Podravka Group

Always with a heart!

ZSE&LJSE Conference, Zagreb, 24th-25th May 2018

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Podravka Group at a glance

BUSINESS:

- Branded food – primary business,
- Generic pharmaceuticals.

2017 FIGURES:

- HRK 4,111m (EUR 541m) of sales,
- HRK 5,106m (EUR 672m) of assets,
- 6,306 employees.

YEAR OF ESTABLISHMENT: 1947

- 71 years in food production,
- 46 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 2,191m (EUR 288m).*

Note: all figures in this presentation are translated at HRK/EUR FX rate of 7.6 to avoid FX differences; *MCap on 21st May 2018, calculated on weighted average number of shares excluding treasury shares.

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

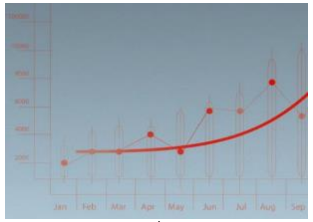
Vegeta, universal seasoning, production established

1970

Baby food production established

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

žito

2015

Žito, Slovenian food producer, acquisition

2017

Construction of new pharmaceutical factory, the largest greenfield investment in Group history

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

International network of subsidiaries and representative offices

Podravka d.d. Croatia

- Žito d.d. Slovenia
  - 2 production companies
  - 4 subsidiaries and representative offices
- 4 production companies
- 22 subsidiaries and representative offices
- Belupo d.d. Croatia
  - 1 production company
  - 13 subsidiaries and representative offices

Podravka Group

10 production companies

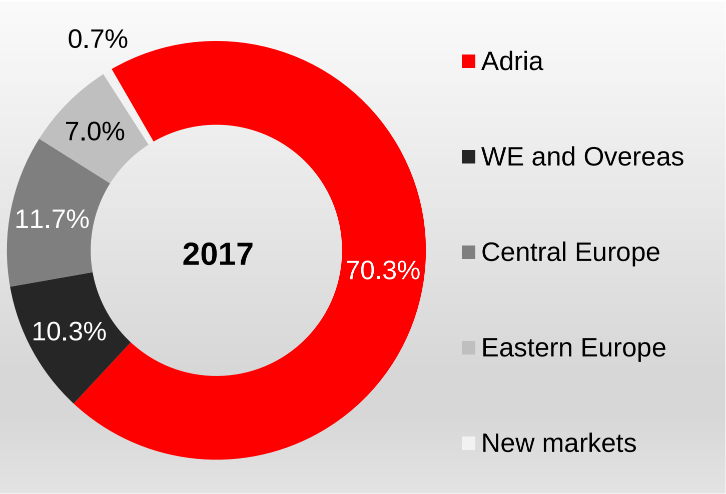
22 subsidiaries

17 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 2017



Market	HRKm	EURm	%
Croatia	1,355	178	33.0%
Slovenia	742	98	18.0%
B&H	430	57	10.5%
Russia	264	35	6.4%
Other m.	1,320	173	32.1%
Group	**4,111**	**541**	**100.0%**

Institutional investors provide stable ownership structure

Management board

Marin Pucar,
MB president

Ljiljana Šapina,
MB member

Davor Doko,
MB member

Hrvoje Kolarić,
MB member

Marko Đerek,
MB member

Supervisory board

President:

- Dubravko Štimac → president of MB of PBZ CO OPF

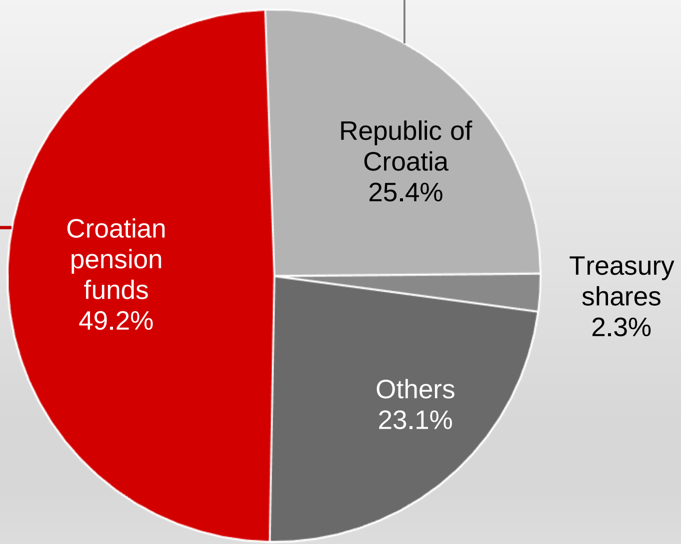
Vice President:

