



Podravka Group business results for 1-6 2016 period



Key highlights of H1 2016

Žito Group integration into Podravka Group:

- Integration plan with 75 projects adopted,
- End of 2018 → expected integration completion,
- Expected synergy and integration impacts:
 - 2017 → HRK +18.9m on the EBITDA level,
 - 2018 → HRK +18.8m on the EBITDA level,
 - 2019 → HRK +36.8m on the EBITDA level,
- 1 April 2016 → Žito Inc. acquired 100% of Podravka LLC Ljubljana,
- Sale of Žito's products in majority of regional markets through Podravka's companies.



Dividend distribution proposal that has been adopted:

- 10 years from the last dividend payment,
- Successfully implemented restructuring processes + achieved positive business results = prerequisites for dividend payment have been met,
- Proposal on dividend payment in the amount of HRK 7.00 per share has been adopted by the Podravka Inc. shareholders at the company's General Assembly meeting,
- Management goal → to enable sustainable dividend policy execution.

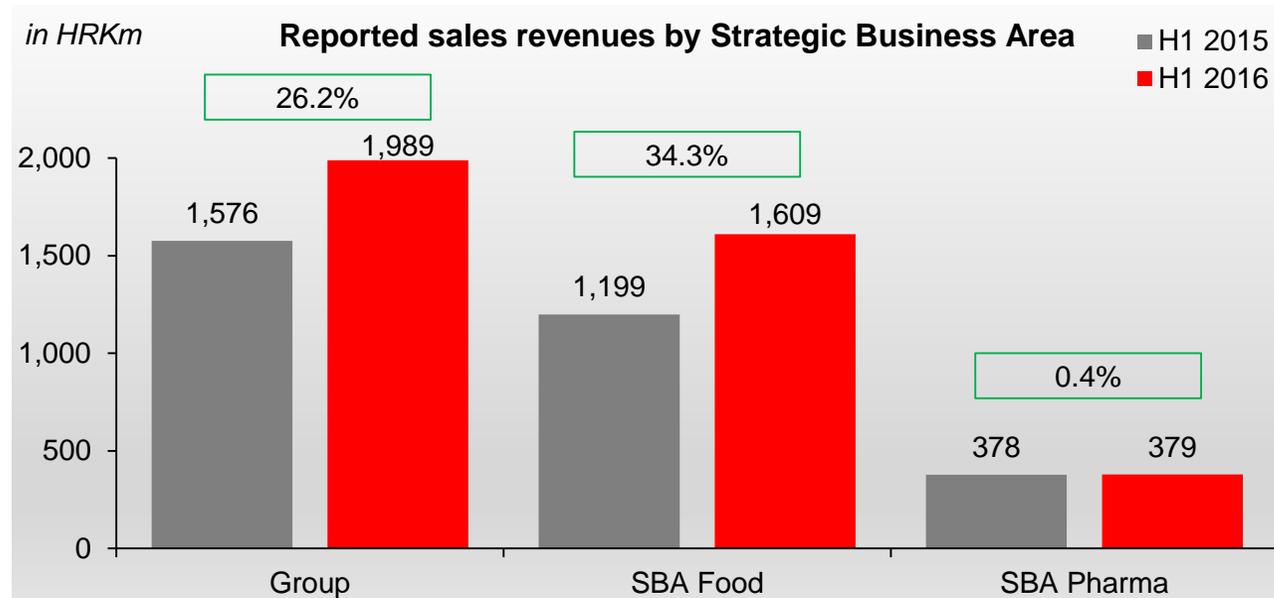
Changes in the MB of Podravka:

- 15 February 2016 → Agreement on termination of the mandate for MB member in charge of finance and IT, Miroslav Klepač, approved; mandate ended on 31 March 2016,
- 1 April 2016 → beginning of mandate for new MB member in charge of finance and IT, Iva Brajević,
- Mandate of the new member lasts until the expiry of mandate of the MB as a whole.



Note (i) Pro-forma overview in this presentation indicates that Žito figures are included in H1 2015 period, (ii) In Q2 2016, the fees contracted with customers for promotional, marketing and similar activities were reclassified from the position "Marketing expenses" to the decrease in the position "Sales revenues". Both periods were reclassified.

