



Audited Podravka Group business results for 1-12 2016 period



Key highlights of 2016

Food Solution – new business segment:

- Food Solution implies a completely new gastro segment in which, in addition to products, customers also obtain the “Know-How”.
- These are fresh-made/cooked/baked ready-to-eat or semi-prepared meals, and services provided in the preparation of menus, organisation of kitchen chores and staff and planning investments in kitchen equipment,
- Currently the offer includes 130 different products (meals) which are intended, among others, to institutions such as army, police, hospitals, deli departments in supermarkets and companies having own corporate restaurants.



Sale of the beverages business segment:

- 20th September 2016 → signing the Sale and Purchase Agreement with the company Kofola ČeskoSlovensko for the purchase of a share in the company Studenac d.o.o.,
- After the agreed contractual preconditions were met, the share was transferred as at 20th December 2016,
- This transaction is not expected to negatively impact the business results in 2016 and it is expected to have a positive impact on the EBITDA in the amount of approximately HRK 5 million in the following period.



Contract on refinancing of borrowings signed:

- 6th September 2016 → a syndicated loan contract was signed with the EBRD as arranger (including Unicredit Slovenia) and four business banks: Privredna Banka Zagreb d.d., Raiffeisenbank Austria d.d., SKB d.d. and Erste &Steiermarkische Bank d.d.,
- The arrangement value is EUR 123 million:
 - EUR 99 million is intended for refinancing the existing liabilities,
 - EUR 24 million will be available for CAPEX and possible acquisitions,
- EUR 99 million will be repaid in 24 equal quarterly instalments, and the expected savings on interest expense should amount to approximately HRK 3.5 million annually.

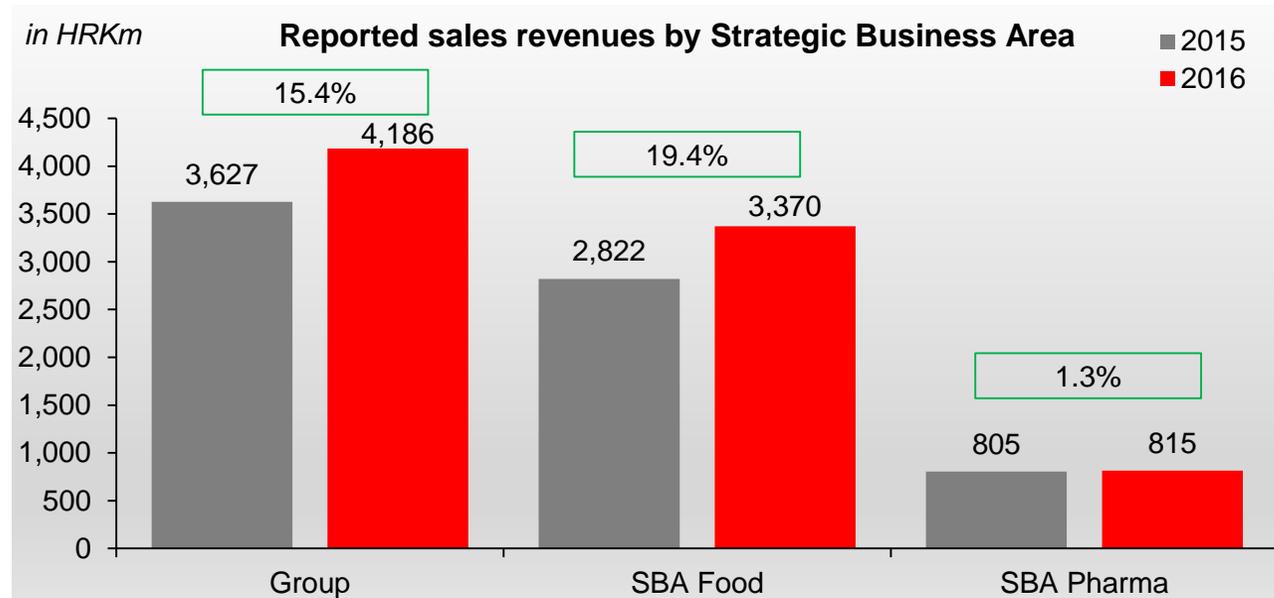
Dividend distribution to shareholders of Podravka d.d.:

