

Podravka Group business results for 1-9 2016 period



Key highlights of 1-9 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:

- 20 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 are met, the share will be transferred until the end of 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:

- 6 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.

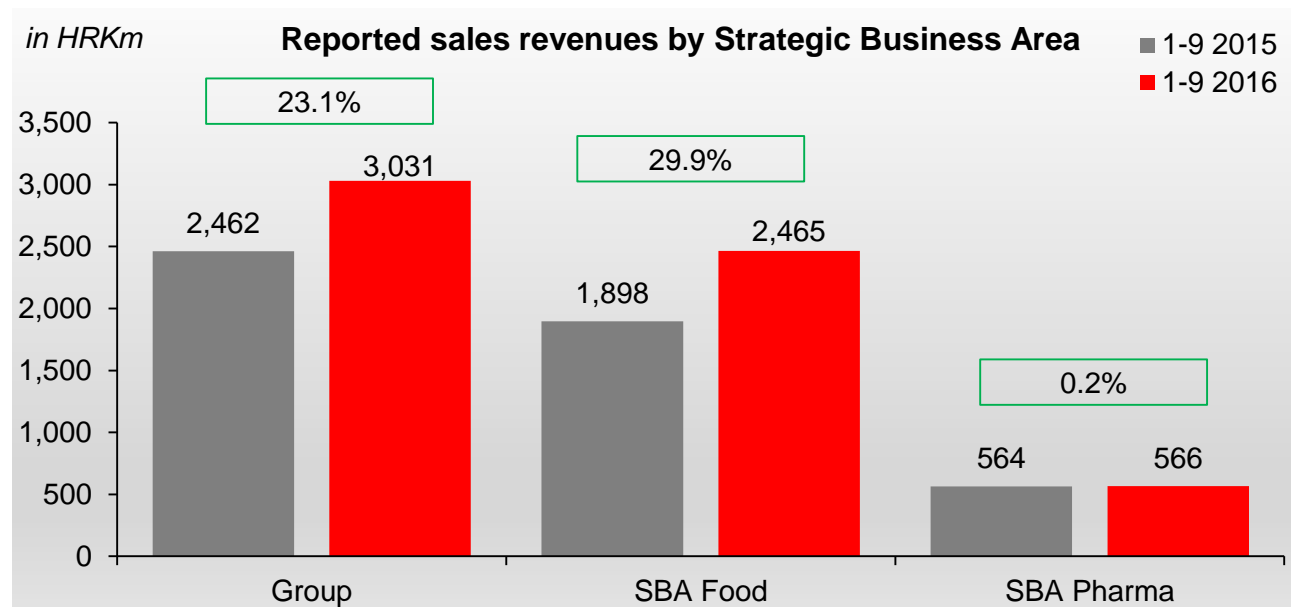
Dividend distribution to shareholders of Podravka d.d.:

- 16 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 1-9 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:

HRKm	Own brands	Other sales	Total	Currency	HRKm
Food	(29.7)	(3.6)	(33.3)	RUB	(26.8)
Pharmaceuticals	(17.6)	(0.6)	(18.2)	EUR	(9.1)
Group	(47.4)	(4.1)	(51.5)	Other	(15.6)
				Total	(51.5)

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in 1-9 2016 if FX rates had remained on the same levels as in 1-9 2015.

Pro-forma SBA Food¹:

- Own brands** → 0.2% higher sales (+1.6% excl. FX), despite negative FX differences and negative trends in the movement of key subcategories in the Adria region,
- Other sales** → 7.6% lower sales (-6.6% excl. FX) due to decreased scope of cooperation in the area of private labels,
- Total SBA Food** → 1.0% lower sales (+0.4% excl. FX).

SBA Pharmaceuticals¹:

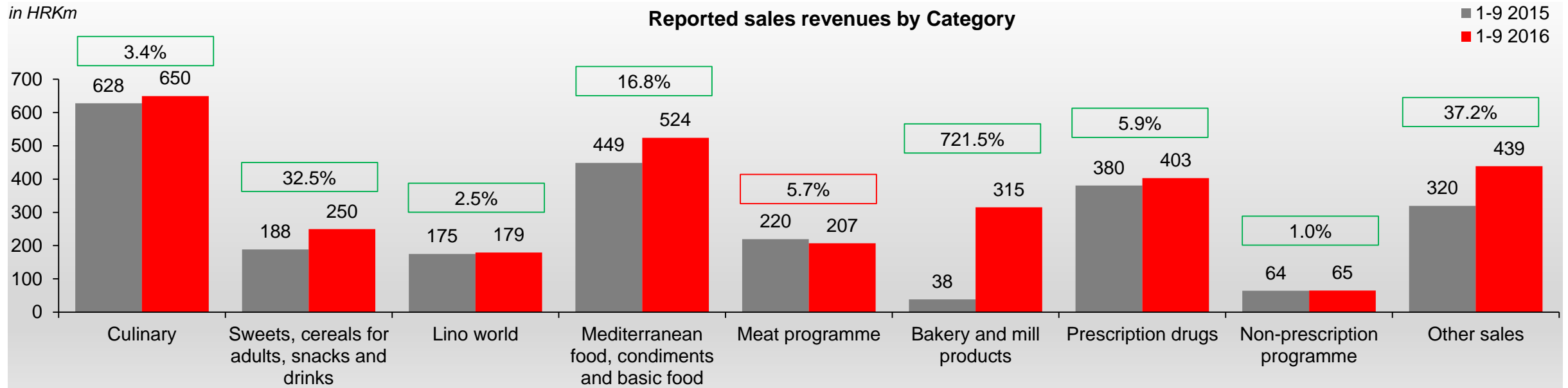
- Own brands** → 5.2% higher sales (+9.2% excl. FX) due to the cooperation expansion in the Russian market,
- Other sales** → 18.2% lower sales (-17.7% excl. FX) as a result of stronger focus on own brands and consequently lower distribution of principal brands,
- Total SBA Pharmaceuticals** → 0.2% higher sales (+3.5% excl. FX).

Pro-forma Podravka Group¹:

- Own brands** → 1.0% higher sales (+2.9% excl. FX),
- Other sales** → 10.2% lower sales (-9.3% excl. FX),
- Total Podravka Group** → 0.7% lower sales (+0.9% excl. FX).

¹Percentages in the text relate to performance in 1-9 2016 compared to 1-9 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

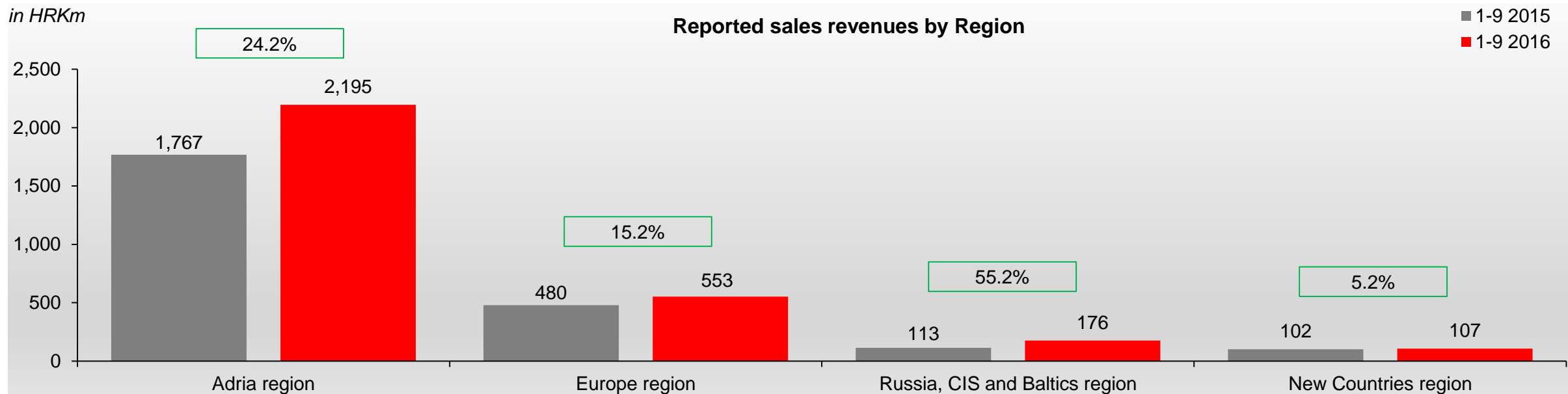


Pro-forma category performance in 1-9 2016¹:

- **Culinary (+0.8%; +3.3% 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 (-0.7%; -0.1% excl. FX)** → lower beverages sales due to decreased marketing support and higher competitors' activities,
- **Lino world (+2.5%; +2.9% 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 (+0.4%; +1.6% excl. FX)** → frozen vegetables growth in the Russian market; start of the Food Solution project in Croatia.
- **Meat programme (-5.7%; -5.3% excl. FX)** → restructuring of the sausage programme that currently reflects in sales revenues drop compared to the previous period,
- **Bakery and mill products (+2.3%; +3.5% excl. FX)** → increased activities in the Slovenian market; extended distribution and product range in European markets,
- **Prescription drugs (+5.9%; +10.1% excl. FX)** → expansion of business cooperation on the Russian market and heart and blood vessels assortment in the B&H market,
- **Non-prescription programme (+1.0%; +3.5% excl. FX)** → expansion of business cooperation in the Russian market and assortment extension in the Slovenian market,
- **Other sales (-10.2%; -9.3% excl. FX)** → lower sales in food and pharma.

¹Percentages in the text relate to performance in 1-9 2016 compared to 1-9 2015, under assumption that Žito Group has been consolidated from the beginning of 2015.

Pressures in the Adria region on key strategic subcategories compensated by sales growth in other regions



Pro-forma region performance in 1-9 2016¹:

- **Adria region (-3.4%; -2.8% excl. FX)** → **food** sales lower 3.2% 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 4.4% by the decrease in sales of trade goods, while own brands recorded a sales growth,
- **Europe region (-0.9%; +0.5% excl. FX)** → **food** sales lower 0.8% due to the change of the distributor in Western Europe, leading to certain changes in the usual dynamics of deliveries, while Central Europe posted sales growth in food; **pharma** sales lower 2.5% due to activities of the existing and new competitors in the Polish market,
- **Russia, CIS and Baltic region (+51.2%; +74.2% excl. FX)** → **food** sales higher 67.7% due to the successful implementation of the new business model that resulted, among other things, with distribution and assortment extension; **pharma** sales higher 36.2% due to expanded business cooperation in the market of Russia,
- **New markets (+0.8%; +2.8% excl. FX)** → **food** sales higher 0.2% - new markets opened last year are in the final phase of meeting all prerequisites for the normal commencement of operations and from the next year we expect their visible contribution to revenues; **pharma** sales higher 9.9%.

¹Percentages in the text relate to performance in 1-9 2016 compared to 1-9 2015, under assumption that Žito Group has been consolidated from the beginning of 2015.

Significant pharma profitability improvement due to the focus on own brands and more stable HRK/RUB FX

1-9 2016 (in HRK ^m) ¹	Food reported		Pharmaceuticals		Podravka Group reported	
Sales revenues*	2,465.2	29.9%	565.7	0.2%	3,030.8	23.1%
Gross profit	810.3	21.1%	293.8	1.9%	1,104.1	15.3%
EBITDA	238.0	13.5%	99.3	48.9%	337.4	22.0%
EBIT	133.1	2.3%	68.2	85.7%	201.2	20.6%
Net profit after MI	99.1	(10.3%)	43.1	110.0%	142.2	8.6%

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

1-9 2016 (% of sales revenues) ²	Food reported		Pharmaceuticals		Podravka Group reported	
Gross margin	32.9%	-238 bp	51.9%	+87 bp	36.4%	-245 bp
EBITDA margin	9.7%	-140 bp	17.6%	+574 bp	11.1%	-10 bp
EBIT margin	5.4%	-146 bp	12.0%	+555 bp	6.6%	-14 bp
Net margin after MI	4.0%	-180 bp	7.6%	+398 bp	4.7%	-63 bp

¹Performance in 1-9 2016; % of change when compared to 1-9 2015; ²% of sales revenues in 1-9 2016; basis points change when compared to 1-9 2015.

Key highlights in 1-9 2016:

Food reported:

- In 1-9 2016 positive impact of Mirna consolidation of HRK 24.8m and positive influence of deferred tax liability from Danica of HRK 14.7m,
- Lower profitability of Žito Group assortment compared to the average profitability of food segment led to lower profitability margins in 1-9 2016.

Pharmaceuticals:

- 1.7% lower cost of goods sold as a result of focus on own brands and lowered distribution of trade goods,
- 10.4% lower operating expenses (excluding cost of goods sold) as a result of lower staff costs and FX gains on trade receivables and payables,
- Slight decrease of net financial expenses, while effective tax rate in 1-9 2016 was on the level of statutory rate.

