

Flash note

Analyst: Tajana Striga

tajana.striga@addiko.com

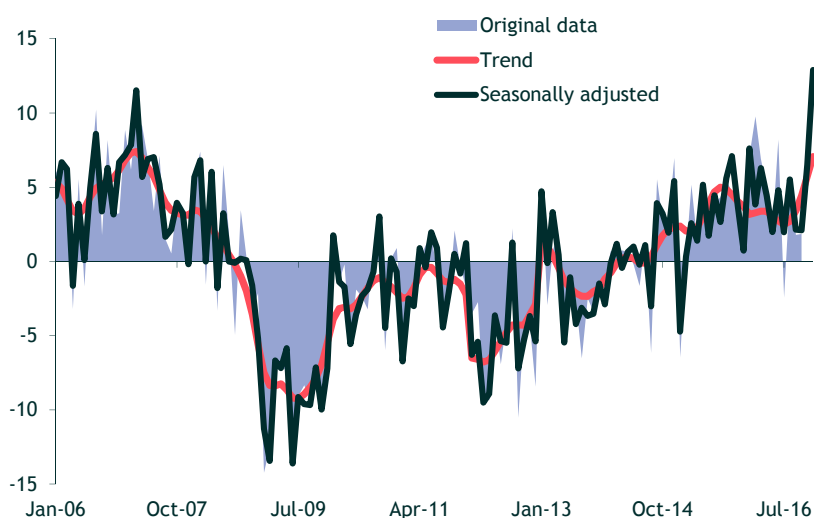
+385 1 6033 522

Croatia: Industrial output continues sprint in December

December's seasonally adjusted industrial production sprinted 3.9% mom (prev. +2.7%), following already several months of decent monthly growth. Besides unusually higher number of working days, the strongest contribution came from non-durable goods (+6.5% mom), with all other segments outside the energy sector contributing positively as well (energy -1.6% mom). On the yoy level, industrial production soared 12.9% yoy, with 23.8% stronger energy generation in one of the coldest winters ever and very volatile refinery output, followed by 8.9% stronger non-durable goods being the main drivers. For the 4Q16, industrial production rose 7.2% yoy on average, thus well surpassing both 3.2% yoy increase in 3Q16 and 3.8% growth in 4Q15. Industrial production thus increased by 5.0% yoy for the FY16 on average. Meanwhile, manufacturing increased 7.1% yoy in 4Q16, which is consistent with an 1pp-alike positive contribution to the GVA formation in final quarter of the last year. The latter alongside the expected 3.5%-alike increase in household consumption and slightly negative net trade contribution implies 3.5% GDP growth in 4Q16, shaping the FY16 GDP growth at 3.0% on our estimates.

What's ahead? The euro zone Composite (manufacturing/services) PMI's strongest level in five years, driven by strong gains in the output and new orders components, which bodes well for mid-to-high single digit growth for Croatian exports during 1H17. The weaker euro provides some tailwind to the euro zone's exports, as businesses report that stronger new orders in manufacturing are often coming from outside the euro zone. Steady EU/global demand, Croatia's further integration into global value chains and price competitiveness gains will continue to drive exports in 2017-2018 and the ongoing outperformance of most CESSEE peers. Also, stronger consumer demand and the local investment activity suggest industrial production will see support on the domestic front as well. In such circumstances, we see industrial production staying on strong footing for the time being with an expected average increase between 4.5% and 5% in 2017.

CRO: Industrial production yoy%



Flash Note

Disclosures Appendix

The information and opinions in this report/investment research were prepared by Addiko Bank d.d. and/or one or more of its subsidiaries/affiliates (collectively, 'Addiko Bank') for information purposes only. This report is not investment advice or an offer or solicitation for the purchase or sale of any security/financial instrument or to participate in any trading strategy. Neither Addiko Bank nor any of its employees accept any liability for any direct or consequential loss arising from any use of this publication or its contents. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate in price and value. Past performance is not indicative of future results. Besides, the risks associated with an investment in the financial, money market or investment instrument or security under discussion are not explained in their entirety. Estimates of future performance are based on assumptions that may not be realized. Investors should make their own investment decisions without relying on this publication. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this publication.

