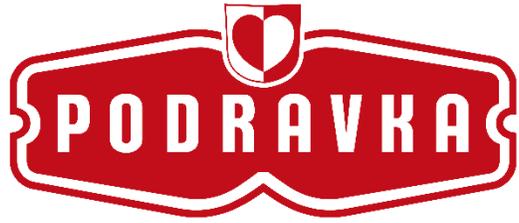




# Podravka Group business results for 1-12 2014 period





**1 – 12 2014**

**Significant events**

SBA Food and Drinks

SBA Pharmaceuticals

Financial statements

Share

# Significant events in 2014



February

## Decision of Croatian Health Insurance Fund (CHIF) to reduce prices on prescription drugs:

- in May 2013 and February 2014 CHIF prescribed a decrease in prices of a large portion of prescription drugs,
- estimated negative impact of HRK 57.2 million.



February /  
April

## Continuation of the restructuring process:

- redundancy labour programme → 420 employees left with severance payments; since 2012 nr of employees decreased by 23% in food segment,
- LeanCo → successful implementation of administrative excellence project,
- closing the low-profit segment of the bakery → expected positive impact on profitability.



April

## Acquisition of PIK Vrbovec d.d. canned meat programme and brands:

- Podravka became player No2 in pate segment in the Croatian market,
- potential for expansion into regional markets,
- one of the most profitable categories in the segment of meat products has been strengthened.



July

## Refinancing of loan liabilities:

- syndicated loan with EBRD and three international commercial banks:
  - EUR 73 million refinanced, for the purpose of balance sheer restructuring,
  - significantly lower interest rates and prolonged maturity dates.



August

## Gaining of shares of fish producer Mirna d.d.:

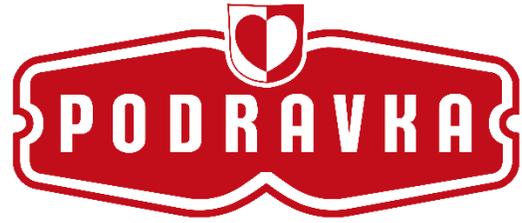
- in 2014 Podravka gained in total 63.95% of shares of Mirna d.d.,
- new Supervisory Board and Management Board has been appointed,
- current uncertainties related to the possible initiation of bankruptcy procedure → no consolidation into the Group.



December

## Termination of production in Poland:

- for the purpose of rationalization, the production in Poland has been terminated,
- the same product types for the EU markets will be produced in Koprivnica,
- positive impacts on operations through an increase in the utilization of production capacities in plants in Koprivnica.



**1 – 12 2014**

Significant events

**SBA Food and Drinks**

SBA Pharmaceuticals

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# Key factors that affected SBA Pharmaceuticals in 2014

## Programmes under restructuring → HRK 94.8 million of negative impact on sales revenues:

- end of 2013 → exit from fresh meat and frozen programme,
- early April 2014 → exit from bakery programme,
- beverage segment → for sale and the scope of operations is reduced, 20% higher EBITDA than in 2013.



## Consumer prices deflation and retail power shifting:

- Continued consumer's shift towards discounters and private labels, esp. impacting our businesses in Slovenia, Poland and Croatia,
- Further retail consolidation on key markets (Mercator/Agrokor, Diona/Spar), causing instability to the weakest retailers.



## Foreign exchange differences → HRK 13.7 million of negative net impact on sales revenues:

- primarily the effect of Czech koruna and Australian dollar.



## Acquisition of a portion of PIK assortment:

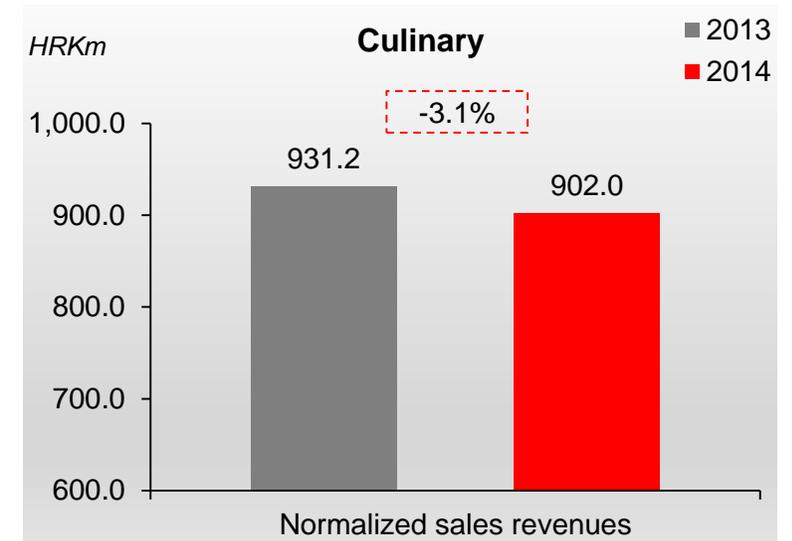
- player No2 in pate in Croatia.

## Restructuring efforts showing results:

- lower personnel expenses, costs in logistics.

# Healthy growth of culinary category in the market of Western Europe

CULINARY CATEGORY			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	899.4	931.2	(3.4%)
Programmes under restructuring	-	-	n/a
Net positive / (negative) FX impact	(2.6)	-	n/a
Normalized sales revenues	902.0	931.2	(3.1%)



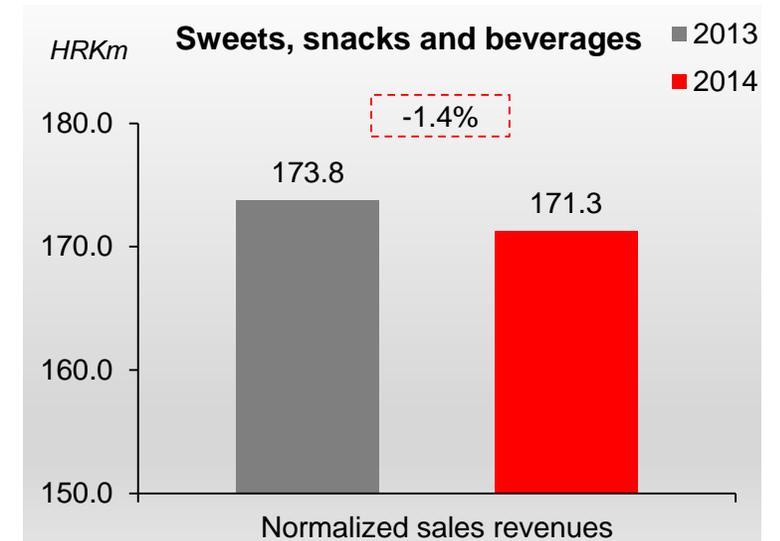
## Key highlights:

- culinary market value decrease in Croatia driven by advancing private label and price discounting, impact partially offset by innovated products sales,
- growing interest in private label products and cheaper brands in Poland required redefinition of the sales terms and promotional activities,
- sales growth in Western Europe following stronger shift from ethnic to main-stream retail channels.



