Podravka Group business results for 1-3 2016 period

Key highlights of Q1 2016

New organization of food segment categories:

Old categories:

- Culinary,
- Sweets, snacks and beverages,
- Baby, breakfast and other food,
- Meat products,
- Žito*.

*Žito assortment allocation: spices[1]; breakfast cereals, confectionary, teas[2]; pasta, rice, frozen and cooled food, cereals[3].

New categories:

- Culinary[1],
- Sweets, cereals for adults, snacks and drinks[2],
- Lino world,
- Mediterranean food, condiments and core food[3],
- Meat programme,
- Bakery and mill products.

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.

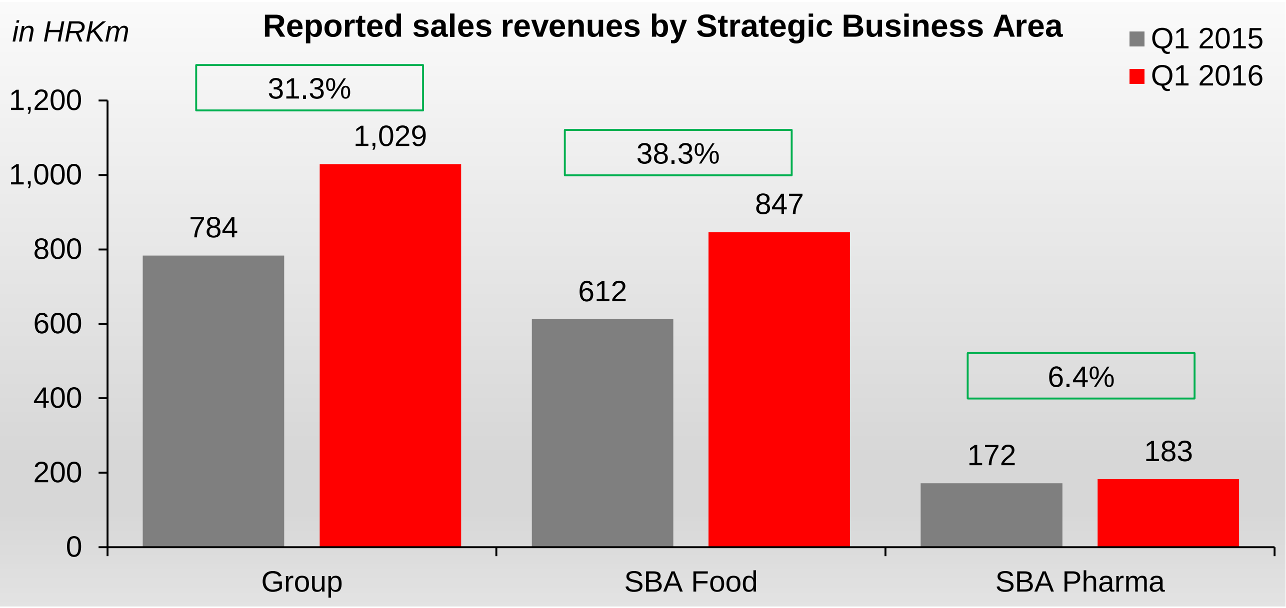
Dividend distribution proposal:

- 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,
- The final decision on the dividend distribution will be 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.

Own brands excluding beverages and Žito assortment recorded 6.4% of sales growth in Q1 2016



Net impact of FX on sales revenues:

HRKm	Own brands	Other sales	Total
Food	(8.6)	(0.3)	(9.0)
Pharmaceuticals	(4.6)	(0.2)	(4.7)
Group	(13.2)	(0.5)	(13.7)

Currency	*HRKm*
RUB	(7.4)
EUR	(2.1)
Other	(4.2)
Total	(13.7)

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in Q1 2016 if FX rates had remained on the same levels as in Q1 2015.

SBA Food excl. beverages and Žito assortment[1]:

- **Own brands**→ 5.5% higher sales mostly due to sales growth of Culinary category and Meat programme category,
- **Other sales** → 11.5% lower sales mostly due to lower sales of trade goods,
- **Total SBA Food** → 3.6% higher sales.