Own brands posted 4.3% sales growth in H1 2016 on the pro-forma level excluding FX impact



Net impact of foreign exchange (FX) on sales revenues:

HRK _m	Own brands	Other sales	Total	Currency	HRK _m
Food	(25.2)	(1.1)	(26.2)	RUB	(25.6)
Pharmaceuticals	(16.1)	(0.4)	(16.4)	EUR	(5.9)
Group	(41.1)	(1.5)	(42.6)	Other	(11.1)
				Total	(42.6)

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in H1 2016 if FX rates had remained on the same levels as in H1 2015.

Pro-forma SBA Food¹:

- Own brands** → 1.2% higher sales (+3.1% excl. FX), due to sales growth of the majority of categories,
- Other sales** → 2.1% higher sales (+2.6% excl. FX) as a result of new projects in the trade goods subcategory,
- Total SBA Food** → 1.4% higher sales (+3.0% excl. FX).

SBA Pharmaceuticals¹:

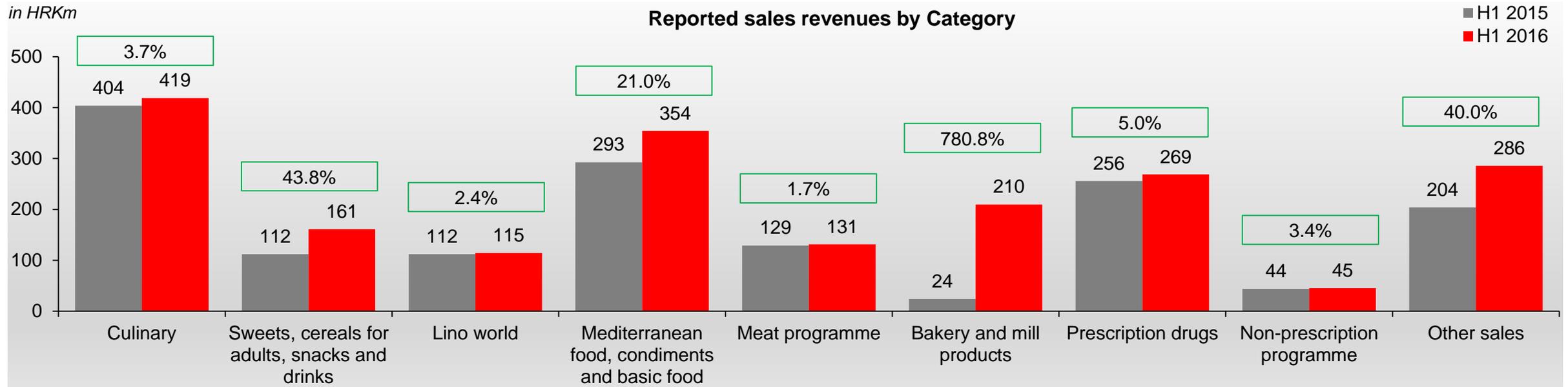
- Own brands** → 4.8% higher sales (+10.2% excl. FX) due to the cooperation expansion in the Russian market,
- Other sales** → 16.5% lower sales (-16.1% excl. FX) as a result of stronger focus on own brands,
- Total SBA Pharmaceuticals** → 0.4% higher sales (+4.7% excl. FX).

Pro-forma Podravka Group¹:

- Own brands** → 1.9% higher sales (+4.3% excl. FX),
- Other sales** → 2.9% lower sales (-2.3% excl. FX),
- Total Podravka Group** → 1.2% higher sales (+3.3% excl. FX).

¹Percentages in the text relate to performance in H1 2016 compared to H1 2015, under assumption that Žito Group has been consolidated from the beginning of 2015.

