

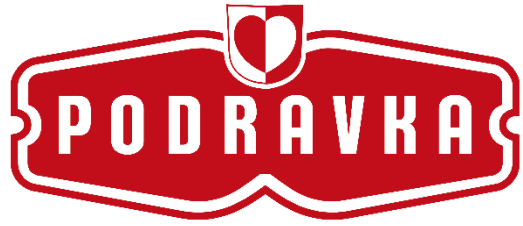


# Podravka Group

*Always with a heart!*

Erste Investor Conference Stegersbach 12th-13th October 2016





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# Podravka Group at a glance



## **BUSINESS:**

- branded food – primary business,
- generic pharmaceuticals.



## **2015 FIGURES:**

- HRK 3,626.8 million of sales,
- HRK 4,945.8 million of total assets,
- 6,657 employees.

## **YEAR OF ESTABLISHMENT:** 1947

- 69 years in food production,
- 44 years in pharma production,
- culinary institution in SEE.



## **HEADQUARTERS:**

- Koprivnica, Croatia.



## **MAIN MARKETS:**

- South East Europe,
- Central Europe,
- Eastern Europe.



## **SHARE LISTING:**

- Zagreb Stock Exchange, Croatia,
- 7,120,003 ordinary shares,
- MCap of HRK 2,628.4 million\*.

\*MCap on 30 September 2016.



# Long tradition of food and pharmaceutical production



1934

Fruit processing and marmalade workshop by brothers Wolf established



1947

Wolf brothers workshop became publicly owned under Podravka name



1952

Condiments, dried and sterilized vegetables, etc. production established



1957

Famous Podravka soups production established



1958

Production of meat products established



1959

Vegeta, universal seasoning, production established



1970

Baby food production established



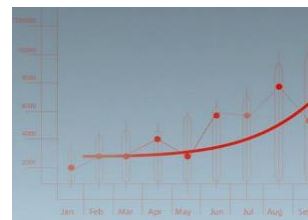
1970

Bottling facility for spring water enters Podravka, non-alcoholic beverages production established



1972

Belupo pharmaceutical company established, pharmaceutical production established



1993

Podravka became a joint-stock company, free share trading from 1994



2012

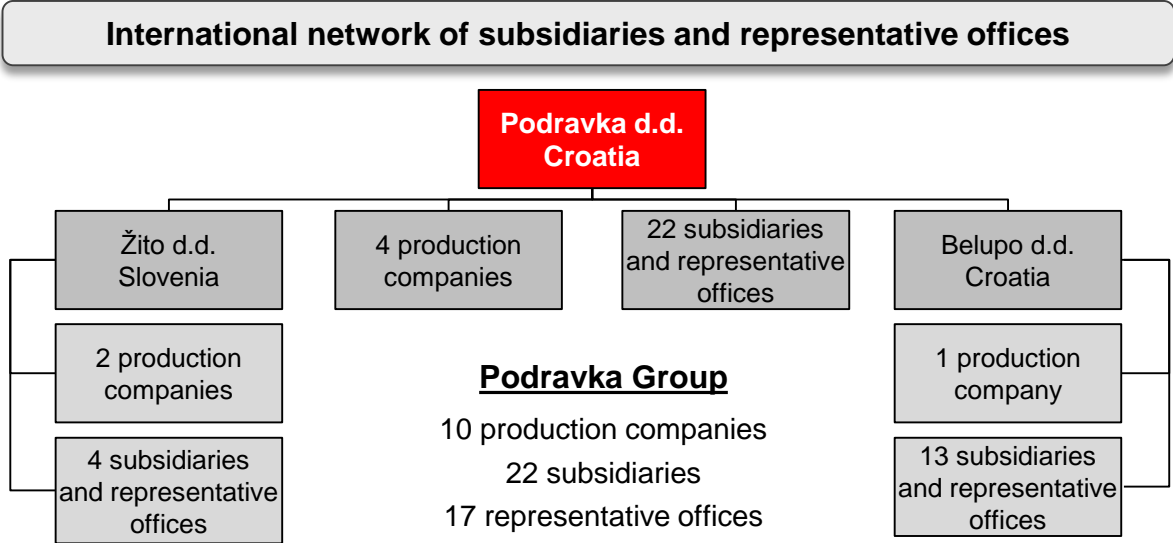
Commencement of full-scale restructuring process



2015

Žito, Slovenian food producer, acquisition

# Podravka Group is present in 25 countries with subsidiaries and representative offices

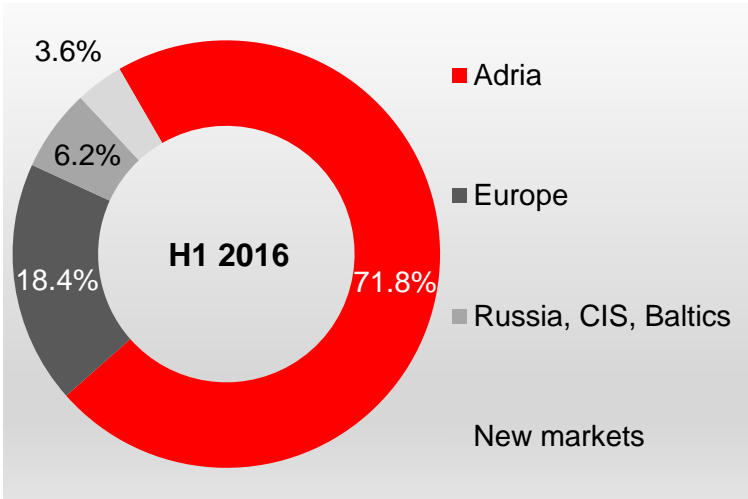


## Own distribution network in 11 countries

1. Bosnia and Herzegovina
2. Czech Republic
3. Montenegro
4. Croatia
5. Hungary
6. Macedonia
7. Poland
8. Slovakia
9. Slovenia
10. Serbia
11. Russia



## Podravka Group sales split by regions in H1 2016



Market	HRKm	%
Croatia	647.2	32.5%
Slovenia	385.4	19.4%
B&H	220.3	11.1%
Russia	115.4	5.8%
Poland	80.7	4.1%
Other m.	539.5	27.1%
<b>Group</b>	<b>1,988.5</b>	<b>100.0%</b>

# Highly developed corporate governance

## Management board



**Zvonimir Mršić**

### President of MB

- Group strategy,
- former 3 times mayor of Koprivnica,
- FBA,
- vice-president of Croatian Exporters Association.



**Olivija Jakupec**

### Member of MB

- sales & marketing,
- work experience on the Russian market,
- former director of Nexe B&H.



**Iva Brajević**

### Member of MB

- finance & IT,
- former finance manager of Unilever and DHL in Croatia.



**Hrvoje Kolarić**

### Member of MB

- pharmaceuticals,
- former director of Bristol Myers Squibb and PharmaSwiss,
- MBA.

## Supervisory board

### President:

- Dubravko Štimac → president of MB of PBZ CO OPF

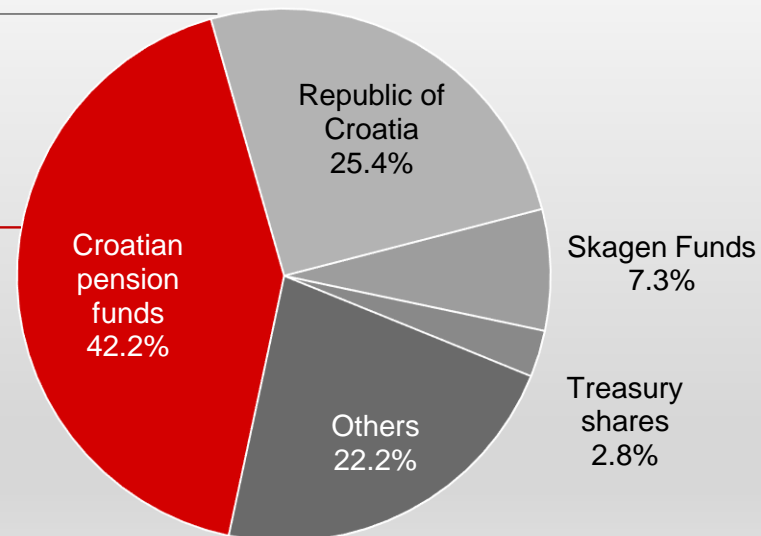
### Vice President:

- Mato Crkvenac → ex finance minister

### Members:

- Ksenija Horvat → workers representative
- Ivo Družić → academy professor of economy
- Petar Vlaić → president of MB of Erste Plavi OPF
- Dinko Novoselec → president of MB of Allianz ZB OPF
- Petar Miladin → academy professor of law