- 16th September 2016 → dividend distributed to shareholders of Podravka d.d. in the amount of HRK 7.00 per share,
- Last dividend distribution was 10 years ago,
- By successfully implemented restructuring processes and achieved positive business results prerequisites for the dividend distribution were met,
- Management's goal is to enable sustainable implementation of the dividend policy.



Note (i) pro-forma overview in this presentation indicates that Žito figures are included in the entire 1-12 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.

Growth of own brands despite negative FX differences, negative contribution of other sales



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

HRK _m	Own brands	Other sales	Total	Currency	HRK _m
Food	(32.9)	(4.7)	(37.6)	RUB	(21.1)
Pharmaceuticals	(15.9)	(0.9)	(16.8)	EUR	(12.9)
Group	(48.8)	(5.6)	(54.4)	Other	(20.4)
				Total	(54.4)

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

Pro-forma SBA Food¹:

- Own brands** → 0.6% lower sales (+0.6% excl. FX), arising from negative FX differences and negative trends in the movement of key subcategories in the Adria region,
- Other sales** → 5.2% lower sales (-4.3% excl. FX) due to decreased scope of cooperation in the area of private labels,
- Total SBA Food** → 1.3% lower sales (-0.2% excl. FX).

SBA Pharmaceuticals¹:

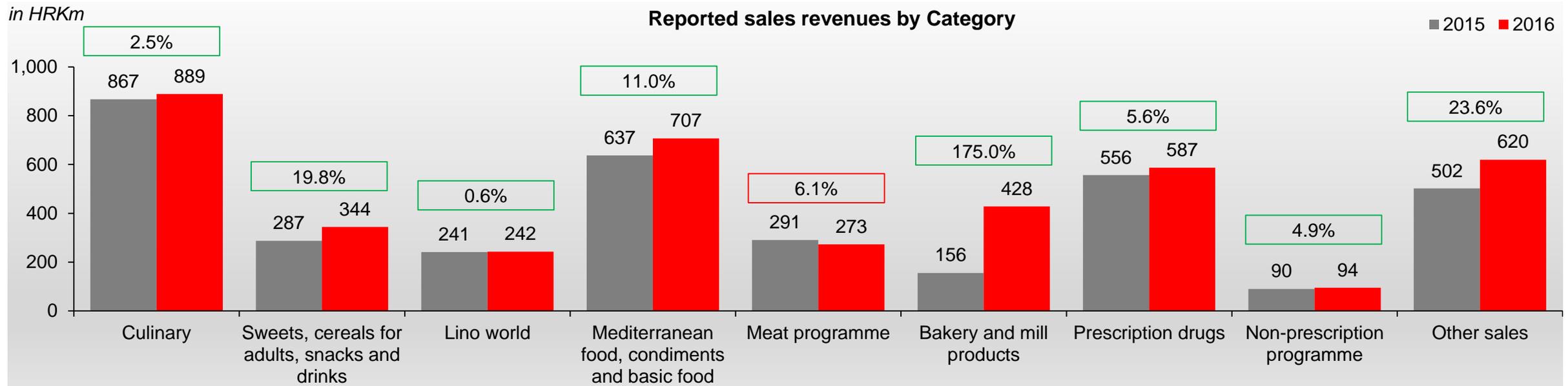
- Own brands** → 5.5% higher sales (+7.9% excl. FX) due to the expansion of the business cooperation in Russia,
- Other sales** → 15.8% lower sales (-15.3% excl. FX) as a result of stronger focus on own brands and consequently lower distribution of trade goods,
- Total SBA Pharmaceuticals** → 1.3% higher sales (+3.4% excl. FX).

