

Dear shareholders,

building up a successful company is definitely a long distance run and Kofola celebrated in the last year its 25th anniversary. During that time, we have grown from a small district factory to the one of the most important non-alcoholic beverage producers in the Central European region. I am very glad to see among us many employees who have been with us since our very first steps. Our thanks for their contribution to the long-term growth and success of Kofola go out to the whole team of employees.

The year 2018 will go down in our history due to very positive developments in our financial results and also due to the overcoming of some long-term corporate hurdles. Thus, this year laid strong foundations for further growth in the company's value to shareholders. We have attained the goals we set for 2018, although we should also admit that in some parts of our capital structure we expected faster growth. A further positive is the diversification of our business model, which has helped us to achieve overall success.

The consolidated revenue of the group exceeded CZK 7 billion (CZK 7 118.8 million) which represents a year-on-year increase of 2.2%. If we exclude Hoop Polska, where we faced a long-term decline in our market position, the increase would be 7.2% (4.1% without effect of Titbit, Premium Rosa and LEROS acquisitions). The continuous growth of brand sales (+5.7%) and controlled decline of private labels sales have been a great success. Private labels are no longer included in our strategy and will only complement the optimization of our production capacity.

The fulfillment of our challenging business plan was based on fundamental elements such as the stable economic environment, a slight increase in the consumption of non-alcoholic beverages, the relatively low price of essential raw materials (especially sugar), and the successful innovations of Royal Crown, Vinea Frizzante and Radenska Flavoured. The unusually warm weather helped us in the Central Europe, although in the Adriatic region weather conditions differed. As in prior years, we had to deal with significant increases in wages, and subsequent increases in labour costs.

After a year, I am pleased to report again to the shareholders EBITDA exceeding CZK 1 billion (CZK 1 011.0 million).

Year-on-year EBITDA growth reached 6.4%, or 9.8% if we exclude the Polish company Hoop Polska. The key EBITDA margin ratio has increased from 13.7% in 2017 to 14.2%. We assume that positive trends in household consumption and basic raw material prices will continue in 2019 as well, and that we will build on the successful results of year 2018.

Net profit, after adjusting for one-off items, amounted to CZK 312.3 million and increased by 35%. We have performed a fundamental revaluation of Hoop Polska's assets, due to which we adjusted the capital structure by the middle of the year. The objective was to provide shareholders with a stable level of share of company profits (in the form of a share capital decrease).

The non-alcoholic beverages market in Central and Southeast Europe is undergoing major changes. One trend is a growth in resources available to consumers. We expect this trend to persist even after the slowdown of growth in some economies. Combined with the effects of the weather, these factors create a relatively dynamic market growth potential. In volume terms, growth is substantially lower, with some categories even recording a decline (e.g. syrups). The growth in consumption has been limited by the expanding category of non-alcoholic beer lemonades and also by the use of tap water in gastronomy. The fastest growing market segment is the "on the go" segment, i.e. smaller formats for consumption away from home. The growth of our market share in the "on premise" segment (HoReCa) in the Czech Republic was a great success in 2018. We reduced our main competitor's lead in market share by a total of 6 p.p. While the main drivers of the rapid growth in our largest category of cola drinks in CzechoSlovakia were draught Kofola and Royal Crown, in the Adriatic region it was our successful distribution of Pepsi. The unusually high level of promotional activity on the retail market has slightly decreased and producers have transferred increased costs to the selling price. Kofola has made significant investments in the sophisticated management of sales and pricing strategy, and the results of this project are palpable.

As in 2017, I can report two small but (for the future of the Kofola Group) significant acquisitions. The first is the company LEROS (Medicinal plants), a traditional medicinal herbal tea specialist. Seeing as Kofola and Rajec are themselves full of herbs, the acquisition fits perfectly into the strategy of the Kofola Group. Another acquisition is Klášťorná, a high-quality mineral water, surprising in its balance of calcium and magnesium. We will introduce this traditional mineral water to the Slovak market in the main season 2019. We will no longer lack a mineral water brand in the CzechoSlovakia market.