SBA Pharmaceuticals[1]:

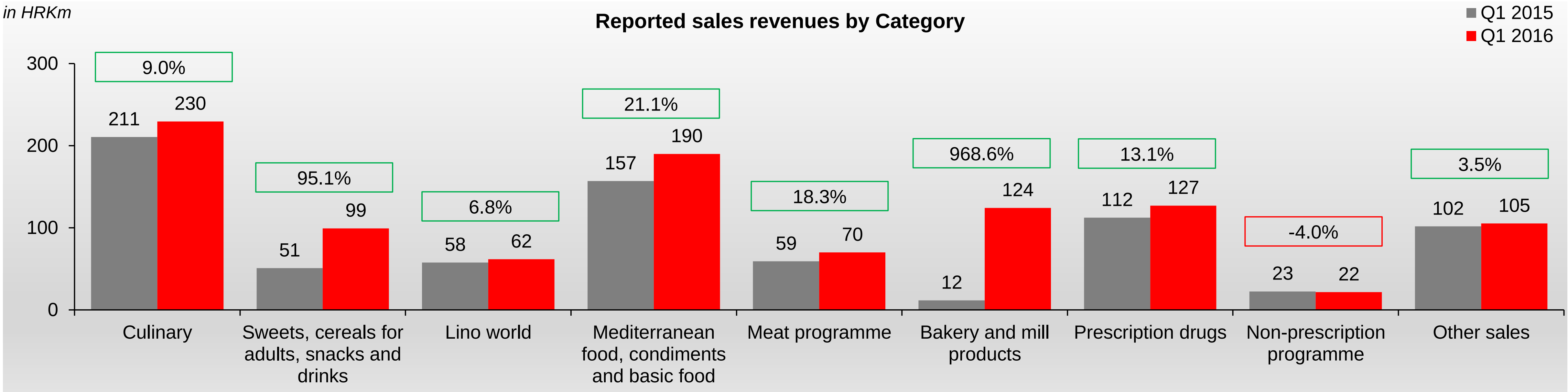
- **Own brands** → 10.3% higher sales mostly due to the expansion of the business cooperation in the Russian market,
- **Other sales** → 7.9% lower sales due to stronger focus on own brands,
- **Total SBA Pharmaceuticals** → 6.4% higher sales.

Podravka Group excl. beverages and Žito assortmant[1]:

- **Own brands** → 6.4% higher sales,
- **Other sales** → 10.2% lower sales,
- **Total Podravka Group** → 4.2% higher sales.

[1]Percentages in the text relate to performance in Q1 2016 compared to Q1 2015.

Several food categories benefited from successful implementation of new business model in Russia