Pro-forma Podravka Group¹:

- Own brands** → 0.5% higher sales (+1.9% excl. FX),
- Other sales** → 7.7% lower sales (-6.9% excl. FX),
- Total Podravka Group** → 0.8% lower sales (+0.5% excl. FX).

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

Prescription drugs category sales growth, lower other sales in pharma and in food on the pro-forma level

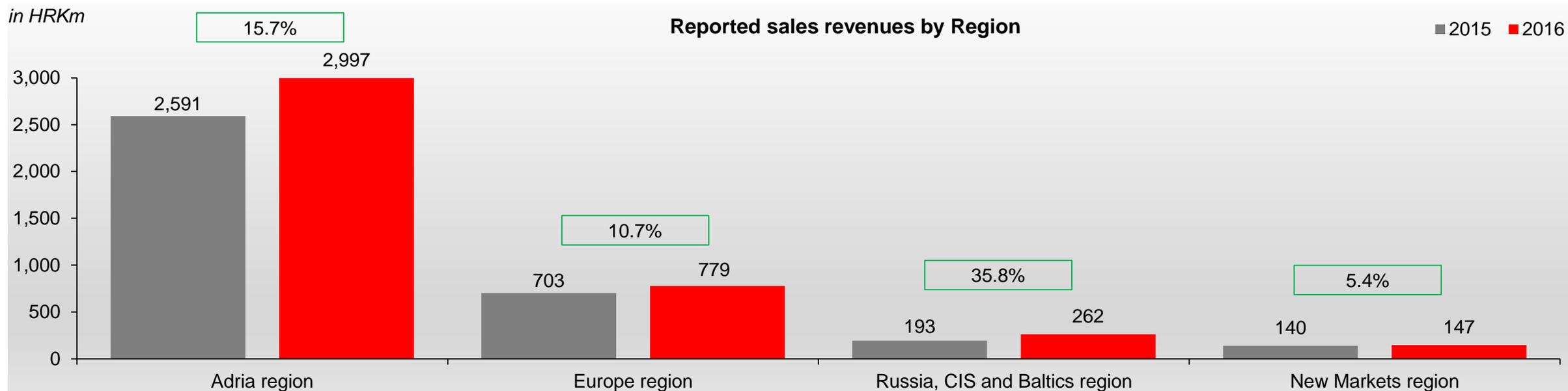


Pro-forma category performance in 2016¹:

- **Culinary (+0.6%; +2.3% excl. FX)** → Seasonings subcategory sales growth in Russia due to successful implementation of new business model, Soups sales growth in Adria region due to stronger activities,
- **Sweets, cereals for adults, snacks and drinks (-1.4%; -0.9% excl. FX)** → lower beverages sales due to decreased marketing support and higher competitors' activities,
- **Lino world (+0.6%; +1.0% 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 (-0.7%; +0.4% excl. FX)** → decrease in the overall market of some subcategories and the pressure of competitors and PL-s.
- **Meat programme (-6.1%; -5.7% excl. FX)** → restructuring of the sausage programme that currently reflects in sales revenues drop compared to the previous period,
- **Bakery and mill products (+1.1%; +2.5% excl. FX)** → increased activities in the Slovenian market; extended distribution and product range in European markets,
- **Prescription drugs (+5.6%; +8.1% excl. FX)** → expansion of business cooperation on the Russian market and heart and blood vessels assortment in the B&H market,
- **Non-prescription programme (+4.9%; +6.7% excl. FX)** → expansion of business cooperation in the Russian market and assortment extension in the Slovenian market,
- **Other sales (-7.7%; -6.9% excl. FX)** → lower sales in food and pharma.