## Shareholder structure as at 30 September 2016



## Audit committee

### President:

- Dinko Novoselec

### Members:

- Petar Vlaić
- Mato Crkvenac

## Remuneration committee

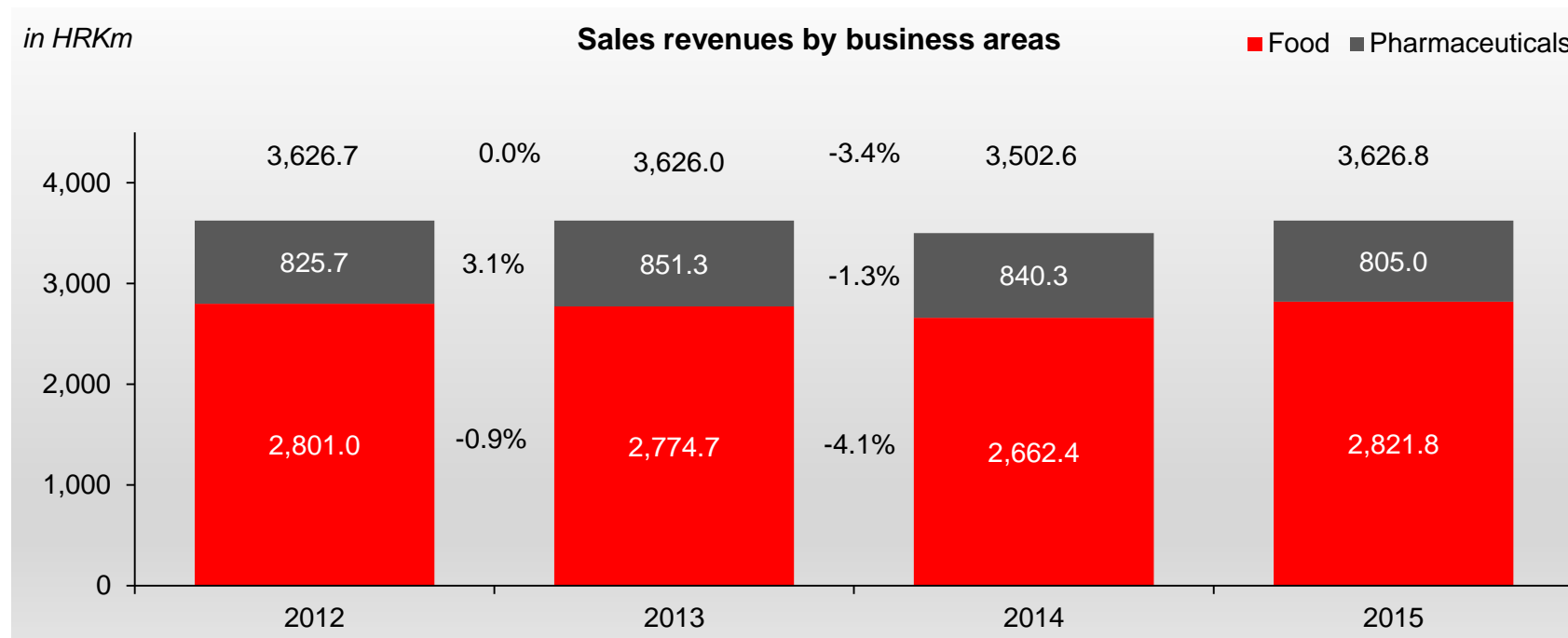
### President:

- Petar Vlaić

### Members:

- Dubravko Štimac

## Snapshot of key financial figures



2015 audited figures*	HRKm	EURm
Sales revenues	3,626.8	477.2
Adjusted EBITDA	430.5	56.6
Adjusted EBIT	247.6	32.6
Adjusted net profit	195.9	25.8
Total assets	4,945.8	650.8
Net debt	922.4	121.4
CFO	274.2	36.1
CAPEX	271.2	35.7

### Key highlights of sales revenues:

#### ▪ Food:

- restructuring process resulted in exiting from several non-profitable business segments in 2013 and 2014;
- acquisition of Slovenian food company Žito in 2015, consolidation started from Q4 2015,

#### ▪ Pharmaceuticals:

- strong Russian ruble depreciation and constant price decrease from Croatian Health Insurance Fund pressures top-line.

### \*Note:

- Consolidation of acquired Žito Group started from Q4 2015;
- 2015 sales revenues were reclassified, for more info see "H1 2016" results section;
- 2015 P&L items adjusted for HRK 115.7m gain on a bargain purchase from Žito acquisition, HRK 78.0m of Žito impairment and HRK 163.7m of deferred tax income from incentives for the construction of new pharmaceutical factories;
- EUR/HRK FX rate of 7.6.



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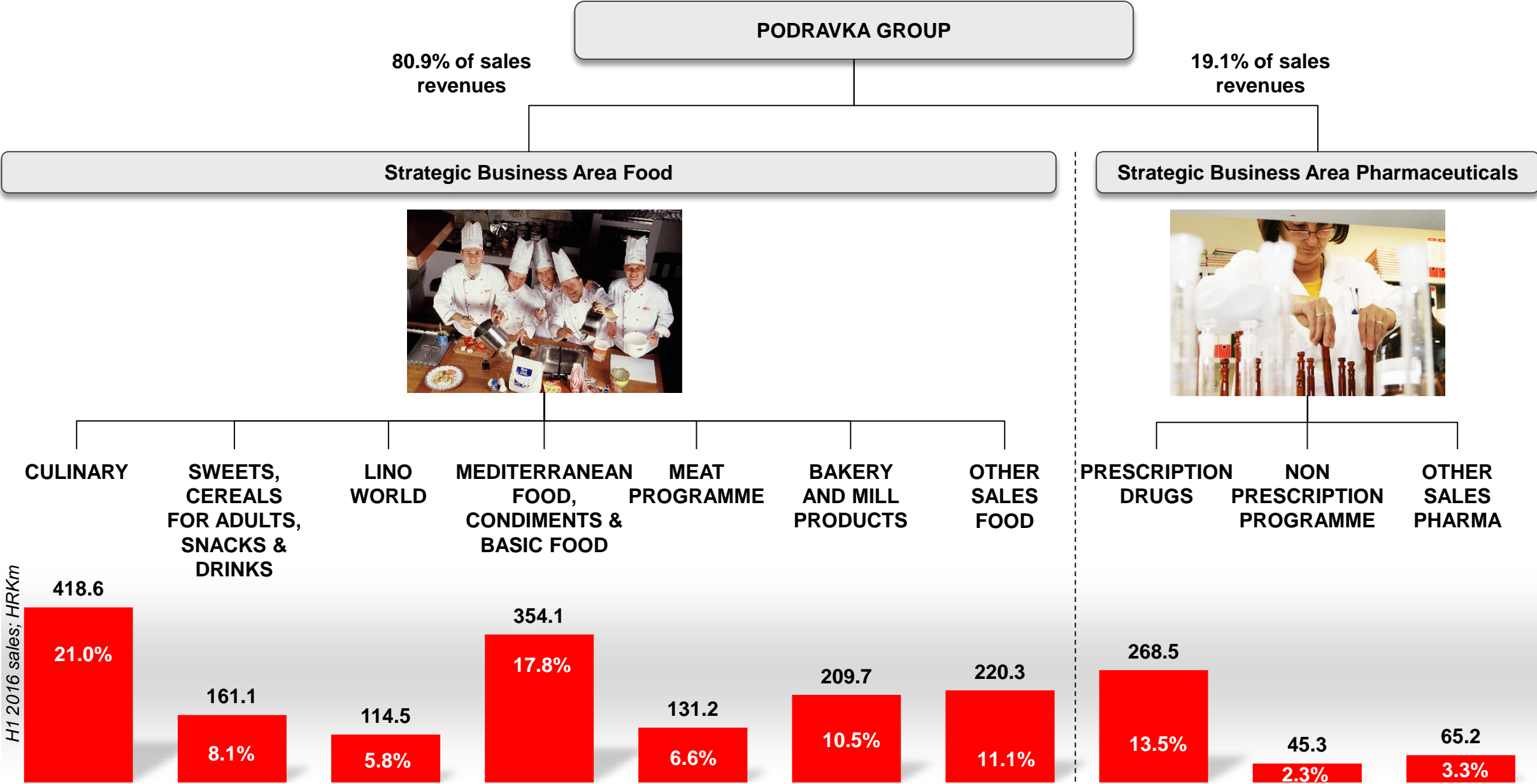
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# A well diversified product portfolio divided in two business areas



