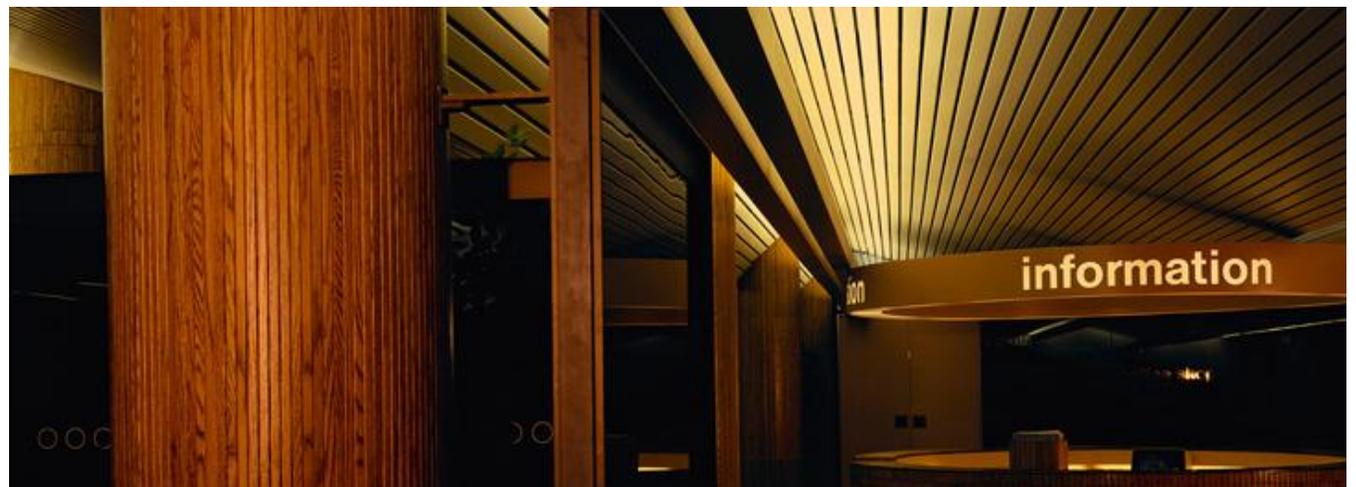


**KONJUH**

# KONJUH D.D. ŽIVINICE

INFORMATION MEMORANDUM





## FOSTERING INTERVENTIONS FOR RAPID MARKET ADVANCEMENT (FIRMA)

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# Executive Summary

Konjuh Živinice is one of the largest furniture production companies in Bosnia and Herzegovina with a wood processing tradition going back to the 19<sup>th</sup> Century. The production facility is located in the Federation of Bosnia and Herzegovina and employs just over 400 employees of which 85 percent are employed in manufacturing. The ownership structure is distributed amongst just over 800 shareholders 12 of whom are in possession of ownership packages worth 42 percent of the total equity.

The company has integrated wood processing facilities that include sawmilling; parquet and solid wood board production, veneer and pressings production as well as chair and table production. Most of the production capacity originates from the period prior to the year 2000 yet due to their abundance universality and regular servicing all manufacturing plants are fully operational and can perform without any additional investment requirement. Konjuh has also secured wood supply amounting to 25,000 m<sup>3</sup> of timber from the local state forestry company.

What makes Konjuh unique is the large scale integrated wood processing and furniture production process located at one site. Konjuh's potential also lies in the considerable value that the company has locked in unused real estate (industrial land and unused buildings) at the company's headquarters located in Živinice (Northeast Bosnia). These assets could be divested without causing disruption to the production process.

In 2007 Konjuh's sales reached over 15 million Euros yet since 2008, as a result of the onset of the global economic crisis, the revenue of Konjuh has declined rapidly. In addition, illiquid regional retailers and distributors unable to pay their liabilities caused further liquidity problems for Konjuh which as a consequence incurred mounting debts.

Due to the financial difficulties at Konjuh a group comprised of 53 percent of shareholders transferred their voting rights to the Government of Tuzla Canton. Considering the importance of Konjuh to the local and regional economy as one of the largest employers in the region the Government of Tuzla Canton formed an expert group to develop an action plan and installed new management at Konjuh.

The new management secured a new working capital loan from the Development Bank of the Federation of BiH, in line with recommendations by the Government of the Federation of BiH. This allowed Konjuh to gradually restart production and begin taking new orders.

During this period Konjuh has maintained a database of more than 300 customers from the region, Western Europe and the USA. According to the new management, if the financial situation were to be stabilized and working capital provided then Konjuh would be able to gradually win back its former customers and regain its market position based on the company's competitive advantages such as price and production quality.

Konjuh is currently offered for sale by its major shareholders together with many small shareholders, the majority of which are current or former employees. The management estimates that it is possible to consolidate in excess of 70 percent of the share capital of the company.

Despite its current problems Konjuh has great potential to be rebuilt into a major regional player in wood processing and furniture production. All of the company's production facilities are fully functional and could be operational at full capacity in a matter of weeks after receiving new orders. Investors should seriously consider this rare opportunity.

# The Company

## General Information



Konjuh d.d. Živinice  
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Full name: Konjuh d.d. Živinice  
Tuzla Canton  
Bosnia & Herzegovina

Status: Stock market traded

Legal form: Public Limited Co.

BA-IDB: 4209045770002

Adress: Prva ulica 57  
75270 Živinice

Phone/Fax: +387 35 775 557

Mail address:

[prodaja@konjuh.ba](mailto:prodaja@konjuh.ba)

Web adress: [www.konjuh.ba](http://www.konjuh.ba)

# The Company

## General Information



### Geographic Position in BiH

- Located in the Northeastern part of Bosnia and Herzegovina in the town of Živinice
- Distance from the center of Tuzla is 17.5 km or cca 20 minutes by car
- Distance from the BiH capital Sarajevo is 110 km or cca 2 hours
- Distance from Brčko (border with Croatia) is 82 km or cca 1 hour

### Accessibility to the region/other Balkan countries

- Around 660 km from Vienna or cca 6.5 hours by car
- Ljubljana cca 5 hours
- Zagreb cca 4 hours
- Belgrade cca 3 hours

### Nature and purpose of the business

- Konjuh d.d. Živinice is one of the leading producers of wood products (veneer, chair pressings, solid wood glued panels for furniture production and parquet) and furniture (tables, chairs, office and school furniture) in Bosnia and Herzegovina.



# Commercial Background Information

## Political Background

<b>Bosnia and Herzegovina</b>	
	
Location	Southeastern Europe, bordering the Adriatic Sea, Croatia, Serbia and Montenegro.
Capital	Sarajevo
Population	4,622,163 (July 2011 est.)
Area	51,197 km <sup>2</sup>
Currency	Konvertibilna Marka (BAM)



In 2008 Bosnia and Herzegovina signed the Stabilization and Association Agreement with the EU and had been granted the status of a potential candidate country for EU membership. This status provides the country with a political framework for the further liberalization of trade and through EU pre-accession funds increased financial support for economic development.

# Commercial Background Information

## Trade Policy and Investment Agreements

- According to the preferential export regime with the European Union, all goods of BiH origin that fulfill EU technical standards and conditions can be imported to all 27 European Union member states without any quantitative restrictions and without paying customs and other similar duties. This free access to EU markets also applies to the products of Konjuh.
- Further trade liberalization and a reduction in non-tariff barriers to trade can be expected in the process of the Stabilization and Association Agreement and the eventual accession process toward EU membership.
- BiH has signed free trade agreements with Albania, Croatia, Macedonia, Moldova, Montenegro, Serbia, UNMIK/Kosovo and Turkey. BiH has preferential export regimes with Australia, Canada, Japan, New Zealand, Norway, Russia, Switzerland and the USA.
- In 2007 BiH became member of the Central European Free Trade Area (CEFTA), which includes Albania, Croatia, Macedonia, Serbia, Montenegro, Kosovo and Moldova.
- BiH has signed/ratified 36 agreements to promote and protect investments by the following countries: Austria, Belgium, Luxembourg, Belarus, Croatia, Czech Republic, China, Denmark, Egypt, Finland, France, Greece, the Netherlands, Hungary, Indonesia, Iran, Italy, Serbia, Montenegro, Qatar, Kuwait, Libya, Macedonia, Malaysia, Moldova, Germany, the OPEC Fund, Pakistan, Portugal, Romania, Slovenia, Spain, Sweden, Switzerland, Turkey, UAE, Ukraine, the United Kingdom, and the United States (OPIC).