Pro-forma profitability growth of food segment and Podravka Group on all levels

1-9 2016 (in HRK ^m) ¹	Pro-forma Food		Pharmaceuticals		Pro-forma Podravka Group	
Sales revenues*	2,465.2	(1.0%)	565.7	0.2%	3,030.8	(0.7%)
Gross profit	810.3	0.6%	293.8	1.9%	1,104.1	1.0%
EBITDA	238.0	(6.3%)	99.3	48.9%	337.4	5.2%
EBIT	133.1	97.7%	68.2	85.7%	201.2	93.5%
Net profit after MI	99.1	112.7%	43.1	110.0%	142.2	111.9%

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

1-9 2016 (% of sales revenues) ²	Pro-forma Food		Pharmaceuticals		Pro-forma Podravka Group	
Gross margin	32.9%	+52 bp	51.9%	+87 bp	36.4%	+62 bp
EBITDA margin	9.7%	-55 bp	17.6%	+574 bp	11.1%	+62 bp
EBIT margin	5.4%	+269 bp	12.0%	+555 bp	6.6%	+323 bp
Net margin after MI	4.0%	+215 bp	7.6%	+398 bp	4.7%	+249 bp

Key highlights in 1-9 2016:

Pro-forma Food:







- Cost of goods sold 1.7% lower than in the comparative period due to the decrease in prices of certain raw materials,
- Total operating expenses (excl. COGS and Žito impairment) are 2.3% lower due to lower selling and distribution costs,
- Comparable period under the positive influence of HRK 24.8m effect of Mirna consolidation, negative influence of HRK 78.0m of Žito impairment and positive influence of HRK 14.7m of deferred tax liability from Danica → excluding aforementioned impacts EBIT grew 10.4% and net profit after MI grew 16.4%.

Podravka Group:

- 4.4% lower total OPEX (excl. cost of goods sold and Žito impairment),
- Excluding aforementioned impacts of Mirna, Žito and Danica EBIT grew 28.0% and net profit after MI grew 34.6%.

¹Performance in 1-9 2016; % of change when compared to 1-9 2015; ²% of sales revenues in 1-9 2016; basis points change when compared to 1-9 2015.

Positive movement of operating expenses in both business segments

Operating expenses	1-9 2016 / 1-9 2015 pro-forma	
Cost of goods sold (COGS)	(1.7%)	
General and administrative expenses (G&A)	1.4%	
Sales and distribution costs (S&D)	(2.2%)	
Marketing expenses (MEX)	(0.7%)	
Other expenses ¹	n/p	
Total	(2.6%)	

Key highlights in 1-9 2016 on the pro-forma level:

Cost of goods sold (COGS):

- 1.7% 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):

- 1.4% higher 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):

- 2.2% lower due to, among other things, optimisation of rental expenses and transportation costs,

Marketing expenses (MEX):

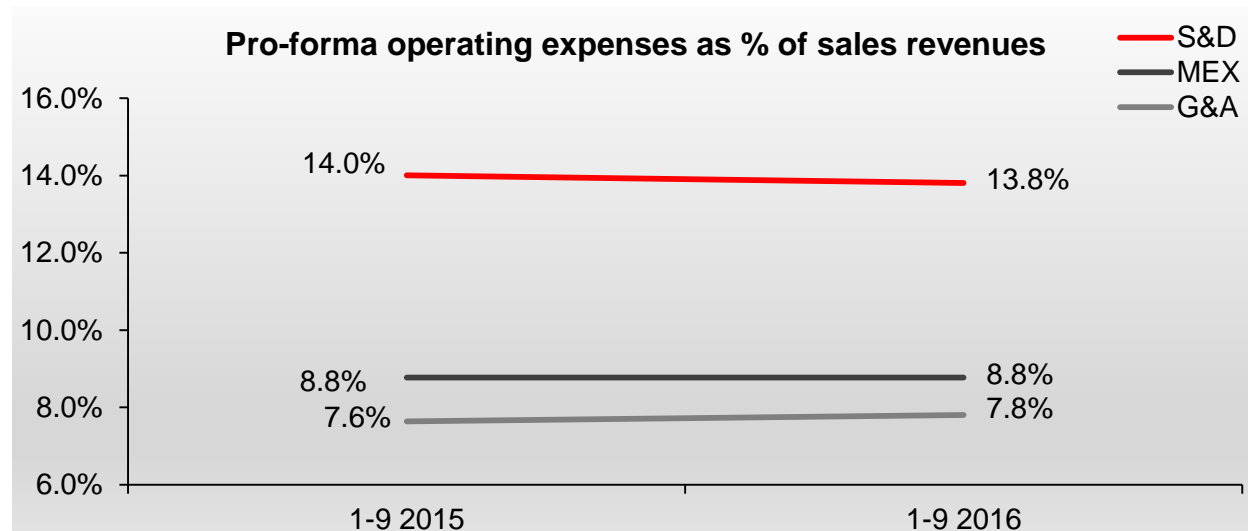
- 0.7% lower primarily due to decreased marketing activities in the pharmaceuticals segment in the markets of the CIS due to deteriorating business climate,