In the domestic "core" CzechoSlovakia market, we achieved, after exclusion of the effect of acquisitions, a very healthy growth of 4.3%. Virtually all brands experienced growth, except for Jupí syrups, the leader of the category that, as a whole, is facing a decline. The fastest growing brands are Kofola, Royal Crown, and Vinea. The growth rates are significantly higher in the segments "on the go" and "on premise", while retail sales are growing at a slower rate. Profitability in our main market exceeded expectations.

Revenue in the Adriatic region increased by 2.6%. The increase was built especially on the main brand Radenska and also on the Pepsi brand. We expected better results on the Croatian market in the last year. Despite an increase in Croatian sales

(2.3%), planned targets were not achieved. We have taken precautions and believe that the upcoming period will confirm the success of our proven business model. We consider expansion in this region, including acquisitions, to be a strategic priority.

The UGO brand concept continues its increase in revenue (10.5%). The growth was influenced by the last year's acquisition of Titbit and increased sales of UGO bottles. We are continuing in our efforts to increase the profitability of our fresh and salad bars. The UGO brand has become synonymous with healthy diet, and is a clear market leader in this area. Process optimisation has not yet been finalised and as such, combined with a steep increase in labour costs, profitability remained at a start-up level. At the end of 2018, the network operated 81 sites and is the largest of its kind in the CEE region.

In our less successful market in Poland, Premium Rosa with its premium syrups has achieved a better profitability than in 2017. In the mainstream business of the subsidiary Hoop Polska, we managed to stop the decline in brand products revenues. However, even concentration in one production plant did not cover the decline in private labels production. The company's EBITDA even ended with negative values. We had decided to address this situation, and therefore we terminated our presence in this highly competitive market. On the other hand, we will further develop our subsidiary Premium Rosa.

I would like to highlight once again that the operating performance indicator EBITDA reached a very positive value of CZK 1 011.0 million and a net profit CZK 312.3 million. Operational resources are sufficient to fund strategic development, and also to enable payment of a stable dividend level to shareholders. The financial position of the company is very favourable. Despite high capital expenditures, acquisitions and payment of record dividends, the total net debt remained at CZK 2.4 billion. We managed to reduce the level of indebtedness measured as Net Debt/EBITDA to 2.4.

From the shareholders' point of view, there was a significant increase in the liquidity of our shares in 2018. Due to exit of our private equity investor, the company's free float at the Prague Stock Exchange grew to 27%. This event had a short-term negative impact on the stock price, but naturally led to a multiple increase in trading volume. Greater liquidity and the resolution of the complicated situation in Poland increased the attractiveness of Kofola on the financial markets.

Kofola is well prepared for the upcoming period. Despite the positive macroeconomic developments, the market will stagnate in terms of volume. This is due to above-average warm weather in 2018. The market will have to absorb the increase of the producers' total costs. The trend of rapid wage growth will continue throughout the CEE region. A positive factor is the short-term development of raw material prices, but in the medium term the outlook is less optimistic.

The non-alcoholic beverage industry must actively engage with environmental issues. This concerns, in particular, the issue of the increasing effectiveness of plastic packaging recycling and its subsequent reuse. Kofola is aware of its social responsibility, and is one of the most important contributors to the recycling system. We have analyzed the issue in detail and are ready to invest in meaningful measures.

Kofola will continue with the implementation of its approved strategic plan. Our priority is the development of our own brands and successful distribution of our partners' brands. We expect the termination of private labels production. We will concentrate on the CEE region and our potential acquisitions will be focused there. We will continue to build the UGO brand, where we expect a strong revenue growth. We will consolidate and transform our successful acquisitions, Premium Rosa and LEROS. We have terminated our operations in the mainstream market in Poland.

Dear shareholders and colleagues, year 2018 was a very successful year. We are very satisfied, but we must also continue with our hard work. We have many other goals and tasks ahead of us. We have the energy and all the resources we need. I thank the shareholders for their trust and patience, I also thank all my colleagues for the work they have put in and look forward to continued success for the Kofola company.

Jannis Samaras

Chairman of the Board of Directors
Kofola ČeskoSlovensko a.s.