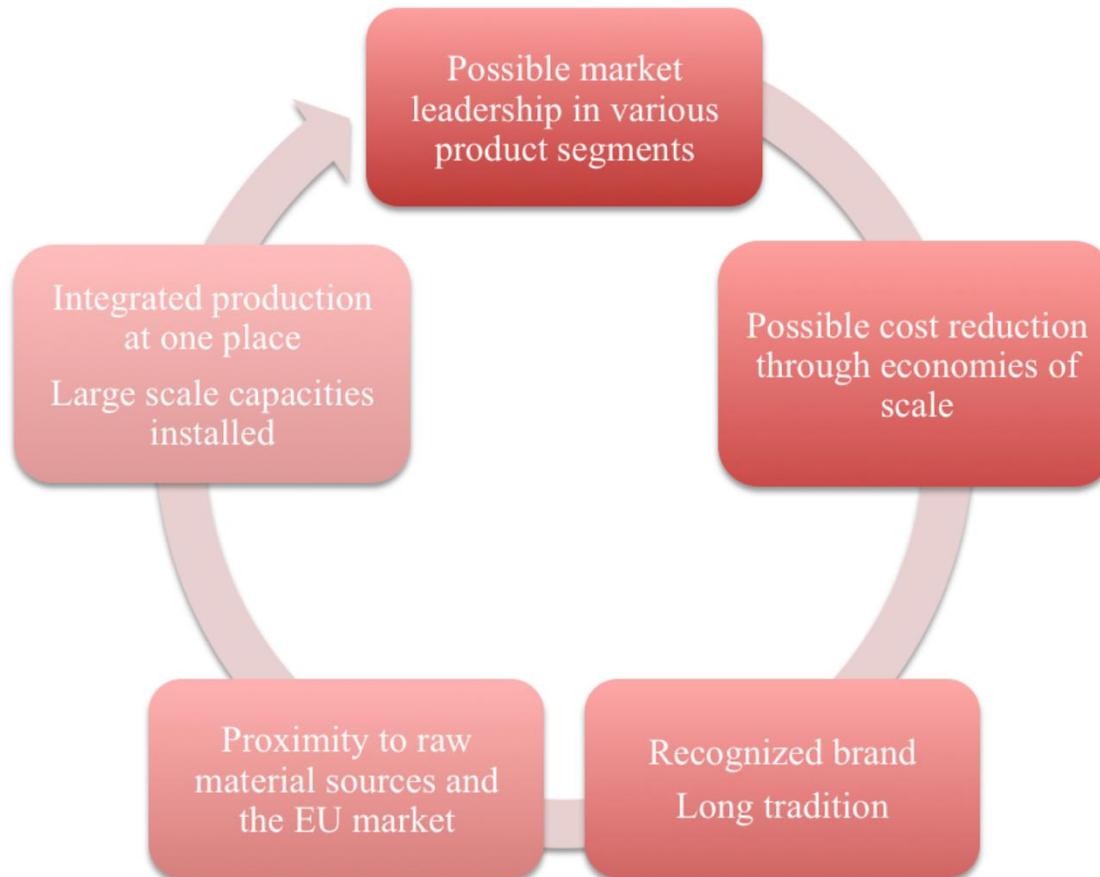
# Company Profile

## Development of the Company/Investment objective

- **Konjuh d.d.** was founded back in 1885 by Austro-Hungarian entrepreneurs as a furniture production factory. The company is located in Živinice in the Northeastern part of Bosnia and Herzegovina. The micro location is characterized by both a wealth of wood resources and an excellent logistical infrastructure that enables transport by road and railway.
- Today, after 127 years, the company operates as a joint stock company with a long tradition as a producer of outstanding quality finished products such as solid tables and chairs. The furniture Konjuh produces meets all international standards for quality, durability of material and structure and allows for a combination of products for various purposes to be produced at one compact unit.
- What makes Konjuh unique is its large scale integrated wood processing and furniture production process situated at one location. One production line integrates the production of furniture from timber to the finished product, including sawmilling and the drying of wood, production of furniture elements and final furniture production. The other line integrates veneer production from veneer peeling and drying to veneer pressing production of furniture elements.
- All of the mentioned units provide a substantial capacity that is best suited to large scale orders. Over the last 15 years the company management has invested great effort into the consolidation of the production process and regaining market position.
- What remains to be resolved is access to markets that could absorb large production capacities. Therefore, the aim of the management is to secure strategic and or financial investment in order to ensure that the company's capacities are utilized at optimum performance.

# Company Profile

## Investment Highlights & Aquisition Rationale



# Company Profile

## History



Konjuh d.d. Živinice  
For better living style...

- 1885 The company was founded by Austro-Hungarian entrepreneurs.
- up to 1941 A phase marked by intensified development of wood processing due to significant investment in sawmills and railways, which stimulated the utilization of forest resources.
- 1945 - 1950 Post war rehabilitation of the company and the overall economy.
- 1950 - 1962 A period of investment aimed at establishing an integrated production process that would negate the need to outsource certain services.
- up to 1985 A holding corporation was formed and joined to the Šipad conglomerate as the final step in the organizational restructuring of the former company. At that time Konjuh employed ca. 5,300 employees and its products were sold across five continents.
- 1992 - 1995 War period in Bosnia and Herzegovina.
- 2000 - 2012 In 2000, by the public offering of shares, the company was privatized and a restructuring of the production process undertaken. Despite an investment of close to 10 million BAM to improve production potential the company has been unable to achieve the desirable scale of access to its pre-war markets.

# Company Profile

## Current Ownership Structure

Shareholder Structure	Country	Share in %
Ivan Avbar	Slovenia	9.95
Gordana Piljić	BiH	7.09
Elvir Muslim	BiH	3.94
Brunella Buković	Croatia	3.15
Miranda Buković	Croatia	2.99
Eldin Brčanić	BiH	2.34
BH Pelete d.o.o.	BiH	2.28
Hadžić Muharem	BiH	2.15
Dufour Xavier Marcel Pierre	France	2.05
Suljagić Halid	BiH	2.05
Avbar Karmen	Slovenia	2.00
Kadrić Šefik	BiH	1.97
<b>Total 12 Shareholders approx.</b>		<b>41.96</b>
<b>Others *</b>		<b>58.04</b>
<b>Total</b>		<b>100 %</b>

The total number of shareholders stands at 806. Twelve (12) shareholders hold 42 percent of the total stake.

Corporate governance was recently strengthened through the establishment of a 'Shareholder package' that comprised 67 percent of the total share capital in order to override the existing management power during the transformation process. The package was formed by many small shareholders, mostly current or former employees that passed their voting rights to the Government of Tuzla Canton.

The company is registered with the Registry of Companies as a joint stock company with equity of 16,970,964 BAM, which is divided into 249,573 shares with a nominal value of 68 BAM.

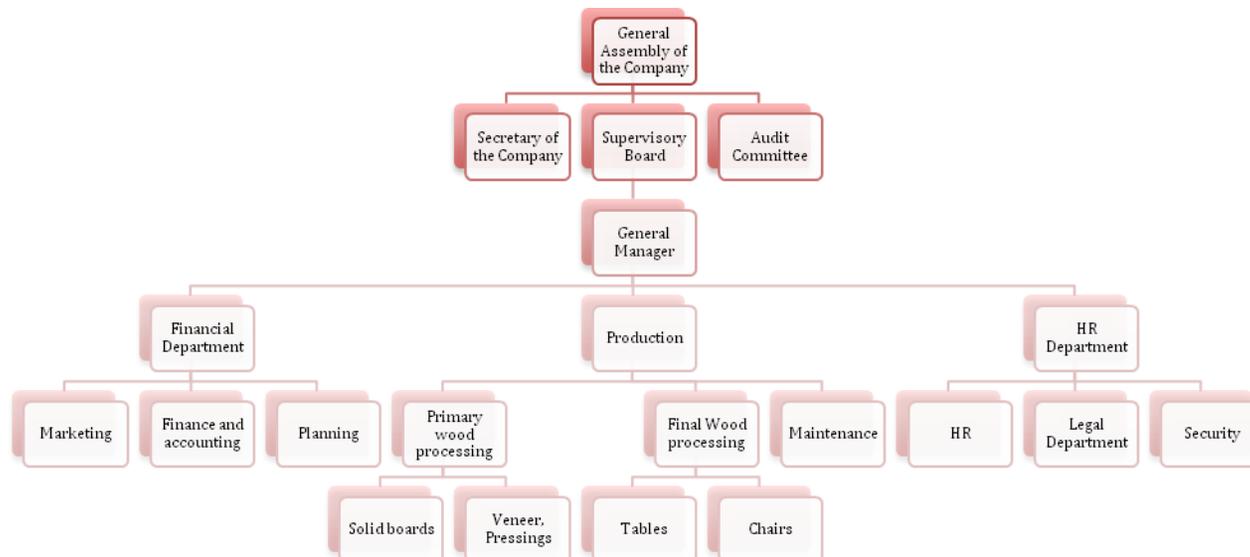
According to the records of the Sarajevo Stock Exchange, the average trading price in 2011 was 5.60 BAM per share.

**Please note :** \*Others represents former and current employees and a number of shareholders that acquired shares via the stock market.

# Company Profile

## Organizational Structure and Management

- Corporate governance at Konjuh comprises a three tier structure (General Assembly, Supervisory Board and Executive Management Board) in accordance with the Law on Companies.
- The Management Board consists of three members with extensive experience and proven track record in the furniture industry. The current board members were appointed in May 2012 with the aim to introduce a fresh approach to business management. All board members hold university degrees.
- The rest of the senior management is characterized by a high degree of continuity as most of the heads of department have worked at Konjuh for more than a decade.