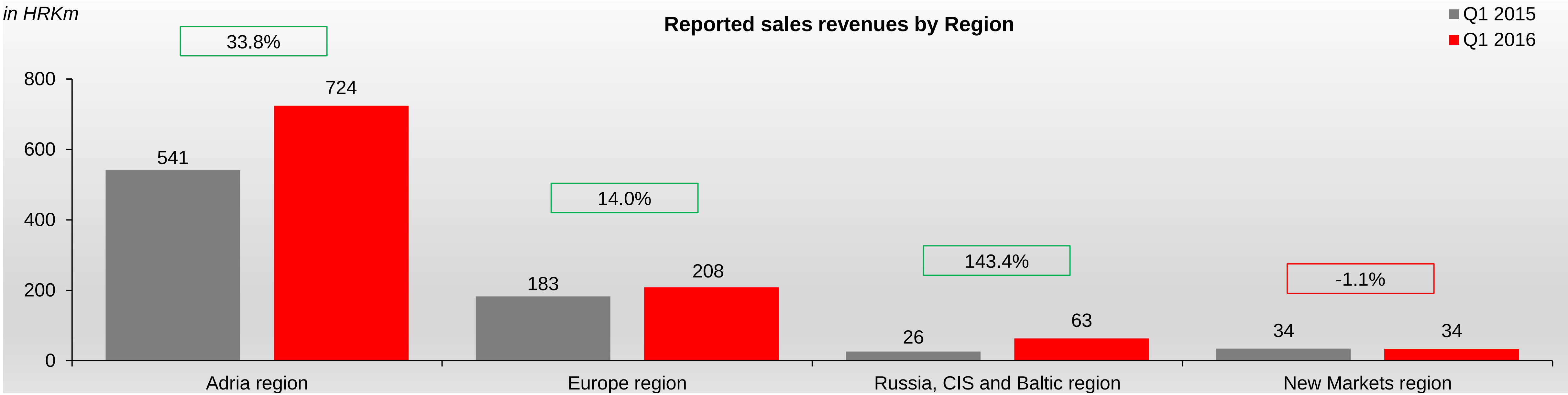


Category performance in Q1 2016 excluding Žito assortment[1]:

- **Culinary (+6.5%)** → activities related to the Vegeta brand in Poland and Croatia as well as successful implementation of new business model in Russia,
- **Sweets, cereals for adults, snacks and drinks (-2.0%)** → market decline of powdered sweets in Croatia, rationalization of powdered drinks product range,
- **Lino world (+6.8%)** → activities on the Lino Lada brand in Croatia, introduction of baby purees product range,
- **Mediterranean food, condiments and core food (+3.0%)** → frozen vegetables growth in Russia, increased distribution of condiments in Germany,
- **Meat programme (+18.3%)** → among other things, extension of the pâté range distribution in Russia,
- **Bakery and mill products (-13.8%)** → aggressive competition pricing activities in Croatia,
- **Prescription drugs (+13.1%)** → expansion of the business cooperation in Russia, expansion of heart and blood vessels assortment in Bosnia and Herzegovina,
- **Non-prescription programme (-4.0%)** → high comparative period in Croatia,
- **Other sales (-10.2%)** → lower trade goods sales in food and pharmaceuticals.

[1]Percentages in the text relate to performance in Q1 2016 compared to Q1 2015.

Majority of regions recorded organic sales growth of own brands in food segment



Region performance in Q1 2016 excluding Žito assortment[1]:

- **Adria region (0.0%)** → 1.1% sales growth of food segment primarily due to a positive impact of meat programme and Lino world categories; negative impact of pharmaceuticals segment in non-prescription programme category and in trade goods,
- **Europe region (-1.2%)** → 5.7% sales growth of own brands in food segment; negative impact of other sales in food segment and negative impact of pharmaceuticals segment,
- **Russia, CIS and Baltics region (+141.1%)** → positive impact of successful implementation of the new business model in food segment in the market of Russia, expansion of business cooperation in pharmaceutical segment in the market of Russia,
- **New Markets region (-4.4%)** → negative impact of other sales, sales of own brands on the comparative period level.

Net impact of FX on sales revenues:

Region	*HRKm*
Adria	(3.6)
Europe	(1.9)
Russia, CIS, Baltic	(7.4)
New Markets	(0.8)

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in Q1 2016 if FX rates had remained on the same levels as in Q1 2015.

[1]Percentages in the text relate to performance in Q1 2016 compared to Q1 2015.

Food segment profitability under the influence of one-off items in the comparable period

Q1 2016 (in HRKm)[1]	Food excl. Žito		Q1 2016 impact and performance of Žito Group		Food reported	
Sales revenues	642.2*	4.9%	211.0*	3.2%	846.7*	38.3%
Gross profit	240.7	1.8%	60.3	19.6%	301.0	27.3%
EBITDA	65.4	(28.5%)	27.4	86.9%	92.7	1.4%
EBIT	40.9	(37.0%)	16.5	251.0%	57.4	(11.7%)
Net profit after MI	30.5	(47.5%)	13.5	261.3%	44.0	(24.2%)