Other expenses:

- Foreign exchange gains on trade receivables and payables in 1-9 2016 have positively affected the result, while in the comparative period they were burdened by the impairment cost on Žito's assets of HRK 78.0 million,

Total operating expenses (excluding COGS and Žito impairment):

- 4.4% lower.



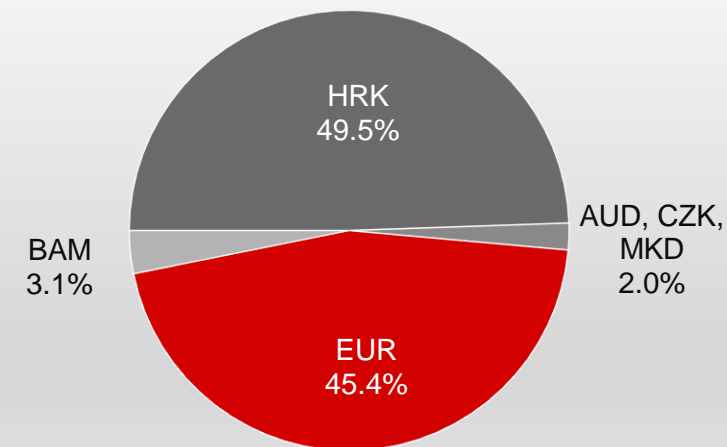
¹Excluding Žito impairment impact of HRK 78.0m.

Sustainable level of indebtedness after the Žito Group acquisition

(u HRK 000) ¹	1-9 2016	2015		% change
Net debt	1,155,646	922,380		25.3%
Interest expense	34,993	36,918		(5.2%)
Net debt / EBITDA	2.2	2.0		10.9%
EBITDA / Interest expense	15.1	12.7		19.2%
Equity to total assets ratio	56.6%	57.0%		-38 bp

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

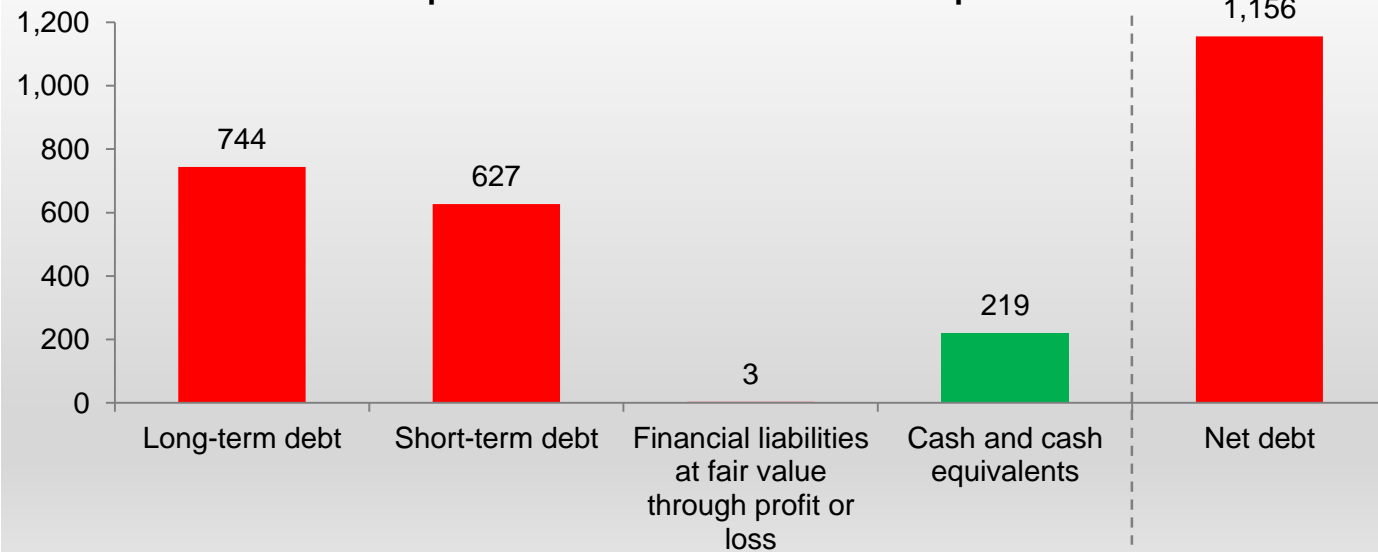
Currency structure of debt as at 30 September 2016