This report is based on information available to the public. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Addiko Bank makes no representation or guarantee with regards to the accuracy, completeness or suitability of the data. Addiko Bank does not undertake to advise you of changes in its opinion or information. Moreover, we reserve the right not to update this information or to discontinue it altogether without notice. From time to time our analysts receive assistance from the issuer including, but not limited to, discussions with management of the subject company(ies). Addiko Bank policy prohibits research analysts from sending draft research including recommendations (rating, target price) and summary to subject companies. However, it should be presumed that the author(s) have communicated with the subject company to ensure factual accuracy of the (company) research report prior to publication, without mentioning recommendation and summary. Facts and views presented in Addiko research reports have not been reviewed by, and may not reflect information known to, professionals in other Addiko business units, including investment banking / treasury / corporate personnel. Any opinions and estimates contained herein reflect the current judgment of the author(s) and do not necessarily reflect the opinion of Addiko Bank or any of its subsidiaries and affiliates.

This report is disseminated and available primarily electronically to professional clients and eligible counterparties, who are expected to make their own investment decision without undue reliance on this publication, and may not be sold, redistributed, reproduced or published in whole or in part for any purpose without the prior express consent of Addiko Bank. Please always cite source when quoting. Additional information is available on request. Clients should contact and execute transactions through a Addiko Bank d.d. or group entity in their home jurisdiction unless local regulations permit otherwise.

Addiko Bank and others associated with it may be involved or seek to be involved in many businesses that may relate to companies, issuers or instruments mentioned in this report. These businesses include market making, providing liquidity and specialized trading and other proprietary trading, fund management, investment services and investment banking. Addiko Bank and others associated with it including any of its employees may have positions in securities of companies or financial instruments discussed in Addiko research, and may trade them in ways different from those discussed in this report, i.e. they are not obliged to act in accordance with investment recommendation from Addiko research.

POTENTIAL CONFLICTS OF INTEREST

Disclosures of interest and conflicts of interest relating to Addiko Bank and/or affiliate with respect to the analyzed company, financial instruments and/or securities forming the subject to this document are valid as of the end of the month prior to publication of this document*:

HT 6; Viadukt 6; Tehnika 6; Belje 6; Atlantic Grupa 8; Ericsson Nikola Tesla 8; Podravka 8;

1. Addiko Bank and/or affiliate (pursuant to relevant domestic law) owns at least 1% of the company's share capital.
 2. The analyzed company owns more than 1% of the issued share capital of Addiko Bank and/or affiliate (pursuant to relevant domestic law).
 3. Addiko Bank and/or affiliate (pursuant to relevant domestic law) administers the securities of the analyzed company by quoting bid and ask prices (i.e. acts as a market maker or liquidity provider in the securities of the analyzed company)
 4. Addiko Bank and/or affiliate acted as a manager or co-manager of a public offering of securities of the analyzed company within 12 months preceding this publication
 5. Addiko Bank and/or affiliate has agreed to render other investment banking services for the analyzed company within 12 months preceding this publication, in return for which the Bank received a consideration or promise of consideration.
 6. The research analyst(s) own securities of the company analyzed by him or her.
 7. The research analyst(s) are on the supervisory/management board of the company they cover.
 8. Addiko Bank and/or affiliate extended significant amount of credit facilities to the analyzed company.
 9. The research analyst(s) have received or bought securities of the analyzed company before the launch of public offering of the company
- * Updating this information may take up to five working days after month end.

EQUITY RECOMMENDATION DEFINITIONS, VALUATION METHODS AND PRINCIPLES

Readers may find the history of changes to recommendation definitions on our website: <https://www.addiko.hr/> under the heading 'Economic Research / Disclaimer'.

We currently use a five-tier recommendation system for the stocks in our formal coverage: Buy, Add, Hold, Reduce or Sell (see definitions below):

- Buy: Expected total return (including dividends) of at least 20% over a 12-month period;
- Add: Expected total return (including dividends) of 10% to 20% over a 12-month period;
- Hold: Expected total return (including dividends) of -10% to 10% over a 12-month period;
- Reduce: Expected total return (including dividends) of -20% to -10% over a 12-month period;
- Sell: Expected total return (including dividends) of -20% or worse over a 12-month period;

Research published prior to 31/12/2008 were based on the following three-tier recommendation system:

- Buy: Expected total return (including dividends) of 15% or more over a 12-month period;
- Hold: Expected total return (including dividends) between -15% and 15% over a 12-month period;
- Sell: Expected total return (including dividends) of -15% or worse over a 12-month period.

We use two other categorizations for stocks in our coverage:

Restricted: The coverage of the company has been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where Addiko Bank is acting as an advisor in a merger or strategic transaction involving the company.

Under review: Financial forecasts and/or target are not disclosed owing to circumstances such as changes in the research team and other market events that require additional efforts to determine the value of the company based on the used valuation methods.

