

„BANJALUČKA PIVARA“ AD  
BANJA LUKA  
- Audit Board -  
No: OR-01/2018  
Date: May 22, 2018

On the basis of Article 61 of the Articles of Association of AD „Banjalučka pivara“ Banja Luka, in line with the accounting regulations, which are applied in the Republic of Srpska, after consideration of the Annual Accounts and Reports on Business Operations and Implementation of Business Policy of AD „Banjalučka pivara“ Banja Luka for 2017 and Report of Independent Auditor on performed auditing of financial reports for 2017, the AD Audit Board submits the following

## **REPORT**

### **On work of the Audit Board in 2017**

**with Opinion on Annual Accounts and Report of the Management on Business Operations and Implementation of Business Policy of AD „Banjalučka pivara“ Banja Luka for 2017 and Report of Independent Auditor on performed auditing of financial statements of AD „Banjalučka pivara“ Banja Luka, as of 31<sup>st</sup> December 2017**

### **Information sharing and work of the Audit Board in 2017**

1. During 2016, the Audit Board consisting of Jonathan Derry-Evans, President, Scott R. Baker and Andrew Stevenson, members, performed its function, as defined by the Law on Business Companies and Articles of Association of AD „Banjalučka pivara“, mainly out of sessions, but the inclusion of the Audit Board members into supervision and auditing of the work and business operations of AD „Banjalučka pivara“ was continuous. Management of the Company has regularly informed the Audit Board members about all the significant events at the Company, about sessions and resolutions of the Management Board, Executive Team, they were regularly informed about monthly, quarterly and six-months' results and reports of the Management.
2. Also, during 2016, regular contacts and consultations were held between Management of the Company and Audit Board President, about the issues of business strategy, business development and risk management of the Company. Also, regular, timely, reliable and detailed information were shared about events, which may significantly affect future success of the business and financial situation of the Company.
3. Audit Board has considered the situation of AD „Banjalučka pivara“ and circumstances in which the Company continues performing its business operations. Audit Board has, during the business year, been regularly informed about all business aspects, pressures caused by very aggressive competition of the multinational breweries on the domestic market, as well as serious decrease of daily market solvency and purchasing power of the final consumers for brewing products.
4. Audit Board was informed on the state of loan obligations towards UniCredit bank, that, in late Jul 2017, contract on loans aimed at refinancing the existing loan from „Addiko Bank“ a.d. Banja Luka, namely the Contract on a loan in the amount of 5,867,490.00 KM, with annual interest rate of 4.30% p.a. + 3-month EURIBOR, with a repayment period of 84 months, with a grace of 12 months, due on Mar 20, 2024, and the Contract on a revolving loan in the amount of 3,911,660.00 KM, with annual interest rate of 3.85% p.a. + 3-month EURIBOR, for a period of 360 days from the day the loan is made available to the user of the loan, with a possibility of extension of the period in the way and under the terms as defined by the Contract, with the obligation of the user to repay the loan by Mar 20, 2018, with the possibility of extension until Mar 20, 2019, or Mar 20, 2020, were signed with Audit board was informed that all loan related obligations are met regularly.
5. The Company continues with its practice of strict control over business operations and from year to year it has achieved better results. All activities conducted in 2016 have, despite the great pressure from the competition,

contributed to strengthening and expansion of the position of the Company on the market, as well as significant improvement of the balance sheet items of the Company. The Company continues its policy of strengthening and expanding of its market position and maintenance of a good and constant quality of its products, expanding the assortment of its products, expanding and improving the distribution network, additional marketing and general business activities.

## **Application of the Corporate Governance Standards**

6. Audit Board evaluates that a very high degree of the application of Corporate Governance Standards was realised also in 2017 in the business activities of the Company, particularly when it comes to financial reporting. The Audit Board evaluates that the Company, during 2017, operated in line with the Code of Conduct and Management of the Company.

## **Contracts concluded between the Company and related entities**

7. In 2017, there were no contract signed with any related entities.

## **Accounting, reporting and financial operations of the Company, Independent Auditor's Report**

8. „Banjalučka pivara“ a.d. Banja Luka operates in accordance with the Law on Business Companies and all the other regulations, which are related to the work and operations of the Company, within its registered business activity on the territory of the Republic of Srpska/Bosnia and Herzegovina. The Company has fully harmonised its business operations with the Law on Business Companies, in line with which it was adopted and Articles of Association of the Company, which have defined the bodies of the Company and their work.