Q1 2016 (% of sales revenues)[2]	Food excl. Žito		Q1 2016 impact and performance of Žito Group		Food reported	
Gross margin	37.5%	-115 bp	28.6%	+392 bp	35.5%	-309 bp
EBITDA margin	10.2%	-475 bp	13.0%	+581 bp	11.0%	-398 bp
EBIT margin	6.4%	-424 bp	7.8%	+551 bp	6.8%	-383 bp
Net margin after MI	4.7%	-474 bp	6.4%	+458 bp	5.2%	-428 bp

[1]Performance in Q1 2016; % of change compared to Q1 2015; [2]% of sales revenues in Q1 2016; basis points change when compared to Q1 2015.

Key highlights in Q1 2016:

- **Food excluding Žito:**
  - Lower **gross margin** as a result of targeted sale and marketing activities and FX differences,
  - **Operating profit** in Q1 2015 was impacted by HRK 24.8m of positive effect from Mirna consolidation. Total operating expenses grew only 0.9% (excluding Mirna they are 0.3% lower) → result of restructuring and focus on cost optimisation,
  - **Net profit after MI** in Q1 2015 was impacted by, apart from impacts above EBIT, utilisation of tax benefits. Effective tax rate in Q1 2016 was 23.5%, while in Q1 2015 it was 1.4%.
- **Performance and impact of Žito Group:**
  - ***Part of Žito Group assortment (HRK 6.5 mil.) was sold through Podravka's companies and eliminated in the consolidation,
  - Lower prices of certain raw materials, 3.8% lower total operating expenses, lower net finance costs, effective tax rate was 15.0%.

Sales growth and absence of negative FX differences positively influenced pharmaceuticals profitability

Q1 2016 (in HRKm)[1]	Food reported		Pharmaceuticals		Group reported	
Sales revenues	846.7	↑ 38.3%	182.7	↑ 6.4%	1,029.4	↑ 31.3%
Gross profit	301.0	↑ 27.3%	93.7	↑ 6.6%	394.6	↑ 21.7%
EBITDA	92.7	↑ 1.4%	34.2	↑ 119.5%	126.9	↑ 18.6%
EBIT	57.4	↓ (11.7%)	23.7	↑ 329.9%	81.1	↑ 15.0%
Net profit after MI	44.0	↓ (24.2%)	16.1	↑ 794.0%	60.1	↑ 0.4%

Q1 2016 (% of sales revenues)[2]	Food reported		Pharmaceuticals		Group reported	
Gross margin	35.5%	↓ -309 bp	51.3%	↑ +12 bp	38.3%	↓ -304 bp
EBITDA margin	11.0%	↓ -398 bp	18.7%	↑ +964 bp	12.3%	↓ -132 bp
EBIT margin	6.8%	↓ -383 bp	13.0%	↑ +976 bp	7.9%	↓ -111 bp
Net margin after MI	5.2%	↓ -428 bp	8.8%	↑ +775 bp	5.8%	↓ -180 bp

[1]Performance in Q1 2016; % of change compared to Q1 2015; [2]% of sales revenues in Q1 2016; basis points change when compared to Q1 2015.

