

Investor Presentation

Secondary public offering of the shares
of the company Đuro Đaković Grupa d.d.



May 2017



ĐURO ĐAKOVIĆ

DISCLAIMER

Please be advised that this document represents only an unofficial English translation of the original document published by Đuro Đaković Grupa d.d., which was made in Croatian language. In case of any discrepancies between the original Croatian text and this English translation, the Croatian text shall prevail.

DD – Secondary public offering of the new shares 2017

- 1 Presenters**
- 2 About the Company
- 3 Key investment considerations
- 4 Restructuring process
- 5 Financial overview
- 6 Business segments overview
- 7 Offering of the new shares

Presenters

ĐĐ secondary public offering 2017 – project team



Tomislav Mazal

President of the Management Board

- In 2009 became a member of the Supervisory Board of the Đuro Đaković Holding and then its President
- Since 2011 has been a member of the Management Board, in charge of Defence program, foreign markets development, marketing and legal affairs
- In May 2014 appointed as the President of the Management Board of Đuro Đaković Holding



Marko Bogdanović

Member of the Management Board

- Joined the company in May 2012 as the member of the Management Board
- Since September 2014 until 2015 he has been performing the function of Executive Director at Đuro Đaković Inženjering



Slaven Posavac

Director, Group Finance, Accounting and Controlling Sector

- Joined the company in July 2012 as the Corporate finance Director
- Since September 2015 he has been performing the function of the Director of Finance, Accounting and Controlling Sector of Đuro Đaković Group and since December 2015 also the function of the President of the Supervisory Board of the company Đuro Đaković Specijalna vozila and Đuro Đaković Industrijska rješenja

DD – Secondary public offering of the new shares 2017

- 1 Presenters
- 2 About the Company**
- 3 Key investment considerations
- 4 Restructuring process
- 5 Financial overview
- 6 Business segments overview
- 7 Offering of the new shares

About the Company

Key data and business segments

Description

- Đuro Đaković Group („Group“):

**Đuro Đaković
Grupa d.d.**
(„ĐĐ“ or the
„Company“)

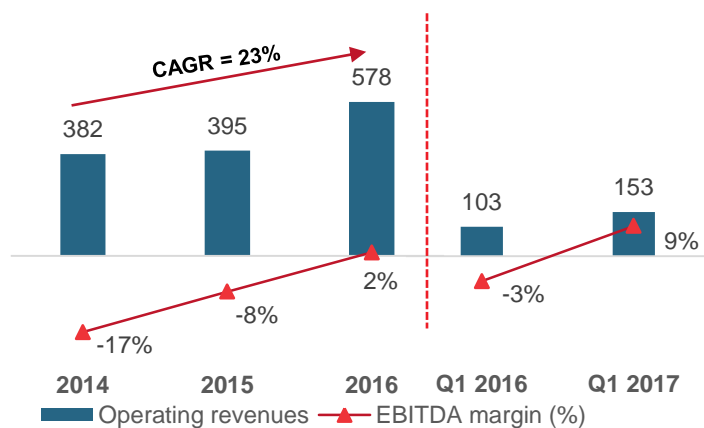
- Đuro Đaković Specijalna vozila d.d.
- Đuro Đaković Industrijska rješenja d.d.
- Đuro Đaković Strojna obrada d.o.o.
- Đuro Đaković Energetika i infrastruktura d.o.o.

- Number of employees: 1,007 employees as of 31 March 2017
- Group restructuring process initiated in 2014 has resulted in **significant business improvement** due to:
 - ✓ Organizational optimization
 - ✓ Focusing on profitable programs
 - ✓ Optimization of the use of capacities
 - ✓ Entry to foreign markets
- In 2016 and Q1 2017 **increase of revenues and export** and **positive business results** are observed

Business segments

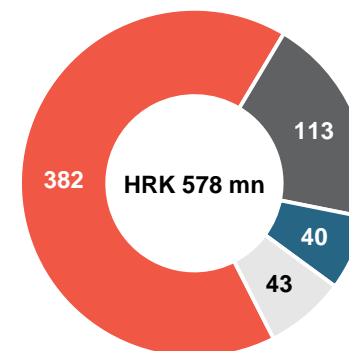
1	Industry and energetics			
2	Transport			
3	Defence			

Operating revenues and profitability (HRK mn)



Source: Audited consolidated financial report of the Company for 2016 and 2015, Unaudited consolidated financial report of the Company for Q1 2017

Revenue structure (2016)