# Growth of powdered sweets, key subcategory with international potential

SWEETS, SNACKS AND BEVERAGES CATEGORY			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	261.8	300.2	(12.8%)
Programmes under restructuring	90.4	126.4	(28.5%)
Net positive / (negative) FX impact	0.1	-	n/a
Normalized sales revenues	171.3	173.8	(1.4%)



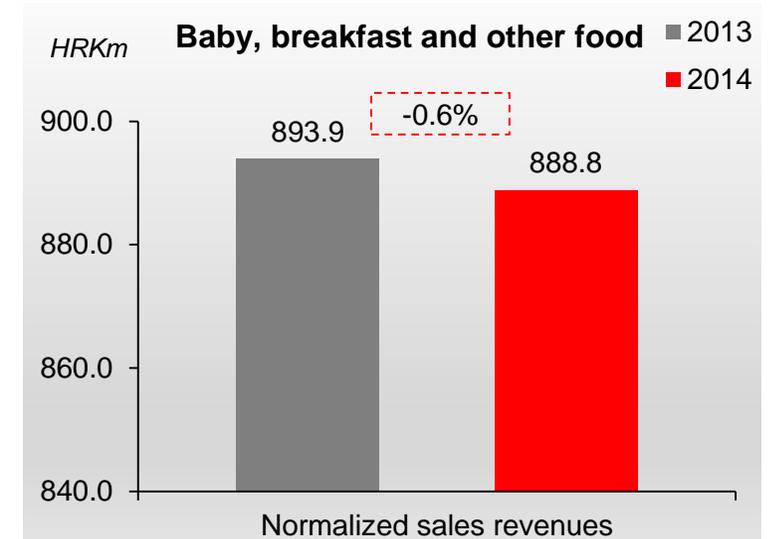
## Key highlights:

- beverages subcategory:
  - reduced scope of operations following the decision on exiting from this business,
  - adverse weather conditions in 2014, HRK 19.4 million lower sales in 3Q 2014 yoy during tourist season,
- powdered sweets and salted snacks subcategories growth indicating well perceived consumer orientation to „small pleasures“ product categories,
- intentionally lower sales to customers with potentially high collection risks, esp. in Slovenia.



# Mediterranean food subcategory growth in both Adria and Europe region

BABY FOOD, BREAKFAST FOOD AND OTHER FOOD CATEGORY			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	887.3	913.3	(2.8%)
Programmes under restructuring	3.2	19.4	(83.3%)
Net positive / (negative) FX impact	(4.7)	-	n/a
Normalized sales revenues	888.8	893.9	(0.6%)



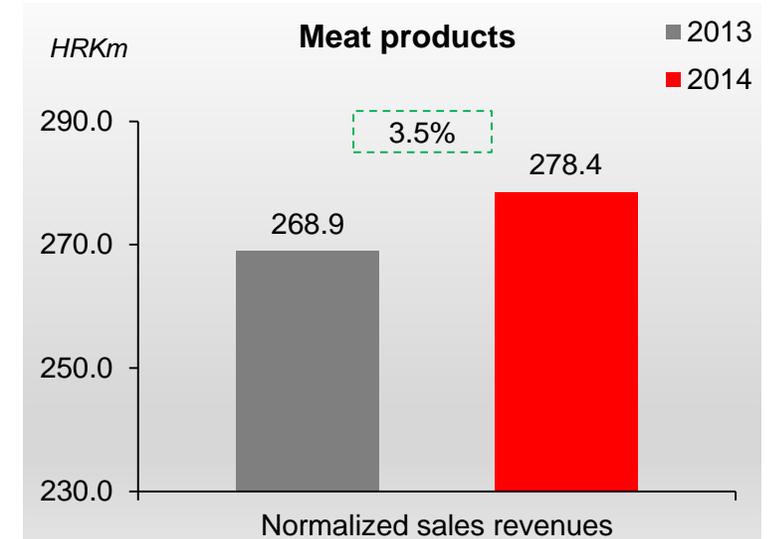
## Key highlights:

- healthy growth in the Mediterranean food subcategory → Eva brand and tomato-based products,
- intentionally lower sales to customers with potentially high collection risks, esp. in Slovenia,
- changed consumer's shopping behaviour has put additional pressure on retailers in almost all markets to adjust their prices and promotional activities, strongly influencing our sales too.



## Double-digit growth of the sausage products subcategory

MEAT PRODUCTS CATEGORY			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	300.8	280.9	7.1%
Programmes under restructuring*	22.5	11.9	88.6%
Net positive / (negative) FX impact	(0.1)	-	n/a
Normalized sales revenues	278.4	268.9	3.5%



### Key highlights:

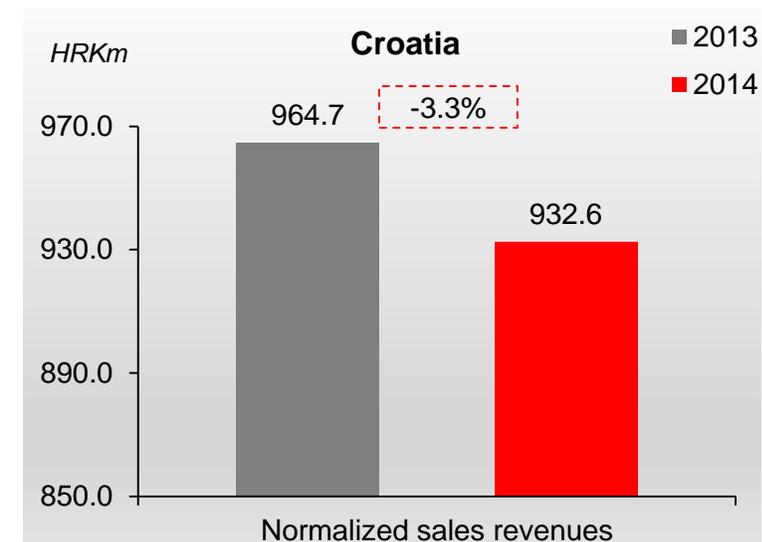
- meat company Danica positive on the normalized EBITDA level,
- double digit growth of the sausage products subcategory in the Croatian market,
- focus on the internationalization of the existing product range → Macedonia, Sweden, Bosnia and Herzegovina,
- focus on the extension of the product range in the economy segment in the Croatian market.

\*including acquisition of a portion of the PIK product range.



## Deflation marked the Croatian market in 2014

THE MARKET OF CROATIA			
<i>(in HRK millions)</i>	2014	2013	2014/2013
Reported sales revenues	1,040.9	1,152.9	(9.7%)
Programmes under restructuring*	108.3	188.3	(42.5%)
Net positive / (negative) FX impact	-	-	n/a
Normalized sales revenues	932.6	964.7	(3.3%)



### Key highlights:

- HRK 91.8 million of negative effect of programs under restructuring,
- focusing on sustainable profitable growth reflected not only in top line results, but also increased profit margins,
- 2,2% decrease in food and beverages local retail prices\*\*,
- maintained top market positions in all key product groups.

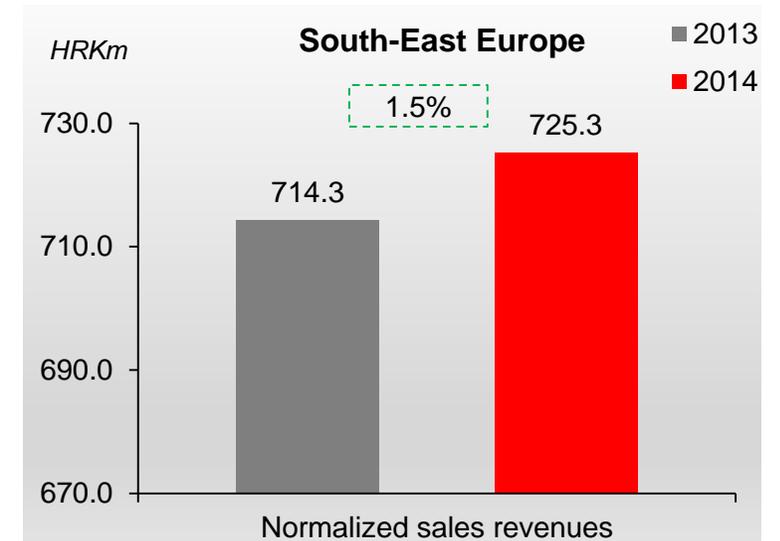
\*including acquisition of a portion of the PIK product range,

\*\*Source; the Croatian Bureau of Statistics.