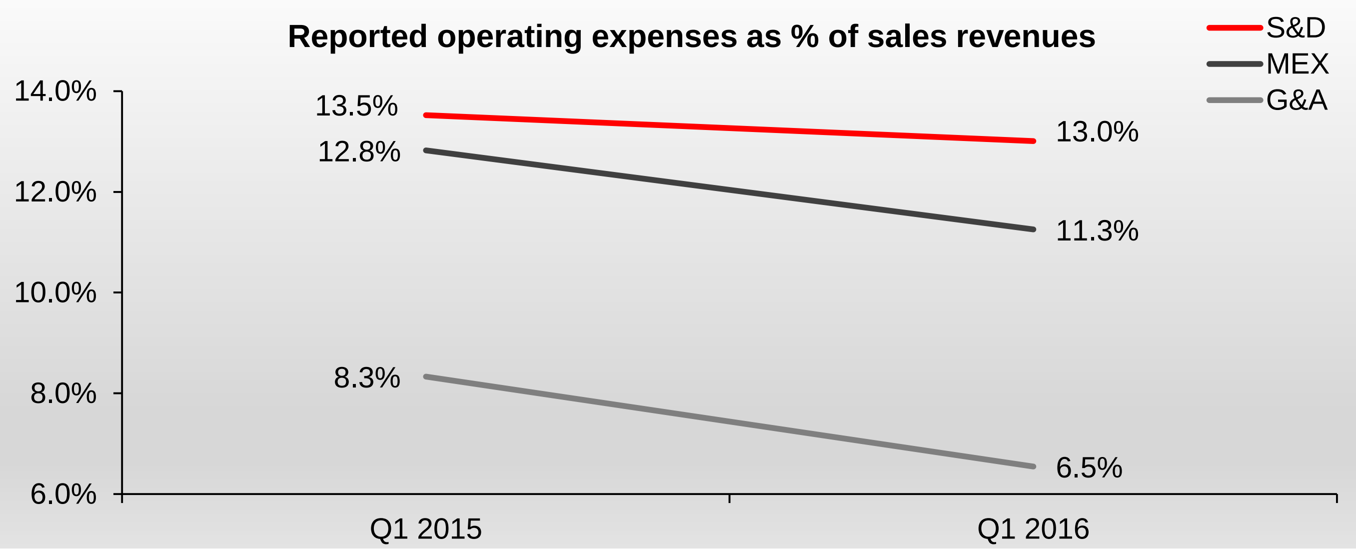
Key highlights in Q1 2016:

- **Pharmaceuticals:**
  - Lower COGS growth than sales growth positively impacted **gross margin**,
  - Total operating expenses 13.5% lower due to the absence of negative FX on trade receivables and payables; excluding FX on trade receivables and payables, total operating expenses were 2.0% lower → result of cost optimization,
  - Lower net finance costs, effective tax rate at the level of statutory rate.

- **Podravka Group:**
  - Key impacts on lower profitability margins are: (i) gain on a bargain purchase and tax benefits in the comparable period, (ii) targeted sale and marketing activities in Q1 2016 and (ii) consolidation of Žito Group whose assortment has, on average, lower margins than Podravka's food segment. Significant positive synergy and integration effects on profitability margins are expected from 2017.

Positive impact of restructuring and focus on cost optimisation

Operating expenses	Q1 2016 / Q1 2015 excluding Žito	Q1 2016 / Q1 2015 reported
Costs of goods sold (COGS)	6.7%	38.1%
General and administrative expenses (G&A)	(11.2%)	3.2%
Selling and distribution costs (S&D)	0.6%	26.3%
Marketing expenses (MEX)	6.6%	15.2%
Other expenses	(79.9%)	(79.9%)
Total	3.0%	28.5%



Key highlights in Q1 2016 excluding Žito Group impact:

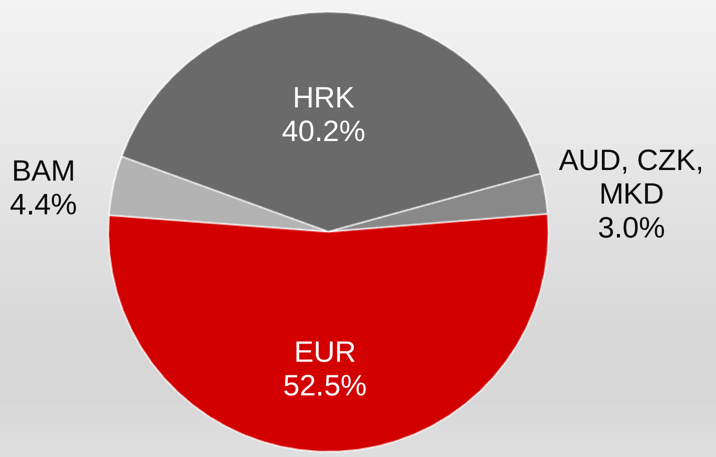
- **Costs of goods sold (COGS):**
  - 6.7% higher COGS due to organic volume growth in both segments,
- **General and administrative expenses (G&A):**
  - 11.2% lower due to, among other things, lower costs of services and other expenses. Excluding Mirna expenses, G&A would be 15.0% lower,
- **Selling and distribution costs (S&D):**
  - Mild 0.6% growth while organic sales growth of own brands excluding Žito was 4.4%. Positive impact came from, among other things, optimisation of rental expenses,
- **Marketing expenses (MEX):**
  - Stronger marketing activities related to the culinary category,
- **Other expenses:**
  - Net FX differences on trade receivables and payables were HRK -2.0 million in Q1 2016, while in Q1 2015 they were HRK -8.1 million,
- **Total operating expenses (excluding COGS):**
  - Total operating expenses were 3.1% lower compared to Q1 2015 → result of restructuring and focus on cost optimisation.

