



MANAGEMENT BOARD

Koprivnica, 20 February 2017

PODRAVKA INC.
UNCONSOLIDATED FINANCIAL REPORT
FOR 1 – 12 2016 PERIOD



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General information

Podravka prehrambena industrija d.d., Koprivnica, is incorporated in the Republic of Croatia. Today it is included in leading companies in industry operating in the area of South-Eastern, Central and Eastern Europe. The principal activity of the Company comprises production of a wide range of foodstuffs and non-alcoholic beverages.

The Company is headquartered in Koprivnica, Croatia, Ante Starčevića 32.

The Company's shares are listed on the official market of the Zagreb Stock Exchange.

Management Board members as at 31 December 2016

President	Zvonimir Mršić
Member	Olivija Jakupec
Member	Iva Brajević
Member	Hrvoje Kolarić

The unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").



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Koprivnica, 20 December 2017

MANAGEMENT REPORT ON THE ACHIEVED BUSINESS RESULTS OF PODRAVKA INC. FOR THE PERIOD JANUARY – DECEMBER 2016

Significant events in 1 – 12 2016

Food Solution – new business segment

In 2016, Podravka entered a new operating segment, Food Solution, by which the company aims to make a step forward in the Gastro segment. Food Solution implies a completely new gastro segment in which, in addition to top quality products themselves, the customers also obtain the necessary know-how regarding the use of the products and services in the preparation of menus, organisation of kitchen chores and staff and planning investments in kitchen equipment.

For realisation of this project, the company invested in the construction of a factory specialized for the production of freshly prepared ready-to-eat and semi-prepared meals, extending over approximately 1500 m² and equipped with the state-of-the-art and top-quality equipment for food cooking and preparation. 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. The range includes soups, cold appetizers, sauces and dressings, hot appetizers, main courses, marinated fresh meat, side dishes and desserts. These are fresh-made/cooked/baked ready-to-eat or semi-prepared meals, with top-quality ingredients and tastes without stabilisers, preservatives or additional additives. By special rules of preparation and packaging and following certain temperature regimes the durability is achieved, without losing quality in terms of nutritional composition, flavour and aroma of food.

Sale of the Beverages business segment

As at 20 September 2016, Podravka Inc. signed the Sale and Purchase Agreement with the company Kofola ČeskoSlovensko, one of the leading European producers and distributors of soft drinks, for the purchase of a share in the company Studenac d.o.o. After the agreed contractual preconditions had been met, the share was transferred on 20 December 2016, and special attention was paid to employees for the protection of their acquired rights arising from the Collective Bargaining Agreement of the Podravka Group for the 18-month period. After divesting of the Beverages business, the company will continue to develop the food and pharmaceuticals portfolios, directing additional resources to the internationalisation of the key brands.



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Best Investor Relations in Central and Eastern Europe Award

At the great CEE Capital Markets Awards ceremony held in Warsaw on 15 September 2016, Podravka won the award for the best Investor Relations in Central and Eastern Europe. It was awarded by the expert jury consisting of international institutional investors focused on the Central and Eastern Europe region and of the representatives of regional capital markets. The event gathered more than 200 guests, including international, institutional investors and top management of listed companies from the region of Central and Eastern Europe. The goal of CEE Capital Markets Awards is to promote the region of Central and Eastern Europe so that global investors would decide to invest in the best regional companies.

Dividend distribution to shareholders of Podravka d.d.

After several years of successfully implemented restructuring processes and achieved positive business results, prerequisites have been met for the dividend payment in the amount of HRK 7.00 per share, 10 years from the last dividend distribution. The dividend was distributed on 16 September 2016, in the total amount of HRK 48.5 million.