Vast majority of categories posted organic sales growth on the pro-forma level

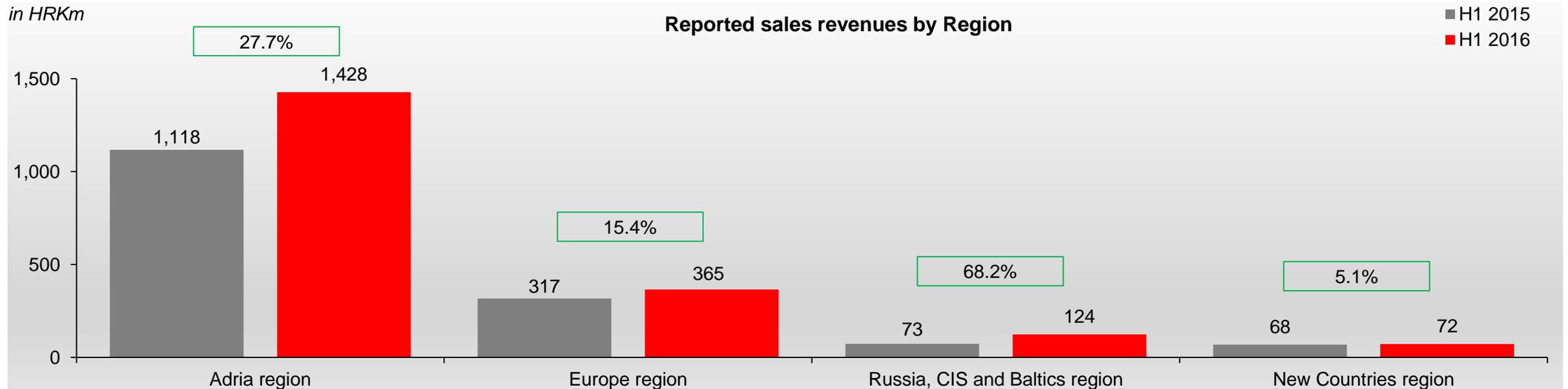


Pro-forma category performance in H1 2016¹:

- **Culinary (+1.0%; +4.3% excl. FX)** → promotional activities related to the Vegeta brand in Poland; successful implementation of the new business model in Russia,
- **Sweets, cereals for adults, snacks and drinks (-7.3%; -6.7% excl. FX)** → temporary change in delivery dynamics of the confectionary subcategory,
- **Lino world (+2.4%; +3.0% excl. FX)** → activities and innovation on the Lino Lada brand in the Croatian market; introduction of baby purees range,
- **Mediterranean food, condiments and core food (+3.1%; +5.0% excl. FX)** → frozen vegetables growth in the Russian market; promotional activities on the pasta and rice subcategories in Slovenia; distribution growth of condiments subcategory in Germany.
- **Meat programme (+1.7%; +2.6% excl. FX)** → extension of the pâté range distribution in the market of Russia,
- **Bakery and mill products (+5.1%; +6.0% excl. FX)** → increased activities in the Slovenian market; extended distribution and product range in European markets,
- **Prescription drugs (+5.0%; +10.7% excl. FX)** → expansion of business cooperation on the Russian market and heart and blood vessels assortment on the B&H market,
- **Non-prescription programme (+3.4%; +7.1% excl. FX)** → expansion of business cooperation on the Russian market and assortment extension on the Slovenian market,
- **Other sales (-2.9%; -2.3% excl. FX)** → lower sales of trade goods in pharma segment.

¹Percentages in the text relate to performance in H1 2016 compared to H1 2015, under assumption that Žito Group has been consolidated from the beginning of 2015.

International markets posted 3.3% sales growth in H1 2016



Pro-forma region performance in H1 2016¹:

- **Adria region (-1.8%; -1.1% excl. FX)** → the decrease in value of certain categories and pressure of private labels in the Mediterranean food, condiments and core food category; lower sales of trade goods in pharmaceutical segment,
- **Europe region (-0.2%; +1.3% excl. FX)** → lower other sales in the food segment; lower sales of the pharmaceuticals segment; increase in sales of own brands in the food segment due to the expansion of distribution and product range,
- **Russia, CIS and Baltic region (+64.7%; +98.8% excl. FX)** → positive impact of the successful implementation of the new business model in food segment on the Russian market; expansion of business cooperation on the Russian market in pharmaceutical segment,
- **New markets region (+1.2%; +4.5% excl. FX)** → expanded distribution and the product range of the company Žito.

¹Percentages in the text relate to performance in H1 2016 compared to H1 2015, under assumption that Žito Group has been consolidated from the beginning of 2015.