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 2.5,
- **Weighted average cost of debt:**
 - As at 30 September 2016 → 2.5%,
 - As at 31 December 2013 → 4.3%.

Net debt components in HRK million as at 30 September 2016

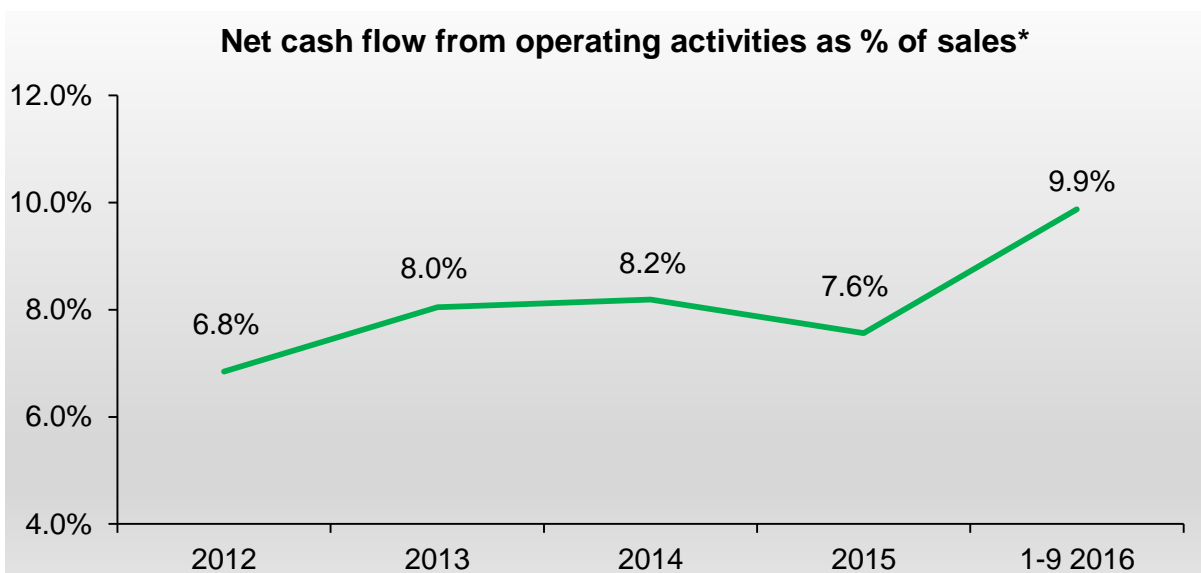


Stable level of net cash flow from operating activities

Working capital movement	30 September 2016 / 30 September 2015		Impact
Inventories	➔	not comparable	<ul style="list-style-type: none"> ▪ Žito Group hasn't been consolidated as at 30 September 2015, ▪ Excluding Žito Group, a mild increase in inventories due to the increase in inventories of raw materials in the Belupo Group, aimed at ensuring the continuity of production, but generally there were no significant departures.
Trade and other receivables	➔	not comparable	<ul style="list-style-type: none"> ▪ Žito Group hasn't been consolidated as at 30 September 2015, ▪ Excluding Žito Group, decrease of trade and other receivables is evident, resulting from, among other things, more efficient collection of receivables in the pharma segment.
Trade and other payables	➔	not comparable	<ul style="list-style-type: none"> ▪ Žito Group hasn't been consolidated as at 30 September 2015, ▪ Excluding Žito Group, decrease of trade and other payables is evident, resulting from further adjustment with the prescribed terms of payments to suppliers

(in HRK thousands)	1-9 2016	1-9 2015	Δ
Net cash from operating activities	299,314	32,291	267,024
Net cash from investing activities	(387,838)	(283,356)	(104,482)
Net cash from financing activities	16,046	420,390	(404,344)
Net change of cash and cash equivalents	(72,477)	169,325	(241,801)