Products	Market position	Period
Vegeta	1	Oct-Nov 14
Podravka soups	1	Oct-Nov 14
Baby cereals	1	Oct-Nov 14
Eva	2	Oct-Nov 14
Dolcela	1	Oct-Nov 14

## Sales revenues growth in the majority of markets in South-East Europe

THE MARKET OF SOUTH-EAST EUROPE			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	735.3	727.7	1.0%
Programmes under restructuring	9.9	13.4	(26.2%)
Net positive / (negative) FX impact	0.1	-	n/a
Normalized sales revenues	725.3	714.3	1.5%



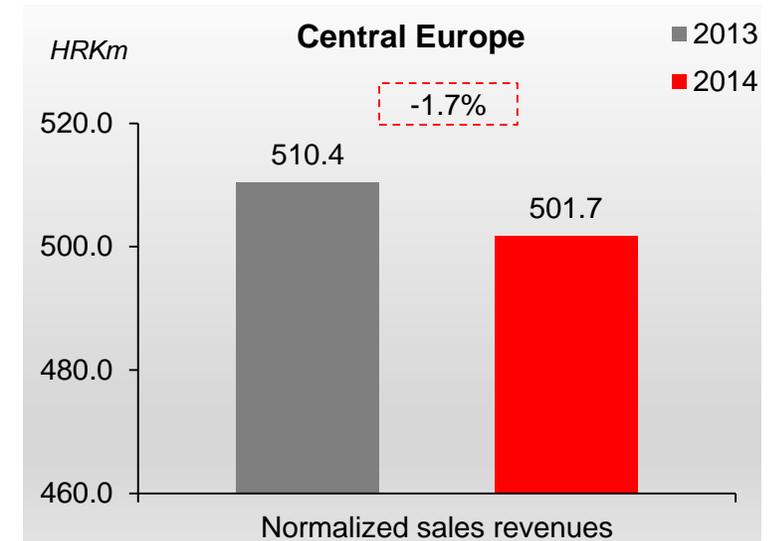
### Key highlights:

- sales revenues growth was recorded in all markets except Slovenia,
- intentionally lower sales to customers with potentially high collection risks, esp. in Slovenia, mainly driven by shifting powers on the local market (discounters, Adria Group),
- growth in Mediterranean food subcategory.



## Double-digit growth of Mediterranean food assortment in Central Europe

THE MARKET OF CENTRAL EUROPE			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	491.1	510.4	(3.8%)
Programmes under restructuring	-	-	n/a
Net positive / (negative) FX impact	(10.6)	-	n/a
Normalized sales revenues	501.7	510.4	(1.7%)



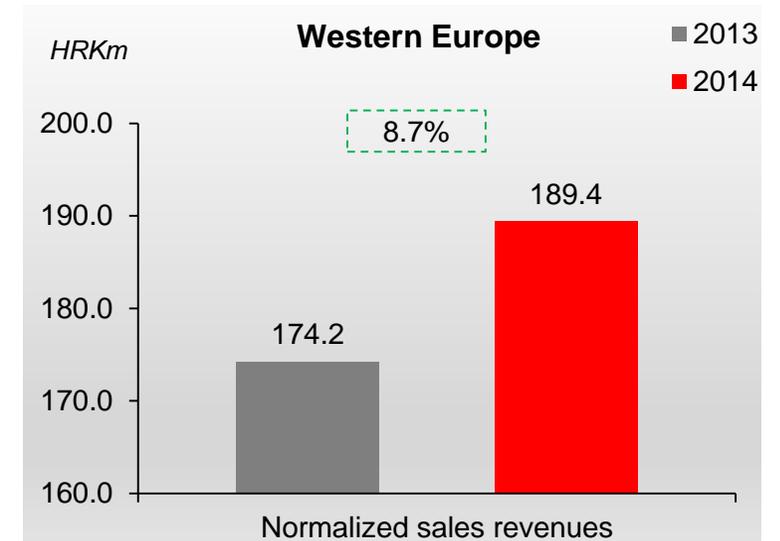
### Key highlights:

- Czech koruna negative FX impact,
- double-digit growth of Mediterranean food assortment: Eva fish products, tomato based products,
- growing interest in private label products and cheaper brands in Poland required redefinition of the sales terms and promotional activities.



# Growth of all product categories in the market of Western Europe

THE MARKET OF WESTERN EUROPE			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	189.9	174.2	9.0%
Programmes under restructuring	-	-	n/a
Net positive / (negative) FX impact	0.5	-	n/a
Normalized sales revenues	189.4	174.2	8.7%



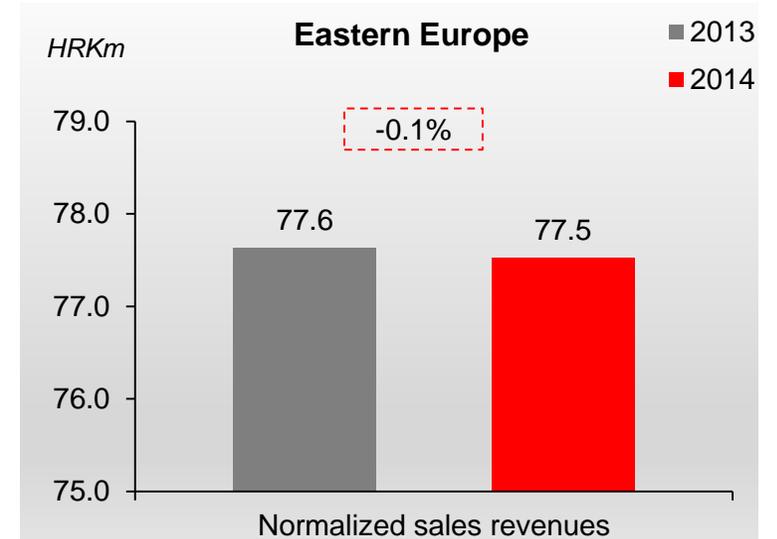
## Key highlights:

- majority of markets recorded growth in sales,
- all product categories recorded growth, especially Culinary,
- strong move from ethnic to main-stream retail channels and positions,
- higher distribution index.



# Increased demand for Podravka's products on the market of Russia

THE MARKET OF EASTERN EUROPE			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	77.5	77.6	(0.1%)
Programmes under restructuring	-	-	n/a
Net positive / (negative) FX impact	-	-	n/a
Normalized sales revenues	77.5	77.6	(0.1%)



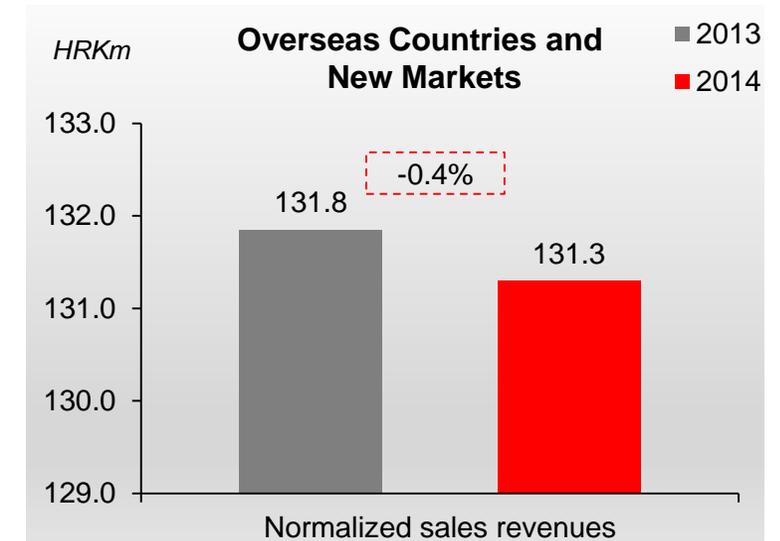
## Key highlights:

- sales dynamics on Russian market impacted by reduced deliveries during strong FX fluctuations and distribution model changes, esp. in q4,
- double digit growth of Podravka soups sales, supported by the entrance into two largest retail chains,
- sales from distributors on the market in Russia:
  - grew 25.0% in volume,
  - grew 22.0% in local currency,
- negative FX effects partially compensated to distributors.



