“Banjalučka pivara” a.d. Banja Luka

Annual financial report
for the year ended
31 December 2013

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.

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Management’s report

The Management submits their report together with the audited financial statements for the year ended 31 December 2013.

Principal activity

The brewery Banjalučka pivara a.d. Banja Luka (hereinafter: “Company”) was originally founded in 1873 and nationalised in 1950. From 1975 the Company has enterered into the composition of agro-industrial agricultural complexes Bosanska Krajina.

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

The Company’s headquarters are in Banjaluka, Slatinska 8.

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

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 the 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 him to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Management is responsible for selecting suitable accounting policies in accordance with the 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 consider that the Company has sufficient resources to countinue its business for the forseeable 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.

3 April 2014

Director
Nicholas Penny

BANJALUČKA PIVARA a.d.
1873
BANJA LUKA

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 2013, the statements of comprehensive income, changes in equity and cash flows statement 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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, we consider 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 2013, and of its financial performance and its cash flows for the year then ended 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, Republic of Srpska
Bosnia and Herzegovina

03 April 2014

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

D.O.O. ZA REVIZIJU KPMG B-H PODRUŽNICA BANJA LUKA

Vukotić Vedran
Head of the Banja Luka 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 ended 31 December

	Note	**I-XII-2013 BAM**	I-XII-2012 BAM
Revenue	*4*	**38,199,640**	33,385,161
Other income	*5*	**982,458**	1,278,669
Total revenue		**39,182,098**	34,663,830
Changes in inventory		**1,044,646**	571,679
Raw materials, consumables and services used	*6*	**(16,290,131)**	(14,815,765)
Staff costs	*7*	**(5,549,118)**	(5,465,340)
Depreciation and amortisation expense	*11,12*	**(6,540,672)**	(6,379,775)
Other operating expenses	*8*	**(9,649,975)**	(7,699,934)
Profit from operating activities		**2,196,848**	874,695
Financial income	*9*	**2,706**	2,453
Financial expenses	*9*	**(1,994,094)**	(2,114,803)
Net financial loss	*9*	**(1,991,388)**	(2,112,350)
Profit / (loss) before taxation		**205,460**	(1,237,655)
Income tax expense	*10*	**-**	-
Profit / (loss) for the year		**205,460**	(1,237,655)
Other comprehensive loss: Change in fair value of available-for-sale securities		**(10,070)**	(54,722)
Total comprehensive profit / (loss) for the year		**195,390**	(1,292,377)
Profit / (loss) per share		**0.01**	**(0.23)**

The accompanying notes form an integral part of these finanacial statements

“Banjalučka pivara” a.d. Banja Luka

Statement of financial position

As at 31 December

	Note	**I-XII-2013 BAM**	I-XII-2012 BAM
ASSETS			
Intangible assets	*11*	**5,925,796**	5,942,576
Property, Plant and Equipment	*12*	**26,843,671**	29,513,218
Long term financial assets	*13*	**459,205**	448,748
Total non-currents assets		**33,228,672**	35,904,542
Inventories	*14*	**5,815,160**	4,623,054
Trade receivables	*15*	**1,793,920**	3,837,618
Other receivables		**115,933**	123,193
Cash and cash equivalents	*16*	**8,288,766**	66,590
Total current assets		**16,013,779**	8,650,455
Total assets		**49,242,451**	**44,554,997**
Loss over capital		**-**	614,864
Total assets		**49,242,451**	45,169,861
EQUITY AND LIABILITIES			
Equity			
Share capital	*17*	**22,300,000**	5,680,693
Accumulated losses		**(6,305,627)**	(5,680,693)
Profit for the financial year		**205,460**	-
TOTAL EQUITY (without loss over capital)		**16,199,833**	-
Liabilities			
Long - term liabilities			
Loans and borrowings	*18*	**11,138,255**	12,965,818
Other long-term provisions	*19*	**3,757,905**	3,011,714
Total long - term liabilities		**14,896,160**	15,977,532
Short-term liabilities			
Loans and borrowings	*18*	**11,008,097**	18,280,376
Trade payables and other payables	*20*	**7,138,361**	10,911,953
Total short-term liabilities		**18,146,458**	29,192,329
Total liabilities		**33,042,618**	45,169,861
Total equity and liabilities		**49,242,451**	45,169,861