Management Board of the Company adopted the Code of Conduct and Management, based on the Corporate Governance Standards, which establishes in more details mechanisms of functioning of the Company boards and functioning and protecting of the interest in mutual relations of the holders of different interest in the Company.

9. Audit Board does not dispose of data that the Company, in all the segments of its work and business operations, does not act in a legal and responsible manner. Audit Board does not dispose of the information that there are any objections in terms of legality of the Company's work in all the segment of its business operations, that is, in terms of harmonization with the legal and other regulations and requirements.

10. Organisation of the accounting system, accounting policies, obligations of keeping the business books, preparing and presenting financial reports is set out by the Rule Book on Accounting, Accounting Policies and Internal Control, in line with the Law on Accounting and Auditing of the Republic of Srpska, Law on the Securities Market, International Accounting Standards and International Financial Reporting Standards.

11. During 2013, an Internal Auditing Service was formed within the Company, which has regularly controlled all the processes within the Company, with the aim to identify, control and prevent risks, establishing harmonization with and application of the legal and internal regulations and control mechanisms and implements other activities in line with the contribution, which was entrusted with on the basis of legal regulations and Articles of Association of the Company.

12. In line with the competencies and contribution of the Audit Board, which should participate in defining of the accounting policies and other questions in the area of accounting, the Audit Board got, during 2016, familiar with the accounting policies, as approved by the Management Board of the Company.

Accounting Service provides comprehensive records on business operations of the Company, recording every occurring business event, on the basis of documentation, that is, bookkeeping documents, containing all the data necessary for

the booking into the business books of the Company. Accounting Service provides chronological monitoring of business events, thus determining of accounting items at the moment of their occurrence.

At the Company level, monthly reports on its realisation are prepared, on the basis of annual plan, in order to control the planned positions at the Company: customers, physical production scope, realization of income and revenues, investments and realization of planned balance projections. In this way, the company timely undertakes the necessary measures and activities for prevention of possible risks.

Financial reports are made and presented in convertible marks and are prepared on the basis of an assumption of permanent business operations by the application of the historical cost method. Business events are recorded and recognized in the business period when they occurred and which they are related to. Items of property and obligations, income and revenue are separately recorded and shown, i.e. their mutual off-setting is not done. The Notes to the Financial Reports provide detailed information for all the significant positions in the Income Statement, Balance Sheet, Report on Cash Flows and Report on Capital Changes. The Report on Business Operations contains a detailed explanation of business operation segment of the Company, as well as the goals and policies of the capital risk management, market risk, solvency risk as well as the credit risk to which the Company in the business has been exposed to.

The Company makes quarterly, semi-annual and annual financial reports as well as the Annual Report on Business Operations.

**13.** Audit Board of „Banjalučka pivara“ ad Banja Luka has checked the financial reports for 2017, together with the Report of an Independent Auditor. Financial Reports for 2017 were made in line with the International Accounting Standards and International Financial Reporting Standards (hereinafter: IAS and IFRS). Audit Board considered the financial reports of the Company and, in accordance with the Opinion of Independent Auditor, the financial reports show truthful and authentic display of the financial position of the Company as of 31<sup>st</sup> December 2017.

Financial reports, according to the evaluation of the Audit Board, contain all the set out parts. On the basis of the total observation of the financial reports of the Company for 2017 and the situation shown in them, the Audit Board is informed that the financial books of the Company are run in a timely and updated manner. In addition to this, the Audit Board is not familiar that there was any unjustified disposal of the Company's assets.

**14.** Audit Board is of the opinion that the auditing was performed in a quality manner, fully and in line with the regulations setting out the work of auditing. During the auditing of the financial reports for 2017, full cooperation between the Audit Board and the Company's Management and Independent Auditor was achieved.

**15. Audit Board proposes to the Shareholders' Assembly of „Banjalučka pivara“ a.d. Banja Luka to adopt this Report and to, on the basis of the Report of the Management Board in relation to the Financial Report of the Company for 2017 and Report of the Independent Auditor in relation to the Financial Report of the Company for 2017, adopt the Financial Report of the Company for 2017, revised by the Independent Auditor.**

DELIVERED TO:

1. AD Assembly
3. Management Board
4. Managing Director
5. Audit Board file
6. Archives

**AUDIT BOARD  
PRESIDENT**

Jonathan Derry - Evans