



BANJALUČKA PIVARA
- 1873 -

Statement to accompany un-audited financial results for 2016

Dear Shareholders,

2016 proved to be an eventful year for the Company where, despite many external threats and constant change in the beer market, Banjalučka pivara succeeded in maintaining volume and market share. The result for 2016 is a net profit of KM 6.14 million, a fall of 1.2% versus 2015, which reflects the ongoing challenges that we face.

On 1st January 2016 the Company was obliged to increase excise on all our products by 25% because the Company became classified as a large brewery producing over 400,000 hectolitres of beer per year. Due to the generally declining purchasing power in BiH, management decided to slowly introduce this increase and, consequently, there has been a slight fall in net pricing throughout the year. Nonetheless, thanks to a benign winter the first quarter of the year started well. This situation was reversed in the second quarter where poor volumes and increased competitor activity obliged us to significantly raise marketing investment. This investment paid off in the third quarter with strong results, but volumes were again weaker towards the end of the year. This pattern of rapid change in the market reflects the growing price sensitivity of consumers and the constant rate of increased selling activities of the large beer companies importing largely from Serbia and Croatia.

The Company has been fortunate in the last few years to benefit from falling unit raw material prices, which has helped to decrease the pressure on margins, especially since we were not able to increase selling prices to make up for other increased costs. Input savings are largely thanks to the falling oil price which has had a positive impact on the costs of our key inputs, fuel oil, barley, chemicals, plastics and other packaging. We expect this trend to reverse in 2017, with higher input costs and few opportunities to compensate through higher selling prices. Already in 2016, despite important successes and volume growth of 3% to 474 thousand hectolitres, operating profit fell by 10%. This fall in EBITDA is also a reflection of the increased spend on marketing and maintenance, which will also be required in 2017. Between operating profit and net result, we show significant positive drop in amortisation and bank interest, but the Company no longer has accumulated losses as a tax shield, leading to payment of KM 900 thousand in profit taxes in 2016, vs. 123 thousand paid in 2015.

The outlook generally for 2017 is similar to 2016; the business is stable but future growth will be more and more difficult to achieve. This is mostly due to external factors and the lack of growth in consumer purchasing power. There does however remain one very worrying additional threat and that is the proposal from the entity governments to increase excise tax on beer by 60%. We have fought this successfully throughout 2016 but the proposal is still active and an important threat to the Company prospects, which we will continue to fight against.

Nicholas Penny
Director



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BANJALUČKA PIVARA A.D., Slatinska 8, 78000 Banja Luka, Republika Srpska, Bosna i Hercegovina, info@blpivara.com
T: +387 (51) 33 41 00 / F: +387 (51) 30 06 24, www.banjaluckapivara.com

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