The accompanying notes form an integral part of these finanacial statements

"Banjalučka pivara" a.d. Banja Luka

Statement of changes in equity

As at 31 December

	Issued capital BAM	Fair value reserve BAM	Retained loss BAM	Total capital BAM
As at 1 January, 2012	**5,680,693**	**(9,866)**	**(4,993,314)**	**677,513**
Loss for the year	-	-	(1,237,655)	**(1,237,655)**
Change in fair value of available-for-sale securities	-	(54,722)	-	**(54,722)**
As at 31 December, 2012	**5,680,693**	**(64,588)**	**(6,230,969)**	**(614,864)**
As at 1 January, 2013	**5,680,693**	**(64,588)**	**(6,230,969)**	**(614,864)**
Transfers (*Note 17*)	-	64,588	(64,588)	-
Profit for the year	-	-	205,460	**205,460**
Change in fair value of available-for-sale securities	-	-	(10,070)	**(10,070)**
Capital increase	16,619,307	-	-	**16,619,307**
As at 31 December, 2013	**22,300,000**	-	**(6,100,167)**	**16,199,833**

The accompanying notes form an integral part of these finanacial statements

“Banjalučka pivara” a.d. Banja Luka

Statement of cash flows

For the year ended 31 December

	I-XII-2013 BAM	I-XII-2012 BAM
Cash flows from operating activities		
Cash receipts from customers and received advance payments	**56,617,989**	45,307,095
Other cash received from operating activities	**782,990**	599,510
Cash paid to suppliers - raw materials, expenses and advanced payments	**(28,999,145)**	(20,677,525)
Cash paid to and on behalf of employees	**(5,463,051)**	(5,354,773)
Interest paid	**(3,930,844)**	(1,643,568)
Non-income taxes and other duties paid	**(14,032,908)**	(11,009,028)
Net cash from operating activities	**4,975,031**	7,221,711
Cash flow from investing and placement activities		
Increase in short-term financial placements	**42,401**	29,237
Interest received	**1,737**	2,442
Decrease in other long-term financial placements	**(75,323)**	(68,907)
Purchases of Property, Plant and Equipment	**(3,650,989)**	(5,102,975)
Net cash from investing activities	**(3,682,174)**	(5,140,203)
Financing activities		
Increase from financing activities	49,943,670	32,937,807
Decrease from financing activities	(43,014,351)	(35,055,121)
Net cash from financing activities	**6,929,319**	(2,117,314)
Net increase/(decrease) in cash and cash equivalents	**8,222,176**	(35,806)
Cash and cash equivalents at the beginning of the year	**66,590**	102,396
Cash and cash equivalents at the end of the year	**8,288,766**	66,590

The accompanying notes form an integral part of these finanacial statements

1 Reporting entity

The company for production of beer “Banjalučka pivara” a.d., Banja Luka (hereinafter: “the Company”) was founded in 1873 and nationalised 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 privatisation Program for sale of state-owned portion of capital (53,81% of core capital) via tender and variable terms.

The company is listed on Banjalucka berza (Banjaluka Stock Exchange) with ordinary shares under code BLPV-R-A and preference shares under code BLPV-P-B.

The seat of the Company is in Banjaluka, Slatinska 8.

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, 2013 the Company’s current liabilities exceed current assets by BAM 2,132,679 (2012: BAM 20,541,874). Significant current liabilities include bank loans of BAM 10,739,226 (the majority of which mature during June 2014).

With respect to the current bank loans, during mid 2013 the Company reached an agreement with banks according to which the Company repaid short term liabilities amounting to 500,000 BAM in total. In the second half of the year, a frame agreement was reached with the bank regarding repayment of short term loans in the forthcoming years, according to which BAM 700,000 should be paid in 2014, BAM 800,000 in 2015, while the remaining short term loans should be repaid in 2016. Revision of the financial situation of the Company and its ability to repay loans will be conducted every year (during June). Therefore, there is a possibility of revision to the agreement on repayment of short term liabilities. It is expected that the Company and the banks will resolve any issue of repayment of loan obligations of the Company by continued mutual agreement.

In 2013, the Company increased capital on the basis of the VII emission of shares, by 16,619,307 regular (ordinary) shares, class “A” of BAM 1.00 nominal total value BAM 16,619,307 were issued. Major part of the assets from this capital increase is intended for certain capital expenditure. However, in agreement with the Decision on capital increase, part of the asset was used to decrease short term liabilities of the Company.