# Temporary effect from distribution model change in Overseas Countries and New Markets

OVERSEAS COUNTRIES AND NEW MARKETS			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	127.6	131.8	(3.2%)
Programmes under restructuring	-	-	n/a
Net positive / (negative) FX impact	(3.7)	-	n/a
Normalized sales revenues	131.3	131.8	(0.4%)



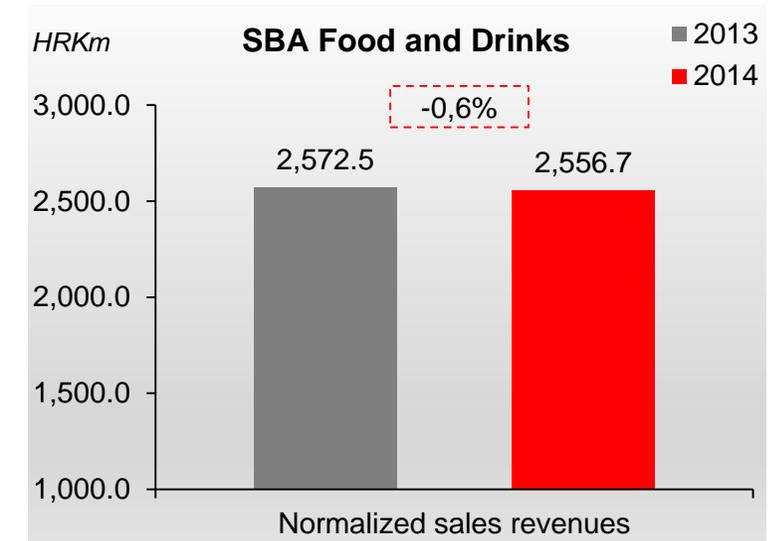
## Key highlights:

- negative FX impact from Australian dollar,
- distribution model change on the market of Australia → short-term change in the delivery dynamics,
- distributor replacement on the market of USA → short-term change in the delivery dynamics.



# Sales revenues impacted by programmes under restructuring and FX

STRATEGIC BUSINESS AREA FOOD AND DRINKS			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	2,662.4	2,774.7	(4.1%)
Programmes under restructuring*	119.3	202.3	(41.0%)
Net positive / (negative) FX impact	(13.7)	-	n/a
Normalized sales revenues	2,556.7	2,572.5	(0.6%)



## Key highlights:

- maintaining No1 market position in key categories in Croatia despite unfavourable surroundings,
- well perceived consumer orientation to „small pleasures“ product categories supported powdered sweets and salted snacks sales growth,
- growth of the Mediterranean food subcategory in all regions,
- double digit growth of sales from distributors on the market in Russia indicate increase in demand for Podravka's products,
- healthy growth of all product categories in Western Europe, especially Culinary,
- programmes under restructuring → HRK 94.8 million negative impact on sales revenues,
- 2.2% decrease in food and beverages local retail prices,
- foreign exchange differences → HRK 13.7 million negative net impact on sales revenues,
- growing interest in private label products and cheaper brands in Poland and Slovenia required not only redefinition of the sales terms and promotional activities, but also credit management policies,
- change of distribution model in Australia, USA and Russia → short-term change in the delivery dynamics.

\*including acquisition of a portion of the PIK product range.

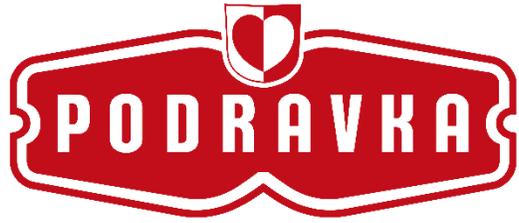
# SBA Food and Drinks profitability significantly improved

2014 (in HRK millions)	Reported			Normalized		
Gross profit	1,012.4		(0.6%)	1,013.1		(1.0%)
EBITDA	197.6		6.2%	251.6		3.7%
EBIT	75.4		450.1%	158.6		15.5%
Net profit after MI	28.8		100.0%	112.0		25.5%

2014 (% of sales revenues)	Reported			Normalized		
Gross margin	38.0%		+132 bp	38.1%		+116 bp
EBITDA margin	7.4%		+72 bp	9.5%		+71 bp
EBIT margin	2.8%		+234 bp	6.0%		+101 bp
Net profit margin after MI	1.1%		+108 bp	4.2%		+99 bp

## Key highlights:

- **Gross margin** → favourable price trends of key raw materials, lower depreciation and staff cost,
- **EBIT margin** → more efficient collection of trade receivables, lower impairment costs, savings in the S&D and MEX,
- **Net profit margin after MI** → lower finance costs, expected usage of tax incentives for reinvested profits.



**1 – 12 2014**

Significant events

SBA Food and Drinks

**SBA Pharmaceuticals**

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# Key factors that affected SBA Pharmaceuticals in 2014

## Foreign exchange differences, primarily Russian ruble:

- HRK 27.1 million of negative net impact on sales revenues,
- HRK 43.7 million of negative impact on profitability (net realized FX differences).



## Volume growth:

- Croatia → volume growth of 7.0% (RX 9.0%),
- Russia → volume growth of 4.9% to wholesalers, from wholesalers to market 14.0% volume, 17.0% value,
- total SBA → volume growth of 10.6%.



## Croatian Health Insurance Fund (CHIF):

- prescribed a decrease in prices of a large portion of prescription drugs in the market of Croatia,
- estimated negative impact of HRK 57.2 million on sales revenues,
- nevertheless, gross margin in Croatia has improved.



## Opening new markets in Central Europe:

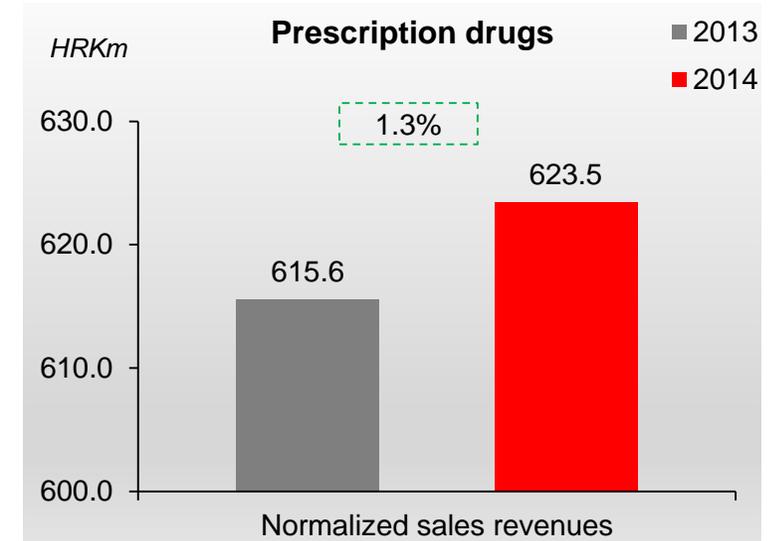
- first full year of doing business in Polish market.