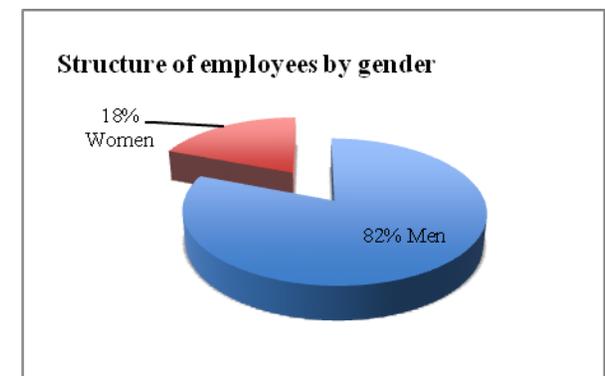
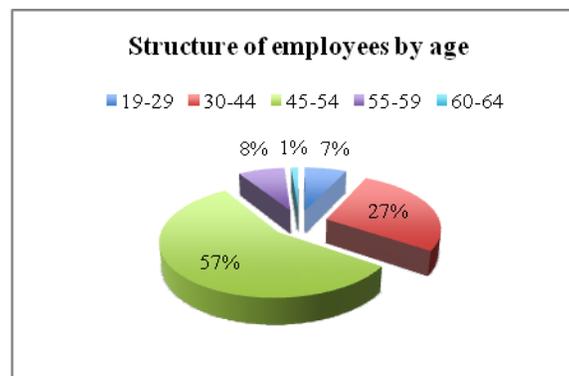
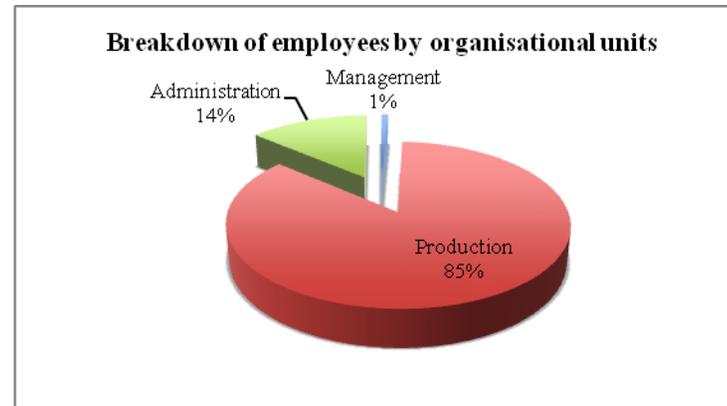


# Company Profile

## Personnel

- Konjuh is a production company with 423 employees, as of December 2012, all of whom have open ended contracts.
- Of the total number of employees 85 percent are directly engaged in the production process and most of them have been with the company for more than 10 years. Approximately 34.5 percent of the employees are below 44 years of age.
- All employment contracts are in line with the BiH Labor Law and the company has a trade union.

Organizational units	No. of employees
Management	3
Primary wood production	67
Veneer production/Pressings	75
Tables and chairs	182
Power unit	13
Maintenance	25
Administration	58
<b>Total</b>	<b>423</b>



# Company Profile

## Location and Industrial Complex

- Konjuh is located in the town of Živinice in Tuzla Canton in the Northeastern part of Bosnia and Herzegovina. This part of the country is very rich in forest and has a strong tradition in working with wood. The population of the Municipality of Živinice is around 75,000, while the town of Živinice has around 20,000 inhabitants.
- The total area of land that belongs to the industrial complex of Konjuh d.d. is around 174,000 m<sup>2</sup> situated practically in the center of Živinice at a very attractive location for future urban development.
- The company is organized into several production and service units. The production units include a factory for elements, factory for veneer and bentwood furniture and a factory for chairs and tables. The service units comprise the power plant and maintenance section as well as a workers' restaurant. At the same location as the production units in Živinice Konjuh also has a showroom with finished goods.
- The tables below present the area of each production facility as well as the non-production sections of the industrial complex Konjuh.

Industrial complex units	in m <sup>2</sup>
Factory for wood elements	52,188
Warehouse	2,406
Dry kilns	3,070
Line for parquet	486
Tailoring	1,564
Warehouse	979
Sawmill	1,602
<b>Total area Factory for wood elements</b>	<b>62,295</b>
Factory for veneer and bentwood furniture	9,717
Factory for tables	14,339
Factory for chairs	6,228
Warehouses	6,326
<b>Total area Factory for tables and chairs</b>	<b>26,893</b>

Industrial complex units	in m <sup>2</sup>
Administrative building	1,711
Power plant	823
Restaurant	921
Factory area	68,302
<b>Total other</b>	<b>71,757</b>
Car base	3,334
Gas station	168
<b>Car base total</b>	<b>3,502</b>

Summary of all factory units	in m <sup>2</sup>	in %
Car base	3,502	2.01%
Factory for wood elements	62,295	35.77%
Factory for veneer and bentwood furniture	9,717	5.58%
Factory for tables and chairs	26,893	15.44%
Other	71,757	41.20%
<b>Total industrial complex of Konjuh</b>	<b>174,164</b>	<b>100.00%</b>



# Company Profile

## Assets Available for Sale

- According to the records provided by the company's management, those plots of land currently not used as collateral for loans and located outside of the production area comprise 11,596 m<sup>2</sup> or 6.6 percent of the total land area under the possession of the company. The dimensions, value and land registry numbers are listed in the table below.

No.	Land registry number	Area m <sup>2</sup>	Est. Value (BAM)
1	817/27	1,984	430,528
2	817/28	8,760	1,900,920
3	817/31	118	25,606
4	817/5	164	35,588
5	838/2	570	123,690
<b>TOTAL</b>		<b>11,596</b>	<b>2,516,332</b>

- The entire surface area of the industrial complex is not required for the main operations of the company and therefore some portions could be sold to potentially interested third parties (reference slide No. 31).
- Due legal diligence together with a new value appraisal is recommended because the book values have not be revalued or updated and the market price has risen. The multiple recorded by the company for the recent sale of a fixed asset was 1.8.
- The net asset value (after depreciation) stands at 17 million BAM, while the market value could reach close to 35 million BAM. Non-core assets could easily be sold due to the favorable location and the resulting proceeds from the sale could then be used to support production.

# Company Profile

## Primary Wood Production

**Factory for wood elements** occupies an area of approximately 62,300 m<sup>2</sup> and consists of the following sections: storage for round wood, sawmill, drying kilns, tailoring, parquet production and solid wood board production. The area also includes the surface used for the storage of round wood/logs.

**Raw material:** Beech logs

**Description of the production cycle:** The timber is first cut at the sawmill and then the planks are stacked for a certain period of time for natural drying and later dried in the drying kilns. The next step is the cutting, rimming and edging line that prepares the wood elements for final production. Such elements are then used in the further production process for parquet, solid glued boards and elements as semi-finished goods for the further internal production of chairs and tables.

**Semi-finished goods:** Solid wood elements of various dimensions used in the production of chairs and tables (parts of finished solid products, legs of solid wood, chair backs, arm rests and others).

**Finished goods:** Parquet 200-500 mm (length) x 30-52 mm (width) x 21 mm (thickness)  
Solid boards 2.20 m (length) x 0.9 m (width) x 18-40 mm (thickness)

**Capacity (22 days/month):**

Primary wood production	Capacity
Storage of round wood	5,000 m <sup>3</sup>
Storage of joinery	6,000 -10,000 m <sup>3</sup>
Sawmill	21,000 m <sup>3</sup> /annually
Tailoring	5,880 m <sup>3</sup> /shift/ annually
Parquet flooring line	52,800 m <sup>2</sup> /shift/ annually *
Drying kilns	800 - 1,000 m <sup>3</sup> / cycle *
	1,400 m <sup>3</sup> /cycle (in summer)*
Production of solid boards	520 m <sup>3</sup> / shift/ annually



**Please note:** all the capacities shown above were taken from the brochure 'Program Revitalizacije Poslovanja Privrednog Društva Konjuh d.d. Živinice', except those rows marked with an asterisk (\*) whose source was the manager of the production unit in question.

# Company Profile

## Veneer Production

Veneer Factory and Pressing Factory occupy an area of approximately 9,700 m<sup>2</sup>, including pools for hydrothermal log preparation. There are eight pools with dimensions L=5.5 m x W=4 m x D=3m depth.



**Raw material:** First class beech logs classes F and L

**Description of the production cycle:** The timber is brought to the timber storage area where the classification of industrial logs takes place. Classes F and L of first class timber are used for veneer production. The first step is the hydrothermal preparation of the timber in water pools. After resting in pools for 24-32 hours veneer peeling is done using special peeling lathes, followed by the cutting of veneer to the maximum possible length sheets (depending on the appearance of unacceptable irregularities) which are then cut out and finally dried. The drying period depends on the thickness of the veneer sheets with an average drying time of 8 hours for 15m<sup>3</sup> of veneer. Standard veneer peeling machines produce a beech veneer of a thickness between 1.1 and 3.2 mm, but there is also a veneer cutting machine for veneer thickness of 0.7 to 1.0 mm.

**Semi-finished/finished products:** Veneer sheet of the following dimensions: 1m - 2.65m in length, 0.4 m - 1m in width and thicknesses of 1.1 mm, 1.5 mm, 2.1mm and 3.2 mm. Veneer is used for the production of pressings, to cover particle boards for tabletops and other veneer furniture or sold as semi-finished products.

**Capacity (22 days/month):**

Plant for veneer	Capacity
Peeled veneer production line	4,300 m <sup>3</sup> /shift/yearly

**Please note:** the stated capacity information was obtained from the manager of the production unit.



# Company Profile

## Production of Pressings and Bentwood Furniture

Factory for the production of pressed and bentwood furniture

This facility is an extension of the Veneer Factory.

**Input material:** Beech veneer

**Description of the production cycle:** The production facility consists of many different steam and high frequency presses used for the production of plywood and various other pressings. In this section there is also a line for the final machining/contouring of pressings and the varnishing process.

**Finished products:** chairs, chair backs, pressings as a basis for the upholstering of chairs, arm rests for armchairs and sofas, school chairs etc.

**Capacity (22 days/month):**

Plant for pressings and bentwood furniture	Installed capacity
Pressings line	1,075,000 pieces/shift/yearly
Bentwood furniture/chairs	26,800 pieces/shift/yearly



# Company Profile

## Production of Tables & Chairs

**Tables and chairs factory** is a separate factory with a covered area of circa 27,000 m<sup>2</sup> of production halls. It is an independent production unit that is physically separated from the veneer, pressings and bentwood furniture facilities.