Accordingly, Management believe it is reasonable 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.

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) and the Book of rules on the additional accounting report – Annex (Official Gazette RS 106/12).

(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 judgments

The preparation of financial statements requires management to make judgments, 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 judgments 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.

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 recognised 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 recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised 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.

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.

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.

3 Significant accounting policies *(continued)*

(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.

(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 the 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 have been reclassified to ensure consistency with current year presentations and disclosures.

4 Revenue

	I-XII-2013 BAM	I-XII-2012 BAM
Revenue from the sale of products - domestic	**37,503,547**	32,665,992
Revenue from the sale of products - foreign	**596,163**	595,349
Revenue from the sale of goods - domestic	**99,930**	123,820
	38,199,640	33,385,161

5 Other income

	I-XII-2013 BAM	I-XII-2012 BAM
Recovery of bad debts	**584,887**	393,444
Obsolete doubtful debts (foreign trade payables)	**117,704**	-
Difference from paid and accep. securities for repay of tax liabilities	**61,002**	45,241
Surpluses	**59,242**	229,931
Income from lease	**55,703**	27,705
Erroneus payments on bank accounts	**28,647**	-
Income from collected payment for damages	**26,086**	7,306
Income from own work capitalised	**5,315**	18,764
Other revenues	**43,872**	398,838
Income from reduced liabilities for packer	**-**	157,440
	982,458	1,278,669

6 Consumables and services used

	I-XII-2013 BAM	I-XII-2012 BAM
Raw materials	**12,201,804**	10,955,179
Fuel and energy	**2,191,634**	2,267,086
Other materials	**1,832,146**	1,498,544
Goods sold at cost	**64,547**	94,956
	16,290,131	14,815,765

7 Staff costs

	I-XII-2013 BAM	I-XII-2012 BAM
Wages and salaries	**2,857,842**	2,770,966
Contributions and taxes	**1,898,655**	1,817,947
Other staff costs	**792,621**	876,427
	5,549,118	**5,465,340**

As of December 31, 2013, number of employees was 232 *(2012: 230 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 1,597,807 *(2012: BAM 1,531,353)* of contributions paid into the social funds of the Republic of Srpska.

8 Other operating expenses

	I-XII-2013 BAM	I-XII-2012 BAM
Advertising and other marketing services	**1,767,332**	1,833,694
Transportation	**1,692,472**	1,202,457
Non-productive service	**1,214,819**	1,073,863
Entertainment and promotional costs	**811,491**	554,584
Maintenance	**785,873**	571,064
Correction of value of receivables	**734,872**	523,119
Other provisions	**641,236**	174,680
Tax	**590,317**	241,242
Losses from disposal of materials and goods	**558,916**	98,358
Losses from disposal of fixed assets	**280,335**	875,839
Insurance premium	**145,453**	175,059
Banking services	**101,607**	50,624
Devaluation of material	**83,302**	95,975
Deficits	**63,777**	17,828
Rent	**36,879**	13,145
Membership fees	**17,660**	-
Other miscellaneous costs	**29,633**	42,596
Other	**94,001**	142,784
Contribution costs	**-**	13,023
	9,649,975	7,699,934

9 Financial income and expenses

	I-XII-2013 BAM	I-XII-2012 BAM
Interest income	**1,738**	2,442
Foreign exchange gains	**27**	11
Financial gains from related legal entities	**941**	-
Total financial income	**2,706**	2,453
Interest expense	**(1,939,836)**	(2,045,074)
Foreign exchange losses	**(572)**	(130)
Preference share finance costs	**(45,744)**	(45,744)
Other expenses	**(7,942)**	(23,855)
Total financial expenses	**(1,994,094)**	(2,114,803)
Net financial expenses	**(1,991,388)**	(2,112,350)

10 Income tax expense

	I-XII-2013 BAM	I-XII-2012 BAM
Loss/ profit before taxation	**205,460**	(1,237,655)
Tax at rate of 10%	**20,546**	(123,766)
Non-deductible expenses	219,069	101,499
Tax loss not recognised as tax asset	-	22,267
Income Tax	239,615	-
Used loses from previous years	(239,615)	-
For payment	**-**	-
Effective tax rate	***0%***	0%

