

„BANJALUČKA PIVARA“ AD  
BANJA LUKA  
- Management Board -  
Ref: 02-131-1/2018  
Date: May 22, 2018

## **BUSINESS POLICY FOR 2018**

The business policy for 2018, which has been proposed to the Shareholders' Assembly by the Management Board, has the primary goal to continue to grow sales organically through consistent investment in brand building and extending our sales reach. Our goals remain very consistent from year-to-year, even in this changing environment where we increasingly feel pressure from declining consumer purchasing power but also worse in the form of government constantly seeking to raise taxes via excise, inspections, new fees and fines.

### 1. To grow the Nektar brand franchise

The Company will continue its focus on building Nektar Pivo. In 2017 Nektar achieved a small share increase, extending its position versus Jelen Pivo our key competitor. In 2018 we will further innovative advertising to expand the brand appeal to a wider audience. This campaign will focus on the unique name of Nektar, which is the drink of the ancient Greek gods. This is different from other beers are usually named after their city of origin or an animal.

### 2. Raise efficiency and productivity

The rapid improvements in margins in recent years are in large part due to improved productivity and effective purchasing. We face important issues with ageing equipment, particularly in bottling which leads to breakdowns and loss of productivity. A focus on planned maintenance and systematic work to prevent breakdowns and replacement of some older machines is now key to further productivity gains.

### 3. Improve free cash flow & control of fixed costs

The current economic environment means that business growth, either through volume or value, is extremely difficult. Our goal is to grow whilst maintaining a strong financial position and invest where we see real and immediate returns. This will be combined with strong financial discipline and a continued focus on challenging fixed costs.

### Production

Improvements to filling capacity and productivity are the key theme of investment and maintenance in 2018. These include commissioning a new PET labeller purchased in 2017, commissioning new labelling and packer for glass packaging, designed to reduce changeover times and overall output. Improvement of CO2 collecting in fermentation is an important target for season 2018, with a goal to eliminate external purchases of CO2. During the course of 2018, we will complete the upgrade and unification of our beer production systems. This will give us a secure production platform for the next five to ten years and access to much more complete data.

The production department has conducted a detailed review of chemical consumption and a total review of hygiene practices. The goal is to achieve higher product security by tightening practices and a focus on problem areas. Many of the conclusion of 2017 will be implemented during this year with a complete re-organisation of the laboratory.

### Sales and Marketing

The competitive situation on the market remains extremely challenging. Two important new developments have taken place in 2017, which will lead to increase pressures on our business.

In the past the key competitors of the Brewery have been Molson Coors (Apatin) and Carlsberg (Lav and Tuborg). In 2017, Heineken is becoming a bigger and bigger player on the BiH market, due to the acquisition of Laško and also thanks to its success in Serbia with Zaječarsko, which has emerged as a very serious challenger to Jelen's dominance of the Serbia market. As a result of these moves, Heineken now has a competitive portfolio of brands for the BiH, along with Karlovačko. Already in the eastern Republic of Srpska, it is noticeable that the influence of trends from Serbia are having an impact on the market.

### Export

Until recently export has not played an important role in Company's plans. This is starting to change with the appointment of importers in Italy, Croatia and Serbia. The Company will now steadily explore export opportunities and seek to expand the Nektar brand coverage across the region. In some limited cases, in order to use capacity, we are filling private label beer for reliable export customers.

### Rebates and Price Policy

Banjalučka pivara will continue its policy of offering the same terms to major customers. It is our aim to make our trade terms more attractive than those of the big competitors and to reward those customers who actively push our brands over those who passively sell our brands and others. At the same time, we also insist on secure payment through bank guarantees to minimise business risk. Efforts on the Brewery's part to expand its distribution network, enhance the existing and make new relationships in the ever changing market, and, as result, reach more customers and boost sales, make it necessary for the Company's sales policy to be supported by an appropriate incentives and pricing policy, which will be prepared and implemented by the General Director in coordination with the Management Board.

### Corporate Governance Standards

Banjalučka pivara will continue to implement the Corporate Governance Standards adopted by the Republic of Srpska Securities Commission. Banjalučka pivara has been implementing its own Code of Conduct and Management, and it has further developed its corporate website, to include all relevant, timely available investor information - Company financials, the most important information on business operations, its governing bodies and members of the management team. A complete set of reports and financial information is constantly available.

### Long term goals

The strategic goal of Banjalučka pivara is to become the leading independent brewery producing and selling beers in Bosnia and Herzegovina and the wider region. The Company has demonstrated its ability to continuously grow even in a hostile market environment. This combined with significant free capacity means that it is realistic to look to expand our distribution network to sell our existing portfolio over a wider and wider geography. The management will take all necessary steps including potential strategic partnerships to achieve this goal.

In the next three years our goal is to create a business that is stable and able to provide long term profitable growth in volume and profit for our shareholders. This means a continuous process of expanding beyond our core markets and investment in brand building.

CHAIRMAN of  
MANAGEMENT BOARD  
Ragnar Tryggvason

GENERAL MANAGER  
Nicholas Penny