- Luka Burilović → president of Croatian Chamber of Economy

Members:

- Ksenija Horvat → workers representative
- Marko Kolaković → academy professor of economy
- Slavko Tešija → advisor in Croatian National Bank
- Damir Grbavac → president of MB of RBA OPF
- Petar Vlaić → president of MB of Erste Plavi OPF
- Ivana Matovina → professional auditor
- Petar Miladin → academy professor of law

Shareholder structure as at 31 March 2018



Audit committee

President:

- Ivana Matovina

Members:

- Dubravko Štimac, Slavko Tešija, Petar Vlaić

Remuneration committee

President:

- Luka Burilović

Members:

- Dubravko Štimac, Petar Miladin

Corporate governance committee

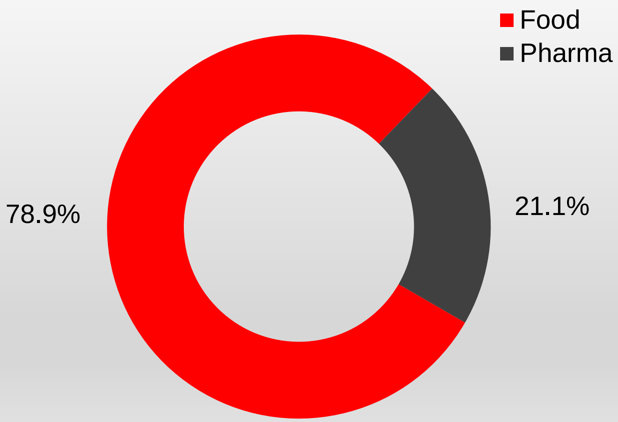
Members:

- Marko Kolaković, Petar Miladin, Petar Vlaić, Luka Burilović

Snapshot of key financial figures

Reported sales revenues split

Reported sales revenues in 2017

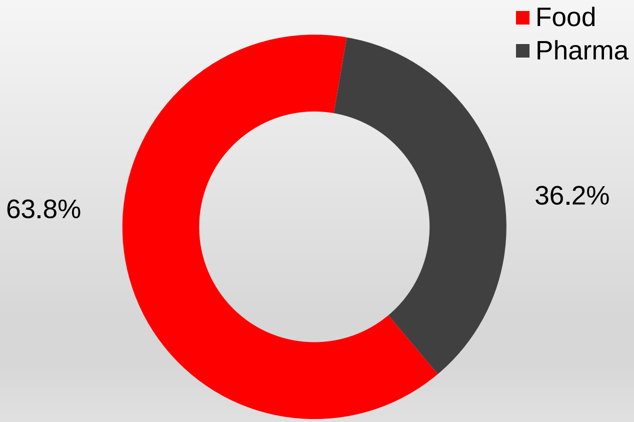


2017 sales	HRKm
Food	3,244
Pharma	867
Group	4,111

2017 sales	EURm
Food	427
Pharma	114
Group	541

Normalized EBITDA split

Normalized EBITDA in 2017

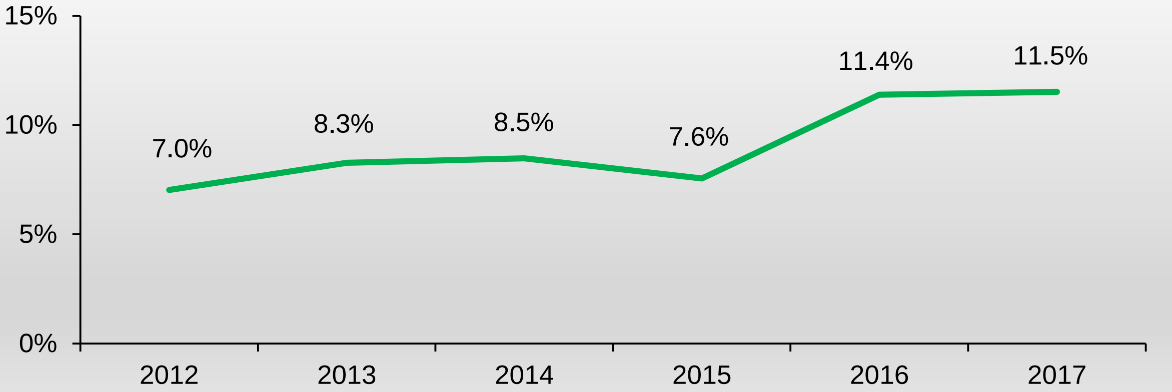


2017 EBITDA	HRKm
Food	277
Pharma	157
Group	435

2017 EBITDA	EURm
Food	36
Pharma	21
Group	57

Stable cash position

Net cash flow from operating activities as % of sales revenues[1]



Low and sustainable debt level

2.1
Net debt/ normalized EBITDA

9.3
Normalized EBIT/ interest expense

57.2%
Equity/ total assets

[1]Due to sales revenues reclassification in 2016, 2012-2014 % are made by approximation.