# Culinary category is a cornerstone of food business

Food segment products overview					H1 2016 sales; % of total	
<b>CULINARY</b> <ul style="list-style-type: none"><li>seasonings*, bouillons, soups*,</li><li>semi-finished meals, mixes for meals, sauces.</li></ul>	      			HRK 418.6m	21.0%	
<b>SWEETS, CEREALS FOR ADULTS, SNACKS &amp; DRINKS</b> <ul style="list-style-type: none"><li>powdered sweets*, cereals for adults and breakfast,</li><li>confectionary, salted snack, non-alcoholic beverages.</li></ul>	    			HRK 161.1m	8.1%	
<b>LINO WORLD</b> <ul style="list-style-type: none"><li>dehydrated baby food*, cereals for kids,</li><li>spreads and other Lino assortment.</li></ul>	    			HRK 114.5m	5.8%	
<b>MEDITERRANEAN FOOD, CONDIMENTS &amp; BASIC FOOD</b> <ul style="list-style-type: none"><li>canned fish products*, fruits, vegetables, condiments*,</li><li>rice, pasta, cereals, seeds.</li></ul>	      			HRK 354.1m	17.8%	
<b>MEAT PROGRAMME</b> <ul style="list-style-type: none"><li>ready to eat meals and meat sauces,</li><li>sausages, pâtés, frozen meat.</li></ul>	   			HRK 131.2m	6.6%	
<b>BAKERY AND MILL PRODUCTS</b> <ul style="list-style-type: none"><li>fresh bakery products, fresh pastry, toast, rusk,</li><li>sandwiches, flour, additives, mixes for bakery.</li></ul>	   			HRK 209.7m	10.5%	
<b>OTHER SALES</b> <ul style="list-style-type: none"><li>private labels, service production,</li><li>trade goods, other.</li></ul>	   			HRK 220.3m	11.1%	

\*Strategic products with international potential.

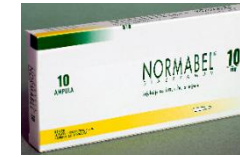
# Prescription drugs category is a cornerstone of pharmaceutical business

## Pharmaceutical category products overview

H1 2016 sales; % of total

### PRESCRIPTION DRUGS

- for skin disorders\*
- for heart and blood vessels,
- for central nervous system,
- for 8 more areas.



HRK 268.5m 13.5%

### NON-PRESCRIPTION PROGRAMME

- OTC medicine,
- dietary products,
- natural products.



HRK 45.3m 2.3%

### OTHER SALES

- trade goods,
- services.



HRK 65.2m 3.3%

\*Strategic products with international potential.

# High-quality brands with exceptional recognisability and strong international potential

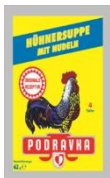


## VEGETA

- universal seasoning, category synonym in Adria region,
- for years No. 1 FMCG brand in CRO and in the top 3 in the region,
- number 1 brand in Europe in universal seasoning category,

- Superbrand award in more than 15 European countries,
- Laur consumenta award in Poland for 2004-2014 period.

Vol. MP <sup>1</sup>	ADRIA	POL	SLK	CZE	RUS
Vegeta	1	2	1	3	4



## PODRAVKA SOUPS

- dehydrated instant soups,
- sold in 25 countries around the world,
- market leader or among top 3 in the Adria region,

- Quadal (Quality Medal) award in Croatia,
- Best Buy award in Croatia and B&H.

Vol. MP <sup>1</sup>	CRO	SLO	B&H	SER	MAC	RUS
Soups	1	4	1	2	1	7



## LINO

- dehydrated baby food; umbrella brand,
- category synonym in Adria region,
- sold in more than 20 countries around the world,

- Trusted brand award and Best Buy award winner in Croatia,
- Superbrand awards winner in Croatia, Slovenia and B&H.

Vol. MP <sup>1</sup>	CRO	SLO	B&H	SER
Lino	1	1	1	1



## DOLCELA

- powdered product for preparation of sweets,
- No. 1 or strong No. 2 brand in Adria region,

- Quadal (Quality Medal) award in Croatia,
- Best Buy award in Croatia and B&H.

Vol. MP <sup>1</sup>	CRO	SLO	B&H
Dolcela	1	2	1



## EVA (MEDITERRANEAN ASSORTMENT)

- one of the most recognisable brands in canned fish category in the Adria region,
- flagship of Mediterranean cuisine,

- Quadal (Quality Medal) award and Superior taste award in Croatia,
- Best Buy award in Croatia and B&H.

Vol. MP <sup>1</sup>	CRO	SLO	B&H	SER
Eva	2	6	1	3



## BELUPO DERMATICS

- strong international position in niche dermatology segment.

Vol. MP <sup>2</sup>	CRO	RUS	CZE	SLO	B&H	SER	MAC	SLR
D07 <sup>3</sup>	1	5	2	2	1	2	1	1

<sup>1</sup>Source: Nielsen, last available data; <sup>2</sup>Source: IMS; <sup>3</sup>Corticosteroids for the treatment of skin disorder.



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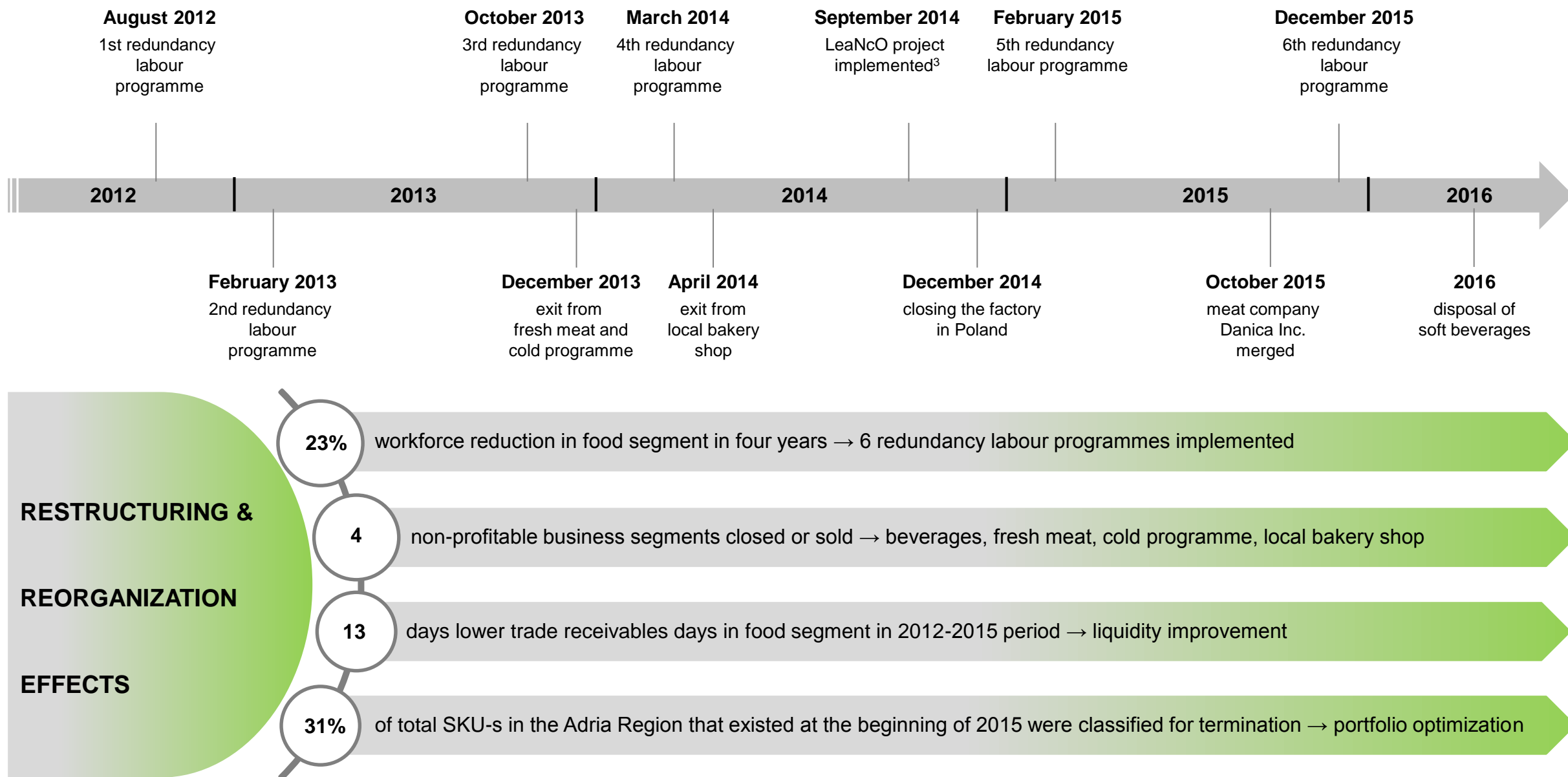
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# Successful implementation of restructuring and reorganization process