Focus on own brands and cost optimisation positively impacted pharmaceuticals profitability

H1 2016 (in HRK ¹)	Food reported		Pharmaceuticals		Podravka Group reported	
Sales revenues*	1,609.5	34.3%	379.1	0.4%	1,988.5	26.2%
Gross profit	525.2	25.2%	198.5	1.9%	723.8	17.8%
EBITDA	155.7	11.5%	66.3	17.3%	222.0	13.2%
EBIT	84.3	(2.4%)	45.5	23.6%	129.8	5.4%
Net profit after MI	66.9	(0.7%)	30.3	23.8%	97.3	5.8%

*Reclassification of fees contracted with customers for promotional, marketing and similar activities from MEX to decrease of sales revenues.

H1 2016 (% of sales revenues) ²	Food reported		Pharmaceuticals		Podravka Group reported	
Gross margin	32.6%	-235 bp	52.4%	+76 bp	36.4%	-257 bp
EBITDA margin	9.7%	-197 bp	17.5%	+252 bp	11.2%	-128 bp
EBIT margin	5.2%	-197 bp	12.0%	+225 bp	6.5%	-129 bp
Net margin after MI	4.2%	-146 bp	8.0%	+151 bp	4.9%	-94 bp

¹Performance in H1 2016; % of change when compared to H1 2015; ²% of sales revenues in H1 2016; basis points change when compared to H1 2015.

Key highlights in H1 2016:

Food reported:

- Positive impact of Mirna consolidation in H1 2015 of HRK 24.8m,
- Lower profitability of Žito Group assortment compared to the average profitability of food segment led to lower profitability margins in H1 2016.

Pharmaceuticals:

- 1.2% lower cost of goods sold as a result of focus on own brands and lowered distribution of trade goods,
- 2.9% lower operating expenses (excluding cost of goods sold) as a result of FX gains on trade receivables and payables as well as a result of focus on cost optimisation,
- Slight decrease of net financial expenses, while effective tax rate in H1 2016 was on the level of statutory rate.

Pro-forma profitability growth of Podravka Group on all levels

H1 2016 (in HRK ^m) ¹	Pro-forma Food		Pharmaceuticals		Pro-forma Podravka Group	
Sales revenues*	1,609.5	1.4%	379.1	0.4%	1,988.5	1.2%
Gross profit	525.2	4.1%	198.5	1.9%	723.8	3.5%
EBITDA	155.7	(5.6%)	66.3	17.3%	222.0	0.3%
EBIT	84.3	(8.0%)	45.5	23.6%	129.8	1.1%
Net profit after MI	66.9	(7.5%)	30.3	23.8%	97.3	0.4%

*Reclassification of fees contracted with customers for promotional, marketing and similar activities from MEX to decrease of sales revenues.

H1 2016 (% of sales revenues) ²	Pro-forma Food		Pharmaceuticals		Pro-forma Podravka Group	
Gross margin	32.6%	+85 bp	52.4%	+76 bp	36.4%	+81 bp
EBITDA margin	9.7%	-71 bp	17.5%	+252 bp	11.2%	-10 bp
EBIT margin	5.2%	-53 bp	12.0%	+225 bp	6.5%	0 bp
Net margin after MI	4.2%	-40 bp	8.0%	+151 bp	4.9%	-4 bp

¹Performance in H1 2016; % of change when compared to H1 2015; ²% of sales revenues in H1 2016; basis points change when compared to H1 2015.

Key highlights in H1 2016:

Pro-forma Food:

- Cost of goods sold on the level of comparable period due to the decrease in prices of certain raw materials,
- Operating expenses (excl. costs of goods sold) are 0.9% lower as a result of focus on cost optimisation,
- Lower net finance costs and tax liability,
- Comparable period under the positive influence of HRK 24.8m effect of Mirna consolidation.

Podravka Group:

- Decrease in prices of certain raw materials, the decrease in the distribution of trade goods in the pharmaceutical segment,
- 1.4% lower total OPEX (excl. cost of goods sold) due to the focus on cost optimisation and FX gains on trade receivables and payables,
- Lower net finance cost in H1 2016,
- Comparable period under the positive influence of HRK 24.8m effect of Mirna consolidation.