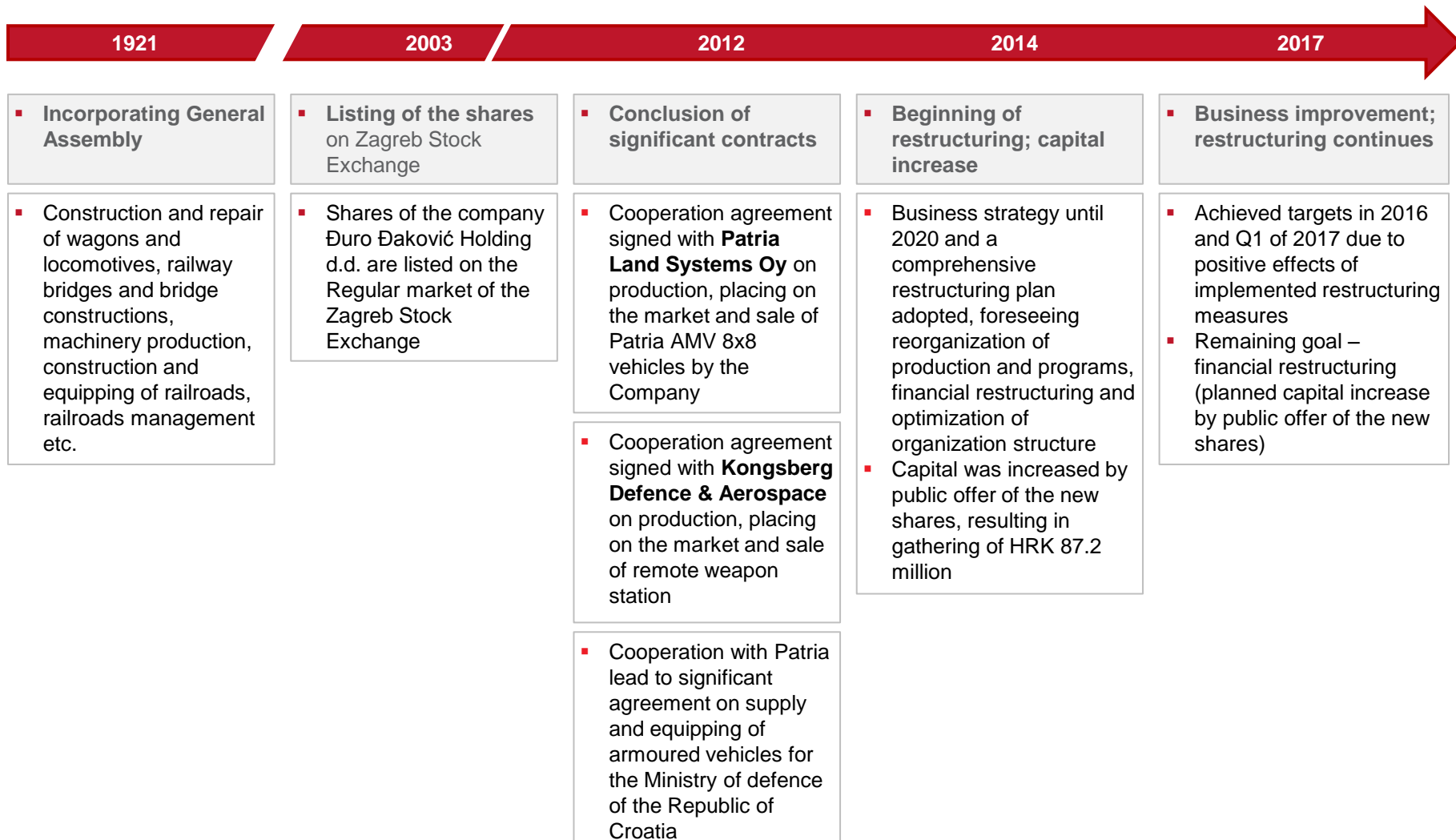
- Industry and energetics
- Transport
- Defence
- Other¹

Source: Audited consolidated financial report of the Company for 2016

1) Consists of power production, distribution and supply of entities in the industrial zone and in smaller part outside of the industrial zone and lease activities for premises in the zone with custom, tax and other benefits

About the Company

Most significant events in historic development



About the Company

DDJH-R-A

Shareholders structure and share price development

Nominal capital:

7,596,684 shares; HRK 151.9 mn

Nominal price per share:

HRK 20.00

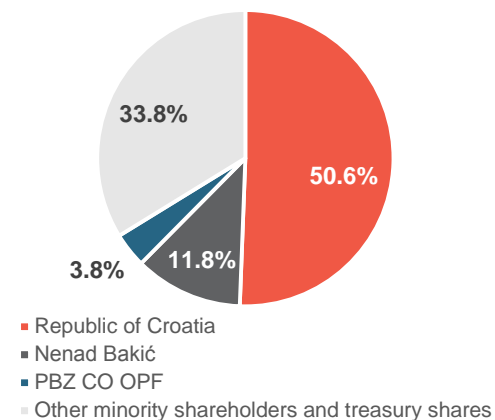
Market price per share:

HRK 41.89 (28 April 2017)

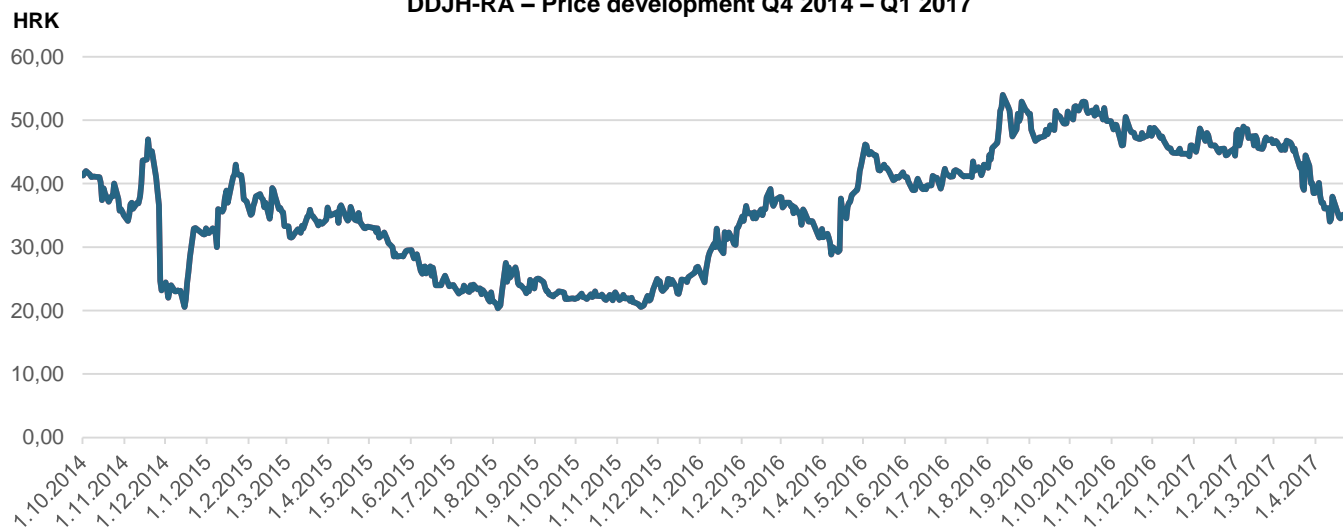
Market capitalization:

HRK 318.2 mn (28 April 2017)

Shareholder	Number of shares	Market capit. (HRK mn)	Share (%)
1 Republic of Croatia	3,844,004	161.0	50.6%
2 Nenad Bakić	898,419	37.6	11.8%
3 PBZ CO OMF	288,740	12.1	3.8%
4 PBZ – Custodian account	236,132	9.9	3.1%
5 Interkapital vrijednosni papiri – Custodian account	90,593	3.8	1.2%
6 Đuro Đaković Grupa d.d.	46,993	2.0	0.6%
7 Erste&Steiermarkische Bank – Custodian account	43,094	1.8	0.6%
8 Other minority shareholders	2,148,709	90.0	28.3%
Total	7,596,684	318.2	100.0%



DDJH-RA – Price development Q4 2014 – Q1 2017



DDJH-R-A:

- Relatively high „turnover speed”, i.e. achieved turnover observed as % of market capitalization (for 2016 at the level of approximately 11%)

Source: SKDD, ZSE, (28 April 2017)