## Supply chain efficiency:

- despite volume growth of 10.6%, COGS grew only 2.6% as a result of more efficient supply chain management.

# Double digit growth of Prescription drugs category in volume terms

PRESCRIPTION DRUGS CATEGORY			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	597.1	615.6	(3.0%)
Programmes under restructuring	-	-	n/a
Net positive / (negative) FX impact	(26.4)	-	n/a
Normalized sales revenues	623.5	615.6	1.3%



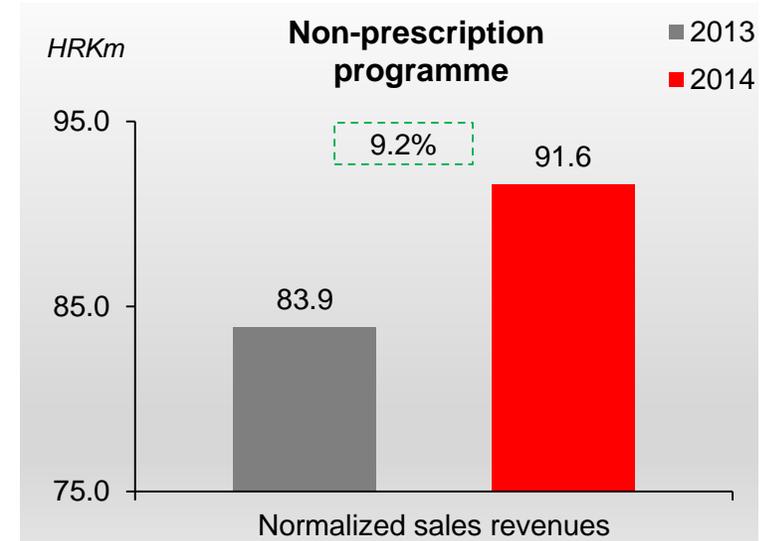
## Key highlights:

- HRK 26.4 million of negative net FX impact on sales revenues,
- estimated HRK 57.2 million of negative impact on sales revenues from CHIF,
- volume growth in the Croatian market of 7.0% (RX 9.0%),
- sales in the Russian market:
  - 4.9% in volume terms to wholesalers, 14.0% from wholesalers to the market,
  - 13.0% in local currency to wholesalers, 17.0% from wholesalers to the market,
- double digit growth of sales in the markets of Bosnia and Herzegovina and Poland.



# Non-prescription programme continues with healthy growth

NON-PRESCRIPTION PROGRAMME			
<i>(in HRK millions)</i>	2014	2013	2014/2013
Reported sales revenues	90.0	83.9	7.4%
Programmes under restructuring	-	-	n/a
Net positive / (negative) FX impact	(1.5)	-	n/a
Normalized sales revenues	91.6	83.9	9.2%



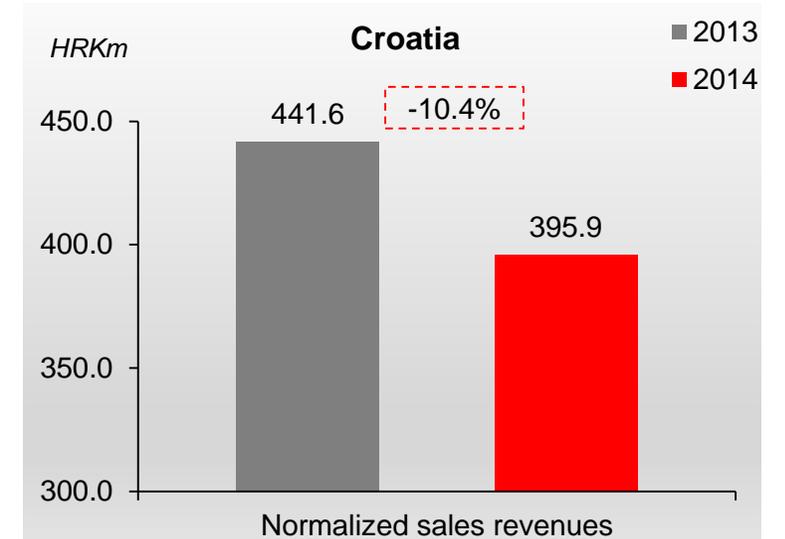
## Key highlights:

- strong growth of OTC subcategory in the Croatian and Russian markets,
- OTC subcategory recorded 14.1% higher sales.



## Growth in volume terms of 7.0% in the Croatian market

THE MARKET OF CROATIA			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	395.9	441.6	(10.4%)
Programmes under restructuring	-	-	n/a
Net positive / (negative) FX impact	-	-	n/a
Normalized sales revenues	395.9	441.6	(10.4%)



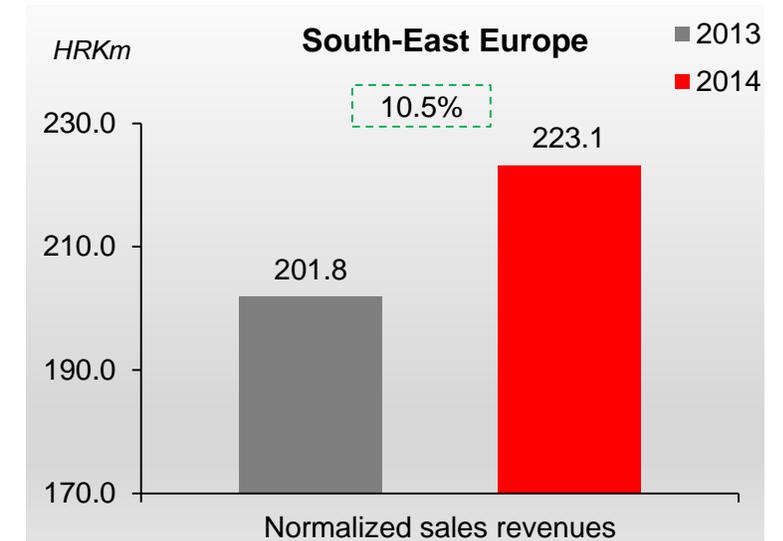
### Key highlights:

- prescribed decision to decrease the prices of prescription drugs by the Croatian Health Insurance Fund in May 2013 and February 2014:
  - estimated 57.2 million of negative effect on sales revenues in 2014,
- growth in volume terms of 7.0% → RX category grew 9.0% in volume terms,
- despite negative influence of CHIF, the market of Croatia recorded gross margin growth → supply chain efficiency.



# All countries in South-East Europe recorded sales growth

THE MARKET OF SOUTH-EAST EUROPE			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	224.7	201.8	11.3%
Programmes under restructuring	-	-	n/a
Net positive / (negative) FX impact	1.6	-	n/a
Normalized sales revenues	223.1	201.8	10.5%



## Key highlights:

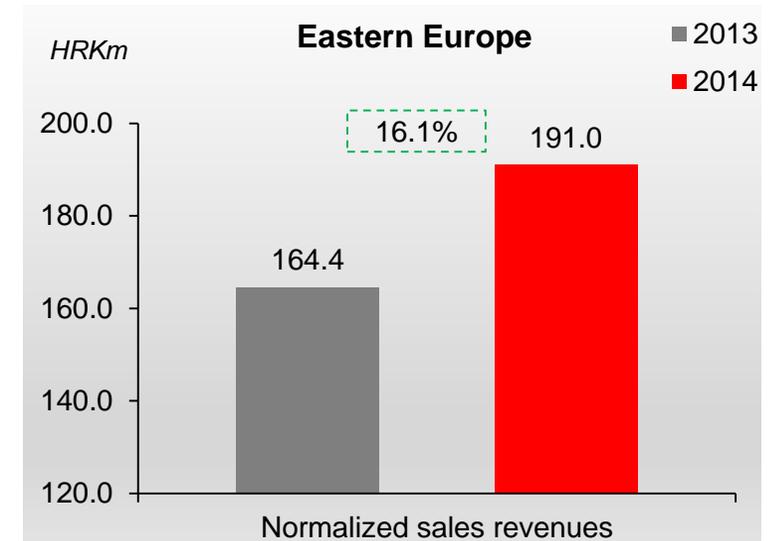
- all countries recorded sales growth,
- all categories and subcategories recorded sales growth,
- double digit sales growth in Bosnia and Herzegovina.