**Input material:** Beech and oak elements and semi-finished products.

**Description of the production cycle (chairs):** Chair production uses parts of the factory for bentwood furniture and the factory for wood elements. Chairs are made either entirely out of solid wood or in combination with pressings for upholstery. Pressings are used for the seating parts or as frames for the upholstery. The facility also produces other elements from solid wood used for the final assembly of chairs, including back parts and legs. This production unit also incorporates lacquer and upholstery facilities as well as final product assembly after which the finished products are packaged for delivery.

**Description of the production cycle (see tables):** Chipboards of widths 18, 25 and 32 mm or medium density fiberboards of widths 19 and 25 mm are veneered for table tops. The edges are coated with solid wood or veneered.

**Finished goods:** Chairs and tables from the standard Konjuh d.d. catalogue and other customized models (according to the customer preferences).

**Capacity:**

Plant for tables and chairs	Installed capacity
Plant for table production	35,500 pieces/shift/yearly
Plant for chair production	104,000 pices/shift/yearly



# Raw Material Supply

## Timber

### Timber raw material resources

- According to official reports, forests and forest land in Bosnia and Herzegovina occupy a surface area of approximately 2,709,800 hectares or 53 percent of the total surface of the country.
  - (a) 2,186,300 hectares are publicly owned
  - (b) 523,500 hectares are privately owned
- The total wood stock of all forests is estimated to be around 340 million cubic meters, out of which conifers account for around 135 million and deciduous trees around 205 million cubic meters.
- Annual volume growth is approximately 9 million cubic meters, out of which coniferous trees comprise 4 million and deciduous 5 million cubic meters.
- According to the forest management plans of the FBiH and RS, the permissible annual cut is around 6 million cubic meters: coniferous 2.5 and deciduous 3.5 million cubic meters.
- The BiH wood stock of 340 million cubic meters is the largest in the region; however, an additional advantage for BiH producers is the fact that the entire region is rich in forest. Serbia has a wood stock of 235 million cubic meters and Croatia 320 million, while Slovenia is one of the best endowed in terms of forests among the EU countries with a wood stock of 320 million cubic meters.
- Konjuh is located in a forest rich region and as the largest wood processing company in the area it has secured the supply of timber from the regional state owned forestry company 'Tuzla Forests'.
- Currently Konjuh has a long-term timber supply contract with Tuzla Forests for 25,000 m<sup>3</sup> of beech wood and this covers Konjuh's existing need for timber.

# Market Information

## Sales and Export Trends

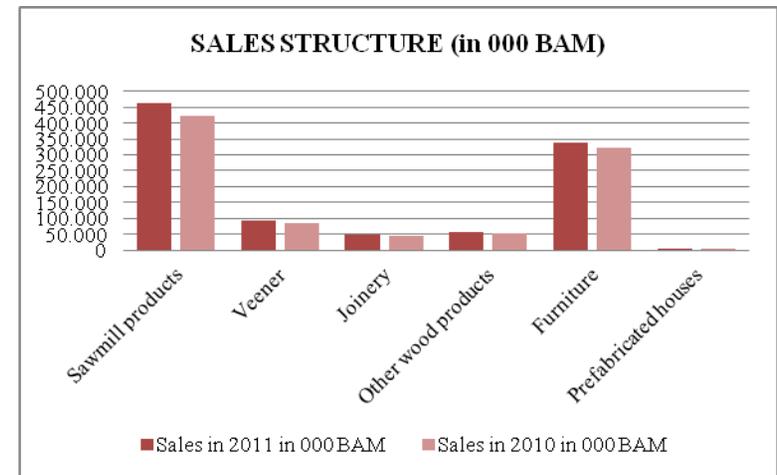
- Furniture production is one of the most important and most developed industrial sectors in BiH and has good potential for further expansion. The competitive advantage of BiH in terms of furniture production is based on its long tradition in this industry and stems from its rich endowment in forests, reasonably low labor costs and modern production facilities.
- In 2011 BiH reported mild economic recovery from the effects of the global economic and financial crisis. However, the wood processing industry reported strong economic and financial performance that was above all other domestic industry, manufacturing and exports. This further underlines the importance of the wood sector to the domestic economy.
- Wood processing sector sales in BiH increased by 8.5 percent in 2011 totaling 1,002.9 million BAM while the increase in exports was in double digits amounting to 14.9 percent and totaling 747.5 million BAM. Considering that 75 percent of total wood industry sales are export it is obvious that the demand from foreign markets is the key driving force for this industry.
- Furniture accounts for a 46.56 percent share of total wood industry exports corresponding to 348 million BAM, with 11.3 percent growth in 2011. The rising export volume was fuelled primarily by the favorable external environment and rising demand amongst major trading partners in the Euro-zone.
- With employment growth of 5.7 percent in 2011 the wood processing industry employed 20,133 persons out of which 12,190 were engaged in wood and wood products production and 7,942 employed in furniture production. The availability of a skilled workforce is one of the main determinants of growth in the wood-based industry.
- According to initial reports from the Agency for Statistics in BiH for 2012 furniture exports increased by 5.8 percent compared to 2011, which is again a very good result considering that for the same period total BiH exports performed negatively with a - 3.4 percent decline in overall exports. It is also important to note that 2012 was a recession year in the Euro-zone with annual EU17 GDP forecasted at -0.4 percent according to Eurostat.

# Market Information

## Sales and Export Trends

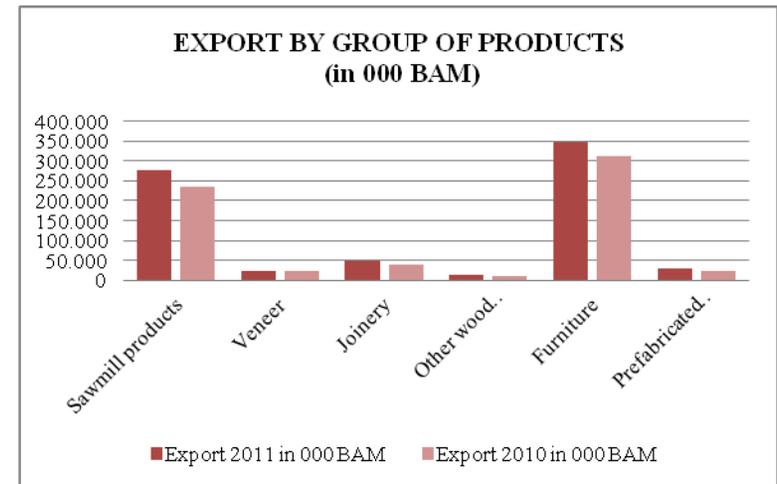
SALES STRUCTURE (in 000 BAM)					
Product group	Sales in 2011	Sales in 2010	Sales in 2011	Sales in 2010	Growth rate
	in 000 BAM	in 000 BAM	in %	in %	in %
Sawmill products	461,600	421,600	46.03	45.61	9.5
Veneer	91,700	84,900	9.14	9.18	8.0
Joinery	48,100	44,200	4.80	4.78	8.8
Other wood products	58,600	53,200	5.84	5.76	10.2
Furniture	336,600	320,600	33.56	34.68	5.0
Prefabricated houses	6,500	6,100	0.65	0.66	6.6
<b>Total</b>	<b>1,002,900</b>	<b>924,400</b>	<b>100.00</b>	<b>100.00</b>	<b>8.5</b>

Source: USAID Report 'BiH INDUSTRY OUTLOOK 2012'



EXPORT BY GROUP OF PRODUCTS (in 000 BAM)					
Group of products	Export 2011	Export 2010	Export 2011	Export 2010	Growth rate
	in 000 BAM	in 000 BAM	in %	in %	in %
Sawmill products	277,100	235,300	37.07	36.16	17.8
Veneer	25,100	22,100	3.36	3.40	13.6
Joinery	48,600	40,800	6.50	6.27	19.1
Other wood products	15,400	11,900	2.06	1.83	29.4
Furniture	348,000	312,700	46.56	48.06	11.3
Prefabricated houses	29,200	25,300	3.91	3.89	15.4
<b>Total export</b>	<b>747,500</b>	<b>650,700</b>	<b>100.00</b>	<b>100.00</b>	<b>14.9</b>

Source: USAID Report 'BiH INDUSTRY OUTLOOK 2012'



# Market Information

## Export Markets of BiH Producers

- The main export markets for BiH companies are the neighboring regional markets, primarily Croatia and Serbia, as well as Western European markets including Germany and Italy as the most important foreign trade partners. The orientation of BiH producers to these two countries as well to other countries of Western Europe is very important because their consumption of furniture accounts for 20 percent of total world consumption.
- By grouping the markets and products it is clear that the major export market for the entire wood processing industry is Germany with a 23 percent share of total exports (747.5 million BAM) followed by Croatia with 18 percent, Italy 15 percent, Serbia 9 percent and Austria 8 percent. For the Furniture sub-segment the major market is definitely the German market with a 27 percent share and a constant upward tendency that offers local producers a good opportunity for expansion within this market.
- Exporting to the countries of Western Europe is beneficial for many reasons, such as steadier payment collection and the possibility to sell at higher prices compared to neighboring countries in the region.
- Although the EU furniture market is difficult and demanding there are some specific market trends that provide opportunities. BiH design and technology capacities have advanced significantly in recent years and this allows BiH firms to move up the value chain and more able to compete on the basis of product quality.
- The close proximity of BiH to the EU market gives it a substantial advantage over Chinese and other Asian competitors in terms of shipping costs and quicker order-to-delivery turnaround times and also allows for smaller repeat orders within the same sales season. This is why outsourcing for finished furniture as well as for furniture parts from West European producers has been on the increase for the past several years.