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

Decrease in the overall market of some key subcategories in the Adria region, market shares stable or increasing



Pro-forma region performance in 2016¹:

- **Adria region (-3.2%; -2.5% excl. FX)** → **food** sales lower 3.6% due to the decrease in the overall market of some key subcategories, the restructuring of the meat programme, lower beverages sales and decreased scope of cooperation in the area of PL; **pharma** sales lower 1.8% by the decrease in sales of trade goods, while own brands recorded a sales growth,
- **Europe region (-0.3%; +1.0% excl. FX)** → **food** sales lower 0.2% due to Central Europe lower sales marked by the decrease in the overall market of the Universal seasonings subcategory, which wasn't compensated by Western Europe sales growth; **pharma** sales lower 2.5% due to activities of the existing and new competitors in the Polish market,
- **Russia, CIS and Baltic region (+33.7%; +44.4% excl. FX)** → **food** sales higher 50.6% due to the successful implementation of the new business model that resulted, among other things, with distribution and assortment extension; **pharma** sales higher 20.7% due to expanded business cooperation in the market of Russia,
- **New markets (+2.2%; +3.3% excl. FX)** → **food** sales higher 2.3% as a result of opening new markets at the beginning of 2015, but also as a result of the expansion of the distribution and the Žito product range; **pharma** sales higher 1.6%.

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

Significant pharma profitability improvement due to more stable HRK/RUB FX

2016 (in HRK ¹)	Food reported		Pharmaceuticals		Podravka Group reported	
Sales revenues*	3,370.3	19.4%	815.2	1.3%	4,185.5	15.4%
Gross profit	1,090.8	13.5%	428.1	1.0%	1,518.9	9.7%
EBITDA	317.4	(14.2%)	152.3	54.0%	469.6	0.2%
EBIT	158.2	(33.4%)	110.7	132.3%	268.9	(5.7%)
Net profit after MI	111.3	(47.0%)	71.1	(62.0%)	182.4	(54.1%)

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

2016 (% of sales revenues) ²	Food reported		Pharmaceuticals		Podravka Group reported	
Gross margin	32.4%	-170 bp	52.5%	-15 bp	36.3%	-190 bp
EBITDA margin	9.4%	-369 bp	18.7%	+640 bp	11.2%	-170 bp
EBIT margin	4.7%	-372 bp	13.6%	+766 bp	6.4%	-144 bp
Net margin after MI	3.3%	-414 bp	8.7%	-1454 bp	4.4%	-660 bp

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

Key highlights in 2016:

Food reported:

- One-off items: in 2015 EBITDA and EBIT increased by HRK 97.7m and net profit by HRK 102.7m; in 2016 EBITDA increased by HRK 5.9m and EBIT and net profit decreased by HRK 3.4m. Normalized, EBIT would grow 15.6% and net profit by 6.8%,
- Reported and normalized profitability margins were lower as a result of, among other, Žito Group assortment that has lower margins than average Podravka assortment.

Pharmaceuticals:

- One-off items: in 2015 EBITDA and EBIT decreased by HRK 7.8m and net profit increased by HRK 154.6m due to significant impact of deferred tax income. Normalized, EBIT would grow by 99.6% and net profit by 117.8%,
- Normalized profitability margins are higher on all levels.

Podravka Group reported normalized profitability margin growth on all levels

2016 (in HRK ¹)	Pro-forma Food		Pharmaceuticals		Pro-forma Podravka Group	
Sales revenues*	3,370.3	(1.3%)	815.2	1.3%	4,185.5	(0.8%)
Gross profit	1,090.8	(0.4%)	428.1	1.0%	1,518.9	(0.0%)
EBITDA	317.4	6.5%	152.3	54.0%	469.6	18.4%
EBIT	158.2	15.4%	110.7	132.3%	268.9	45.5%
Net profit after MI	111.3	(2.2%)	71.1	(62,0%)	182.4	(39.4%)

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

2016 (% of sales revenues) ²	Pro-forma Food		Pharmaceuticals		Pro-forma Podravka Group	
Gross margin	32.4%	+27 bp	52.5%	-15 bp	36.3%	+27 bp
EBITDA margin	9.4%	+69 bp	18.7%	+640 bp	11.2%	+181 bp
EBIT margin	4.7%	+68 bp	13.6%	+766 bp	6.4%	+204 bp
Net margin after MI	3.3%	-3 bp	8.7%	-1454 bp	4.4%	-278 bp

