabilities

The Company is involved in a number of legal disputes arising from its normal operations and are related to commercial and contractual matters, and matters relating to labor relations, which are addressed or considered in the normal course of business. At 31 December 2011, the total estimated amount claimed against the Company is BAM 443,638 excluding interest. Given Management believe resulting losses will be unlikely no provisions or further disclosures have been considered necessary in the financial statements.

24 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on expected future events that are believed to be reasonable under the given circumstances.

Certain accounting estimates as applied by the Company in accordance with its accounting policies are described below:

Going concern

For the reasons given in Note 2 to these financial statements, Management believe the going concern principle remains applicable in the preparation of these financial statements.

Estimated useful life and impairment of intangible asset, plant and equipment

The Company estimated useful life and related depreciation charges for plant and equipment and intangible asset based on expected useful lives, which management assesses annually. Also, management has considered indications for impairment, and believe none exist to require a detailed test of the recoverable amount of assets.

Income tax

Tax calculations are performed based on the Company’s interpretation of current tax laws and regulations. These calculations which support the tax return may be subjected to review and approval by the local tax authority. As a result, certain transactions may be challenged by the local tax authorities and the Company may be assessed additional taxes, penalties and interest.