Flash Note

Our company valuations are based on but not limited to the following valuation methods: Multiple-based models (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITDA, etc.), peer-group comparisons, historical valuation approaches (e.g acquisition multiple comparisons), discount models (DCF, DVMA, DDM), break-up value approaches or asset-based evaluation methods. Furthermore, recommendations may be also based on the Economic profit approach. Although the definition and application of these methods are based on generally accepted industry practices and models developed in the financial economics literature, please note that there is a range of reasonable variations within these models. Valuation models are dependent on macroeconomic factors, such as interest rates, exchange rates, commodities, and on assumptions about the economy that are subject to uncertainty and also may change over time. Any valuation is dependent upon inputs that are based on the subjective opinion of the analysts carrying out this valuation. Investors and other recipients of this research may request further information and details with respect to the valuation models or assumptions applied to the models. Furthermore, market sentiment and the overall liquidity situation affect the valuation of companies. The valuation is also based on expectations that might change rapidly and without notice, depending on industry-specific developments. Our recommendations and target prices derived from the models might consequently change accordingly. Recommendations generally relate to a 12-month horizon. They are, however, also subject to market conditions and can only represent a snapshot. The ratings may in fact be achieved more quickly or slowly than expected, or need to be revised upward or downward.

This report may include research based on technical analysis. Technical analysis is generally based on the study of trading volumes and price movements in an attempt to identify and project price trends. Technical analysis does not consider the fundamentals of the underlying issuer or instrument and may offer an investment opinion that conflict with other research generated by Addiko Bank. Investors may consider technical research as one input in formulating an investment opinion. Additional inputs should include, but are not limited to, a review of the fundamentals of the underlying issuer/security/instrument.

Distribution of recommendations

Number of recommendations from Addiko Bank, Economic Research Department, at 31.03.2016 Broken down by categories

2 (25%) Buy / Add
 1 (13%) Hold
 0 (0%) Sell / Reduce
 6 (63%) Under review
 0 (0%) Restriction

thereof recommendations for companies to which investment banking services were provided during the preceding twelve months

- Buy / Add
 - Hold
 - Sell / Reduce

Coverage policy

A list of the companies covered by Addiko Bank is available upon request.

Frequency of reports and updates

Although it has not been determined in advance whether and in what intervals this report will be updated, if the publication is a fundamental research report, it is our intention that each of these companies are covered at least once a year, in the event of key operations and/or changes in the recommendation, subject to applicable quiet periods and capacity constraints.

SIGNIFICANT FINANCIAL INTEREST:

Addiko Bank and/or affiliate (pursuant to relevant domestic law) regularly trade shares of the analyzed company(ies).
 Addiko Bank and/or affiliate (pursuant to relevant domestic law) acts as a market maker in government bonds issued by the Croatian Ministry of Finance (Treasury).

ANALYST CERTIFICATION

The research analyst(s) or analysts who prepared this report (see the first page) hereby certifies that: (1) the views expressed in this report accurately reflect their personal views about the subject securities or issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report. On a general basis, the efficacy of recommendations and clients' feedback are factors in the performance appraisals of analysts.

ORGANIZATIONAL AND ADMINISTRATIVE ARRANGEMENTS TO AVOID AND PREVENT CONFLICTS OF INTEREST

To prevent or remedy conflicts of interest arising as a result of the preparation and publication of research, Addiko Bank has established the organizational arrangements required from a legal and supervisory aspect, adherence to which is monitored by Addiko Bank Compliance and Security Department. Conflicts of interest arising as a result of the preparation and publication of research are managed through its use of internal databases, notifications by the relevant employees as well as legal and physical and non-physical barriers (collectively referred to as 'Chinese Walls') designed to restrict the flow of information between one area/department of Addiko Bank and another. In particular, Investment Banking units, including corporate finance, capital market activities, financial advisory and other capital raising activities, are segregated by physical and non-physical boundaries from Markets Units, as well as the research department. For further details see our Policy for managing conflicts of interest in connection with investment research at http://www.addiko.com/bank/dokumenti/Politika_sukob_interesa.pdf

Addiko Bank d.d. is regulated by the Croatian Financial Services Supervisory Agency (HANFA) for the conduct of designated investment business in Croatia.

Flash Note

Addiko Economic Research Contacts

Name	Coverage	Telephone	Email
Hrvoje Stojic Economic Research Director	economics, money market, strategy	+385-1-603-0509	hrvoje.stojic@addiko.com
Tajana Striga Analyst	economics, money market	+385-1-603-3522	tajana.striga@addiko.com
Ines Antic Junior Analyst	economics, money market	+385-1-603-3657	ines.antic@addiko.com

Addiko Bank d.d.
Slavonska avenija 6, 10000 Zagreb
economic-research.hr@addiko.com
phone: +385-1-603-3522
fax: +385-1-604-6306