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

Key highlights in 2016:

Pro-forma Food:

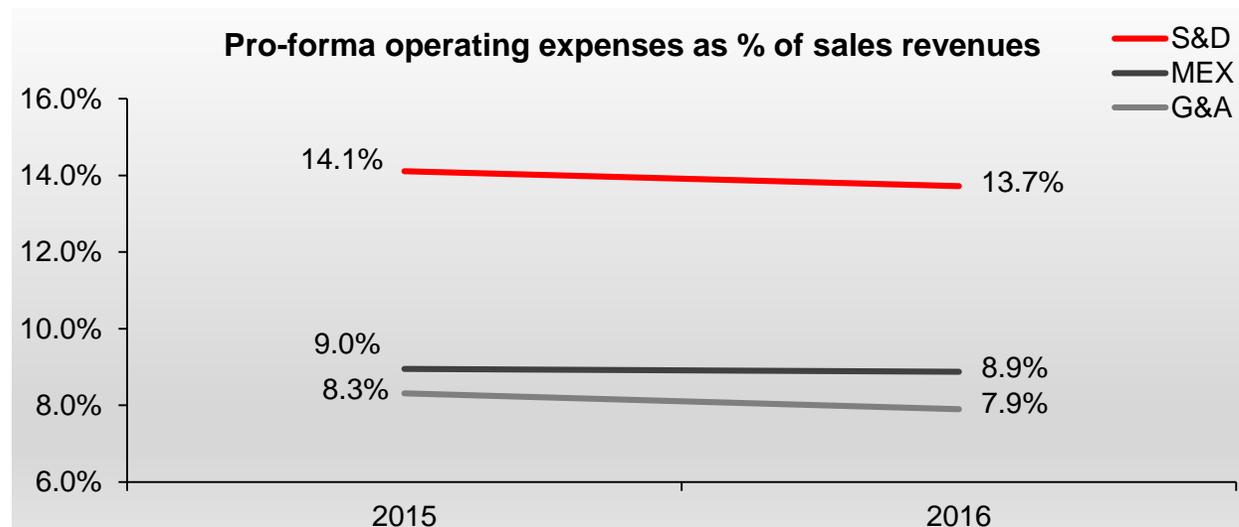
- One-off items: in 2015 EBITDA and EBIT decreased by HRK 18.0m and net profit by HRK 13.0m; in 2016 EBITDA increased by HRK 5.9m and EBIT and net profit decreased by HRK 3.4m. Normalized, EBIT would grow 4.2% and net profit would fall by 9.6%,
- The company utilised in 2015 tax losses carried forward by subsidiaries and consequently had a significantly lower tax liability compared to 2016,
- Reported and normalized profitability margins were mostly higher, except for net profit margin which was a result of lower tax liability in 2015.

Pro-forma Podravka Group:

- Normalized, EBIT would grow 29.3% and net profit would grow 16.5%,
- Normalized profitability margins were higher on all levels.

Positive movement of operating expenses

Operating expenses	2016 / 2015 pro-forma	
Cost of goods sold (COGS)	(1.2%)	
General and administrative expenses (G&A)	(5.8%)	
Sales and distribution costs (S&D)	(3.5%)	
Marketing expenses (MEX)	(1.6%)	
Other expenses / sales, net	n/a	
Total	(2.9%)	



Key highlights in 2016 on the pro-forma level:

▪ **Cost of goods sold (COGS):**

- Lower 1.2% due to a decrease in prices of certain raw materials,

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

- 2015 was burdened with severance payments and Žito acquisition and integration costs. Excluding severance payments in 2016 and aforementioned impacts in 2015, G&A expenses would grow 6.9% due to, among other things, higher costs related to opening of new markets that were not present in the comparative period,