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A well diversified product portfolio divided in two business areas

PODRAVKA GROUP

78.9% of sales revenues

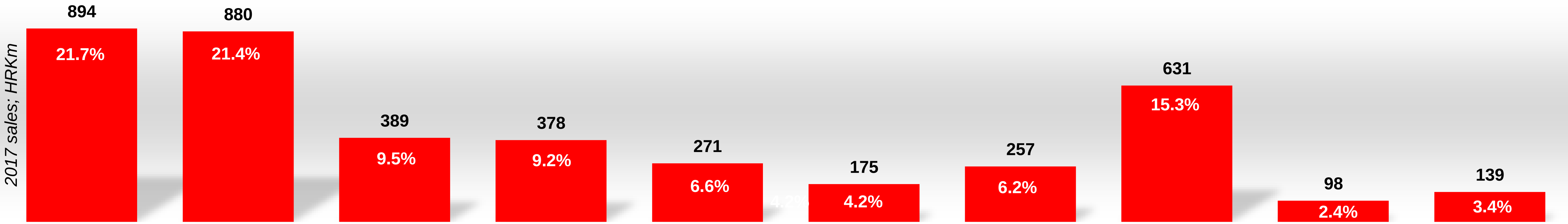
21.1% of sales revenues

Food

- BU ŽITO
- BU CULINARY
- BU PODRAVKA FOOD
- BU BABY FOOD, SWEETS & SNACKS
- BU MEAT PRODUCTS, MEALS & SPREADS
- BU FISH
- OTHER SALES FOOD

Pharmaceuticals

- PRESCRIPTION DRUGS
- NON PRESCRIPTION PROGRAMME
- OTHER SALES PHARMA



Culinary category is a cornerstone of food business

Food segment products overview		2017 sales;		% of total
BU ŽITO ▪ Core food, bakery and mill products, tea, confectionery, cereals for adults, private labels, service production.		HRK 894m	EUR 118m	21.7%
BU CULINARY ▪ Seasonings, monospices, soups, ready-to-cook meals and bouillons, food mixes, private labels, service production.		HRK 880m	EUR 116m	21.4%
BU PODRAVKA FOOD ▪ Condiments, tomato, sauces, fruit, vegetables, Podravka flour, private labels, service production.		HRK 389m	EUR 51m	9.5%
BU BABY FOOD, SWEETS & SNACKS ▪ Dehydrate baby food, cream spreads, cereals, sweets, snacks, drinks, private labels, service production.		HRK 378m	EUR 50m	9.2%
BU MEAT PRODUCTS, MEALS AND SPREADS ▪ Canned meat, sausages, other meat, Food Solution, private labels, service production.		HRK 271m	EUR 36m	6.6%
BU FISH ▪ Fish products, private labels, service production.		HRK 175m	EUR 23m	4.2%
OTHER SALES ▪ Trade goods, other.		HRK 257m	EUR 34m	6.2%

Prescription drugs category is a cornerstone of pharmaceutical business

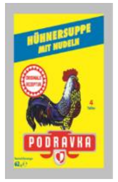
Pharmaceutical segment products overview	2017 sales;		% of total
PRESCRIPTION DRUGS ▪ For skin disorders ▪ For heart and blood vessels, ▪ For central nervous system, ▪ For 8 more areas.	HRK 631m	EUR 83m	15.3%
NON-PRESCRIPTION PROGRAMME ▪ OTC medicine, ▪ Dietary products, ▪ Natural products.	HRK 98m	EUR 13m	2.4%
OTHER SALES ▪ Trade goods, ▪ Services.	HRK 139m	EUR 18m	3.4%

High-quality brands with exceptional recognisability and strong international potential

VEGETA

- Culinary brand whose products are sold in over 60 countries in the world,
- Synonym for universal seasoning category in the Adria region,
- For years No. 1 FMCG brand in Croatia and among top 3 in Adria region,
- Number 1 brand in Europe in universal food seasoning category,
- Superbrand award in more than 15 European countries.