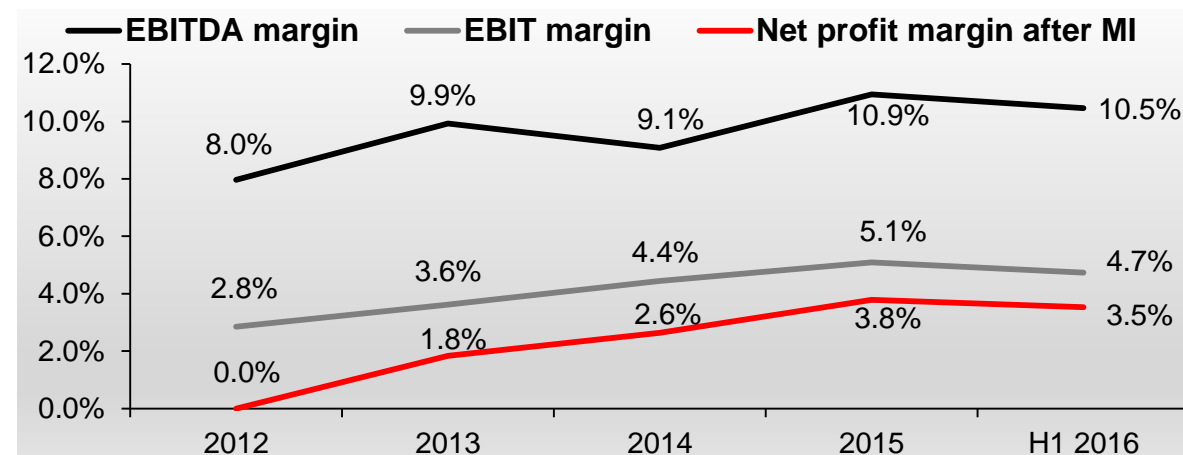
# Significantly improved financial position

## Restructuring related one-off items burdened past profitability

(in HRKm)	2012	2013	2014	2015	H1 2016
Value adjustments	(32.3)	(80.8)	(27.8)	(34.6)	-
Severance payments	(49.9)	(57.2)	(72.1)	(41.1)	-
Other	(44.3)	4.6	9.8	298.4*	-
Total net one-off items	(126.5)	(133.4)	(90.1)	222.7	-

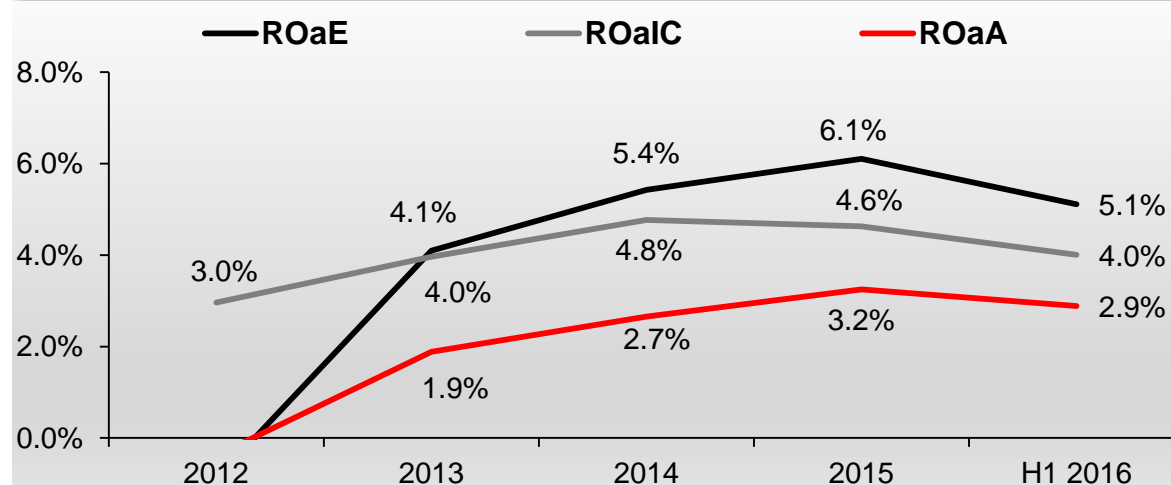
\*HRK 115.7m of gain on a bargain purchase from Žito acquisition (badwill), HRK 163.7m of deferred tax income from Croatian government's incentives for the construction of new Belupo pharmaceutical factories, HRK 19.0m refers to other items.

## Positive profitability margins movement<sup>1</sup>

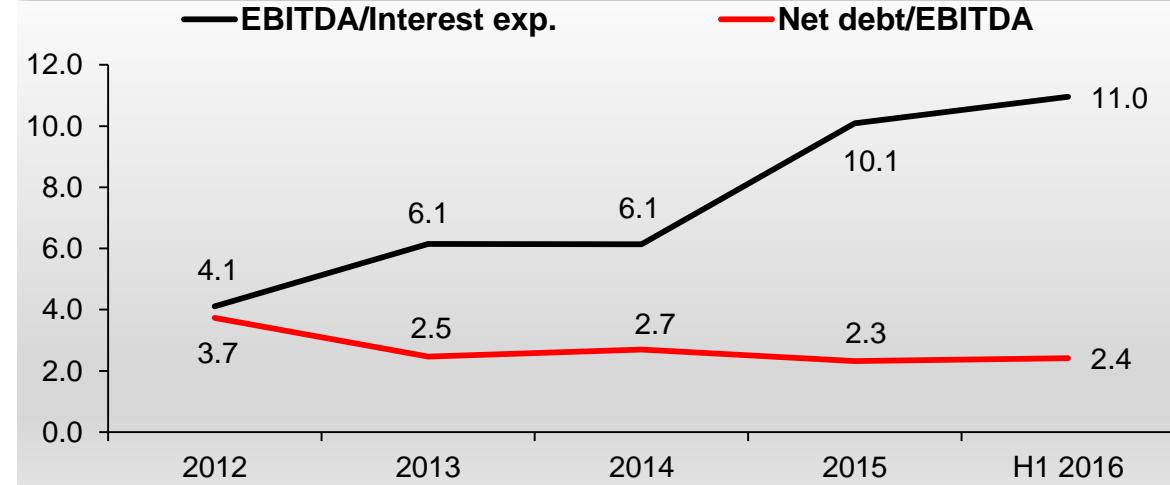


<sup>1</sup>Due to sales revenues reclassification in 2015, historical margins are not comparable.

## Žito acquisition reflected in return rates<sup>1</sup>



## Sustainable debt level<sup>1</sup>



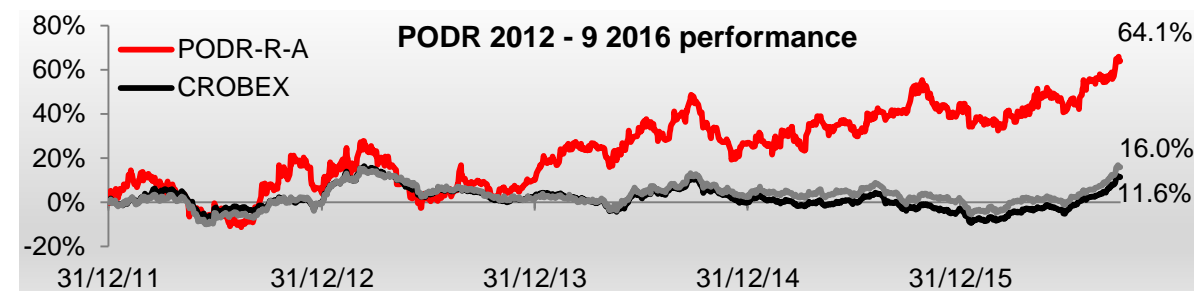
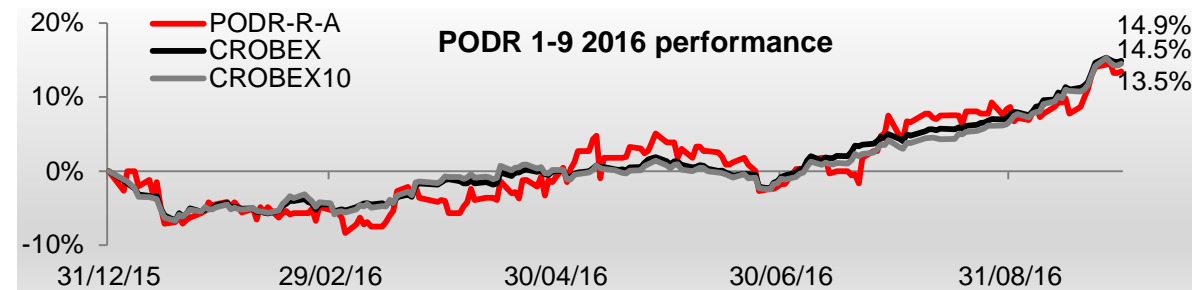
<sup>1</sup>2015 figures include Podravka and Žito Group full year figures, adjusted for Žito badwill, Žito impairment and Belupo tax incentives impacts; H1 2016 figures calculated on the trailing 12 months basis.