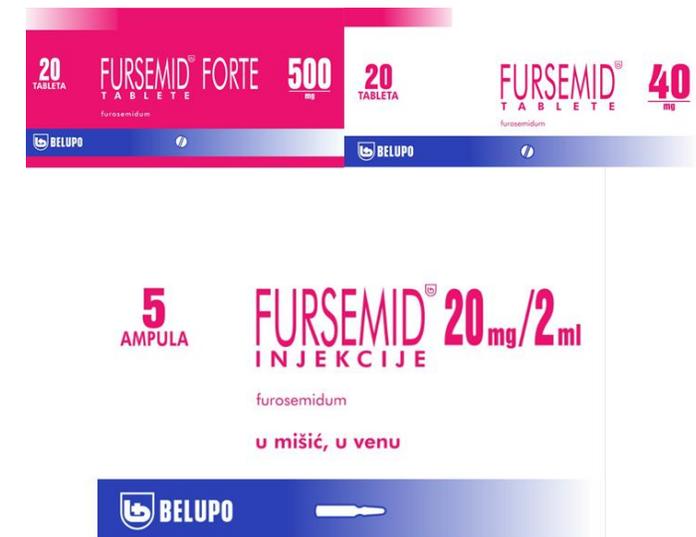
# Growth in the Russian market in volume and local currency terms

THE MARKET OF EASTERN EUROPE			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	161.8	164.4	(1.6%)
Programmes under restructuring	-	-	n/a
Net positive / (negative) FX impact	(29.2)	-	n/a
Normalized sales revenues	191.0	164.4	16.1%



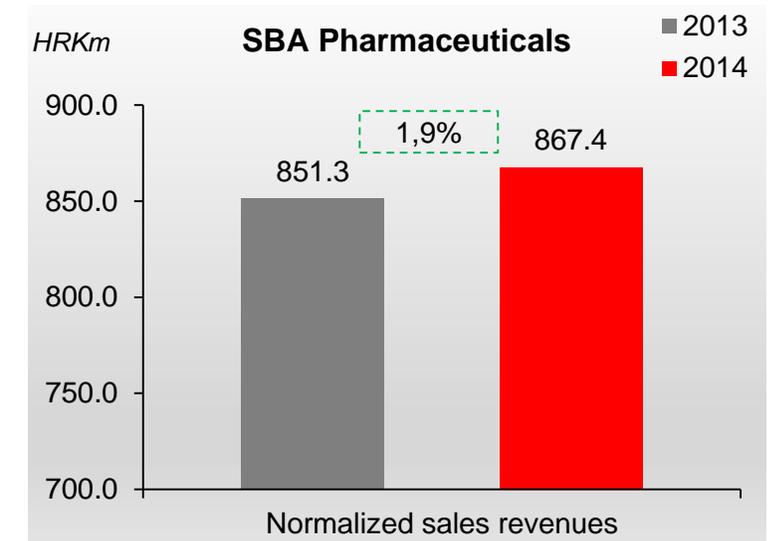
## Key highlights:

- HRK 29.3 million negative effect of the Russian ruble on sales revenues,
- sales in the Russian market:
  - grew 4.9% in volume terms to wholesalers, 14.0% from wholesalers to the market,
  - grew 13.0% in local currency to wholesalers. 17.0% from wholesalers to the market.



## Sales revenues impacted by CHIF and FX

STRATEGIC BUSINESS AREA PHARMACEUTICALS			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	840.3	851.3	(1.3%)
Programmes under restructuring	-	-	n/a
Net positive / (negative) FX impact	(27.1)	-	n/a
Normalized sales revenues	867.4	851.3	1.9%



### Key highlights:

- SBA Pharmaceuticals grew 10.6% in volume terms,
- 7.0% sales growth in volume terms in the market of Croatia, RX grew 9.0%,
- despite negative influence of CHIF, the market of Croatia recorded gross margin growth as a result of supply chain efficiency,
- 4.9% sales growth in volume terms and 13.0% sales growth in local currency in the market of Russia,
- entry with derma sub segment into new markets in Central Europe,
- net foreign exchange differences → HRK 27.1 million of negative impact on sales revenues,
- HRK 57.2 million of estimated negative impact from Croatian Health Insurance Fund on sales revenues.

## FX and CHIF negatively affected profitability

2014 (in HRK millions)	Reported			Normalized		
Gross profit	463.5		(4.3%)	463.5		(4.3%)
EBITDA	122.0		(29.9%)	128.9		(28.8%)
EBIT	80.2		(31.6%)	87.1		(36.9%)
Net profit after MI	63.6		(29.4%)	70.5		(36.3%)

2014 (% of sales revenues)	Reported			Normalized		
Gross margin	55.2%		-171 bp	55.2%		-171 bp
EBITDA margin	14.5%		-591 bp	15.3%		-592 bp
EBIT margin	9.5%		-423 bp	10.4%		-584 bp
Net profit margin after MI	7.6%		-301 bp	8.4%		-462 bp

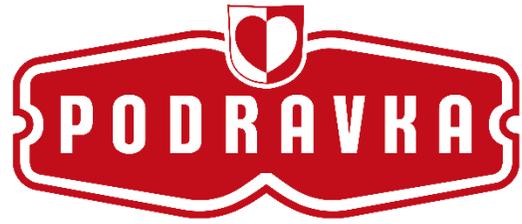
### Key highlights:

#### ➤ Sales revenues:

- HRK 27.1 million negative net effect from foreign exchange differences,
- estimated HRK 57.2 million negative effect of prescribed reduction of prices on a large portion of prescription drugs in the market of Croatia,

#### ➤ Profitability:

- HRK 43.7 million negative effect from net realized foreign exchange differences,
- lower finance costs as a result of more favourable terms of refinanced borrowings and repayment of borrowings.