The Company has tax losses that can be used as a deduction from future taxable income. If not utilised, tax losses will expire as follows:

	I-XII-2013 BAM	I-XII-2012 BAM
Year 2013	**1,017,581**	1,257,196
Year 2014	**754,547**	754,547
Year 2015	**541,389**	541,389
Year 2016	**370,111**	370,111
Year 2017	**22,267**	22,267
	2,705,895	2,945,510

11 Intangible assets

	Permanent right to land BAM	Other rights BAM	Total BAM
At Cost			
Balance as at 1 January 2012	**5,810,056**	**171,269**	**5,981,325**
Additions	**-**	6,474	**6,474**
			-
Balance as at 31 December 2012	**5,810,056**	**177,743**	**5,987,799**
Balance as at 1 January 2013	**5,810,056**	**177,743**	**5,987,799**
Additions	**-**	-	**-**
Balance as at 31 December 2013	**5,810,056**	**177,743**	**5,987,799**
Accumulated depreciation and impairment losses			
Balance as at 1 January 2012	**-**	**(25,234)**	**(25,234)**
Transfer from capital assets		(3,890)	**(3,890)**
Charge for the period	-	(16,099)	**(16,099)**
Balance as at 31 December 2012	**-**	**(45,223)**	**(45,223)**
Balance as at 1 January 2013	**-**	**(45,223)**	**(45,223)**
Charge for the period	-	(16,780)	**(16,780)**
Balance as at 31 December 2013	**-**	**(62,003)**	**(62,003)**
Net book value:			
As at 31 December 2012	5,810,056	132,520	**5,942,576**
			-
As at 31 December 2013	**5,810,056**	**115,740**	**5,925,796**

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

12 Property, Plant and Equipment

	Buildings BAM	Equipment and packaging BAM	Fixed assets under construction BAM	Total BAM
At Cost				
Balance as at 1 January 2012	**40,427,830**	**95,262,573**	**73,433**	**135,763,836**
Additions	**-**	**-**	6,324,665	**6,324,665**
Transfer from spare parts	-	-	514,807	**514,807**
Tansfer of spare parts	-	514,807	(514,807)	**-**
Transfers	23,354	6,259,125	(6,282,479)	**-**
Surplus / (deficit)	-	(134,848)	-	**(134,848)**
Disposals	-	(3,865,614)	-	**(3,865,614)**
Transfer to intang.assets	-	(6,474)	-	**(6,474)**
Balance as at 31 December 2012	**40,451,184**	**98,029,569**	**115,619**	**138,596,372**
Balance as at 1 January 2013	**40,451,184**	**98,029,569**	**115,619**	**138,596,372**
Additions	-	-	4,101,464	**4,101,464**
Transfers	80,343	3,990,076	(4,070,419)	-
Surplus / (deficit)	-	(205,428)	-	**(205,428)**
Disposals	(18,262)	(21,333,558)	(953)	**(21,352,773)**
Balance as at 31 December 2013	**40,513,265**	**80,480,659**	**145,711**	**121,139,635**
Accumulated depreciation and impairment losses				
Balance as at 1 January 2012	**(27,124,290)**	**(78,195,013)**	**-**	**(105,319,303)**
Charge for the period	(827,705)	(5,535,970)	-	**(6,363,675)**
Surplus / (deficit)	-	352,112	-	**352,112**
Disposals	-	2,654,962	-	**2,654,962**
Correction of packaging	-	(411,140)	-	**(411,140)**
Transfer to intang.assets	-	3,890	-	**3,890**
Balance as at 31 December 2012	**(27,951,995)**	**(81,131,159)**	**-**	**(109,083,154)**
Balance as at 1 January 2013	**(27,951,995)**	**(81,131,159)**	**-**	**(109,083,154)**
Charge for the period	(785,082)	(5,738,810)	-	**(6,523,892)**
Surplus / (deficit)	-	239,598	-	**239,598**
Disposals	11,597	21,059,887	-	**21,071,484**
Balance as at 31 December 2013	**(28,725,480)**	**(65,570,484)**	**-**	**(94,295,964)**
Net book value				
As at 31 December 2012	**12,499,189**	**16,898,410**	**115,619**	**29,513,218**
As at 31 December 2013	**11,787,785**	**14,910,175**	**145,711**	**26,843,671**