# Analyst expectations imply potential for Podravka's share price growth

(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 <sup>1</sup>	59.0	(11.1%)	276.9%	38.8%
Adjusted earnings per share <sup>1</sup>	24.8	8.1%	31.6%	(8.8%)

<sup>1</sup>Calculated on the trailing 12 months level for H1 2016; adjusted → 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 <sup>2</sup>
 InterCapital	Buy	HRK 364.78	(3.8%)
 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%)



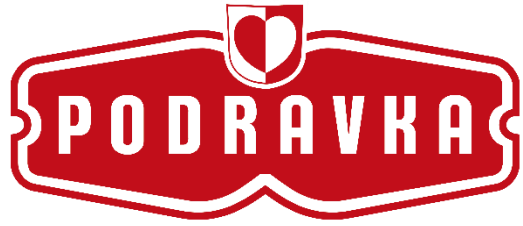
Peer group multiples <sup>3</sup>	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.1	12.5	16.7	3.3	21.1
Normalized weight. av. peer group <sup>4</sup>	2.1	13.2	17.6	2.9	21.5
Podravka Group reported	0.9	7.4	12.5	0.9	6.4
Podravka Group normalized <sup>1</sup>	0.8	6.9	16.8	0.9	15.3

<sup>2</sup>Compared to the last price on 30 September 2016, **Peer group food:** Atlantic Grupa d.d., Greencore Group plc, Nestle S.A., Orkla S.A., Otmuchow S.A., Unilever plc,

<sup>3</sup>Peer Group multiples obtained from Bloomberg on 10 October 2016,

<sup>4</sup>Calculated excluding max. and min. values.

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



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# Podravka Group has two long-term key strategic objectives

## TWO KEY STRATEGIC OBJECTIVES



**Consolidation and strengthening of our position in the domestic market/region**



**Further internationalization outside of Adria Region**



### Consolidation and strengthening of our domestic position

#### ▪ Reasoning for consolidation:

- Adria region is our core market that accounts for 70.4% of sales revenues,
- for several years domestic retailers and producers are consolidating,
- foreign discounters are putting pressure on domestic retailers and producers.

#### ▪ Strategy:

- participation in potential further regional consolidation,
- focus on core business and most profitable products,
- product innovations.



### Further internationalization

#### ▪ Reasoning for further internationalization:

- high market positions of Podravka's brands in the Adria region provide limited organic growth potential,
- macroeconomic trends provide little support for significant organic growth.

#### ▪ Strategy:

- opening of new markets → Tanzania, Dubai, China,
- distribution model change in Russia,
- M&A opportunities in Europe, including Russia,
- further shift from ethno channels to mainstream markets in Western Europe, Australia and USA.



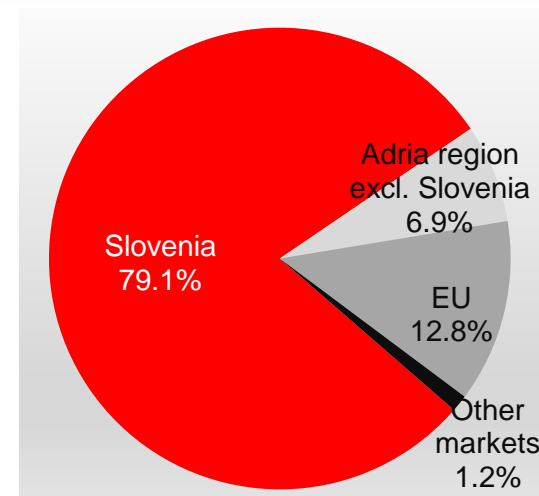
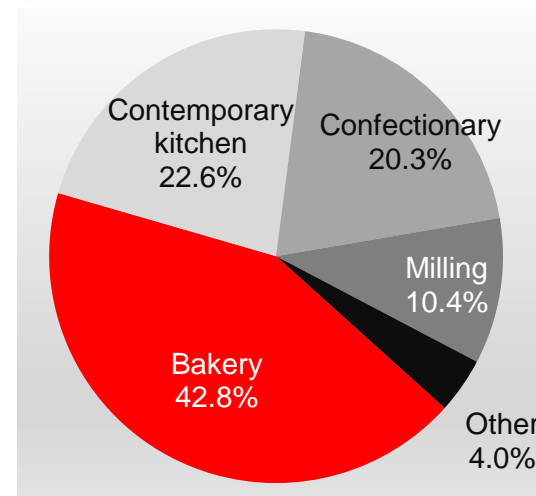
# Acquisition of Slovenian food producer Žito to strengthen market position in the Adria region

## Key highlights of Žito Group

- branded Slovenian food company with 35 retail bakery shops,
- portfolio of leading brands that hold top 2 market positions in Slovenia,
- 69 years of **experience** in food production,
- HRK 824.6 million of **sales revenues**,
- HRK 980.3 million of **total assets**,
- 1.147 **employees** as at 31 December 2015.



## Sales revenues of Žito Group by categories and markets in 2015



- Žito acquisition provides scale and positive synergy/consolidation effects



(in HRKm)	FY 2017	FY 2018	FY 2019
Expected EBITDA impact	+18.9	+18.8	+36.8

Disclaimer*	Podravka Group		Žito Group		Podravka & Žito Group without synergy / consolidation effects		Podravka & Žito Group with 100% synergy / consolidation effects	
(in HRKm)	2015	% of sales	2015	% of sales	2015	% of sales	% of sales	
EBITDA	326.4	9.6%	70.5	8.5%	396.9	9.4%	433.7	10.3%
EBIT	154.3	4.5%	30.5	3.7%	184.8	4.4%	221.6	5.3%
Net profit after MI	110.0	3.2%	27.4	3.3%	137.4	3.3%	174.2	4.1%

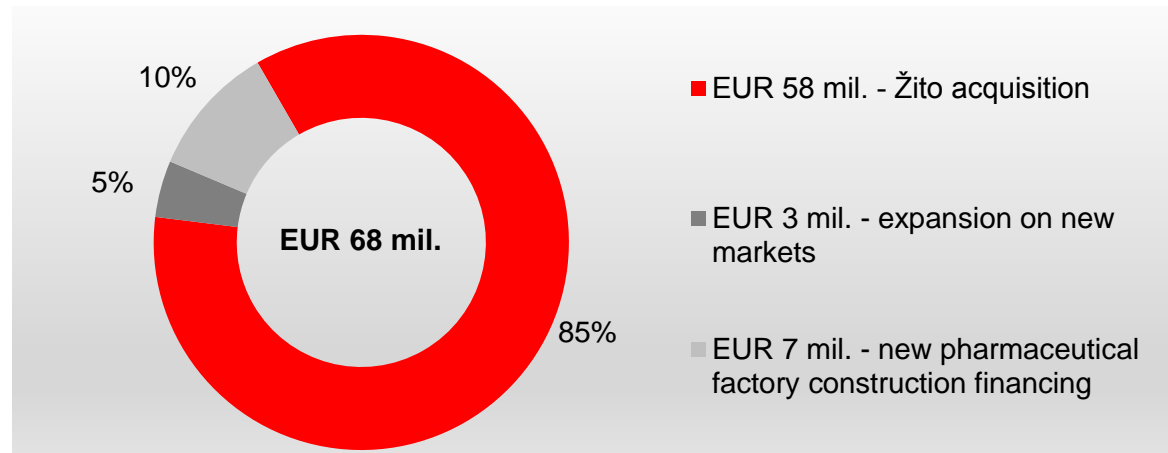
\*Stated overview **does not represent future guidance**, it only shows 2015 profitability and expected synergy effects; Podravka Group **figures are adjusted** for HRK 115.7m of gain on a bargain purchase from Žito acquisition, HRK 78.0m of Žito impairment and HRK 163.7m of deferred tax income from Croatian government's incentives for the construction of new Belupo pharmaceutical factories.