**1 – 12 2014**

Significant events

SBA Food and Drinks

SBA Pharmaceuticals

**Financial statements**

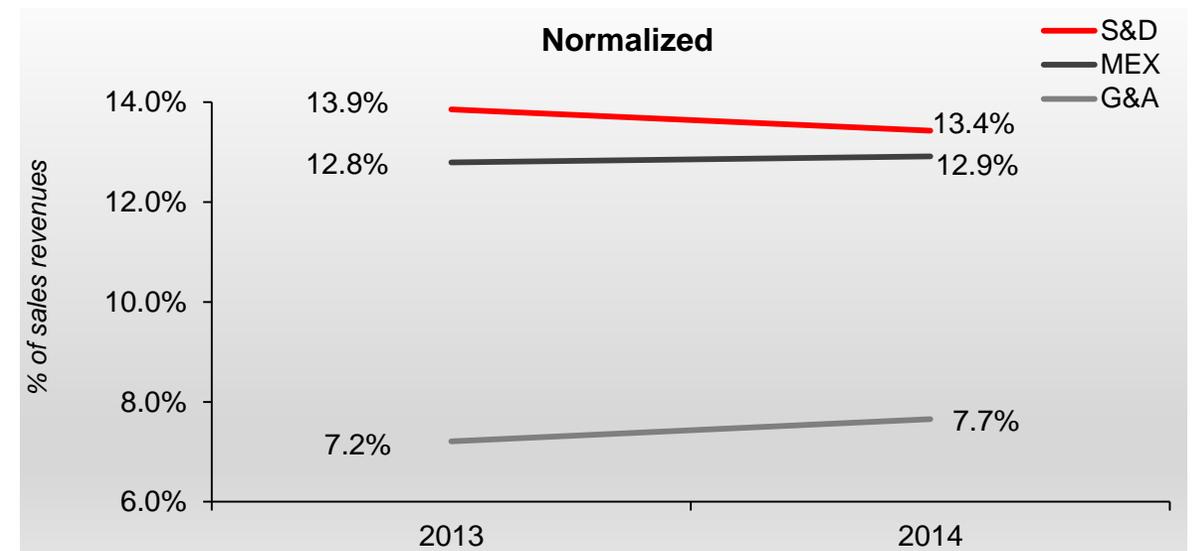
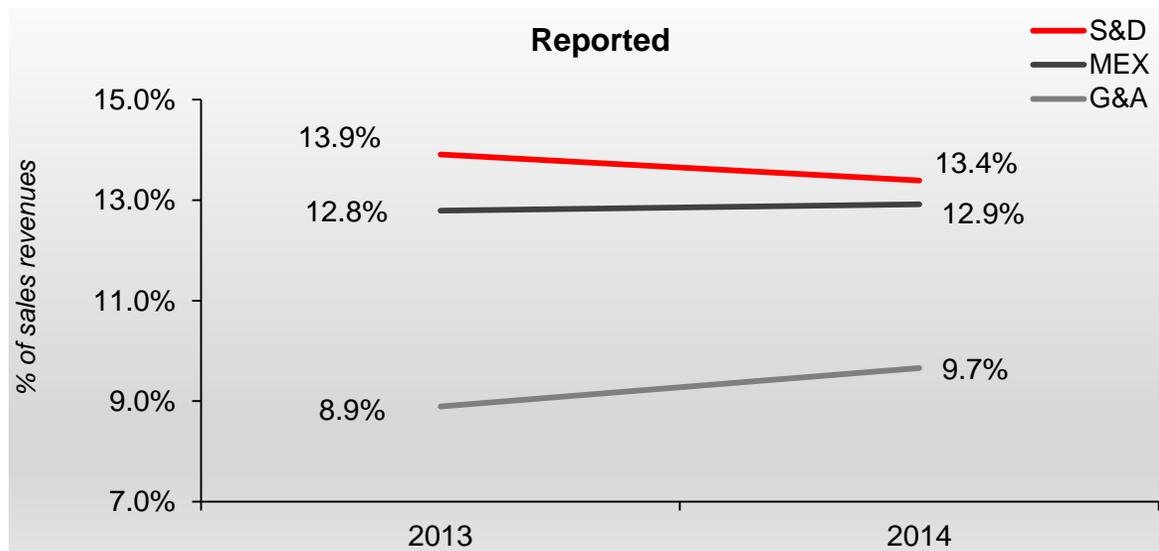
Share

# Significant reduction in operating expenses

Operating expenses	Reported	Normalized
Cost of goods sold	(4.5%)	(4.4%)
General and administrative expenses	4.9%	2.5%
Selling and distribution costs	(7.0%)	(6.4%)
Marketing expenses	(2.5%)	(2.5%)
Other expenses	(19.4%)	336.1%
Total	(4.1%)	(2.8%)

## Key highlights:

- decrease of operating expenses,
- G&A expenses excluding consulting services related to business development recorded drop of 2.0%,
- other expenses increased on the normalized level on the account of 3.8x higher net realized FX differences.



## Group profitability margins improved

2014 (in HRK millions)	Reported			Normalized		
Gross profit	1,475.9		(1.8%)	1,476.6		(2.1%)
EBITDA	319.6		(11.2%)	380.5		(10.2%)
EBIT	155.7		18.8%	245.8		(10.7%)
Net profit after MI	92.5		38.8%	182.6		(8.7%)

2014 (% of sales revenues)	Reported			Normalized		
Gross margin	42.1%		+69 bp	42.2%		+57 bp
EBITDA margin	9.1%		-80 bp	10.9%		-82 bp
EBIT margin	4.4%		+83 bp	7.0%		-58 bp
Net profit margin after MI	2.6%		+80 bp	5.2%		-30 bp

### Key highlights:

#### ➤ Profitability:

- lower operating expenses improved reported Group profitability margins,
- 3.8 times higher negative net realized foreign exchange differences weighted down on normalized profitability.

#### ➤ Tax rate:

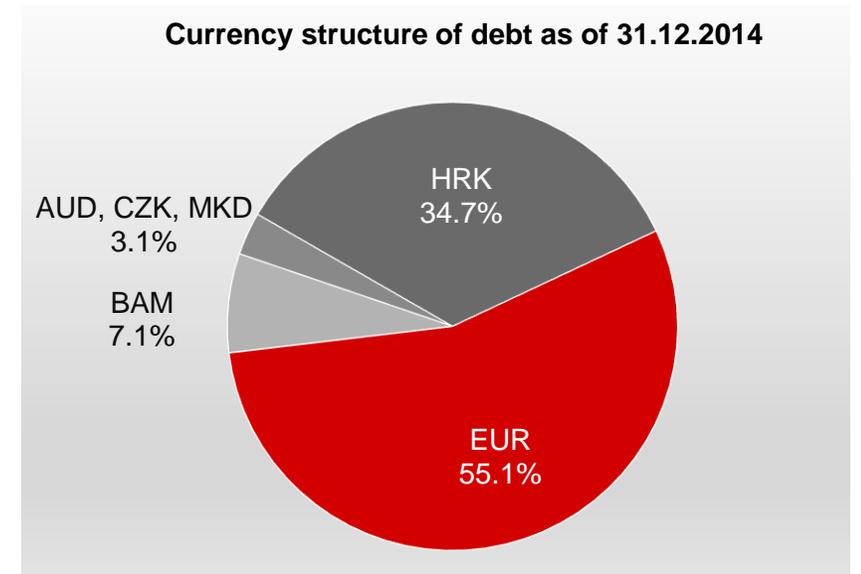
- 9% effective tax rate is strongly impacted by expected usage of tax incentives for reinvested profits.

## Lower debt level with improvement in financing terms

<i>(in HRK thousands)</i>	2014	2013	% change
Net debt	856,769	886,533	(3.4%)
Interest expense	43,543	52,926	(17.7%)
Net debt / Normalized EBITDA	2.3	2.1	7.6%
Normalized EBITDA / Interest expense	8.7	8.0	9.2%
Equity to total assets ratio	50.9%	48.9%	+197 bp

### Key highlights:

- decrease of net debt → higher cash and cash equivalents,
- decrease of interest expense → refinancing under more favourable terms and repayment of a portion of borrowings,
- **weighted average cost of debt:**
  - on 31.12.2014 → 3.4%,
  - on 31.12.2013 → 4.3%,
  - improvement by 94 bp.