Vol. MP[1]	ADRIA	POL	SLK	CZE	RUS
Vegeta	1	3	1	3	3



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[1]	CRO	SLO	B&H	SER	MAC	RUS
Soups	1	4	1	2	1	6

LINO

- Umbrella brand for dehydrated baby food, cream spreads and cereals,
- Synonym for baby food category 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[1]	CRO	SLO	B&H	SER
Lino	1	1	1	1

DOLCELA

- Product for preparation of sweets and ready-made sweets,
- Market leader/strong No. 2 brand in Adria region,
- Sold in 20 countries around the world,
- Quadal (Quality Medal) award in Croatia,
- Best Buy award in Croatia and B&H.

Vol. MP[1]	CRO	SLO	B&H
Dolcela	1	2	1

EVA (MEDITERANNEAN ASSORTMENT)

- One of the most recognisable brands in canned fish category in the Adria region,
- Widest range of canned fish – tuna, sardines, mackerel and Baltic fish.
- Quadal (Quality Medal) award and Superior taste award in Croatia,
- Best Buy award in Croatia and B&H.

Vol. MP[1]	CRO	SLO	B&H	SER
Eva	1	6	1	3

BELUPO DERMATICS

- Strong international position in niche dermatology segment.

Vol. MP[2]	CRO	RUS	CZE	SLO	B&H	SER	MAC	SLR
D07[3]	1	5	1	2	1	2	1	1

[1]Source: Nielsen; [2]Source: IMS; [3]Corticosteroids for the treatment of skin disorder.

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Continuous restructuring process in order to improve efficiency and profitability

2012 | 2013 | 2014 | 2015 | 2016 | 2017

- **August 2012** – 1st redundancy labour programme
- **February 2013** – 2nd redundancy labour programme
- **October 2013** – 3rd redundancy labour programme
- **December 2013** – exit from fresh meat and cold programme
- **March 2014** – 4th redundancy labour programme
- **April 2014** – exit from local bakery shop
- **December 2014** – closing the factory in Poland
- **February 2015** – 5th redundancy labour programme
- **October 2015** – meat company Danica merged
- **December 2015** – 6th redundancy labour programme
- **December 2016** – disposal of soft beverages
- **June 2017** – 7th redundancy labour programme

RESTRUCTURING & REORGANIZATION EFFECTS

- **23%** workforce reduction in food segment (exc. acquisition impact) → 7 redundancy labour programmes implemented
- **4** non-profitable business segments closed or sold → beverages (sold), fresh meat, cold programme, local bakery shop
- **31%** of total SKU-s in the Adria Region that existed at the beginning of 2015 were classified for termination → portfolio optimization

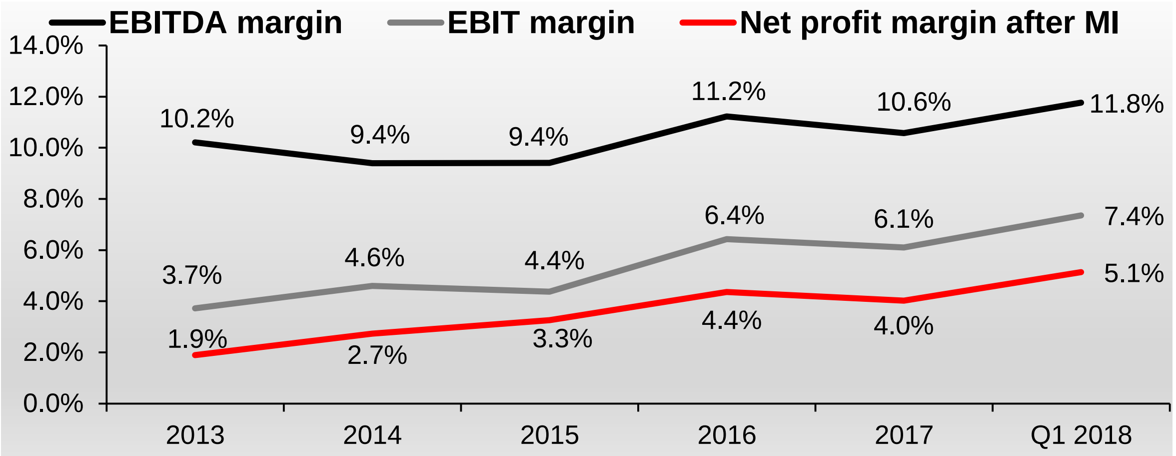
Financial position under the influence of one-off items

Restructuring related one-off items burdened profitability

(in HRKm)	2012	2013	2014	2015	2016	2017	Q1 2018
Value adjustments	(32)	(81)	(28)	(35)	(11)	(45)	-
Severance payments	(50)	(57)	(72)	(41)	(12)	(40)	(0)
Other	(44)	5	10	298[1]	8	(26)	-
Total net one-offs	(126)	(133)	(90)	222	(15)	(111)	(0)