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

- Lower 3.5% due to, among other things, synergy effects of Danica merger in Q4 2015,

▪ **Marketing expenses (MEX):**

- Decreased marketing activities in the pharmaceuticals segment in the markets of the CIS due to deteriorating business climate; temporal suspension of planned marketing activities in Western Europe due to distributor change,

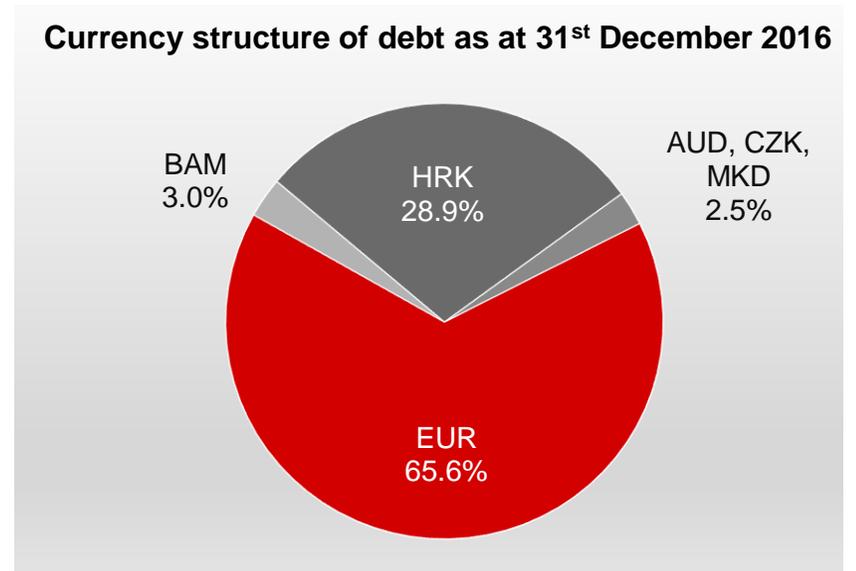
▪ **Other expenses / sales, net:**

- Includes foreign exchange differences on trade receivables and payables that were positive in 2016 and negative in 2015. Thereby, impact of this OPEX item was positive in 2016 and negative in 2015.

Sustainable level of Podravka Group indebtedness

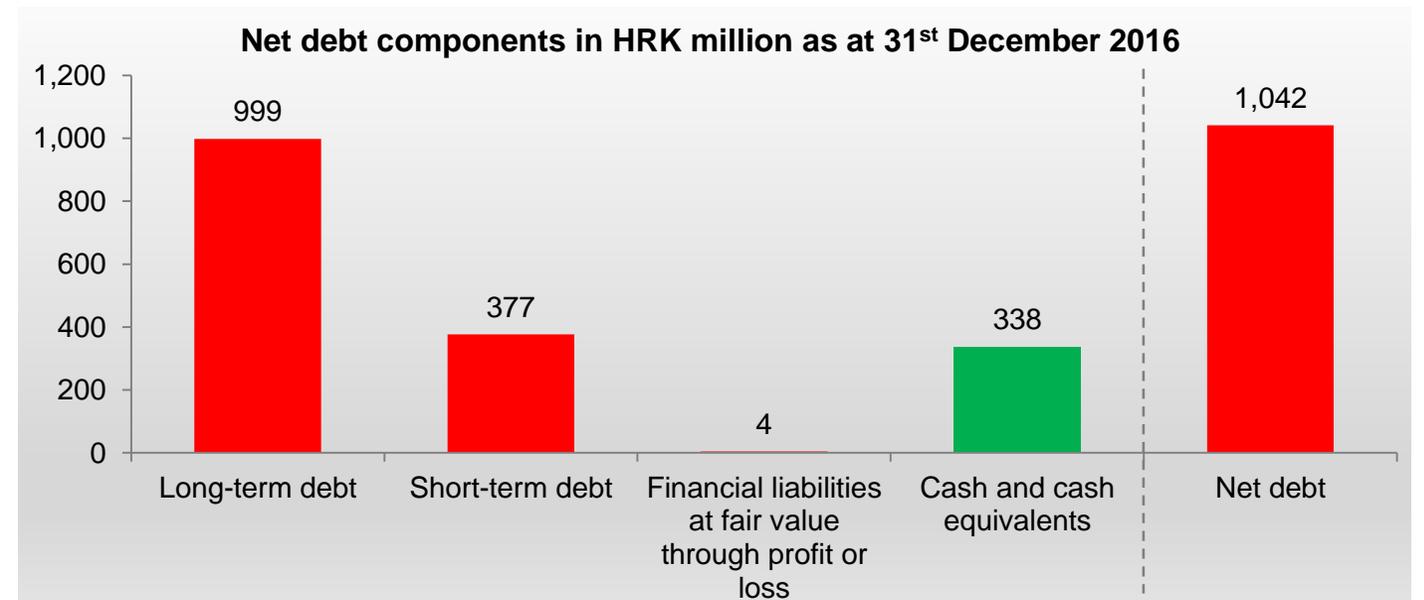
(u HRK 000) ¹	2016	2015	% change
Net debt	1,041,739	922,380	12.9%
Interest expense	31,216	36,926	(15.5%)
Net debt / EBITDA	2.2	2.0	12.7%
EBITDA / Interest expense	15.0	12.7	18.6%
Equity to total assets ratio	55.4%	56.5%	-109 bb