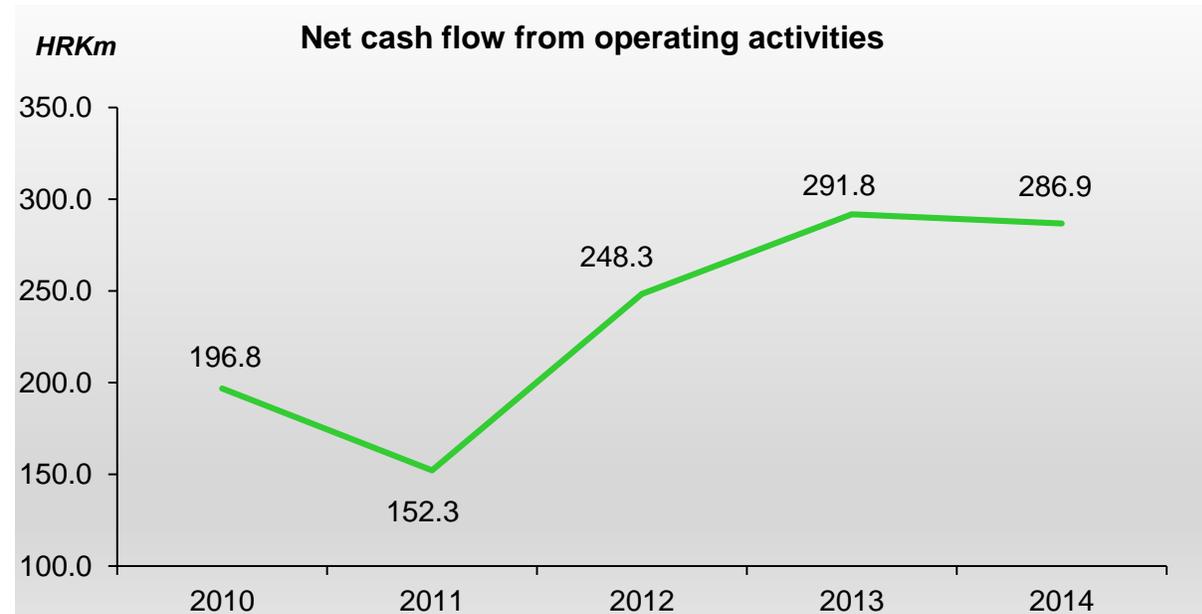


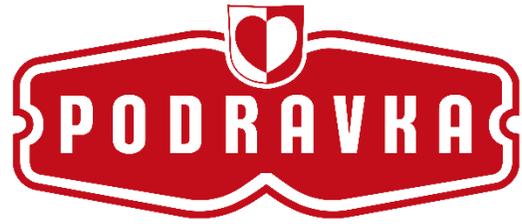
## Stabile net cash flow from operating activities

Working capital movement	2014	Influence
Inventories	 HRK +22.3 million	- purchase of a large amount of raw materials, - takeover of inventories of canned fish, - introduction of new products.
Trade and other receivables	 HRK -88.0 million	- more efficient collection in food segment, - settlement of a portion of the Croatian Health Insurance Fund liabilities.
Trade and other payables	 HRK -38.5 million	- further harmonization of payment terms to suppliers.

### Key highlights:

- net cash flow from operating activities → stable,
- net cash flow from investing activities → higher CAPEX by 69.1%, investment in modernization,
- net cash flow from financing activities → proceeds and repayments of borrowings almost equal,
- in 2015 CAPEX is expected to be at a level of HRK 500-550 million.





**1 – 12 2014**

Significant events

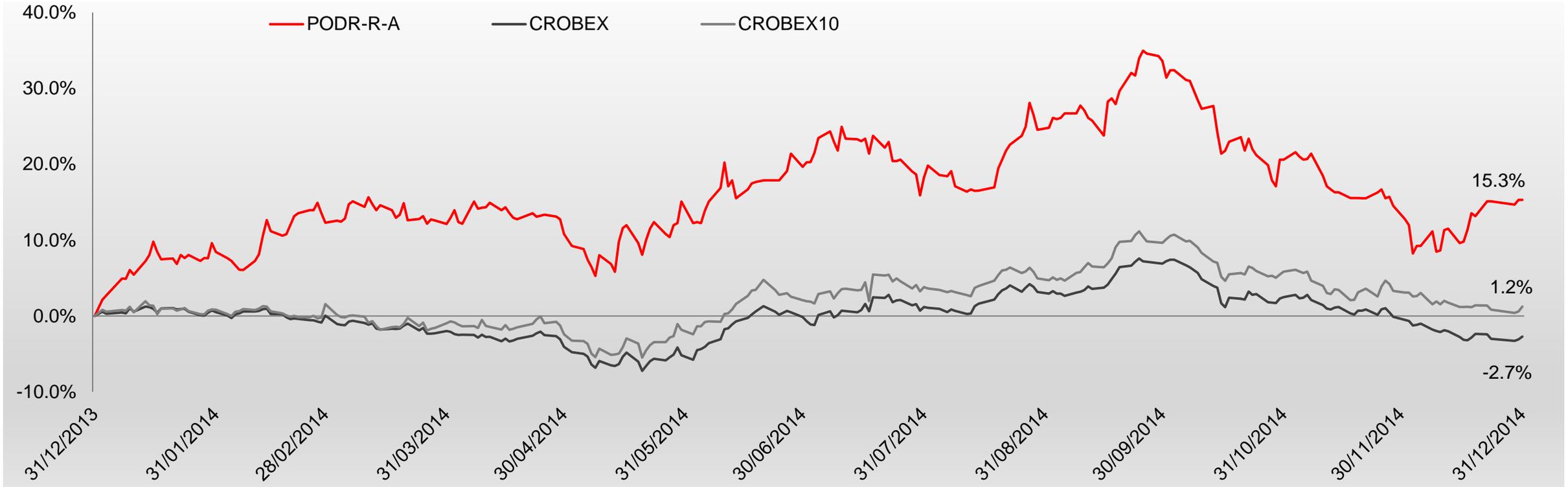
SBA Food and Drinks

SBA Pharmaceuticals

Financial statements

**Share**

# Podravka's share outperformed the domestic capital market in 2014



(in HRK; in units)

	2014	% change
Average daily price	296.3	16.3%
Average daily number of transactions	13	39.6%
Average daily volume	1,562	105.4%
Average daily turnover	463,450.7	134.2%
Earnings per share	17.1	38.8%

## Performance among Crobex10 components

Share price increase in 2014	3rd highest
Turnover increase in 2014 yoy	highest
Volume increase in 2014 yoy	2nd highest

➤ 6th most liquid share on the ZSE in 2014.

## Podravka's share is being traded below peer group level

Peer group multiples	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Weighted average peer group	2.1	11.1	15.8	21.2
Weighted adj. average peer group	1.9	11.0	16.6	22.2
Podravka Group reported	0.7	7.8	16.0	17.2
Podravka Group normalized	0.7	6.5	10.1	8.7

Analysts	Recommendation	Target price	Price on 13/02/2015	Potential
 InterCapital	Strong buy	HRK 372.7	HRK 291.0	28.1%
 FIMA SECURITIES	Under revision	n/a	HRK 291.0	n/a
 HYPO ALPE ADRIA	Buy	HRK 404.0	HRK 291.0	38.8%
 Raiffeisen BANK	Buy	HRK 344.0	HRK 291.0	18.2%
 ERSTE Group	Buy	HRK 366.0	HRK 291.0	25.8%

## Contact

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Podravka d.d.

Ante Starčevića 32, 48 000 Koprivnica, Croatia

[www.podravka.hr](http://www.podravka.hr)

Investor relations

[ir@podravka.hr](mailto:ir@podravka.hr)

tel: +385 48 65 16 65

mob: +385 99 43 85 007



# Podravka Group business results for 1-12 2014 period