Changes in the Management Board of Podravka

At the session held on 15 February 2016, the Supervisory Board of Podravka Inc. approved the Agreement on termination of the mandate for Podravka Inc. Management Board Member, Mr. Miroslav Klepač according to which his mandate ended on 31 March 2016. Mr. Miroslav Klepač was appointed a Member of the Management Board of Podravka Inc. on 24 February 2012. As a Management Board Member he was specifically responsible for the finance on the Podravka Group level.

At the same session, the Supervisory Board of Podravka Inc. appointed Ms. Iva Brajević as the new Member of the Management Board of Podravka Inc. responsible for the finance on the Podravka Group level. Her mandate entered into force on 1 April 2016 and terminates upon the expiry of mandate of the Management Board as a whole. Ms. Iva Brajević has been working in Podravka Inc. as of 9 September 2013, and has worked as Director of Corporate Accounting and Tax and from September 2015 as Controlling Director. She graduated from the Faculty of Economics in Zagreb, and through the additional education has acquired licenses Head of Investor Relations and Head of development and implementation of EU-funded projects. She previously gained her business experience in several branches of international corporations in Croatia - among other, as the Finance Manager at DHL (2006 - 2012), and Unilever Finance manager for the companies in Croatia and Slovenia (1998 - 2005).



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Key business highlights of 1 – 12 2016

Note: as at 20 September 2016, Podravka Inc. signed the sale and purchase agreement for the sale of the business programme Beverages. In accordance with the contractual preconditions for the sale, Podravka Inc. increased the capital of Studenac d.o.o. with the group's assets held for sale and as of 1 October 2016 the business programme Beverages started to function independently through the subsidiary Studenac d.o.o. Also, as of 1 October 2015, the subsidiary Danica d.o.o. was merged as a continuation of the process of improving business efficiency. For these reasons, the income statement for 2016 is not fully comparable to 2015.

In 2016, Podravka Inc. recorded sales of HRK 1,888.1 million, which is a 3.6% growth compared to the comparative period. The increase in sales is primarily the result of the merger of the subsidiary Danica. The cost of goods sold recorded an increase of 5.1% compared to the comparative period, whereby the gross profit in 2016 remained at the same levels as the gross profit in 2015. Other operating expenses (net of other income and excluding the cost of goods sold) in 2016 were 4.8% lower than in the comparative period that was impacted by significant costs of severance payments following the initiation of the redundancy labour programme. As a consequence of movements in operating income and expenses, the operating profit of Podravka Inc. in 2016 amounts to HRK 117.1 million, while in 2015 it amounted to HRK 91.2 million. In 2016, net finance income of HRK 87.2 million was realised, while tax liability amounted to HRK 25.1 million. Consequently, in 2016 Podravka Inc. realised net profit of HRK 179.3 million.

As at 31 December 2016, total assets of Podravka amount to HRK 3,316.6 million and compared to the end of 2015 they are 0.4% higher. The most significant change on the assets side was in the position "trade and other receivables", which increased by 14.5% in the observed period due to, among other things, the consolidation of Danica and higher dividend receivables. On the equity and liabilities side, trade and other payables increased by 5.9% due to, among other things, the merger of Danica.

In 2016, cash flow from operating activities amounted to HRK 227.7 million, positively impacted by lower working capital days. Cash flow from investing activities at the same time amounted to positive HRK 17.0 million, primarily due to repayments of loans given. In the same period, cash flow from financing activities amounted to negative HRK 203.5 million, primarily due to higher repayments of borrowings. In total, in 2016 cash and cash equivalents increased by HRK 41.1 million, resulting in HRK 136.6 million of cash and cash equivalents as at 31 December 2016.