Positive impact of focus on cost optimisation and FX gains on trade receivables and payables

Operating expenses	H1 2016 / H1 2015 pro-forma	
Cost of goods sold (COGS)	(0.1%)	
General and administrative expenses (G&A)	(3.0%)	
Sales and distribution costs (S&D)	0.1%	
Marketing expenses (MEX)	0.8%	
Other expenses	n/a	
Total	(0.5%)	

Key highlights in H1 2016 on the pro-forma level:

▪ **Cost of goods sold (COGS):**

- 0.1% lower COGS due to a decrease in prices of certain raw materials and the decrease in the distribution of trade goods in the company Farmavita,

▪ **General and administrative expenses (G&A):**

- 3.0% lower due to, among other things, lower cost of consultancy services and other expenses,

▪ **Sales and distribution expenses (S&D):**

- At same level as in the comparative period, with the positive impact of the optimisation of rental expenses and transportation costs,

▪ **Marketing expenses (MEX):**

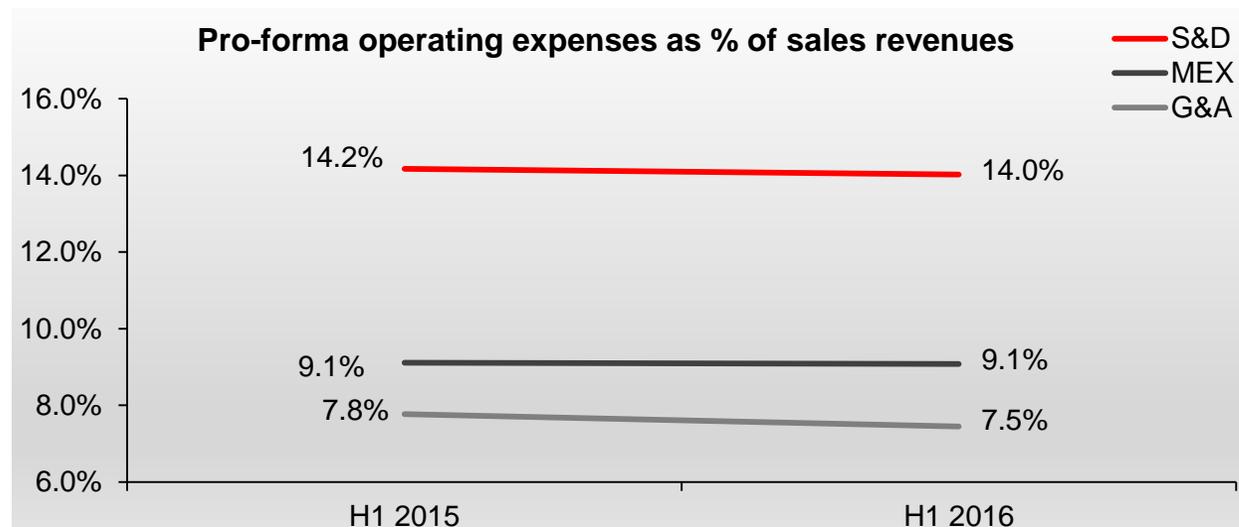
- Stronger marketing activities on the market of Russia and on New markets,

▪ **Other expenses:**

- Foreign exchange gains on trade receivables and payables in H1 2016 have positively affected the result,

▪ **Total operating expenses (all OPEX excluding COGS):**

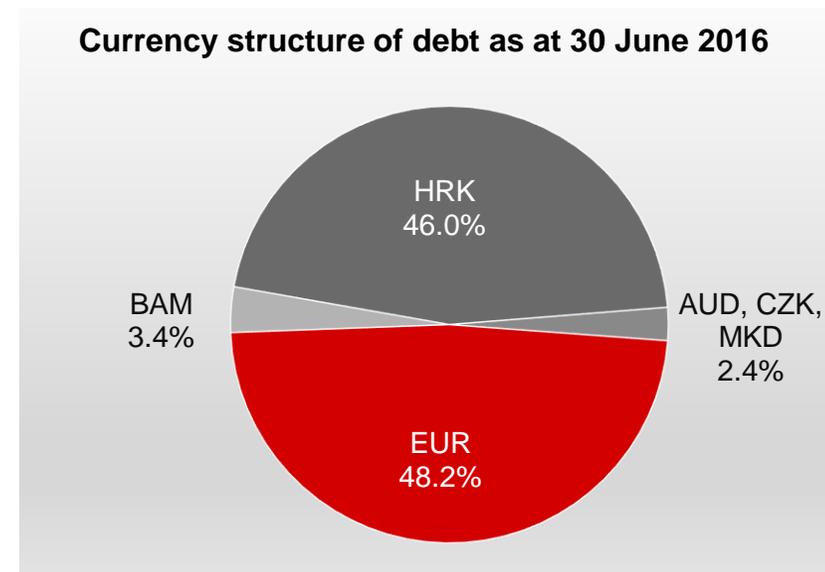
- Total OPEX lower by 1.4% as a result of focus on cost optimisation and FX gains on trade receivables and payables.