# Market Information

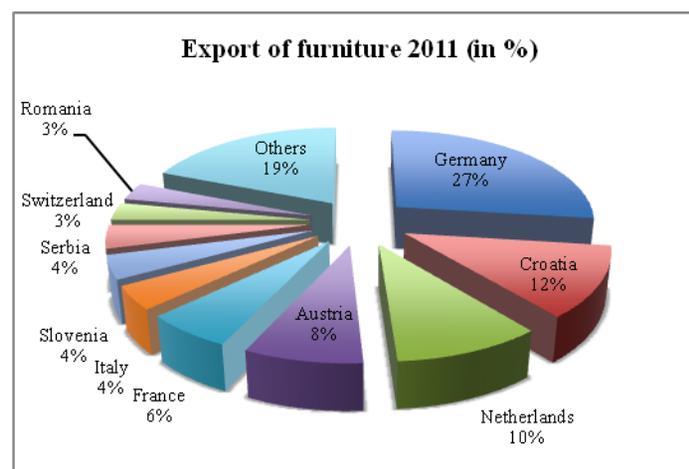
## Export Markets by Country

### WOOD PROCESSING INDUSTRY

#### EXPORT BY COUNTRIES (in 2011)

Country	Share in %	Share in 000 KM
Germany	23	171,925
Croatia	18	134,550
Italy	15	112,125
Austria	8	59,800
Slovenia	6	44,850
Serbia	9	67,275
Netherlands	5	37,375
Spain	3	22,425
France	2	14,950
Qatar	1	7,475
Other countries	10	74,750
<b>Total</b>	<b>100</b>	<b>747,500</b>

Source:  
USAID Report 'BiH INDUSTRY OUTLOOK 2012'



### FURNITURE

#### EXPORT BY COUNTRY (in 2011)

Country	Share in %	Share in 000 KM
Germany	27	93,960
Croatia	12	41,760
Netherlands	10	34,800
Austria	8	27,840
France	6	20,880
Italy	4	13,920
Slovenia	4	13,920
Serbia	4	13,920
Switzerland	3	10,440
Romania	3	10,440
Other	19	66,120
<b>Total</b>	<b>100</b>	<b>348,000</b>

Source:  
USAID Report 'BiH INDUSTRY OUTLOOK 2012'

# Market Information

## Sales Market of Konjuh

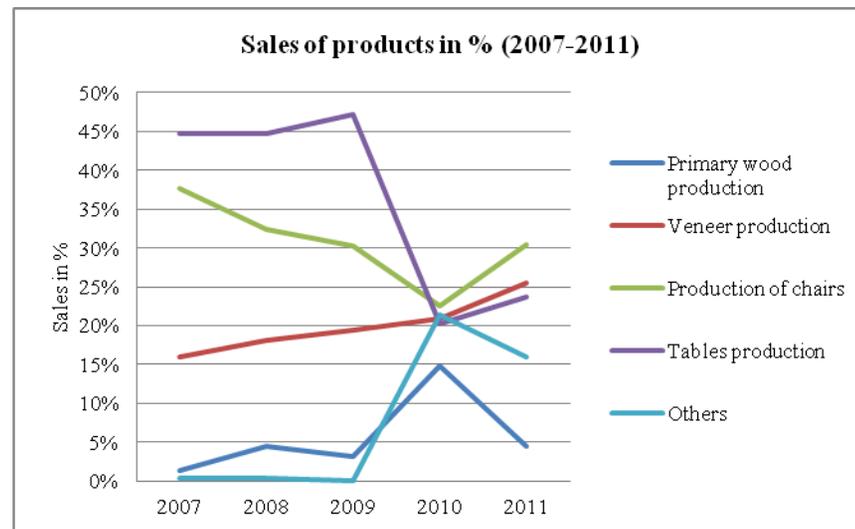
- Since 2000 Konjuh has sold its products in the region mainly through furniture wholesalers who have their own furniture showrooms. Sales in Western European countries were mostly organized through external representatives residing abroad who were familiar with the brand and quality of Konjuh's products.
- Unfortunately, during 2009 and 2010 many of the wholesalers in the region fell into financial difficulty and either stopped ordering or started to purchase from other producers who offered similar if less quality designs at lower prices. In addition, the company had very bad management of debt collection as well as poor quality control of the final products so that there were many claims and return of goods.
- Konjuh maintains a database of more than 300 customers from the region, Western Europe and the USA. It is the management's view that if the financial situation was to be stabilized and working capital provided then Konjuh would be able to gradually return its previous customers and regain its market position, based on Konjuh's competitive advantages most prominently price and production quality.
- The main focus of future marketing efforts by Konjuh will be centered on Western Europe, in particular Germany, France and the UK as the largest EU export markets. Konjuh's capacity to mass produce furniture items and sustain high quality at competitive prices is the basis for targeting the mid-market furniture segment and focusing on buyers such as large EU furniture retail chains.
- In addition, Konjuh plans to develop its own new collections of mid-market furniture including dining, office and school furniture to replace the old collections. This will be followed by a rebranding of Konjuh and the development of a new visual identity, including a new webpage and brochures. Konjuh plans to use the major regional and European trade fairs to exhibit these new products and regain its visibility on the market.

# Market Information

## Sales Structure of Konjuh

- The majority of Konjuh's revenue comes from the sale of dining chairs and tables, and office and school furniture. Konjuh designed and developed its own brand and lines of furniture assortments that became recognizable in the region of former Yugoslavia.
- At the same time Konjuh also produced a series of products (mainly chairs and tables) ordered by customers according to their own technical specifications and design. The most significant market for this type of production arrangements was France.
- The rise in sales of veneer over recent years has been based on increased demand from Italian producers of plywood and furniture.
- In the following table the share of each product group in total sales for the period 2007- 2011 is presented (Source: 'Turnaroud Program Konjuh d.d. Živinice, July 2012').

Sales of product groups 2007-2011 (in %)					
	2007	2008	2009	2010	2011
Primary wood production	1%	4%	3%	15%	4%
Veneer production	16%	18%	19%	21%	26%
Production of chairs	38%	32%	30%	23%	30%
Table production	45%	45%	47%	20%	24%
Other	0%	0%	0%	21%	16%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

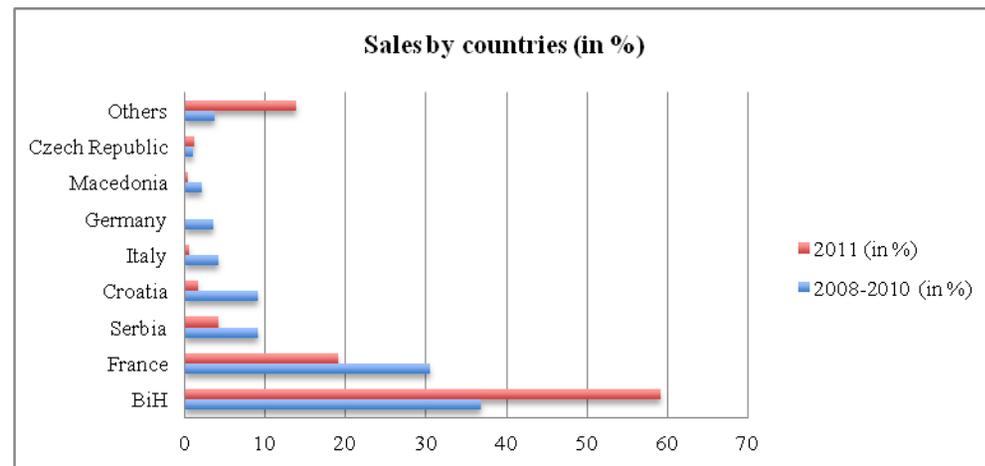


# Market Information

## Konjuh Sales by Country

- In the following table the share of certain countries of total sales for the period 2008-2010 and in 2011 is presented (Source: “Turnaround program Konjuh d.d. Živinice, July 2012”).
- During the period 2008-2010 Konjuh focused mainly on the domestic market; however, a significant portion relates to France and countries in the region. Sales in 2011 were centred mostly on the domestic market, which was a reflection of the increased internal problems within the company.

Country	2008-2010 (in %)	2011 (in %)
BiH	36.86	59.13
France	30.49	19.01
Serbia	9.09	4.22
Croatia	9.02	1.71
Italy	4.13	0.57
Germany	3.54	0.00
Macedonia	2.11	0.41
Czech Republic	1.00	1.14
Others	3.76	13.81
<b>Total</b>	<b>100.00</b>	<b>100.00</b>



# Market Information

## Competition

### Veneer/Pressings

Palvra d.o.o. Travnik (Veneer – beech, cherry)

Fisheis d.o.o. Visoko (Veneer – all kinds of wood)

D.I. JANJ Donji (Veneer and Pressings)

D.I. SANICA Sanica (Veneer and Pressings)

### Solid wood boards

Tamex d.o.o. Kiseljak (beech)

### Plywood

Stupčanica d.d. Olovo (beech)

Fisheis d.o.o. Visoko (all kinds of wood)

### Office furniture

FIS d.o.o. Vitez (serial production)

A few small and medium sized companies offering office furniture of very simple design and a low level of quality

### Dining room Furniture

Standard d.d. Sarajevo (mass production)

A large number of small and medium sized companies offering highly processed finished products