President of the Management Board:

Zvonimir Mršić



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UNCONSOLIDATED FINANCIAL REPORTS FOR THE PERIOD JANUARY – DECEMBER 2016



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PROFIT AND LOSS STATEMENT IN 2016

<i>(in HRK thousands)</i>	2016	% of sales revenues	2015	% of sales revenues	% change
Sales revenue ¹	1,888,109	100.0%	1,823,290	100.0%	3.6%
Cost of goods sold	(1,298,764)	(68.8%)	(1,236,238)	(67.8%)	5.1%
Gross profit	589,345	31.2%	587,052	32.2%	0.4%
General and administrative expenses	(154,307)	(8.2%)	(170,331)	(9.3%)	(9.4%)
Selling and distribution costs	(208,362)	(11.0%)	(203,405)	(11.2%)	2.4%
Marketing expenses	(119,587)	(6.3%)	(120,425)	(6.6%)	(0.7%)
Other expenses / (income), net	10,053	0.5%	(1,724)	(0.1%)	n/a
Operating profit	117,142	6.2%	91,167	5.0%	28.5%
Financial income	123,442	6.5%	94,395	5.2%	30.8%
Financial expenses	(36,198)	(1.9%)	(41,267)	(2.3%)	(12.3%)
Net finance costs	87,244	4.6%	53,128	2.9%	64.2%
Profit before tax	204,386	10.8%	144,295	7.9%	41.6%
Income tax	(25,065)	(1.3%)	12,677	0.7%	n/a
Net profit for the year	179,321	9.5%	156,972	8.6%	14.2%

¹2015 reclassified, see Notes to the financial statements.



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BALANCE SHEET AS AT 31 DECEMBER 2016

<i>(in HRK thousands)</i>	31.12.2016	% share	31.12.2015	% share	% change
ASSETS					
Non-current assets					
Intangible assets	107,756	3.2%	122,818	3.7%	(12.3%)
Property, plant and equipment	850,156	25.6%	829,595	25.1%	2.5%
Investments in subsidiaries	808,073	24.4%	791,518	23.9%	2.1%
Deferred tax assets	25,663	0.8%	50,633	1.5%	(49.3%)
Non-current financial assets	59,679	1.8%	100,042	3.0%	(40.3%)
Total non-current assets	1,851,327	55.8%	1,894,606	57.3%	(2.3%)
Current assets					
Inventories	338,205	10.2%	358,558	10.8%	(5.7%)
Trade and other receivables	843,783	25.4%	736,867	22.3%	14.5%
Financial assets at fair value through profit and loss	751	0.0%	215	0.0%	249.3%
Income tax receivable	5,569	0.2%	14,589	0.4%	(61.8%)
Cash and cash equivalents	136,553	4.1%	95,414	2.9%	43.1%
Non-current assets held for sale	140,419	4.2%	204,676	6.2%	(31.4%)
Total current assets	1,465,280	44.2%	1,410,319	42.7%	3.9%
Total assets	3,316,607	100.0%	3,304,925	100.0%	0.4%
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	1,679,174	50.6%	1,683,871	51.0%	(0.3%)
Reserves	216,224	6.5%	166,353	5.0%	30.0%
Retained earnings / (accumulated losses)	180,680	5.4%	100,150	3.0%	80.4%
Total shareholders' equity	2,076,078	62.6%	1,950,374	59.0%	6.4%
Non-current liabilities					
Borrowings	398,472	12.0%	634,832	19.2%	(37.2%)
Provisions	31,469	0.9%	31,667	1.0%	(0.6%)
Total non-current liabilities	429,941	13.0%	666,499	20.2%	(35.5%)
Current liabilities					
Trade and other payables	432,899	13.1%	408,954	12.4%	5.9%
Financial liabilities at fair value through profit and loss	3,283	0.1%	2,469	0.1%	33.0%
Borrowings	364,280	11.0%	251,301	7.6%	45.0%
Provisions	10,126	0.3%	25,328	0.8%	(60.0%)
Total current liabilities	810,588	24.4%	688,052	20.8%	17.8%
Total liabilities	1,240,529	37.4%	1,354,551	41.0%	(8.4%)
Total equity and liabilities	3,316,607	100.0%	3,304,925	100.0%	0.4%

*2015 restated, see Notes to the financial statements.



