



BANJALUČKA PIVARA
- 1873 -

Statement to accompany un-audited financial results for Q1 2017

Dear Shareholders,

After a satisfactory performance in 2016, the Company entered the new year with optimism and well prepared plans for 2017. Having finished the year without excessive stocks of beer in the market, our expectation was to start the year with a very strong performance in January and February. This did not happen, primarily due to the prolonged cold period that lasted right into March. As usual, this had a dampening effect on beer sales, but this year was unusually harsh due to the combined effect of large stocks of discounted goods from competitors. The practice of pushing large stocks to meet year end targets that then need to be heavily discounted before expiry had a very disruptive effect in February and March. A strong performance in March has recovered some of the losses in the first two months.

The result for the first quarter of 2017 is a small increase in sales value and volume, but a final result of KM 519 thousand net profit shows a drop versus KM 1.27 million in the same period last year. The main reason for this drop in profitability is rising direct costs, especially energy as well as inventory changes. For instance, the price of fuel oil, which follows global oil prices, has increased by 30% versus 2016. Further increases in marketing costs to drive growth and expansion are also negatively impacting profitability. We expect the picture to improve through the year as volumes increase, but the general threat of rising costs of all types is now the biggest challenge for the Company and the brewing industry as a whole.

Export and development projects are developing well, though they are generating sales volume more slowly than hoped. The Company lost one important filling contract for Croatia in January, accounting for around 8,000 hectolitres last year. We are working to recover this quantity through other new projects. The recent and highly alarming speculation regarding the financial collapse of Agrokor and its effect on Konzum business in Bosnia and Herzegovina is something we are monitoring very closely. The Company has good financial controls and limits in place and exposure to Konzum and important customers is very carefully monitored.

Nicholas Penny
Director

28 April 2017