Sustainable level of indebtedness following Žito Group acquisition

(in HRK 000)[1]	Q1 2016	2015	% change
Net debt	1,060,113	922,376	14.9%
Interest expense	36,759	36,918	(0.4%)
Net debt / EBITDA	2.2	2.0	10.2%
EBITDA / Interest expense	13.3	12.7	4.7%
Equity to total assets ratio	58.2%	57.0%	+118 bp

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

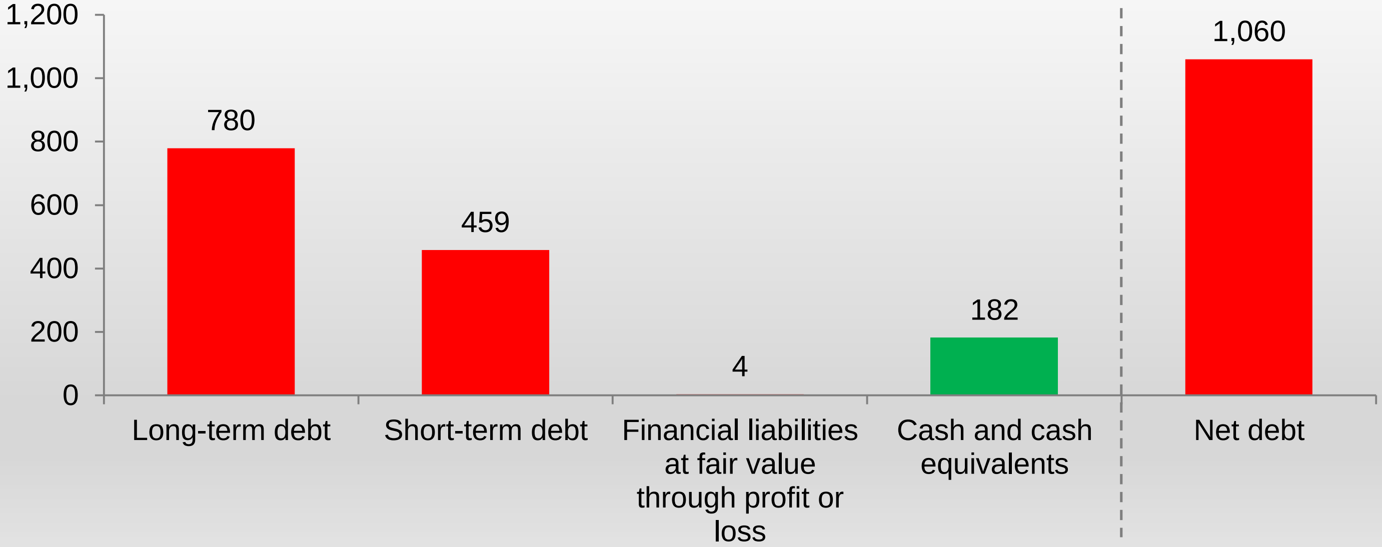
Currency structure of debt as at 31 March 2016



<u>Key highlights:</u>

- Net debt growth → use of long-term borrowings for the purpose of the new pharmaceutical factory construction, lower level of cash,
- Lower interest expenses → repayment of a part of borrowings,
- Net debt/EBITDA calculated with the 2015 pro-forma EBITDA Podravka Group and Žito Group level and excluding gain from Žito bargain purchase is 2.6; simultaneously interest coverage ratio is 10.5,
- **Weighted average cost of debt:**
  - As at 31 March 2016 → 2.9%,
  - As at 31 December 2013 → 4.3%.