About the Company

Overview of the most important agreements concluded in 2016 and Q1 2017



4/2016
HRK
197 mn

Concluded Agreement on production of BOV with Patria Land Systems



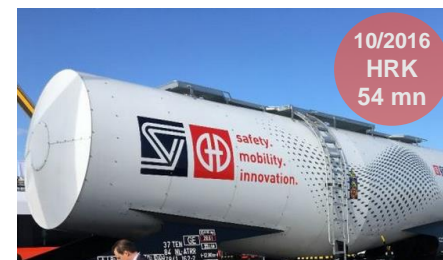
6/2016
HRK
20 mn

Concluded Agreement on production and delivery of freight wagons



9/2016
HRK
5,9 mn

Concluded Agreement on production and delivery of two cement plant mills



10/2016
HRK
54 mn

Concluded Agreement on production of special tank wagons type Zacns



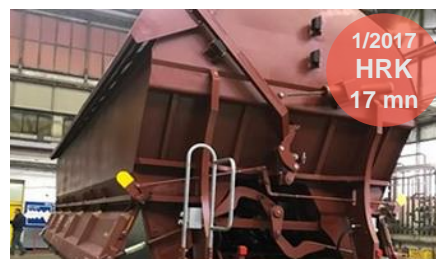
1/2017
HRK
23 mn

Additional delivery of previously contracted special tank wagons



1/2017
HRK
15,5 mn

Concluded Agreement with JANAF for construction of petroleum derivative tanks



1/2017
HRK
17 mn

Concluded Agreement on production and delivery of wagons type Talns



1/2017
HRK
8 mn

Stipulated further cooperation with the Ministry of defence of the RoC



2/2017
HRK
15 mn

Additional delivery of tank wagons type Zacns 45



2/2017

Production of the largest gear in the history of Đuro Đaković Group



3/2017
HRK
39 mn

Continued cooperation regarding the production of tank wagons type Zacns



3/2017

Delivery of the most efficient cement transportation wagon on the Eur. market

DD – Secondary public offering of the new shares 2017

- 1 Presenters
- 2 About the Company
- 3 Key investment considerations**
- 4 Restructuring process
- 5 Financial overview
- 6 Business segments overview
- 7 Offering of the new shares

Key investment considerations

Restructuring implemented to a significant extent	<ul style="list-style-type: none">▪ Optimized operational and organizational structure▪ Modernized production for the purpose of increasing profitability
Revenue growth achieved and conditions established for stable business operations	<ul style="list-style-type: none">▪ Turn-around in long-term business stagnation trend as a result of:<ul style="list-style-type: none">▪ Implemented restructuring measures▪ Proven capabilities of the Company for expanding to new markets in key business segments, signing new contracts and maximizing the utilization of the production capacities
Positive trend in profitability	<ul style="list-style-type: none">▪ After a long-term period, in 2016 and Q1 2017 positive EBITDA achieved▪ Cost-optimization – increase in costs lower than increase in operating revenues
Further growth potential	<ul style="list-style-type: none">▪ Retaining the focus on market approach and signing of the new contracts▪ Along with the Industry and Energetics and Transport segments, which have created the conditions for further stable business, Defence segment, as the most profitable business segment, offers a significant potential for contribution to further growth▪ Remaining goal: financial restructuring

DD – Secondary public offering of the new shares 2017

- 1 Presenters
- 2 About the Company
- 3 Key investment considerations
- 4 Restructuring process**
- 5 Financial overview
- 6 Business segments overview
- 7 Offering of the new shares

Restructuring process

Process overview

Decision on the complete restructuring of the Group (2014)

- **Main reasons for restructuring:**
 - Continuity of negative business results
 - Obsolescence of production technology
 - Dependency on domestic market and investment cycles
 - Suboptimal human resources structure
 - Lack of own capital in financing sources
- **5 restructuring segments:**
 - ❖ Organizational
 - ❖ Program
 - ❖ Production
 - ❖ Legal
 - ❖ Financial

Executed up to now:

- **Organizational restructuring:**
 - ✓ Merging several companies of the ĐĐ Group to ĐĐ Industrijska rješenja, merging ĐĐ Slobodna zona to ĐĐ Strojna obrada
 - ✓ ĐĐ Elektromont extracted and sold via employee stock ownership model
 - ✓ Planned sale of ĐĐ Energetics and Infrastructure not executed (considering the company's positive business results)
- **Program restructuring :**
 - ✓ Termination of several corporate functions and organization units
 - ✓ Relocating R&D function and marketing and sales responsibilities to subsidiaries
 - ✓ Establishing Human resources; Finance, Accounting and Controlling; Legal Department, as well as Internal Audit Department
 - ✓ Reorganization of sales (key-client principle)
- **Production restructuring :**
 - ✓ Investment in modernization of production facilities – providing conditions for profitable production
- **Legal restructuring / Optimization of number of employees:**
 - ✓ Number of employees was gradually decreased from 1,126 (prior to the restructuring process) to 974 in 2016
 - ✓ In Q1 2017 trend of employment for definite period of time is continued, for the purposes of contracted business

Remaining:

- **Financial restructuring: improvement of financing sources** (gathering fresh capital by issuing new shares)
- Finding a **strategic** partner for certain production segments (as in cooperation with Patria)
- Completing organization and program **restructuring** of the company **ĐĐ Industrijska rješenja d.d.**
- **Expanding to the markets** of the EU and beyond (MENA, Eastern Europe etc.)
- Maintaining and improving **operating indicators**
- Optimization of realized investments and **finding** possibilities for **synergy** of certain production and sale segments