# Žito Group acquisition was financed via capital increase

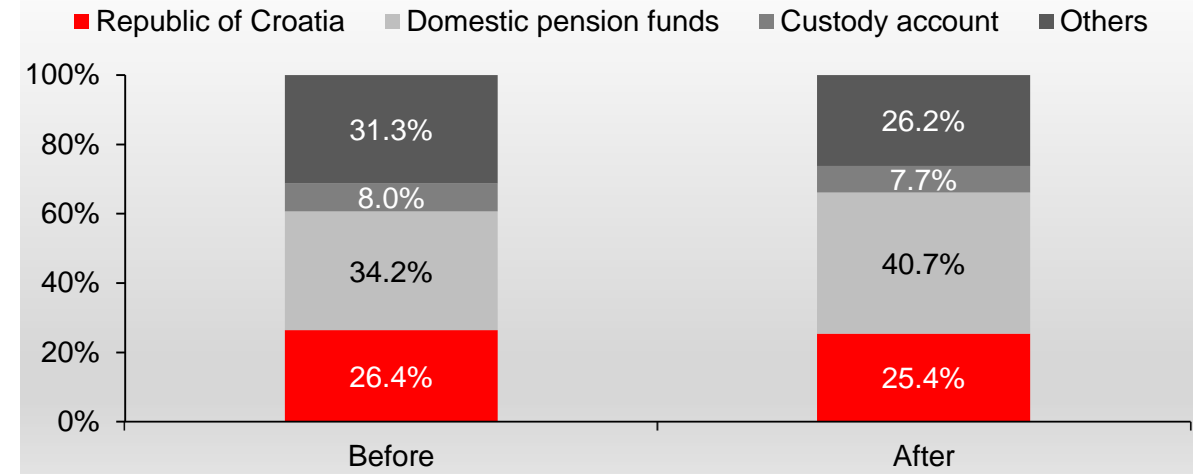
## Capital increase details

- **capital increase process:** started on 07 July 2015 and finished on 20 July 2015,
- **new shares issued:** 1.7 million,
- **price of issue:** HRK 300.00 per share (3.9% discount<sup>1</sup>),
- **amount raised:** HRK 510 million (EUR 68 million),
- **investors interest:** 33% higher than the available number of shares,
- **subscription of issue:** 60.7% domestic pension funds, 22.2% Republic of Croatia, 5.2% employees, 11.9% others,
- **capital increase adoption:** on 24 July 2015 by commercial court.

## Utilization of funds from capital increase



## Shareholder structure following the capital increase



## Purchase price for Žito

- signed SPA price for Žito was EUR 180.1 per share,
- stated price was 5.9% higher than market price, as a result of competitive process,
- additional shares were also purchased for EUR 180.1 per share,
- acquisition price for 90% of Žito shares was EUR 57.7m; Žito had 10% treasury shares.

<i><b>Multiples</b></i>	<b>Žito<sup>2</sup></b>	<b>Podravka rep.</b>	<b>Podravka norm.</b>	<b>Peer Group</b>
EV/Sales	0.6	0.7	0.7	2.1
EV/EBITDA	7.9	7.9	6.6	11.8

<sup>1</sup>Calculated as price of issue compared to the last market price on 02 June 2015, day prior to the General Assembly on which capital increase decision has been voted for; <sup>2</sup>Acquisition multiples.

# Further internationalization to be achieved via entering new markets

## Dubai – HUB for MENA region



### ▪ MENA region key macro data:

- population<sup>1</sup> → 436 million,
- BDP per capita<sup>1</sup> → USD 2,927 - 132,038,
- real BDP yoy growth<sup>1</sup> → 1.9% - 11.6%,

### ▪ business model:

- subsidiary, outsourced distribution & own sales force,

### ▪ planned product range:

- culinary,
- sweets, snacks and beverages,
- baby, breakfast and other food,

### ▪ manager Nermin Salman:

- former Gorenje Regional director for MENA region,
- former Supervisory Board president of Konzum Sarajevo and director of Droga Sarajevo.

## Tanzania – HUB for SE Africa region



### ▪ Southeast Africa region key macro data:

- population<sup>1</sup> → 342 million,
- BDP per capita<sup>1</sup> → USD 816 - 7,502,
- real GDP yoy growth<sup>1</sup> → 2.3% - 8.2%,

### ▪ business model:

- subsidiary, local production, outsourced distribution,

### ▪ planned product range:

- culinary,

### ▪ manager Davor Švarc:

- 11 years of working experience in Tanzania,
- director of Central Europe in Podravka Group,
- director of Western Europe and Overseas Countries and New Markets in Podravka Group.

## China



### ▪ China region key macro data:

- population<sup>1</sup> → 1.38 billion,
- BDP per capita<sup>1</sup> → USD 15,184,
- real GDP yoy growth<sup>1</sup> → 6.3%,

### ▪ business model:

- representative office, outsourced distribution,

### ▪ planned product range:

- culinary,
- sweets, snacks and beverages,
- baby, breakfast and other food,

### ▪ manager Goran Kapičić:

- Managing director for Actavis China,
- Head of China Operations for TEVA, Barr Laboratories and Pliva.

<sup>1</sup>Source: IMF, estimation for 2016, World Economic Outlook Database, October 2015; range refers to the lowest amount/growth and highest amount/growth for countries in a group of countries.

# Expansion of pharmaceutical capacities to satisfy international demand

Construction of new pharmaceutical facilities started in 2015

## Project:

- production facility for solid oral forms,
- production facility for semi solid and liquid forms,
- end of project → April 2017.

## Project reasoning:

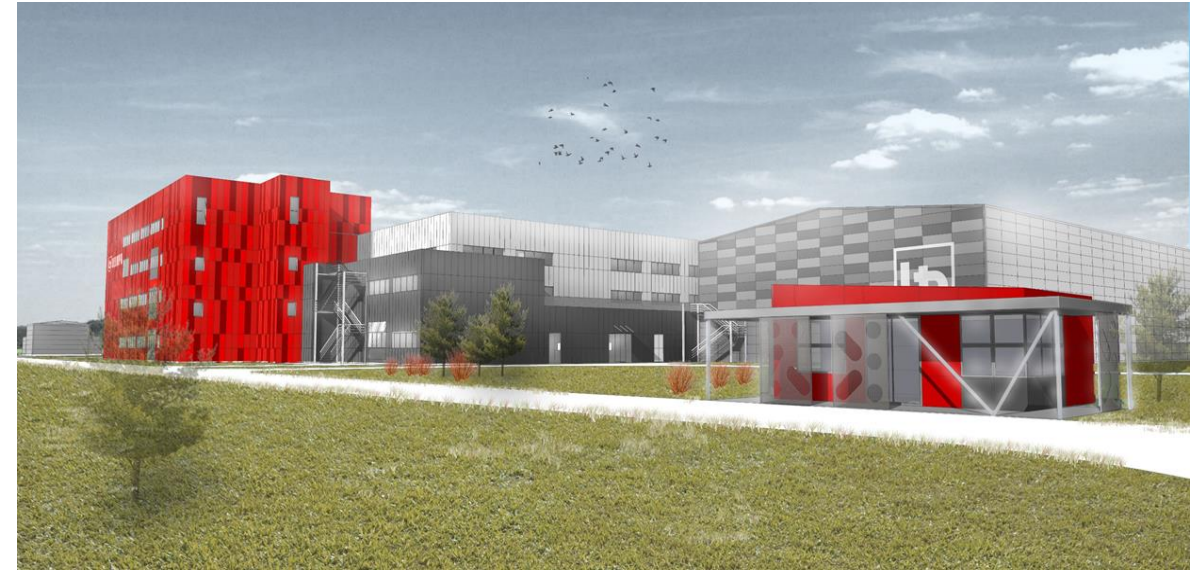
- insufficient production capacities due to perennial volume growth,
- acquiring of new technologies for product differentiation.

## Project financing:

- total value of investment EUR 66.3 million,
- 60% loan, 40% own funds,
- government incentive through income tax benefits in the amount of 40% of total investment.

## Business reasons for choosing Croatia as facilities location:

- high speed in obtaining all permits,
- tax incentives for strategic investments,
- availability of highly-educated workforce at acceptable cost level,
- incentives for hiring young workforce,
- proximity to other Belupo locations.





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# 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.