Net debt components in HRK million as at 31 March 2016

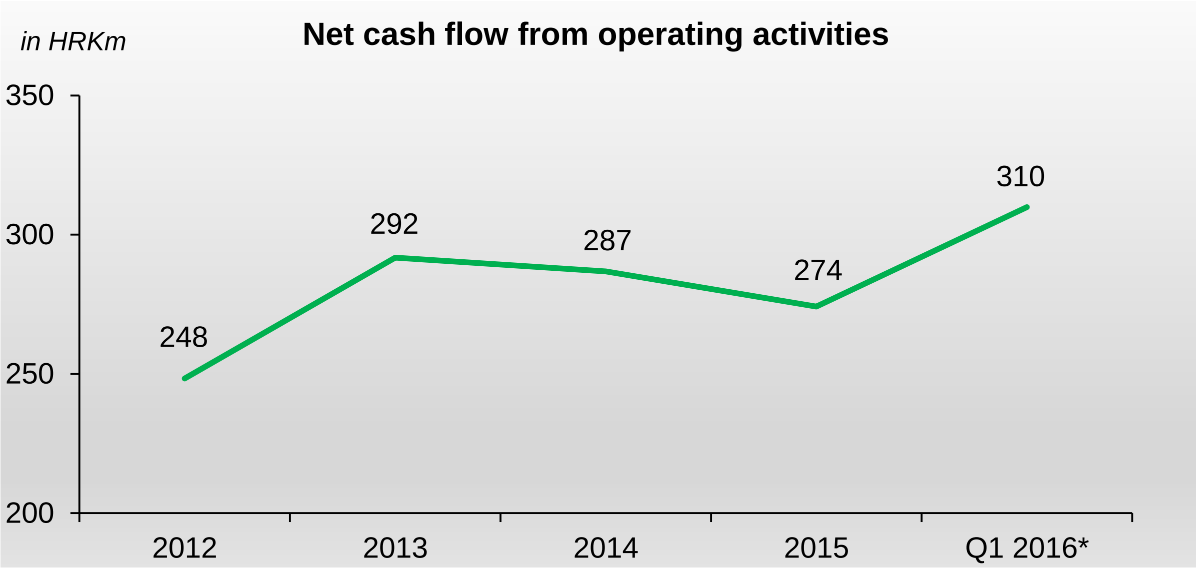


Stable level of net cash flow from operating activities

Working capital movement	31 March 2016 / 31 December 2015	Impact
Inventories	HRK -1.2 million	▪ Positive impact of lower prices of some raw materials that Žito Group has in inventory.
Trade receivables	HRK +8.6 million	▪ Trade receivables growth lower than sales growth → positive impact of shorter legal payment days due to change in legislation in the Slovenian market.
Trade payables	HRK -127.5 million	▪ Seasonal impact in food segment → part of liabilities from 2015 settled in Q1 2016, ▪ Settlement of Belupo liabilities for completed stages of the new factory construction, ▪ Change in legislation in the Slovenian market → shorter legal payment days.

Key highlights:

- Net cash flow from operating activities → HRK -5.0m, mostly due to settlement of trade payables,
- Net cash flow from investing activities → HRK -133.3m, mostly due to HRK 121.1m of capital expenditures,
- Net cash flow from financing activities → HRK 29.1m,
- CAPEX in 2016 is expected to be at the level of HRK 440-540m, in 2017 at the level of HRK 390-490m, and after that at the level of HRK 120-220m.