DD – Secondary public offering of the new shares 2017

- 1 Presenters
- 2 About the Company
- 3 Key investment considerations
- 4 Restructuring process
- 5 Financial overview**
- 6 Business segments overview
- 7 Offering of the new shares

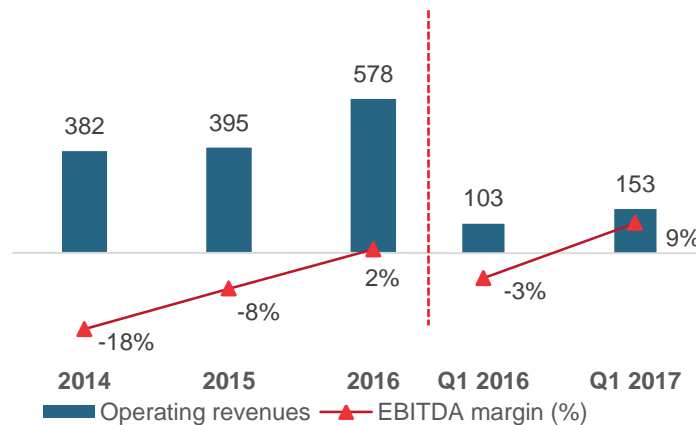
Financial overview

Key performance indicators

Development of the key performance indicators

(HRK mil.)	2014.	2015.	2016.	Q1 2016.	Q1 2017.
Operating income	382	395	578	103	153
<i>Growth (%)</i>	-	3%	46%	-	49%
EBITDA	(66)	(30)	10	(3)	13
<i>EBITDA margin (%)</i>	(18%)	(8%)	2%	(3%)	9%
EBIT	(84)	(50)	(14)	(9)	7
<i>EBIT margin (%)</i>	(22%)	(13%)	(3%)	(8%)	4%
Net profit / (loss)	(96)	(64)	(35)	(11)	7
<i>Net margin (%)</i>	(25%)	(16%)	(6%)	(11%)	5%
(HRK mil.)	31.12.2014.	31.12.2015.	31.12.2016.	Q1 2017.	
Net debt	(171)	(264)	(296)	(346)	
Non-current fin. assets	(136)	(210)	(193)	(192)	
Current fin. assets	(89)	(92)	(131)	(169)	
Cash	33	37	26	13	
Given loans, deposits and similar	20	1	2	2	

Operating revenues and EBITDA margin (HRK mn)



Comments

- **Shift in the business operations** as a result of:
 - Modernization of production and improvement of manufacturing calculations
 - Optimizing utilization of capacities (cost-efficiency)
 - Better utilization of resources in all business processes (realised decreased growth of costs in comparison to growth of revenues)
 - Market expansion and closing of new business deals
- **Export growth:** income from export was 21% higher in 2016 as compared to 2015, in Q1 2017 it increased three times as compared to a comparable period
- Room for **further improvements:**
 - A very small share of the most profitable segment Defence in the total income (6.9% share in income for 2016)
 - The expected results in the future period as a result of additional restructuring measures in the Industry and Energetics segment