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 normalized 2015 pro-forma EBITDA is 2.2,
- **Weighted average cost of debt:**
 - As at 31 December 2016 → 2.5%,
 - As at 31 December 2013 → 4.3%.

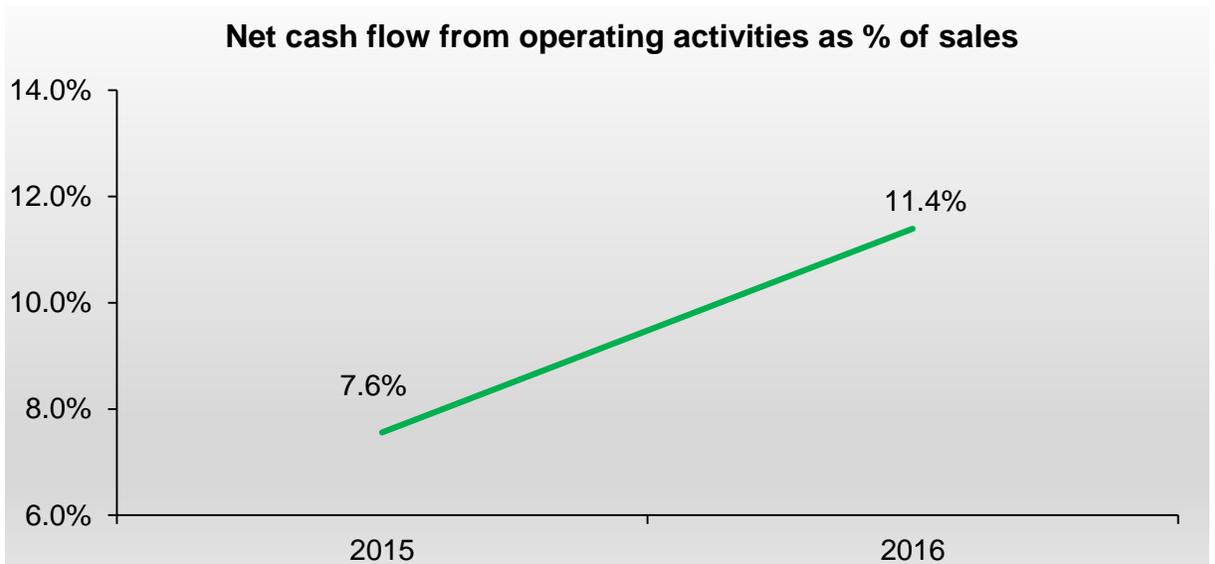


Stable level of net cash flow from operating activities

Working capital movement in BS	31 December 2016 / 31 December 2015		Impact
Inventories		(1.3%)	<ul style="list-style-type: none"> Mild inventory decrease of 1.3%, partially as a result of lower prices of certain raw materials.
Trade and other receivables		1.5%	<ul style="list-style-type: none"> Growth of 1.5% while trade receivables grew 2.8% due to, among other, slower dynamics collection of receivables in the Pharmaceuticals segment at the end of 2016 compared to the end of 2015.
Trade and other payables		3.5%	<ul style="list-style-type: none"> Growth of 3.5% while trade payables were at the level of comparative period.

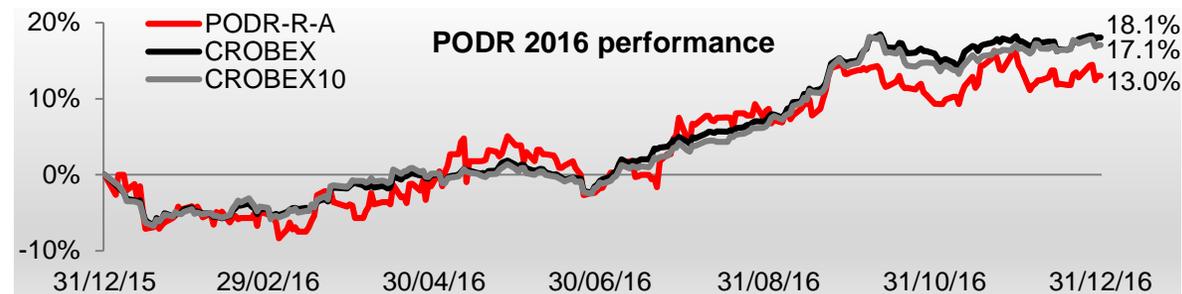
<i>(in HRK thousands)</i>	2016	2015	Δ
Net cash from operating activities	476.7	274.2	202.5
Net cash from investing activities	(358.9)	(675.8)	316.9
Net cash from financing activities	72.1	473.0	(545.1)
Net change of cash and cash equivalents	45.7	71.4	(25.7)