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CASH FLOW STATEMENT IN 2016

<i>(in HRK thousands)</i>	2016	2015	% change
Profit / (loss) before tax	204,386	144,295	41.6%
Depreciation and amortization	96,481	84,204	14.6%
Reversal of impairment on assets held for sale	(222)	-	n/a
Impairment (profit) / loss on assets held for sale	9,299	12,080	(23.0%)
Remeasurement of financial instruments at fair value	278	(498)	n/a
Dividend income	(100,000)	(80,504)	24.2%
Share based payment transactions	6,893	8,660	(20.4%)
Gain on disposal of property, plant, equipment and intangibles	(5,187)	(239)	2070.3%
Gain on disposal of subsidiary	(729)	-	n/a
Gain on disposal of assets held for sale	-	(864)	n/a
Profit from the sale of shares	(3,577)	-	n/a
Impairment on trade receivables	224	529	(57.7%)
(Decrease) / increase in provisions	(15,400)	2,153	n/a
Interest income	(11,611)	(8,237)	41.0%
Interest expense	33,538	34,612	(3.1%)
Foreign exchange differences	(8,689)	(4,921)	76.6%
Changes in working capital:			
(Increase) / Decrease in inventories	25,286	14,929	69.4%
(Increase) / Decrease in receivables	(17,264)	(103,422)	(83.3%)
Increase / (Decrease) in payables	54,203	38,895	39.4%
Cash generated from operating activities	267,909	141,672	89.1%
Income tax paid	(7,387)	(14,403)	(48.7%)
Interest paid	(32,790)	(34,593)	(5.2%)
Net cash from operating activities	227,732	92,676	145.7%
Cash flow from investing activities			
Incorporation and acquisition of subsidiaries	-	(433,271)	n/a
Increase of investments in subsidiaries	(11,795)	(56,357)	(79.1%)
Purchase of equity instruments	(884)	-	n/a
Purchase of property, plant, equipment and intangibles	(130,854)	(101,631)	28.8%
Purchase of assets held for sale	-	(3,733)	n/a
Proceeds from sale of property, plant, equipment and intangibles	16,288	868	1776.5%
Proceeds from sale of assets held for sale	18,050	3,959	355.9%
Income from the sale of shares	(143,066)	(59,299)	141.3%
Loans given	207,681	102,909	101.8%
Proceeds from loans given	8,652	7,691	12.5%
Proceeds from sale of subsidiary	52,206	-	n/a
Proceeds from sale of other investments	672	-	n/a
Net cash from investments in money market funds	-	2,386	n/a
Net cash acquired through merger of subsidiary	-	3,033	n/a
Net cash from investing activities	16,950	(533,445)	n/a
Cash flow from financing activities			
Proceeds from borrowings	464,566	292,765	58.7%
Repayment of borrowings	(609,959)	(350,654)	73.9%
Purchase of treasury shares	(12,977)	(5,899)	120.0%
Sale of treasury shares	3,307	4,792	(31.0%)
Receipts from issue of new ordinary shares	-	506,394	n/a
Dividends paid	(48,480)	-	n/a
Net cash from financing activities	(203,543)	447,398	n/a
Net (decrease) / increase of cash and cash equivalents	41,139	6,629	520.6%
Cash and cash equivalents at beginning of the year	95,414	88,785	7.5%
Cash and cash equivalents at the end of year	136,553	95,414	43.1%



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STATEMENT OF CHANGES IN EQUITY IN 2016