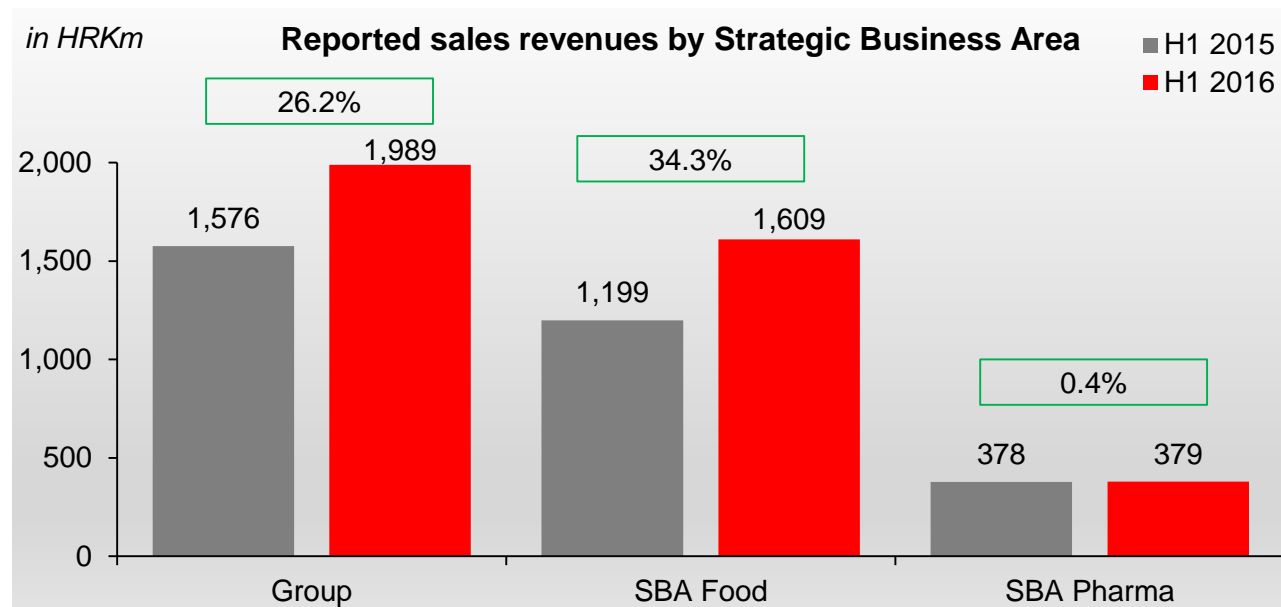
## Changes in the MB of Podravka:

- 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 <sub>m</sub>	Own brands	Other sales	Total	Currency	HRK <sub>m</sub>
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 Food<sup>1</sup>:

- 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 Pharmaceuticals<sup>1</sup>:

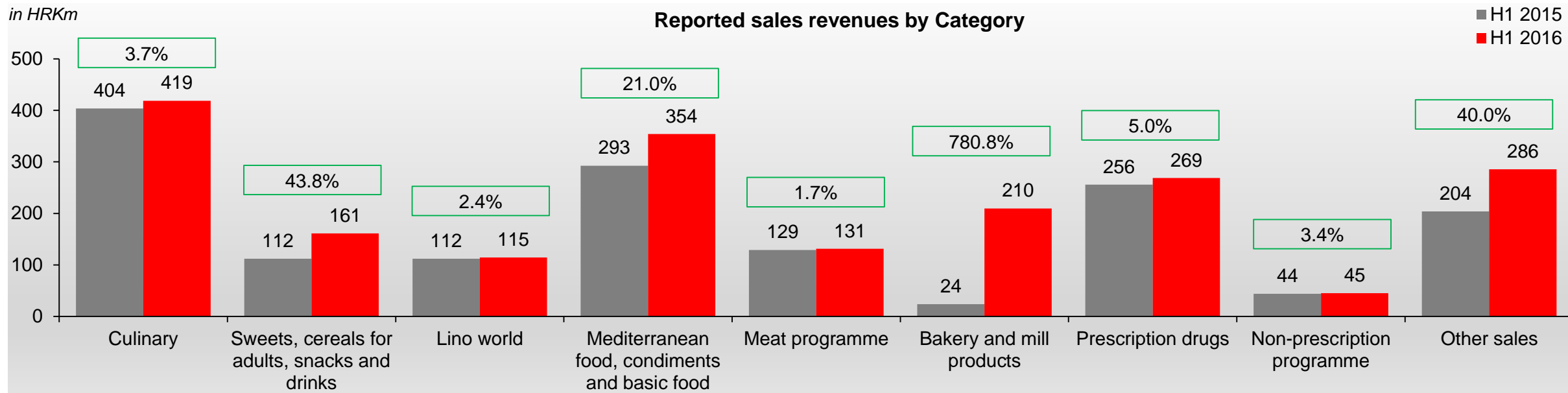
- Own brands** → 4.8% higher sales (+10.2% excl. FX) due to the cooperation expansion in the Russian market,
- Other sales** → 16.5% lower sales (-16.1% excl. FX) as a result of stronger focus on own brands,
- Total SBA Pharmaceuticals** → 0.4% higher sales (+4.7% excl. FX).

### Pro-forma Podravka Group<sup>1</sup>:

- 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).

<sup>1</sup>Percentages 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

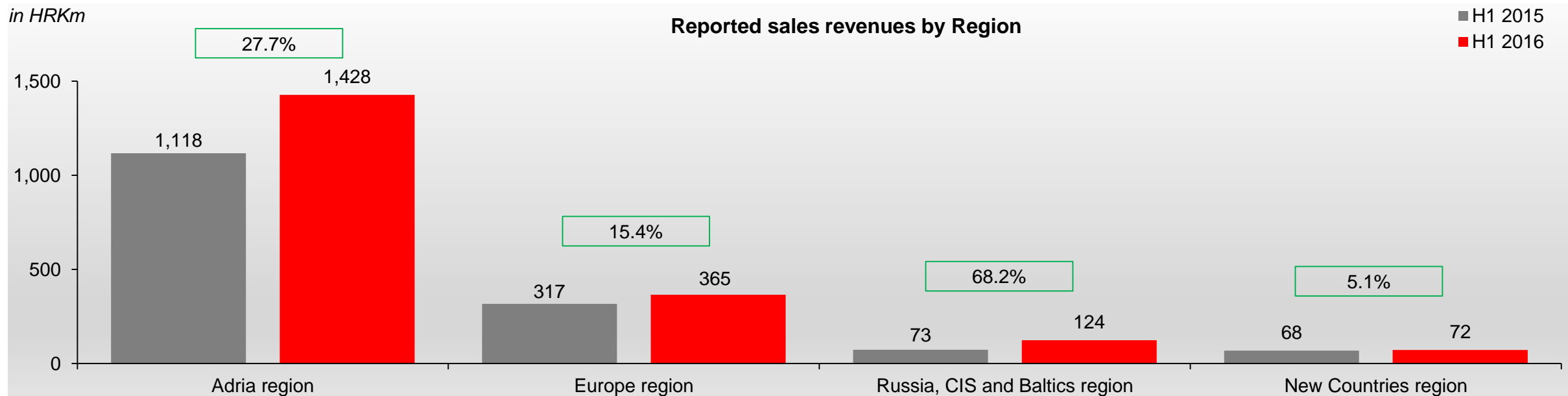


### Pro-forma category performance in H1 2016<sup>1</sup>:

- **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.

<sup>1</sup>Percentages 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 2016<sup>1</sup>:













- **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.