- **CAPEX** in 2017 is expected to be at the level of HRK 250 - 300m, in 2018 at the level of HRK 150 - 200m, and in 2019 at the level of HRK 250 - 300m.



Stable growth of Podravka's share price in 2016

(HRK; units)	2016	2016/2015	2015 / 2014	2014 / 2013
Average daily price	348.7	9.4%	7.4%	16.3%
Average daily number of transactions	11	(8.9%)	(9.1%)	39.6%
Average daily volume	1,112	(36.0%)	11.3%	105.4%
Average daily turnover	387,819.0	(30.0%)	19.6%	134.2%
Reported earnings per share	58.9	(11.2%)	276.9%	38.8%
Adjusted earnings per share	28.8	8.2%	31.6%	(8.8%)



Analysts	Recommendation	Target price	Potential ¹
InterCapital	Under review	-	n/a
Raiffeisen BANK	Hold	HRK 383.00	1.5%
ERSTE Group	Hold	HRK 400.00	6.0%
UniCredit	Buy	HRK 398.96	5.7%
WOOD & COMPANY	Hold	HRK 376.00	(0.4%)

Peer group multiples ²	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.2	12.0	16.9	2.8	20.2
Normalized weight. av. peer group ³	2.2	12.5	18.0	2.5	20.4
Podravka Group reported	0.9	7.4	12.2	1.0	6.6
Podravka Group normalized ⁴	0.9	8.4	15.5	1.0	13.9

¹Compared to the last price on 31st December 2016,

²Obtained from Bloomberg on 30th January 2017,

³Calculated excluding max. and min. values.

⁴Normalized for items stated in the publication of 2016 results.

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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