# Development Path

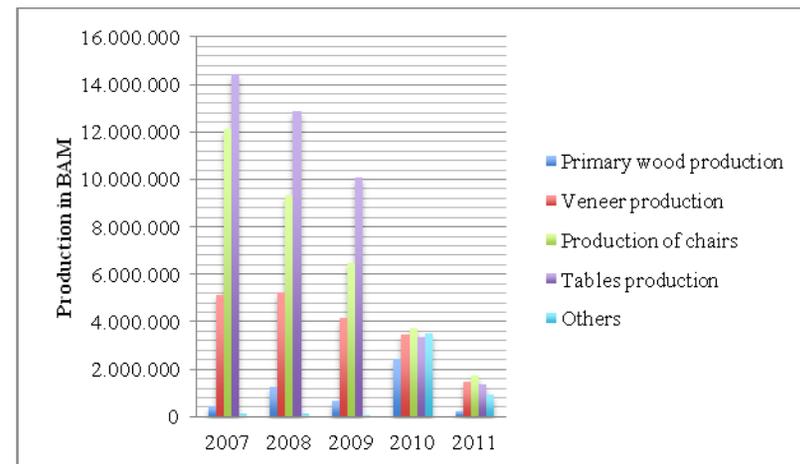
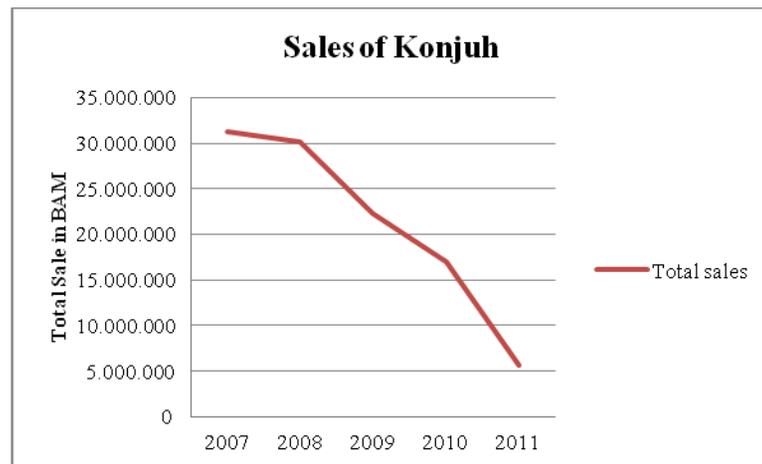
## Ownership Structure

- In former Yugoslavia Konjuh was part of a large wood processing conglomerate named Šipad Holdings, which aimed to integrate wood sector producers under one umbrella. Šipad Holdings provided a development strategy, design, financing as well as market research and contracting, including the maintenance of business connections. In such a system Konjuh performed as a production facility while the strategic development, design and sales/marketing functions were outsourced from Šipad Holdings.
- After 1995 Konjuh Šipad Holdings was dismantled and thereafter Konjuh's sales, development and management functions were resourced internally. The company gradually developed its own furniture assortments and became a recognizable brand both in the domestic and regional markets.
- At the same time Konjuh was able to invest substantially in new machines and equipment, particularly in its furniture production unit. Modernization of the production facilities cost in total around 10 million BAM.
- After completion of the privatization process in the year 2000 the unconsolidated ownership structure of Konjuh proved to be one of its key vulnerabilities. Both former and current workers formed the majority of shareholders together with many small speculative shareholders. This situation was the cause of corporate governance issues that resulted in various fraudulent arrangements and activities that over time damaged the strength and reputation of Konjuh.
- As most of the workers were also shareholders in Konjuh the management was forced to retain a number of workers beyond the economic rationale. The most successful year for Konjuh was 2007, marked by sales level of 15 million Euros; however, as a consequence of the large number of employees profitability was still only marginal.
- Frequent changes in management were an additional result of the unconsolidated ownership structure. As a result the long-term development strategy was subject to frequent change causing a lack of business orientation and leadership. The stated weaknesses affected Konjuh adversely and added to the negative consequences of the global economic crisis over the last couple of years.

# Development Path

## Consequences of the Recent Global Crisis

- As the global economic crisis unfolded in 2008 the revenue of Konjuh declined rapidly. Domestic and regional markets were badly hit so by 2010 total sales had slumped to half of 2007 levels.



- In addition, illiquid regional retailers and distributors were unable to pay their liabilities thus causing further liquidity problems at Konjuh, where its own debts started to mount. By the end of 2010 account receivables amounted to over 40 percent of total annual sales while current liabilities were more than 50 percent over the existing assets.
- In 2011 Konjuh became severely illiquid and unable to pay salaries and taxes together with its mounting debts to suppliers. In early 2012 labor disputes led to a brief but complete suspension of production due to industrial action.
- This was followed by further disputes and appeals to the local and regional governments by Konjuh workers who demanded that government step in to turnaround the company's performance.

# Konjuh's Prospects

## Turnaround Activities

- Following that the Government demanded that the shareholders of Konjuh, namely the workers, transfer power of authority over their shares to the Government of Tuzla Canton to the total amount of more than 50 percent in order to enable the Government to effectively take over control of the company.
- As the workers were able to submit over 53 percent of voting rights to the cantonal Government it was then able to proceed with a turnaround plan and appointment of a new Supervisory Board, Audit Committee and Board of Directors. A new director of Konjuh with extensive experience in the sector and with a strong reputation was appointed.
- In the meantime a significant reduction in the number of employees was undertaken from 643 in 2011 to just over 420, according to the latest available data.
- A working capital loan was secured from the Development Bank of the Federation of BiH in accordance with the Government recommendation. This allowed Konjuh to slowly restart production and to begin taking new orders.
- Restructuring of the bank loans and tax debts is currently under negotiation, including payroll liabilities. Given the reputation and importance of Konjuh all parties have agreed to cooperate and jointly find suitable solutions in order to support the company's recovery.

# Konjuh's Prospects

## Turnaround Potential

- As the lack of a consolidated block of shares has been identified as one of the main weaknesses of Konjuh it is therefore of utmost importance that corporate governance resolves this issue for the future stability of the company and its growth potential.
- As Konjuh is established as a shareholding company all of its shares are publicly quoted. The nominal value of its shares is 68 BAM while currently the expected market value cannot be assessed due to the lack of a recent trading history, caused by the absence of trading interest amongst the public. According to management estimates it is possible to consolidate more than a 70 percent stake. The last price quoted on the Sarajevo stock exchange dates from June 2011 and stood at 5.60 BAM per share. Assuming the historical price is reached for the 70 percent control package it would require an investment by a potential buyer of 980.000 BAM for the acquisition of Konjuh.
- The takeover procedure at the Sarajevo Stock Exchange (SASE) requires that a potential buyer publish a tender offer for the purchase of shares. It is possible under SASE regulations to place an offer that requires a minimum percentage of shares the buyer wishes to purchase under the offer. If that percentage is not met then the buyer is not bound by the offer.
- Konjuh has the potential to free a considerable amount of locked capital through the sale of unused real estate (mainly land and some buildings) all located around the headquarters, which could be divested without affecting the production process. The total estimated value of the locked real estate stands at 61 million BAM (book value 17 million BAM).
- The total liabilities of Konjuh amount to 23 million BAM, out of which long-term bank loans are 7.3 million BAM. The banks are ready to reschedule the loans and are open to negotiation.
- A potential new owner of Konjuh would be in a position to renegotiate liabilities prior to completion of a takeover process.
  - ✓ The total short-term liabilities are 19.5 million BAM, including unpaid salaries of 3.4 mil BAM, labor contributions 5.6 mil BAM and tax liabilities 1.9 mil BAM.
  - ✓ Workers have already negotiated and agreed with the new management to postpone the repayment of outstanding salaries. They are also ready to further negotiate and possibly restructure their claims on the company.
  - ✓ Regarding the contributions towards pension, health and social funds some rescheduling has been completed while the remaining part could be concluded if a proposal is submitted. The tax office and its outstanding tax receivables could also be restructured.
- All the production facilities of Konjuh are fully functional and could be operational at full capacity in a matter of weeks upon receipt of new orders.

# Restructuring Cash Flow Assumptions

1. Actual data on the financial performance is based on official accounting reports submitted to the respective government offices.
2. Collection assumptions for account receivables and account payables are in the process of restructuring.
  - a. Account receivables
    - (i) Those with due dates over 360 days not supported by lawsuits are discounted by a factor of 40 percent, (ii) receivables over 360 days and overdue but sued were discounted by a factor of 50 percent to reflect the expected probability of court case success, (iii) a discount factor is not used in cases of receivables whose due dates are within one year of maturity. The face value of such receivables was taken when the cash flow project was made.
  - b. The book value of account payables was taken when planning the cash flow. Some level of write offs of payables could be applied if more information were available on the status of court processes including the maturity breakdown of due payables with emphasis on payables with due dates expired over 3 years.
3. It was noticed that some clients had at the same time receivables and payables toward Konjuh. In such cases mutual settlements were made solely for the cash flow planning purposes while an official paper on such settlements was not signed. If there is consent on settlement by the respective client then administrative procedures should be implemented.
4. Public institutions, such as social funds and tax authorities, had at the same time receivables & payables toward the company. In such cases a mutual settlement of the balances was made solely for the cash flow projection purposes while official documents were not signed. If there is consent on both sides then administrative procedures should be contemplated.
5. Liabilities to the banks were increased in line with the accrued and unpaid interest as the company does not have the liquidity to process payment of the due interest (557.000 BAM end 2011).
6. Sale of some real estate was envisaged in the cash flow projection (8.3 million BAM) and potential sales were indicated by the company. The property available for sale includes asset both with and without ownership rights. It should be noted that assets with no ownership title require the settlement of ownership documents before the sale process is undertaken. The valuation of fixed assets available for sale was taken from the company's feasibility study.