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

13 Long term financial assets

	I-XII-2013 BAM	I-XII-2012 BAM
Other deposits	**257,500**	257,500
Equity securities	**125,192**	135,262
Debt securities (bonds)	**54,791**	28,923
Loans to employees	**21,722**	27,063
	459,205	448,748

14 Inventories

	I-XII-2013 BAM	I-XII-2012 BAM
Spare parts	**3,004,951**	3,370,257
Work in progress	**1,089,827**	814,636
Finished goods	**616,096**	401,477
Advances given	**1,078,417**	26,550
Commercial goods	**25,869**	10,134
	5,815,160	4,623,054

15 Trade receivables

	I-XII-2013 BAM	I-XII-2012 BAM
Trade receivables - domestic	**4,995,020**	7,006,027
Trade receivables - foreign	**364,757**	297,455
Correction of value	**(3,565,857)**	(3,465,864)
	1,793,920	3,837,618

16 Cash and cash equivalents

	I-XII-2013 BAM	I-XII-2012 BAM
Cash in banks	**8,287,908**	66,428
Cash in hand	**858**	162
	8,288,766	66,590

17 Capital

	I-XII-2013.	I-XII-2012.
	BAM	BAM
Share capital	**22,300,000**	5,680,693
	22,300,000	5,680,693

In 2013, the Company increased capital on the basis of the VII emission of shares addressed to qualified investor, by 16,619,307 regular (ordinary) shares, class “A” of BAM 1.00 nominal, total value of BAM 16,619,307 were issued. The capital increase was fully paid in cash.

The structure of share capital as at 31 December 2013 and 31 December 2012 is as follows:

	I-XII-2013	I-XII-2012	I-XII-2012	I-XII-2012
	%	**BAM**	%	BAM
Altima Global Special Situations Fund Ltd	**82.42%**	**18,379,660**	39.36%	2,235,920
Altima UK Value Investments Limited	**6.84%**	**1,525,320**	26.84%	1,524,698
Internal stakeholders and shareholders on the basis of voucher offer	**8.73%**	**1,946,790**	25.90%	1,471,299
PREF a.d. Banja Luka	**1.34%**	**298,820**	5.27%	299,373
Restitution Fund RS AD Banja Luka	**0.67%**	**149,410**	2.63%	149,403
		22,300,000		5,680,693

The share capital of the Company consists of 20,775,188 *(2012: 4,144,883)* ordinary shares and 1,524,812 preferred shares with a nominal value of BAM 1 per share as at 31 December 2013.

18 Loans and borrowings

	I-XII-2013 BAM	I-XII-2012 BAM
Long-term liabilities		
Hypo Alpe Adria a.d. Banja Luka	**10,716,719**	12,764,300
Municipality of Banja Luka, the Republic of Srpska	**111,375**	133,650
UniCredit Leasing d.o.o. Sarajevo	**101,070**	50,796
Raiffeisen Leasing d,o,o, Sarajevo	**209,091**	17,072
	11,138,255	12,965,818
Short-term liabilities		
Altima Global Special Situations Master Fond Ltd	**-**	782,332
Altima Global Special Opportunities Master Fond Ltd	**-**	1,466,873
Altima Partners LLP	**-**	4,400,618
Hypo Alpe Adria a.d. Banja Luka	**7,609,226**	8,122,317
Hypo Alpe Adria a.d. Mostar	**3,130,000**	3,380,000
Municipality of Banja Luka, the Republic of Srpska	**22,275**	22,275
UniCredit Leasing d.o.o. Sarajevo	**111,549**	96,430
Raiffeisen Leasing d.o.o. Sarajevo	**135,047**	9,531
	11,008,097	18,280,376
	22,146,352	31,246,194

18 Loans and borrowings (*continued*)

Interest rates and repayment terms as at 31 December 2013 are as follows:

Interest-bearing loans and borrowings	**Interest rate**	**Total 2013 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 + 5.50%	**12,575,945**	1,859,226	2,144,777	2,273,463	2,409,871	3,888,608
Municipality of Banja Luka , the Republic of Srpska (utility fees - reprogram), Maturity to December 2020	-	**66,326**	11,054	11,054	11,054	11,054	22,110
Municipality of Banja Luka , the Republic of Srpska (building land)	-	**67,324**	11,221	11,221	11,221	11,221	22,440
Hypo Alpe Adria d.d. Mostar, BAM 2,780,000, Maturity to June 2014	7%	**2,780,000**	2,780,000	-	-	-	-
Hypo Alpe Adria d.d. Mostar, BAM 350,000, Maturity to December 2014	7%	**350,000**	350,000	-	-	-	-
Hypo Alpe Adria a.d. Banja Luka, BAM 350,000, Maturity to December 2014	7%	**350,000**	350,000	-	-	-	-
Hypo Alpe Adria a.d. Banja Luka, BAM 5,400,000 Maturity to June 2014	7%	**5,400,000**	5,400,000	-	-	-	-
UniCredit Leasing d.o.o. Sarajevo	6.85%-7.82%	**212,619**	111,549	76,633	24,437	-	-
Raiffeisen Leasing d.o.o. Sarajevo	8.05%	**344,138**	135,047	139,709	69,382	**-**	**-**
Total loans and borrowings		**22,146,352**	**11,008,097**	**2,383,394**	**2,389,557**	**2,432,146**	**3,933,158**

18 Loans and borrowings (*continued*)

Considering results of business operations and inability to defray credit liabilities i.e. inability to repay the principal of the existing loans, the Company has been restructuring its credit obligations for years. As means of security for repayment of the loans with Hypo Alpe Adria Bank, the Company notarised corresponding promissory notes “without protest” and transfer orders. Also, the Company entered pledge on business facilities and land within the beer production area of the factory as well as the right of pledge on equipment, which was purchased from these loans.

The results of negotiations on restructuring of credit liabilities in the past two years are grouping of credit liabilities towards the bank in two groups, short-term and long-term loans. Instalments of the long-term loan (BAM 20 million), used for financing of building and equipping of beer filling plant, with maturity on June 2019, are paid regularly at monthly level. Short-term liabilities towards Hypo Alpe Adria Bank a.d. Banja Luka, derive from the Financial framework loan, which has been approved to the Company for the period of 5 years (maturity June, 2016) from which the Company uses a short-term loans of BAM 5.4 million, BAM 350,000 and an Overdraft loan amount to BAM 2.5 million. All these loans mature by mid 2014 as well as a short-term loan approved by Hypo Alpe Adria Bank d.d. Mostar amount to BAM 2.78 million and BAM 350,000.

The result of negotiations with the Bank is still reduced margin by the bank and the interest rate on long-term loans is 6-month EURIBOR (rounded to first higher quarter) +5.5% margin (full interest rate would be 6-month EURIBOR + 7% margin) and to the short-term loans 7%. This temporary interest rate expires on 30 June, 2014.

During the previous negotiations on restructuring of Company’s liabilities, an agreement on the write-off of part of penalty interest has been reached (for Hypo Bank Banja Luka, as of the 1 of December 2010 it amounted to BAM 338,941.00 and for Hypo Bank Mostar the penalty interest amounted to BAM 347,465.25 as of the 30 November 2010) under condition that in the following 5 years, the Company will not be late in servicing its credit obligations towards the Bank later than the 20th of the month. Also, in case that the Company reaches an annual level of EBITDA in excess of BAM 10 million during the period of regular repayment of its obligations towards the Bank and by the December 31, 2014 the latest, the Company will repay 50% of the concerned penalty interest in a way which will be established later (through the increase of regular interest rate or as a one-time accrued fee, principal, etc).

The company regularly repays its liabilities of a long-term loan (repayment of principal and interest). As for the short-term liabilities, the Company regularly repays interest of the loans, however, due to the inability to repay principal of the short-term loans, the Company still asks for moratorium on repayment of principal of short-term loans. Every year (every six months), the Company and Hypo Bank jointly consider financial situation of the Company and negotiate on part of short-term liabilities which the Company is able to repay in the forthcoming period. By mid 2013, an agreement was reached with the bank according to which the Company repaid short-term liabilities in total of BAM 500,000 (BAM 250,000 loan to Hypo Bank Banja Luka and BAM 250,000 loan to Hypo Bank Mostar) to the Banks.
In the other part of the year, a frame agreement was reached with Hypo bank regarding repayment of short term loans in the forethcoming years, according to which BAM 700,000 should be paid in 2014, BAM 800,000 in 2015, while the remaining short term loans should be repaid in 2016. Revising of financial situation of the Company and its ability to repay the loans will be conducted every year (every six months). Therefore, there is a possibility of correction of agreement on repayment of short term liabilities. It is expected that the Company and the banks will still be resolving the issue of repayment of loan obligations of the Company by mutual agreement.