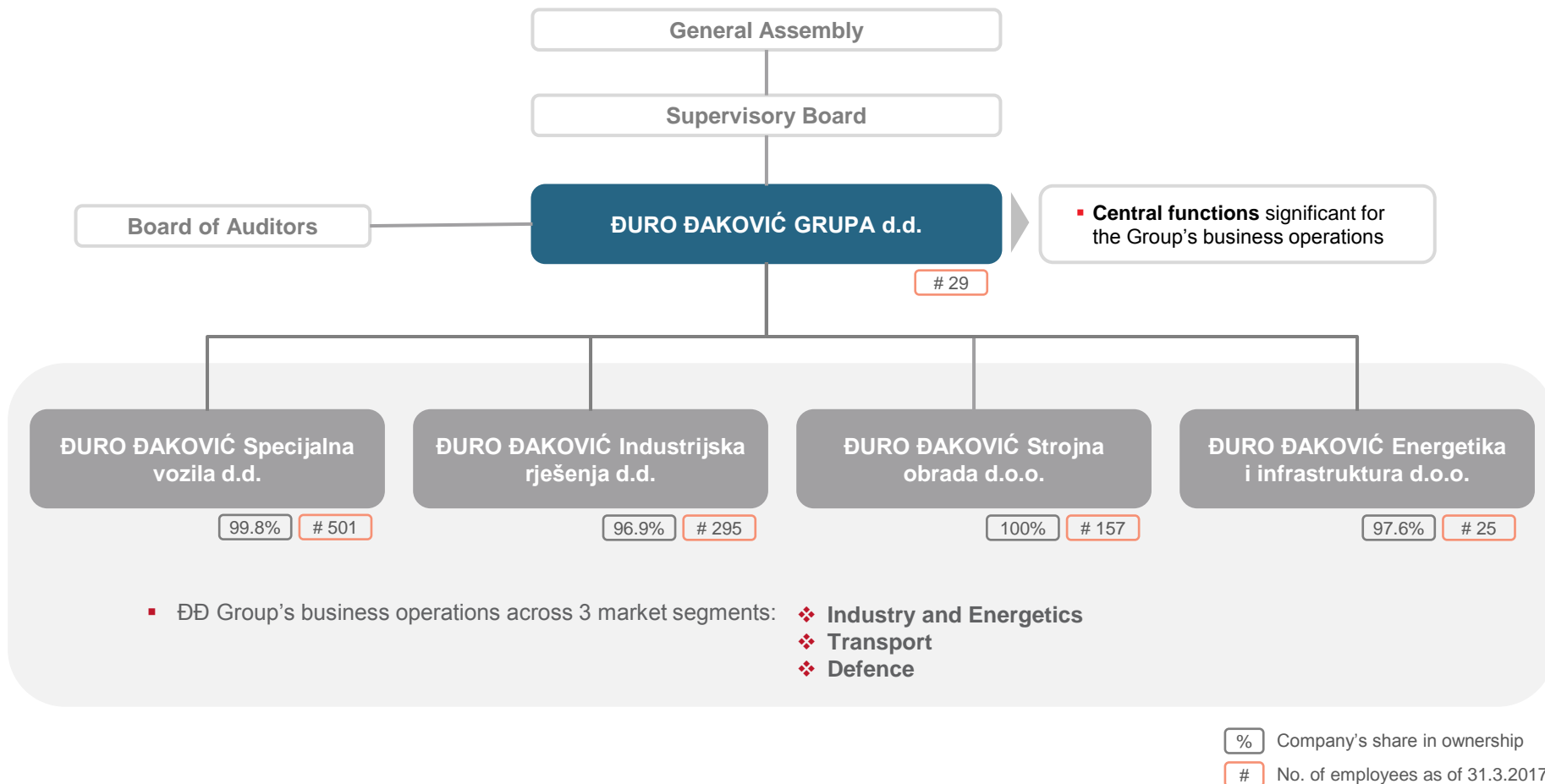
DD – Secondary public offering of the new shares 2017

- 1 Presenters
- 2 About the Company
- 3 Key investment considerations
- 4 Restructuring process
- 5 Financial overview
- 6 Business segments overview**
- 7 Offering of the new shares

Overview of business segments

Business organisation – 3 market segments

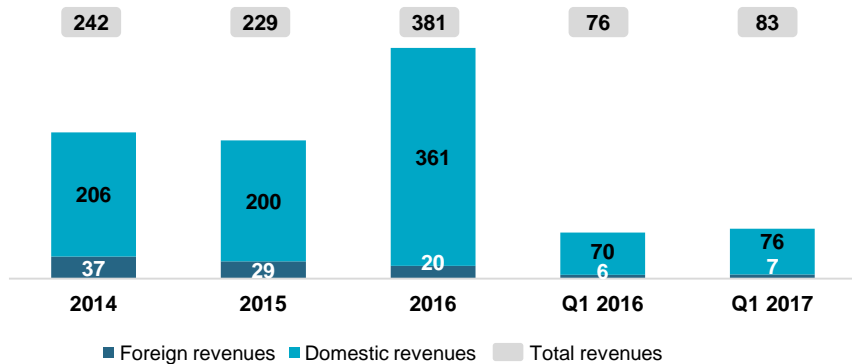
Group's organisational structure



Business segments overview

Industry and Energetics

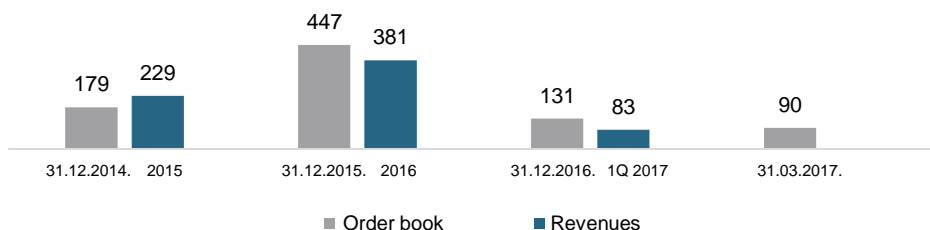
Revenues (HRK million)