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



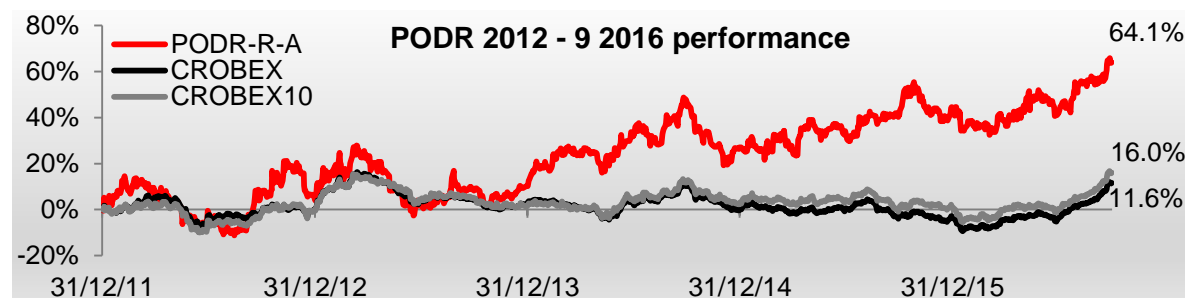
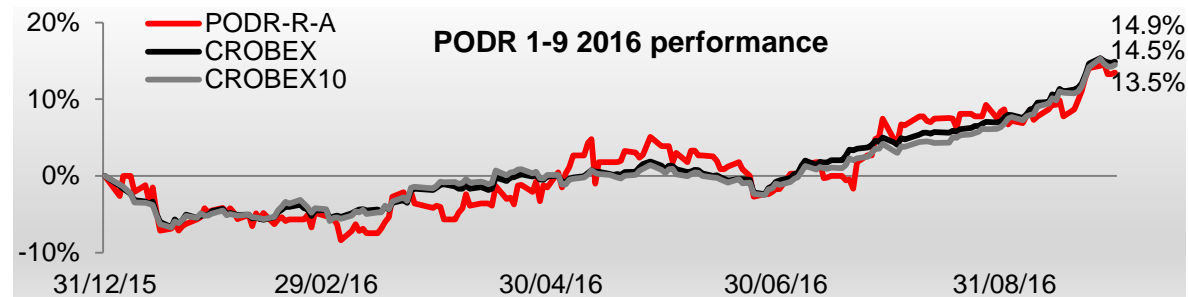
*Sales in 2012-2014 period have not been reclassified for marketing expenses.

Stable growth of Podravka's share price in 1-9 2016

(HRK; units)	1-9 2016	1-9 2016/ 1-9 2015	2015 / 2014	2014 / 2013
Average daily price	341.6	9.1%	7.4%	16.3%
Average daily number of transactions	10	(16.3%)	(9.1%)	39.6%
Average daily volume	1,181	(33.6%)	11.3%	105.4%
Average daily turnover	403,402.5	(27.6%)	19.6%	134.2%
Reported earnings per share	58.9	(11.2%)	276.9%	38.8%
Adjusted earnings per share ¹	28.8	8.2%	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	Under review	-	n/a
 Raiffeisen BANK	Hold	HRK 383.00	1.1%
 ERSTE Group	Hold	HRK 400.00	5.5%
 UniCredit	Buy	HRK 398.96	5.3%
 WOOD & COMPANY	Hold	HRK 376.00	(0.8%)



Peer group multiples ³	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.2	12.5	16.7	3.3	21.2
Normalized weight. av. peer group ⁴	2.2	13.2	17.6	2.9	21.6
Podravka Group reported	0.9	7.4	12.2	1.0	6.6
Podravka Group normalized ¹	0.9	8.3	15.1	1.0	13.5

²Compared to the last price on 30 September 2016,

³Obtained from Bloomberg on 10 October 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.

Contact

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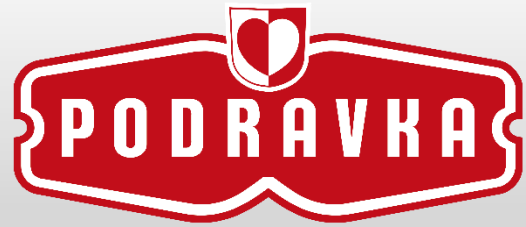
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