Sustainable level of indebtedness after the Žito Group acquisition

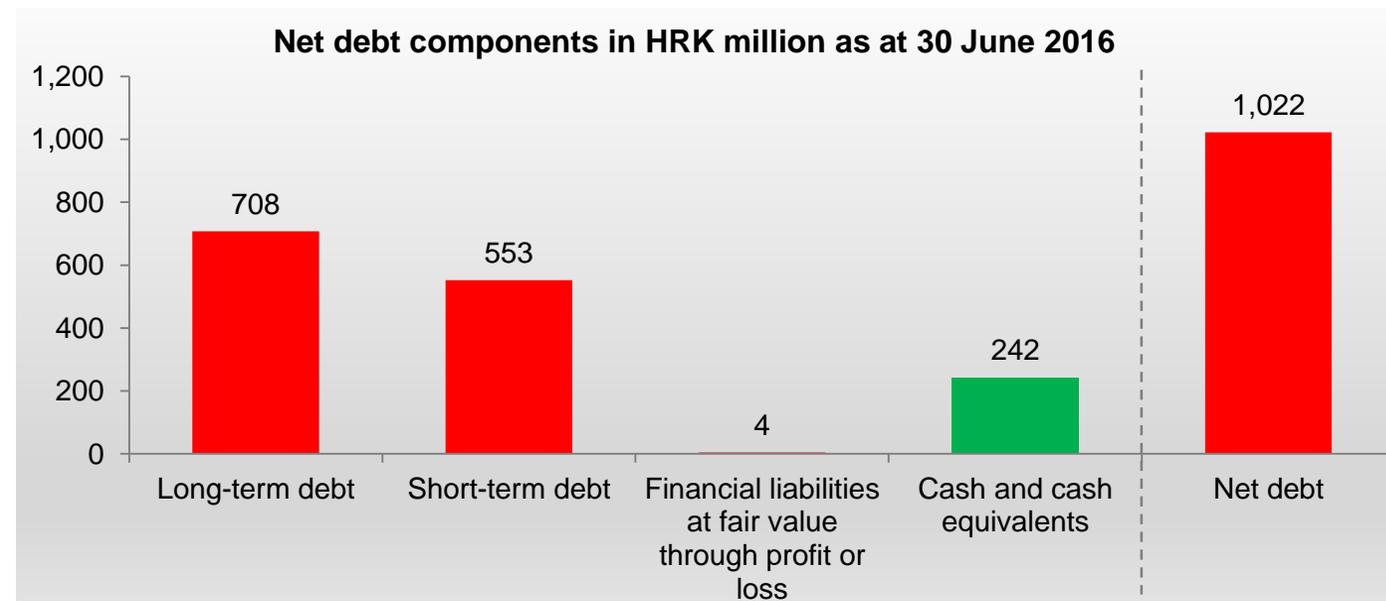
(u HRK 000) ¹	H1 2016	2015	% change
Net debt	1,022,108	922,380	10.8%
Interest expense	36,186	36,918	(2.0%)
Net debt / EBITDA	2.1	2.0	5.0%
EBITDA / Interest expense	13.7	12.7	7.7%
Equity to total assets ratio	58.2%	57.0%	+127 bp

¹All P&L figures are calculated on the trailing 12 months level, while BS figures are taken at the end of period.