# Restructuring Cash Flow

	6/30/12	12/31/12	12/31/13	12/31/14	12/31/15	12/30/16
<b>1 Opening Cash Balance</b>	Standard Asset Balance	46,420	-1,546,147	2,708,956	3,527,645	4,085,576
<b>Cash from Ongoing Operations</b>						
<b>Cash in</b>						
Net profit	-2,653,130	-2,089,252	-729,642	3,873,387	1,470,670	
Depreciation	496,685	496,685	993,371	813,485	273,830	
Accounts Receivable Collected	2,056,593		148,800	635,931	635,931	
<b>Total Cash In</b>		<b>-1,546,147</b>	<b>-1,133,618</b>	<b>8,031,759</b>	<b>5,908,076</b>	<b>4,085,576</b>
<b>Working Capital Changes</b>						
Social contributions	908,138		454,069	454,069		
Cash Payroll Payments	7,290,000		1,822,500	1,822,500	1,822,500	1,822,500
Other liabilities	362,892		181,446	181,446		
Tax Payments (Social and Other)	1,115,947		557,974	557,974		
Account Payables	2,976,251		1,488,126	1,488,126		
<b>Total Cash Out</b>		<b>0</b>	<b>4,504,114</b>	<b>4,504,114</b>	<b>1,822,500</b>	<b>1,822,500</b>
<b>2 Total Cash from ongoing operations</b>		<b>-1,546,147</b>	<b>-5,637,732</b>	<b>3,527,645</b>	<b>4,085,576</b>	<b>2,263,076</b>
<b>Cash from Investments</b>						
Investments - Cash Payments						
Investments - Cash Receipts						
Loan Receipts						
<b>3 Total Net Cash -- Investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash from New Initiatives</b>						
1.1 -- Reduce Receivables						
1.2 -- Reduce Inventory						
1.3 -- Fixed Assets Sale			2,516,332			
2.1 -- Fixed assets						
2.2 -- Adjust Debt			5,830,356			
3 -- Improve Sales						
4 -- Reduce Costs						
5 -- Aggregates						
6 -- Improve Management/Organization						
<b>4 Total Cash from New Initiatives</b>	<b>0</b>	<b>0</b>	<b>8,346,688</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Weekly Cash Impact (2+3+4)</b>						
<b>Cumulative Cash Impact</b>						
<b>5 Ending Cash Bal. Before Loan Payment</b>		<b>-1,546,147</b>	<b>2,708,956</b>	<b>3,527,645</b>	<b>4,085,576</b>	<b>2,263,076</b>
<b>Cumulative Loan Payments Due</b>						
<b>Loan's aggregate</b>						
Principal (Initial balance)	8,469,909		1,411,652	2,823,303	2,823,303	1,411,652
Interest (Initial balance)	557,461		278,731	278,731		
<b>Other Loans</b>						
Principal (Initial balance)						
Interest (Initial balance)						
<b>Total Cumulative Loan Payments Due</b>		<b>0</b>	<b>1,690,382</b>	<b>3,102,034</b>	<b>2,823,303</b>	<b>1,411,652</b>
<b>Net CASH Position</b>	<b>0</b>	<b>-1,546,147</b>	<b>1,018,574</b>	<b>425,612</b>	<b>1,262,273</b>	<b>851,424</b>

# Financial Data

## Financial Assumptions

### Financial performance data assumptions

1. Annual financial data is based on audited figures.
2. Semi-annual financial figures are unaudited. The source is the official financial reports submitted to the respective FBiH authorities.
3. 2H2012 data is forecasted and based on (i) data on sales provided by the company, (ii) operating costs assumed at the 1H2012 percentage of costs versus sales being maintained in the second half of 2012.
4. Projections are based on:
  - a. budget developed by the company, presented in the feasibility study;
  - b. 2013 sales equal to the feasibility study projections made by the company's designated team (their projections cover a 6 month period) and a prudent approach towards sales projections was applied due to slow actual performance of the company in the past;
  - c. 2014 sales projections based on the feasibility study data planned to be achieved at peak (June 2011) production and a work force equal to the study; and
  - d. working capital changes assuming that
    - (i) settlement of new liabilities/receivables within 30 days; and
    - (ii) inventory balances follow cycles for purchase/production/sale to complete within 30 days (such assumptions simplified the development of cash flow for the company's restructuring).

The successful completion of the restructuring process is a precondition for future production.

# Financial Data

## Balance Sheet Projections (in BAM)

	2010	2011	1st HY 2012	Yr End 2012 est.	2013	2014	2015
<b>ASSETS</b>							
<b>Current Assets</b>							
Cash	130,233	77,541	81,041	22,599	187,606	5,020,769	6,715,435
Accounts Receivable	7,030,014	6,482,442	6,466,966	6,413,346	6,442,498	6,404,716	6,499,601
Prepaid Expenses	153,920	102,519	102,519	102,519	102,519	102,519	102,519
Inventory	3,386,083	2,702,665	2,569,825	2,212,983	2,271,645	2,211,844	2,201,389
<b>Total Current Assets</b>	<b>10,700,250</b>	<b>9,365,167</b>	<b>9,220,351</b>	<b>8,751,447</b>	<b>9,004,269</b>	<b>13,739,848</b>	<b>15,518,944</b>
<b>Fixed Assets</b>							
Land	8,917,344	7,774,115	7,774,115	7,774,115	7,774,115	7,774,115	7,774,115
Buildings	29,110,691	28,666,270	28,526,303	28,526,303	28,526,303	28,526,303	28,526,303
Furniture, Fixtures, Equipment	60,362,593	58,818,434	58,818,434	58,818,434	58,818,434	58,818,434	58,818,434
Accumulated Depreciation	78,720,215	78,119,315	78,616,000	79,112,686	80,106,056	80,919,542	81,193,372
<b>Total Fixed Assets</b>	<b>19,670,413</b>	<b>17,139,504</b>	<b>16,502,852</b>	<b>16,006,166</b>	<b>15,012,796</b>	<b>14,199,310</b>	<b>13,925,480</b>
<b>Other Assets</b>	<b>86,627</b>	<b>14,227</b>	<b>14,227</b>	<b>14,227</b>	<b>14,227</b>	<b>14,227</b>	<b>14,227</b>
<b>TOTAL ASSETS</b>	<b>30,457,290</b>	<b>26,518,898</b>	<b>25,737,430</b>	<b>24,771,840</b>	<b>24,031,291</b>	<b>27,953,385</b>	<b>29,458,651</b>
<b>LIABILITIES</b>							
<b>Current Liabilities</b>							
Accounts Payable	4,369,045	3,590,765	3,495,934	4,123,891	4,112,984	4,161,691	4,196,288
Short Term Debt	3,527,560	4,008,814	4,751,144	5,493,474	5,493,474	5,493,474	5,493,474
Accrued Expenses	8,080,050	11,916,710	11,916,710	11,916,710	11,916,710	11,916,710	11,916,710
<b>Total Current Liabilities</b>	<b>15,976,655</b>	<b>19,516,289</b>	<b>20,163,788</b>	<b>21,534,075</b>	<b>21,523,168</b>	<b>21,571,875</b>	<b>21,606,472</b>
<b>Long-Term Liabilities</b>							
Long Term Debt	5,342,471	3,266,277	4,490,429	4,289,773	4,289,773	4,289,773	4,289,773
<b>Total Long-Term Liabilities</b>	<b>5,342,471</b>	<b>3,266,277</b>	<b>4,490,429</b>	<b>4,289,773</b>	<b>4,289,773</b>	<b>4,289,773</b>	<b>4,289,773</b>
<b>Equity</b>							
Private Capital	16,970,964	16,970,964	16,970,964	16,970,964	16,970,964	16,970,964	16,970,964
State Capital	0	0	0	0	0	0	0
Retained Earnings	-7,832,800	-13,234,632	-15,887,752	-18,022,972	-18,752,614	-14,879,227	-13,408,557
<b>Total Equity</b>	<b>9,138,164</b>	<b>3,736,332</b>	<b>1,083,212</b>	<b>-1,052,008</b>	<b>-1,781,650</b>	<b>2,091,737</b>	<b>3,562,407</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>30,457,290</b>	<b>26,518,898</b>	<b>25,737,430</b>	<b>24,771,840</b>	<b>24,031,291</b>	<b>27,953,385</b>	<b>29,458,651</b>