Description

- The segment offers and performs engineering services in the areas of: **(i)** industrial plants for petroleum and gas, **(ii)** chemical and petrochemical industry, **(iii)** energy plants, **(iv)** food industry, **(v)** cement industry, and **(vi)** metallurgy
- **Products and services:**
 - Construction and assembly of electrical, petrochemical and industrial plants
 - Construction of metal bridge construction, steel construction and high-rise construction (viaducts, overpasses and similar) and accompanying infrastructure
- **Largest share in total income:** 65.4% (2016)
- Segment growth rates:
 - **Income:** 25% (CAGR¹ '14.-'16.) – realization of major projects for HEP, INA, JANAF; 9% (1Q '16.-1Q '17).
 - **Export:** 7% (1Q '16.-1Q '17).

Order book and revenues (HRK million)



The most significant products of the Industry and Energetics segment

Petroleum, gas and petrochemical industry



Energy plants



Hydromechanical equipment



Food industry



Cement industry

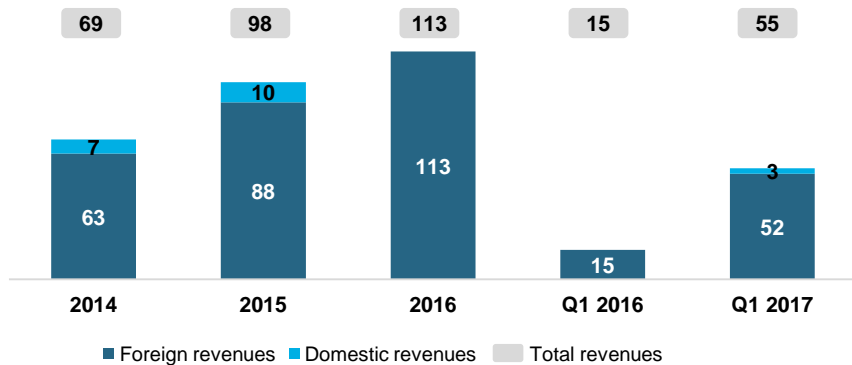


1) Compound annual growth rate

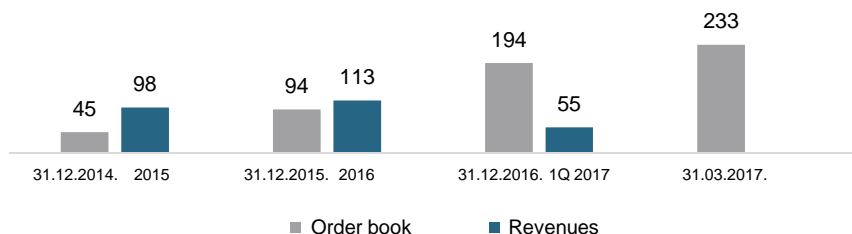
Business segments overview

Transport

Revenues (HRK mil.)



Order book and revenues (HRK mil.)



Description

- Products and services:**
 - Production of freight wagons for different types of goods (independent development of new wagon types, including the customization capability of the existing wagons to specific client requests)
 - Service and maintenance of freight wagons, production of parts and components for wagons
- Sole manufacturer** of rail freight wagons in the Republic of Croatia
- Segment share in total income: 19.4% (2016)
- Greatest share** in total **export**: 78.8% (2016)
- Segment growth rate:
 - Income**: 28% (CAGR¹ '14 -'16) – growth of demand on foreign markets; 277% (1Q '16 - 1Q '17).
 - Export**: 35% (CAGR '14 -'16)
- Increase of the order book indicates continuous Group capability for expanding on the new markets and realization of stable income from this segment

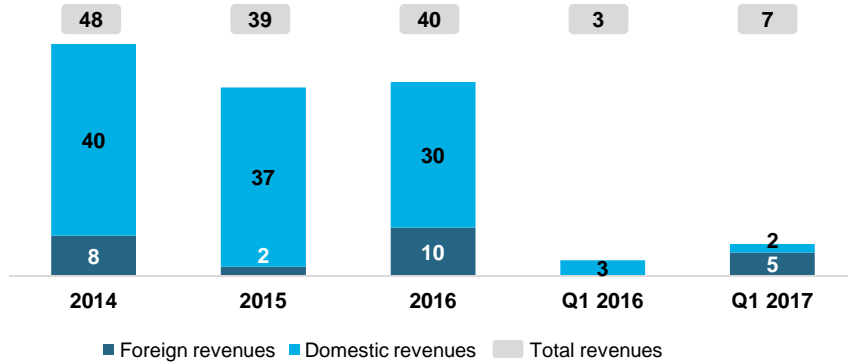
Most important products from the Transport segment