<i>(in HRK thousands)</i>	Share capital	Reserve for treasury shares	Legal reserves	Reinvested profit reserve	Other reserves	Retained earnings	Total
As at 1 January 2015	1,062,160	67,604	2,569	108,400	2,955	94,176	1,337,864
<i>Comprehensive income</i>							
Profit for the year	-	-	-	-	-	156,972	156,972
Actuarial losses (net of deferred tax)	-	-	-	-	(49)	-	(49)
Other comprehensive income	-	-	-	-	(49)	-	(49)
Total comprehensive income	-	-	-	-	(49)	156,972	156,923
<i>Transactions with owners recognised directly in equity</i>							
Share capital increase through issue of new shares	506,394	-	-	-	-	-	506,394
Share capital increase from reinvested profits	108,400	-	-	(108,400)	-	-	-
Allocation from retained earnings	-	80,000	10,084	-	3,190	(93,274)	-
Purchase of treasury shares	(5,899)	-	-	-	-	-	(5,899)
Exercise of options	4,156	-	-	-	-	-	4,156
Fair value of share-based payment transactions	8,660	-	-	-	-	-	8,660
Acquisition of subsidiaries	-	-	-	-	-	(57,724)	(57,724)
Total transactions with owners recognised directly in equity	621,711	80,000	10,084	(108,400)	3,190	(150,998)	455,587
As at 31 December 2015	1,683,871	147,604	12,653	-	6,096	100,150	1,950,374
<i>Comprehensive income</i>							
Profit for the year	-	-	-	-	-	179,321	179,321
Actuarial losses (net of deferred tax)	-	-	-	-	(440)	-	(440)
Other comprehensive income	-	-	-	-	(440)	-	(440)
Total comprehensive income	-	-	-	-	(440)	179,321	178,881
<i>Transactions with owners and transfers recognised directly in equity</i>							
Allocation from retained earnings	-	-	5,008	-	45,303	(50,311)	-
Purchase of treasury shares	(12,977)	-	-	-	-	-	(12,977)
Exercise of options	1,387	-	-	-	-	-	1,387
Fair value of share-based payment transactions	6,893	-	-	-	-	-	6,893
Dividends paid	-	-	-	-	-	(48,480)	(48,480)
Total transactions with owners recognised directly in equity	(4,697)	-	5,008	-	45,303	(98,791)	(53,177)
As at 31 December 2016	1,679,174	147,604	17,661	-	50,959	180,680	2,076,078



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Notes to the financial statements

As of 1 January 2016, the Company changed the policy of recording sales revenue. Some compensations and allowances granted to customers for various promotional and marketing activities until now had been recorded within marketing expenses. Since such activities are defined in sales contracts and arise for the purpose of generating sales revenue, since 2016 the Company considers such compensations the decrease in sales revenue, whereby the Company more realistically records sales revenue and adopts the generally accepted practice of other companies in the sector of consumer goods sales. Sales revenues for 2015 have been reclassified in accordance with the new revenue recognition policy. The change of policy of revenue recognition has no impact on the Company's net result and earnings per share.

The Company has restated the opening balance and recognised a receivable from discounted bills of exchange and recognised a factoring liability. Trade receivables include receivables from discounted bills of exchange arising from the factoring agreements. In accordance with these agreements, the Company transferred the bills of exchange to a factoring company in exchange for cash. The Company retained the risk of default of the original debtor and the related liability to the factoring company is recorded within other liabilities. Factoring liabilities relate to the liabilities under the regressive right of discounted bills of exchange of several customers that are discounted with several factoring companies. The liabilities are non-interest-bearing for the Company.



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STATEMENT FROM EXECUTIVES RESPONSIBLE FOR PREPARING FINANCIAL STATEMENTS

Koprivnica, 20 February 2017

STATEMENT FROM EXECUTIVES RESPONSIBLE FOR PREPARING FINANCIAL STATEMENTS

Financial statements of Podravka d.d. for the period January – December 2016 have been prepared in compliance with the Accounting Act of the Republic of Croatia and International Financial Reporting Standards (IFRS) and provide an overall and true presentation of assets, liabilities, profit and loss, financial position and business operations.

Financial statements of Podravka d.d. for the period January – December 2016 were approved by the Management Board on 20 February 2017.

Accounting and Taxes Director:
Senka Laljek

Board Member:
Iva Brajević



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