Key highlights:

- Net debt growth → use of long-term borrowings for the purpose of the new pharmaceutical factory construction,
- Lower interest expenses → repayment of a part of borrowings,
- Net debt/EBITDA calculated with the 2015 pro-forma EBITDA, excluding gain from Žito bargain purchase and Žito impairment is 2.1,
- **Weighted average cost of debt:**
 - As at 30 June 2016 → 2.9%,
 - As at 31 December 2013 → 4.3%.

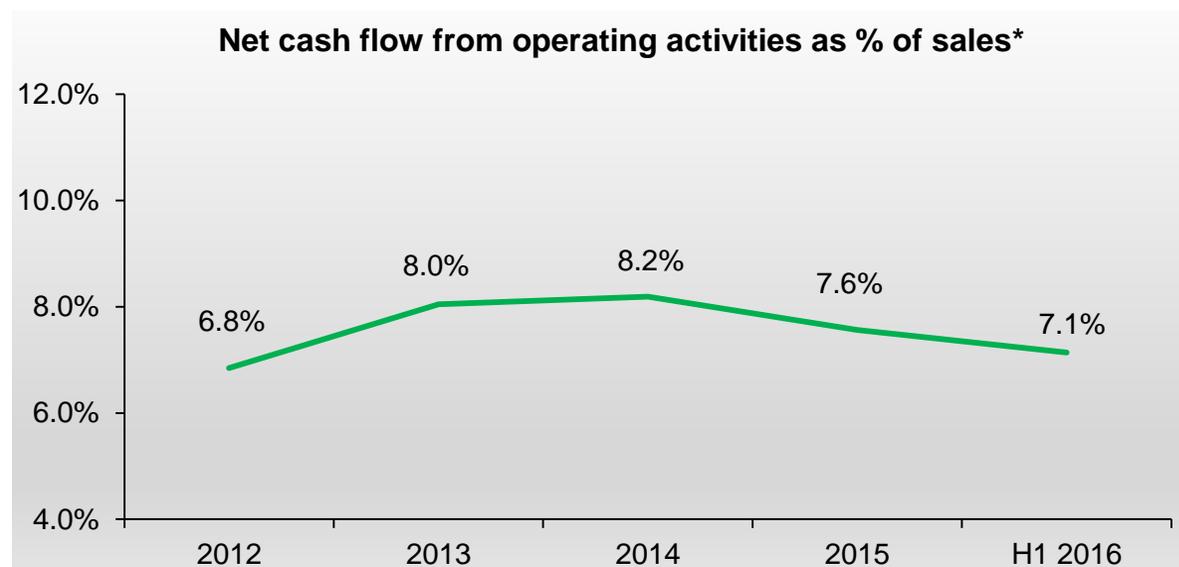


Stable level of net cash flow from operating activities

Working capital movement	30 June 2016 / 31 December 2015		Impact
Inventories		HRK -14.6 millions	<ul style="list-style-type: none"> ▪ Movement has been, among other things, impacted by seasonal character of operations, where the levels of inventories of certain raw materials at the end of the first half of the year are lower than at the year end.
Trade receivables		HRK -29.8 millions	<ul style="list-style-type: none"> ▪ Movement is on one hand the result of seasonally higher level of sales in the last quarter of the year, resulting in higher receivables in that period, but it is also the result of a more dynamic collection of trade receivables in the second quarter of 2016.
Trade payables		HRK -91.1 millions	<ul style="list-style-type: none"> ▪ Seasonal payment dynamics in the food segment → part of 2015 liabilities has been settled in H1 2016, ▪ Settling the liability of Belupo for completed stages of the new factory construction.

(in HRK thousands)	H1 2016	H1 2015	Δ
Net cash from operating activities	141,984	(11,939)	153,923
Net cash from investing activities	(235,603)	(72,043)	(163,560)
Net cash from financing activities	43,962	(1,836)	45,798
Net change of cash and cash equivalents	(49,658)	(85,818)	36,160

- **CAPEX** in 2016 is expected to be at the level of HRK 500 - 600m, in 2017 at the level of HRK 300 - 400m, and in 2018 at the level of HRK 250 - 350m.