<sup>1</sup>Percentages 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 <sup>1</sup> )	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) <sup>2</sup>	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

### 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.













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



# Pro-forma profitability growth of Podravka Group on all levels

H1 2016 (in HRK <sup>1</sup> )	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) <sup>2</sup>	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

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

## Key highlights in H1 2016:







### Pro-forma Food:

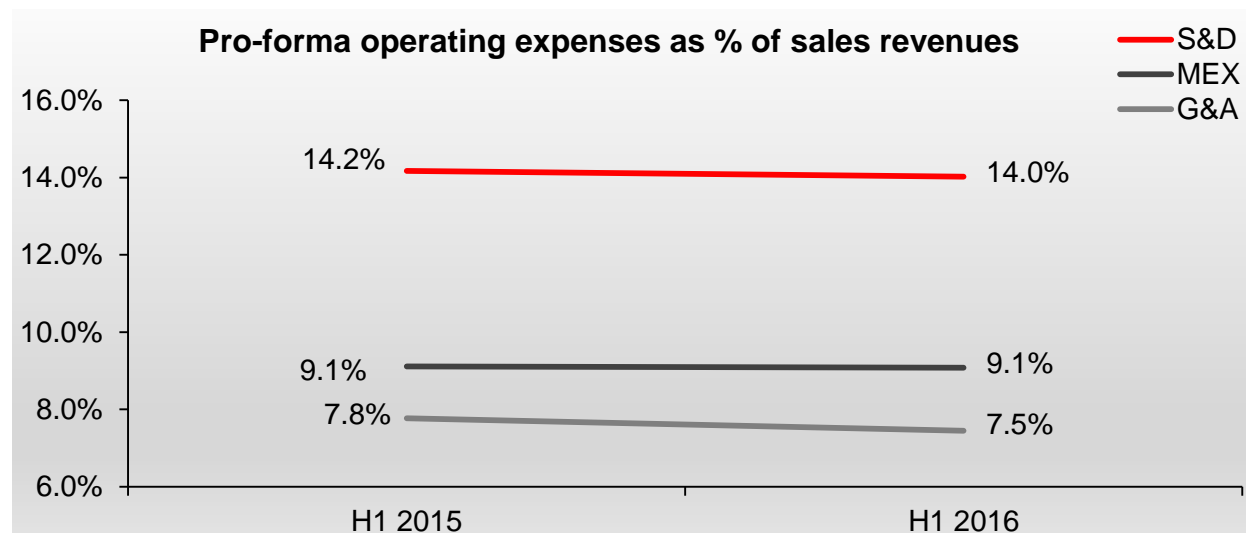
- Cost of goods sold on the level of comparable period due to the decrease in prices of certain raw materials,
- Operating expenses (excl. costs of goods sold) are 0.9% lower as a result of focus on cost optimisation,
- Lower net finance costs and tax liability,
- Comparable period under the positive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

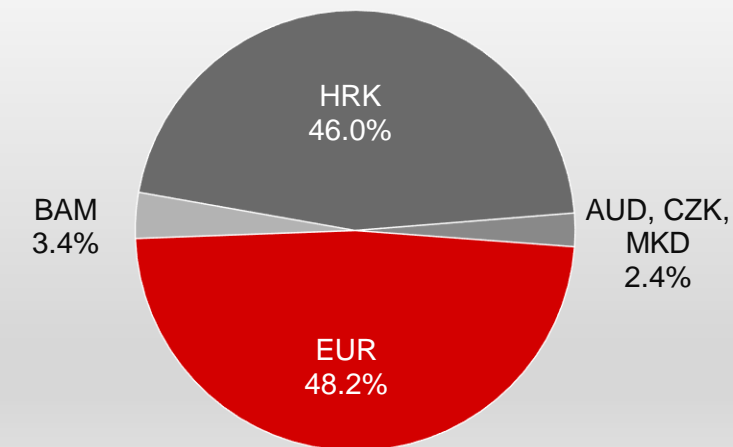
- Total OPEX lower by 1.4% as a result of focus on cost optimisation and FX gains on trade receivables and payables.

# Sustainable level of indebtedness after the Žito Group acquisition

(u HRK 000) <sup>1</sup>	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

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

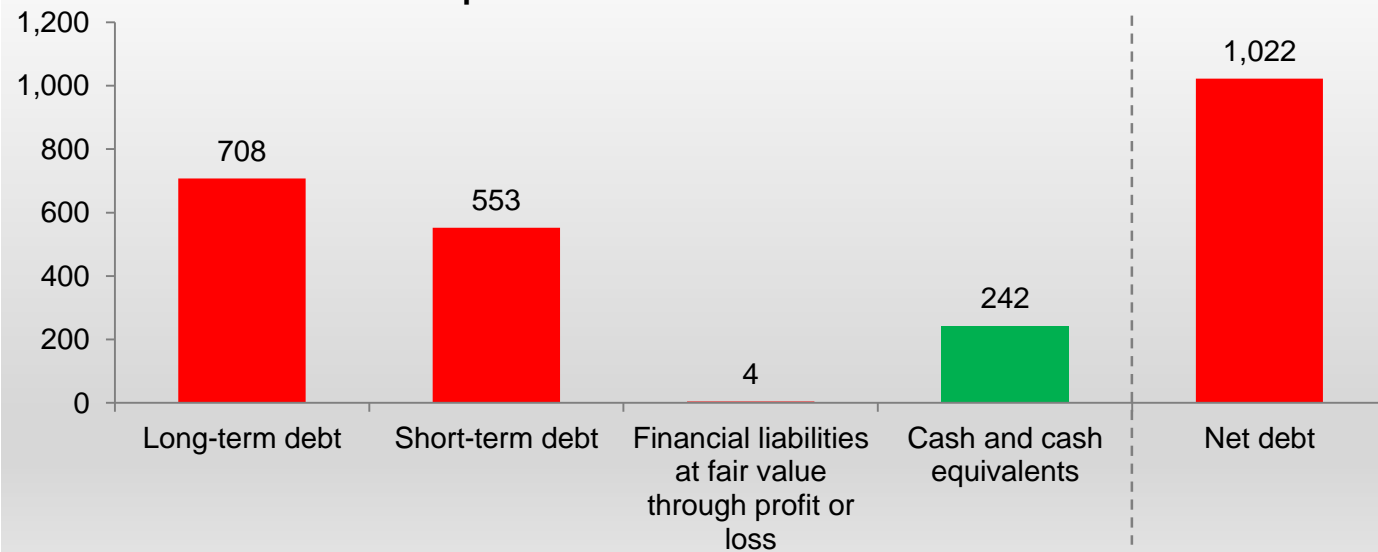
Currency structure of debt as at 30 June 2016






## 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 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%.

Net debt components in HRK million as at 30 June 2016

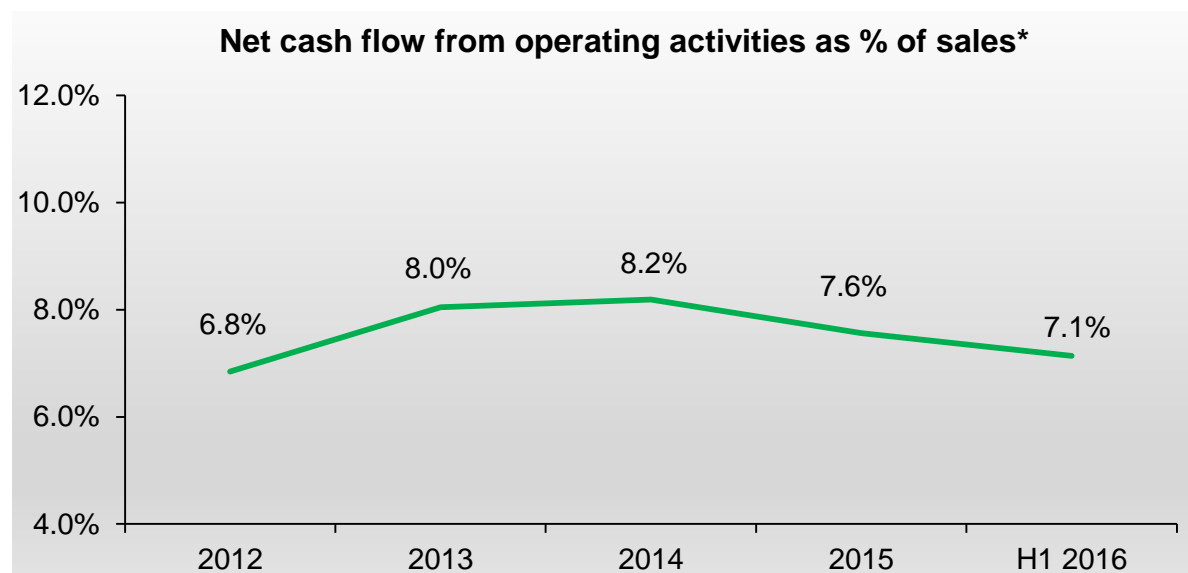


## Stable level of net cash flow from operating activities

Working capital movement	30 June 2016 / 31 December 2015		Impact
Inventories		HRK -14.6 millions	<ul style="list-style-type: none"> <li>▪ 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.</li> </ul>
Trade receivables		HRK -29.8 millions	<ul style="list-style-type: none"> <li>▪ 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.</li> </ul>
Trade payables		HRK -91.1 millions	<ul style="list-style-type: none"> <li>▪ Seasonal payment dynamics in the food segment → part of 2015 liabilities has been settled in H1 2016,</li> <li>▪ Settling the liability of Belupo for completed stages of the new factory construction.</li> </ul>

(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.

## Contact

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# Podravka Group

*Always with a heart!*

Erste Investor Conference Stegersbach 12th-13th October 2016