19 Long-term provisions

	I-XII-2013 BAM	I-XII-2012 BAM
Provisions for dividends on preference shares	**2,833,331**	2,787,587
Provisions for other financial expenses	**924,574**	224,127
	3,757,905	3,011,714

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 2013 amounts to BAM 45,744 and is calculated as 3% of the amount of BAM 1,524,812.

20 Trade payables and other payable

	I-XII-2013 BAM	I-XII-2012 BAM
Domestic trade payables	**2,432,597**	3,368,049
Foreign trade payables	**1,558,090**	3,800,504
Excise duty	**560,964**	589,606
Liabilities for VAT	**309,750**	190,824
Non income taxes	**228,941**	374,470
Accrued expenses	**236,995**	217,951
Taxes and contributions	**152,967**	141,477
Liabilities to employees	**17,564**	16,682
Fees for forests, water and fire protection	**25,933**	24,784
Liabilities for interest	**2,747**	2,005,053
Other liabilities	**1,611,813**	182,553
	7,138,361	10,911,953

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.

21 Risk Management *(continued)*

Liquidity risk

The following are the contractual maturities of the financial obligations:

Non-derivative financial liabilities	Net-book value	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	More than 5 years
31 December, 2013							
Trade and other payables	**7,138,361**	**7,138,361**	**7,138,361**	-	-	-	-
Borrowings on which the interest is paid	22,146,352	24,617,777	10,081,008	1,889,194	2,964,406	8,303,927	1,379,242
	29,284,713	**31,756,138**	**17,219,369**	**1,889,194**	**2,964,406**	**8,303,927**	**1,379,242**
31 December, 2012							
Trade and other payables	10,911,953	10,911,953	10,911,953	-	-	-	-
Borrowings on which the interest is paid	31,246,194	35,326,565	18,548,466	1,432,397	2,832,118	8,339,470	4,174,114
	42,158,147	**46,238,518**	**29,460,419**	**1,432,397**	**2,832,118**	**8,339,470**	**4,174,114**

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

22 Related party transactions

Significant transactions with related parties are given below:

	I-XII-2013 BAM	I-XII-2012 BAM
Balance sheet		
Loans and borrowings		
Altima Global Special Situations Master Fund Ltd	-	782,332
Altima Global Special Opportunities Master Fund Ltd	-	1,466,873
Altima Partners LLP	-	4,400,618
	-	**6,649,823**
Short-term liabilities on the basis of accumulated dividends		
Altima UK Value Investments Limited	**2,833,331**	2,787,587
	2,833,331	2,787,587
Interest liability		
Altima Group (GSO & GSS Master Fund, Altima Partners)	-	1,909,126
	-	1,909,126
Income Statement		
Interest		
Altima Group (GSO & GSS Master Fund, Altima Partners)	**413,971**	447,975
Preference shares finance costs		
Altima UK Value Investments Limited	**45,744**	45,744
Consultancy fees		
Altima UK Value Investments Limited	**766,934**	775,872
	1,226,649	**1,269,591**

22 Related party transactions (*continued*)

	I-XII-2013	I-XII-2012
	BAM	BAM
Salaries and other short term benefits to management		
Remuneration to key management	**187,403**	187,402

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. On the 31 of December 2013, the total estimated amount claimed against the Company is BAM 430,569 excluding interest.

For some legal disputes started by Banjalučka pivara, the Company asked for execution of promisory notes. As for the issues of payment of damage to the third parties deriving from legal dealings or certain qualification as a source of danger, the Company is insured in such cases.

Given that 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 believes 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 believes 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.

Correction of value of accounts receivable

Receivables from customers 120 days overdue, as well as all other receivables for which it is assessed that they will not be collected, a correction of value in a full amount of due but non-collectable receivables is formed.

24 Critical accounting estimates and judgements *(continued)*

Inventories

Correction of value charged to “Other operating expenses” is made when it is assessed that their carrying calue is to be reduced to their net market value, Inventories found to be damaged are written off in full.

Correction of value – impairment of inventories is carried out for material and spare parts which have not been used for a longer period.

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.