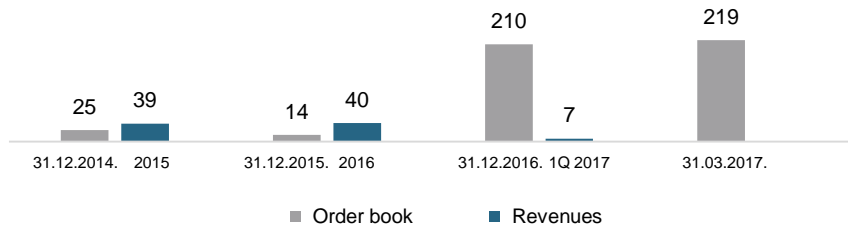
Business segments overview

Defence

Revenues (HRK million)



Order book and revenues (HRK million)



Description

- Products and services of the most profitable segment:**
 - Production of armoured modular vehicles BOV 8x8
 - Maintenance of vehicles BOV 8x8
 - Development, production and/or integration of new, NATO interoperable systems of new generation designed for improvement of the existing M-84/T-72 tanks and/or integration of new tanks
- Main Croatian supplier** of tanks and armoured combat vehicles
- Strategic cooperation with Patria and Kongsberg** allows the Group to be a supplier of fully equipped armoured vehicles.
- The smallest share of the segment in the total revenues: 6.9% (2016)
- Potential** for realizing **additional income in the future period** from this segment:
 - In Q1 '17 growth of 105% (in comparison to Q1 '16) was realized – contract was concluded with Patria for third markets with the value of EUR 26 million.
 - Significant increase of orders in the period 31.12.2014 - 31.03.2017

The most significant products of the Defence segment

Armoured modular vehicle Patria AMV 8x8



Modernised tank M84/T-72



DD – Secondary public offering of the new shares 2017

- 1 Presenters
- 2 About the Company
- 3 Key investment considerations
- 4 Restructuring process
- 5 Financial overview
- 6 Business segments overview
- 7 Offering of the new shares**

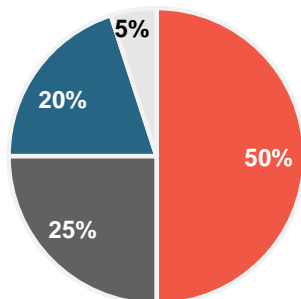
Offering of the new shares

Terms of the offering and use of proceeds

Offering conditions

<ul style="list-style-type: none"> Decision on share capital increase of the Company passed at the General Assembly of the Company of 21 March 2017 („Decision on share capital increase”) Public Invitation for subscription of new shares by the Company published on 4 April 2017 („Public Invitation”) Information Memorandum for the offering of new shares will be announced at the Company and ZSE website (exception from the obligation to publish a prospectus¹⁾) 	
Number of new shares:	<ul style="list-style-type: none"> 5,000,000 – 7,600,000
Final subscription price:	<ul style="list-style-type: none"> To be determined after the subscription period, according to the criteria determined by the Decision on share capital increase and Public Invitation
Subscription right:	<ul style="list-style-type: none"> All investors who will pay a minimum of HRK 800,000.00 for the New Shares, for each individual offer Pre-emptive rights of the existing shareholders are excluded in accordance with the Decision on nominal capital increase (existing shareholders have the right to subscribe for the New shares under the same conditions as other investors)
Subscription period:	<ul style="list-style-type: none"> 8 May 2017 (9:00 hours) – 12 May 2017 (16:00 hours)
Subscription place:	<ul style="list-style-type: none"> Management Board office – Strojarska cesta 20, Zagreb
Final payment deadline :	<ul style="list-style-type: none"> 12 May 2017 (17:00h hours) – for all investor, other than Institutional investors² 17 May 2017 (10:00 hours) – for Institutional investors
Date of final price publishing	<ul style="list-style-type: none"> 15 May 2017
Date of announcing the successfulness of the offering any the number of New shares to be issued	<ul style="list-style-type: none"> 18 May 2017
Listing:	<ul style="list-style-type: none"> Regular market of the Zagreb Stock Exchange

Use of proceeds:



- Working capital investment
- CAPEX
- New products development
- Severance payment

- Recent operating results, relevant **references** and Company's **reputation** on the domestic and international markets, point to a **significant development potential**
- The planned capital increase procedure and completion of the restructuring process support the Company's goals to:
 - ✓ continue the positive growth trend and increase competitiveness
 - ✓ create conditions for further development, new investments and conquering new markets

1) In accordance with the Capital Market Act, Article 351, paragraph 1, item 3

2) As defined in accordance with the Decision on nominal capital increase and Public Invitation

Q&A