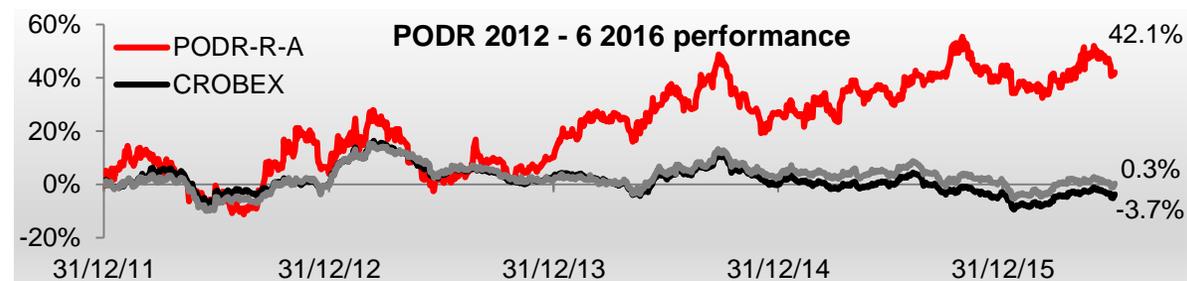
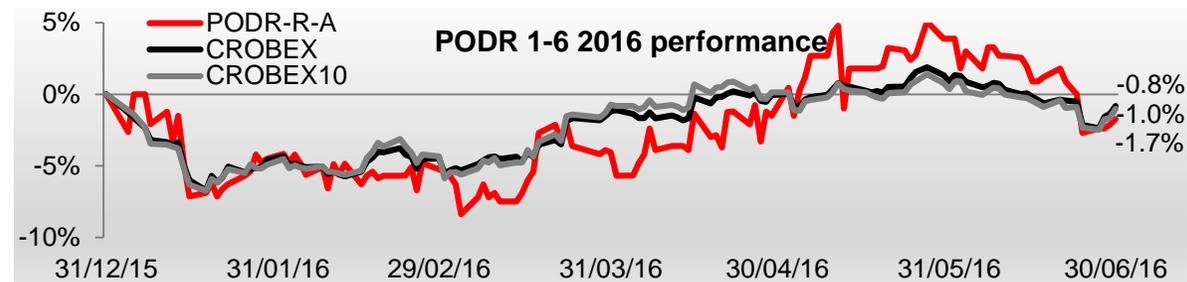
*Sales in 2012-2014 period have not been reclassified for marketing expenses.

Analyst expectations imply potential for Podravka's share price growth

(HRK; units)	H1 2016	H1 2016/ H1 2015	2015 / 2014	2014 / 2013
Average daily price	329.2	7.5%	7.4%	16.3%
Average daily number of transactions	9	(28.4%)	(9.1%)	39.6%
Average daily volume	1,064	(24.8%)	11.3%	105.4%
Average daily turnover	350,165.6	(19.1%)	19.6%	134.2%
Reported earnings per share	59.0	(11.1%)	276.9%	38.8%
Adjusted earnings per share ¹	24.8	8.1%	31.6%	(8.8%)

¹Calculated on the trailing 12 months level, where pro-forma figures for 2015 were taken, excl. Gain on a Žito bargain purchase, Žito impairment and deferred tax assets.

Analysts	Recommendation	Target price	Potential ²
 InterCapital	Buy	HRK 364.78	9.7%
 Raiffeisen BANK	Hold	HRK 353.00	6.2%
 ERSTE Group	Accumulate	HRK 355.00	6.8%
 UniCredit	Buy	HRK 398.96	20.0%
 WOOD & COMPANY	Hold	HRK 371.00	11.6%



Peer group multiples ³	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.2	13.0	18.4	3.5	21.2
Normalized weight. av. peer group ⁴	2.2	13.3	19.0	3.1	22.2
Podravka Group reported	0.9	7.2	12.1	0.9	6.1
Podravka Group normalized ¹	0.8	6.7	16.2	0.9	14.6

²Compared to the last price on 21 July 2016,

³Obtained from Bloomberg on 22 July 2016,

⁴Calculated excluding max. and min. values.

Peer group food: Atlantic Grupa d.d., Greencore Group plc, Nestle S.A., Orkla S.A., Otmuchow S.A., Unilever plc,

Peer group pharma: Krka Inc, Hikma Pharmaceuticals plc, Recordati S.p.A, Richter Gedeon Nyrt., Stada Arzneimittel AG.

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