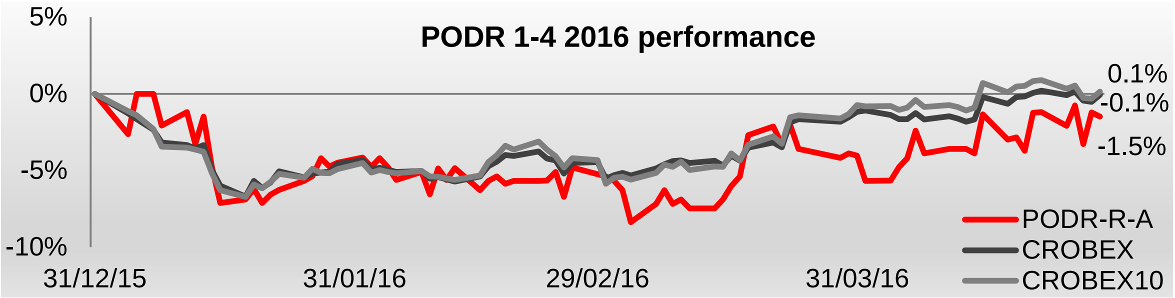


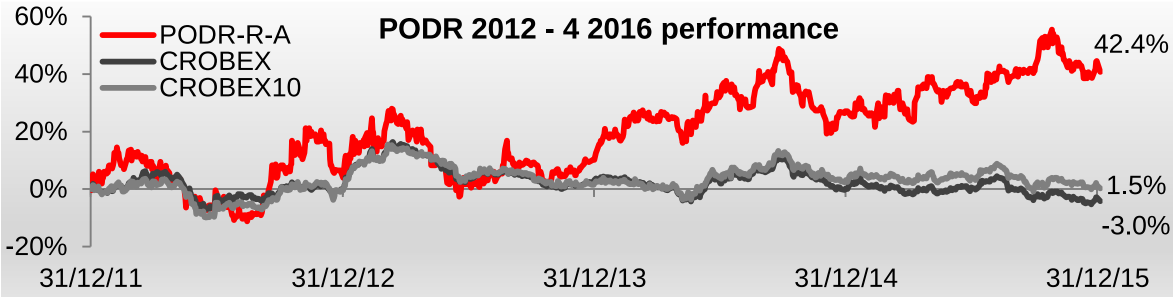
*Calculated on the trailing 12 months level.

Analyst expectations imply potential for Podravka's share price growth

(HRK; units)	Q1 2016	Q1 2016/ Q1 2015	2015 / 2014	2014 / 2013
Average daily price	318.8	7.6%	7.4%	16.3%
Average daily number of transactions	12	(19.5%)	(9.1%)	39.6%
Average daily volume	1,739	(5.8%)	11.3%	105.4%
Average daily turnover	554,258.8	(1.3%)	19.6%	134.2%
Reported earnings per share	62.0	(6.5%)	276.9%	38.8%
Adjusted earnings per share[1]	23.6	(6.4%)	31.6%	(8.8%)

[1]Calculated on the trailing 12 months level, where 2015 pro-forma figures for Podravka Group and Žito Group were taken, excluding gain on a Žito Bargain purchase and deferred tax assets.





Analysts	Recommendation	Target price	Potential[2]
InterCapital	Buy	HRK 364.78	10.9%
Raiffeisen BANK	Hold	HRK 353.00	7.3%
ERSTE Group	Accumulate	HRK 355.00	12.5%
UniCredit	Buy	HRK 398.96	21.3%
WOOD & COMPANY	Hold	HRK 371.00	12.8%

Peer group multiples[3]	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.1	12.6	17.9	3.2	20.6
Normalized weight. av. peer group[4]	2.1	12.7	18.1	3.0	21.7
Podravka Group reported	0.9	7.1	11.7	0.8	5.9
Podravka Group normalized[1]	0.7	8.3	17.4	0.8	15.5

[2]Compared to the last price on 29 April 2016,
[3]Obtained from Bloomberg on 29 April 2016,
[4]Calculated 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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