# Financial Data

## Income Statement and Projections (in BAM)

	2010	2011	1st HY 2012	2nd HY 2012	2012	2013	2014	2015
<b>SALES</b>								
Total Sales	16,479,002	5,680,373	285,633	606,204	891,836	8,010,443	19,901,124	19,901,124
<b>COST OF GOODS SOLD</b>								
Direct Labor	7,156,008	4,749,292	1,437,323	1,144,603	2,581,926	2,704,287	4,176,101	7,342,977
Materials	8,628,807	3,270,274	247,957	387,508	635,465	2,516,512	6,252,024	6,252,024
Transportation	321,552	70,856	8,101	17,000	25,101	195,332	437,972	437,972
Fixed COGS	1,307,355	257,102	10,860	68,233	79,093	910,843	2,091,444	2,091,444
<b>Total COGS</b>	<b>17,413,724</b>	<b>8,347,525</b>	<b>1,704,240</b>	<b>1,617,345</b>	<b>3,321,589</b>	<b>6,326,975</b>	<b>12,957,542</b>	<b>16,124,418</b>
<b>GROSS MARGIN</b>	<b>(934,722)</b>	<b>(2,667,152)</b>	<b>(1,418,608)</b>	<b>(1,011,141)</b>	<b>(2,429,753)</b>	<b>1,683,468</b>	<b>6,943,582</b>	<b>3,776,705</b>
<b>OPERATING EXPENSES</b>								
<b>Sales and Marketing Expenses</b>								
<b>Expenses</b>								
Sales Salaries & Benefits	456,419	411,988	133,016	89,638	222,654	260,245	266,806	232,006
Advertising	7,978	8,947	898	2,100	2,998	0	0	0
Other Marketing Expense; Travel	19,679	8,446	2,625	5,300	7,925	21,567	53,733	62,131
<b>Total Sales &amp; Marketing Expense</b>	<b>484,076</b>	<b>429,381</b>	<b>136,539</b>	<b>97,038</b>	<b>233,577</b>	<b>281,813</b>	<b>320,539</b>	<b>294,137</b>
<b>Expenses</b>								
<b>General and Administrative Expenses</b>								
<b>Other</b>								
G&A Salaries & Benefits	672,843	612,590	177,347	199,961	377,308	373,395	382,809	452,411
Professional Fees	103,948	101,011	10,742	10,742	21,484	13,556	39,802	39,068
Insurance	91,402	90,654	1,800	9,500	11,300	0	0	0
Office Supplies, Communications, Oth	71,938	51,895	12,062	5,500	17,562	52,376	130,123	130,123
Business Taxes	71,462	57,371	11,710	6,000	17,710	171,423	425,884	425,884
<b>Total G&amp;A Expenses</b>	<b>1,011,592</b>	<b>913,521</b>	<b>213,661</b>	<b>231,703</b>	<b>445,364</b>	<b>610,751</b>	<b>978,619</b>	<b>1,047,486</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>1,495,668</b>	<b>1,342,902</b>	<b>350,201</b>	<b>328,741</b>	<b>678,941</b>	<b>892,564</b>	<b>1,299,159</b>	<b>1,341,623</b>
<b>OP. MGN BEFORE DEPR. (EBITDA)</b>	<b>(2,430,390)</b>	<b>(4,010,054)</b>	<b>(1,768,809)</b>	<b>(1,339,882)</b>	<b>(3,108,694)</b>	<b>790,904</b>	<b>5,644,423</b>	<b>2,435,082</b>
<b>Depreciation</b>	<b>1,229,375</b>	<b>1,148,003</b>	<b>496,685</b>	<b>496,685</b>	<b>993,371</b>	<b>993,371</b>	<b>813,485</b>	<b>273,830</b>
<b>Expenses</b>								
Other Income	132,102	1,499,685	(149,085)	0	(149,997)	0	0	0
Other Expense	1,015,660	669,673	7,579	0	7,579	0	0	0
Interest Expense	498,237	1,073,788	230,096	257,482	488,016	527,176	527,176	527,176
<b>Total Other Income/(Expense)</b>	<b>(1,381,795)</b>	<b>(243,776)</b>	<b>(387,636)</b>	<b>(257,482)</b>	<b>(645,592)</b>	<b>(527,176)</b>	<b>(527,176)</b>	<b>(527,176)</b>
<b>NET INCOME BEFORE TAX</b>	<b>(5,041,560)</b>	<b>(5,401,833)</b>	<b>(2,653,130)</b>	<b>(2,094,049)</b>	<b>(4,747,657)</b>	<b>(729,643)</b>	<b>4,303,762</b>	<b>1,634,077</b>
Taxes on Income	0	0	0	0	0	0	430,376	163,408
<b>NET INCOME (LOSS)</b>	<b>(5,041,560)</b>	<b>(5,401,833)</b>	<b>(2,653,130)</b>	<b>(2,094,049)</b>	<b>(4,747,657)</b>	<b>(729,643)</b>	<b>3,873,386</b>	<b>1,470,669</b>
<i>memo: EBITDA</i>	<i>(2,430,390)</i>	<i>(4,010,054)</i>	<i>(1,768,809)</i>	<i>(1,339,882)</i>	<i>(3,108,694)</i>	<i>790,904</i>	<i>5,644,423</i>	<i>2,435,082</i>

# Financial Data

## EBITDA Projections (in BAM)

	2010	2011	1st HY 2012	2nd HY 2012	2012	2013	2014	2015
<b>SALES</b>								
<b>Total Sales</b>	16,479,002	5,680,373	285,633	606,204	891,836	8,010,443	19,901,124	19,901,124
<b>COST OF GOODS SOLD</b>								
Direct Labor	7,156,008	4,749,292	1,437,323	1,144,603	2,581,926	2,704,287	4,176,101	7,342,977
Materials	8,628,807	3,270,274	247,957	387,508	635,465	2,516,512	6,252,024	6,252,024
Transportation	321,552	70,856	8,101	17,000	25,101	195,332	437,972	437,972
Fixed COGS	1,307,355	257,102	10,860	68,233	79,093	910,843	2,091,444	2,091,444
<b>Total COGS</b>	17,413,724	8,347,525	1,704,240	1,617,345	3,321,589	6,326,975	12,957,542	16,124,418
<b>GROSS MARGIN</b>	(934,722)	(2,667,152)	(1,418,608)	(1,011,141)	(2,429,753)	1,683,468	6,943,582	3,776,705
<b>OPERATING EXPENSES</b>								
<b>Sales &amp; Marketing Expenses</b>								
Sales Salaries & Benefits	456,419	411,988	133,016	89,638	222,654	260,245	266,806	232,006
Advertising	7,978	8,947	898	2,100	2,998	0	0	0
Other Marketing Expense; Travel	19,679	8,446	2,625	5,300	7,925	21,567	53,733	62,131
<b>Total Sales &amp; Marketing Expense</b>	484,076	429,381	136,539	97,038	233,577	281,813	320,539	294,137
<b>General and Administrative Expenses</b>								
G&A Salaries & Benefits	672,843	612,590	177,347	199,961	377,308	373,395	382,809	452,411
Professional Fees	103,948	101,011	10,742	10,742	21,484	13,556	39,802	39,068
Insurance	91,402	90,654	1,800	9,500	11,300	0	0	0
Office Supplies, Communications, Oth	71,938	51,895	12,062	5,500	17,562	52,376	130,123	130,123
Business Taxes	71,462	57,371	11,710	6,000	17,710	171,423	425,884	425,884
<b>Total G&amp;A Expenses</b>	1,011,592	913,521	213,661	231,703	445,364	610,751	978,619	1,047,486
<b>TOTAL OPERATING EXPENSES</b>	1,495,668	1,342,902	350,201	328,741	678,941	892,564	1,299,159	1,341,623
<b>OP. MGN BEFORE DEPR. (EBITDA)</b>	(2,430,390)	(4,010,054)	(1,768,809)	(1,339,882)	(3,108,694)	790,904	5,644,423	2,435,082

# Financial Data

Ratios (in BAM)

	2011	1st HY 2012	2nd HY 2012	2,012	2013	2014	2015
	0	0	0	0	0	0	0
Net Income	(5,401,833)	(2,653,130)	(2,094,049)	(4,747,657)	(729,643)	3,873,386	1,470,669
Depreciation	1,148,003	496,685	496,685	993,371	993,371	813,485	273,830
	0	0	0	0	0	0	0
<b>Cash from Income Statement</b>	<b>(4,253,830)</b>	<b>(2,156,445)</b>	<b>(1,597,364)</b>	<b>(3,754,286)</b>	<b>263,728</b>	<b>4,686,872</b>	<b>1,744,499</b>
	0	0	0	0	0	0	0
<b>Working Capital</b>	0	0	0	0	0	0	0
<i>Change in:</i>	0	0	0	0	0	0	0
Receivables	(547,572)	(15,476)	(53,619)	(69,096)	29,152	(37,782)	94,885
Inventory	(683,418)	(132,840)	(356,843)	(489,682)	58,662	(59,801)	(10,454)
Payables	(778,280)	(94,831)	627,956	533,126	(10,907)	48,707	34,597
Net Other Assets	(3,960,461)	0	0	0	0	0	0
<b>Total Working Capital Change</b>	<b>(4,413,171)</b>	<b>(53,485)</b>	<b>(1,038,419)</b>	<b>(1,091,904)</b>	<b>98,721</b>	<b>(146,291)</b>	<b>49,834</b>
	0	0	0	0	0	0	0
<b>Cash From Operations</b>	<b>159,341</b>	<b>(2,102,960)</b>	<b>(558,945)</b>	<b>(2,662,382)</b>	<b>165,007</b>	<b>4,833,162</b>	<b>1,694,665</b>
	0	0	0	0	0	0	0
<b>Capital Investment</b>	<b>(3,131,809)</b>	<b>(139,967)</b>	0	<b>(139,967)</b>	0	0	0
	0	0	0	0	0	0	0
<b>Cash from Financing</b>	0	0	0	0	0	0	0
Short-Term Debt	481,254	742,330	742,330	1,484,660	0	0	0
Long-Term Debt	(2,076,194)	1,224,152	(200,656)	1,023,496	0	0	0
<b>Net Cash from Debt Financing</b>	<b>(1,594,940)</b>	<b>1,966,482</b>	<b>541,674</b>	<b>2,508,156</b>	<b>0</b>	<b>0</b>	<b>0</b>
	0	0	0	0	0	0	0
<b>Equity Finance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Dividends Paid</b>	0	0	0	0	0	0	0
	0	0	0	0	0	0	0
<b>Total Cash from Financing</b>	<b>(1,594,940)</b>	<b>1,966,482</b>	<b>541,674</b>	<b>2,508,156</b>	<b>0</b>	<b>0</b>	<b>0</b>
	0	0	0	0	0	0	0
<b>Increase/(Decrease) in Cash</b>	<b>1,696,210</b>	<b>3,489</b>	<b>(17,271)</b>	<b>(14,259)</b>	<b>165,007</b>	<b>4,833,162</b>	<b>1,694,665</b>
Beginning Cash Balance	130,233	77,541	81,030	77,541	63,759	228,766	5,061,928
<b>Ending Cash Balance</b>	<b>77,541</b>	<b>81,030</b>	<b>63,759</b>	<b>63,282</b>	<b>228,766</b>	<b>5,061,928</b>	<b>6,756,594</b>



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