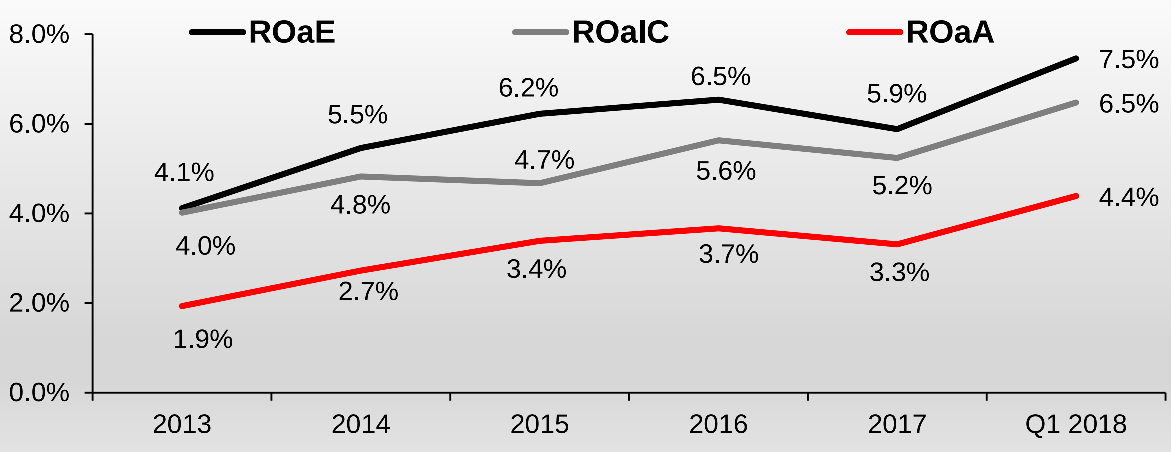
[1]HRK 116m of gain on a bargain purchase from Žito acquisition (badwill), HRK 164m of deferred tax income from Croatian government's incentives for the construction of new Belupo pharmaceutical factories, HRK 19m refers to other items.

Normalized profitability margins movement[2]

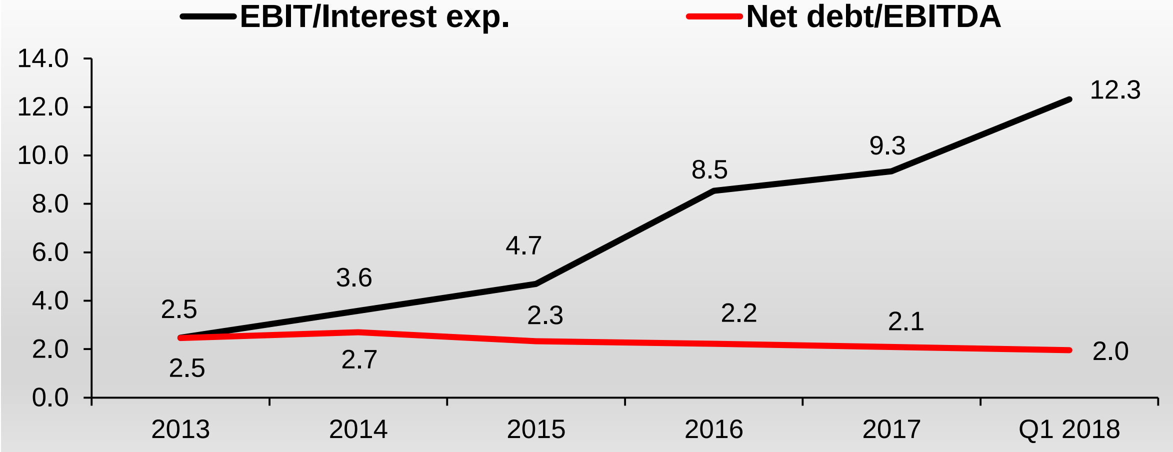


Note: Due to sales revenues reclassification in 2016, 2013-2014 margins are made by approximation.

Normalized return rates movement[2]



Normalized debt level movement[2]



[2]2015 figures include pro-forma Podravka Group and Žito Group full year figures.

Expansion of pharmaceutical capacities to satisfy international demand

Construction of new pharmaceutical facility

Project:

- Production facility for solid oral forms,
- Production facility for semi solid and liquid forms,
- Project started in 2015, ended in 2017.

Project reasoning:

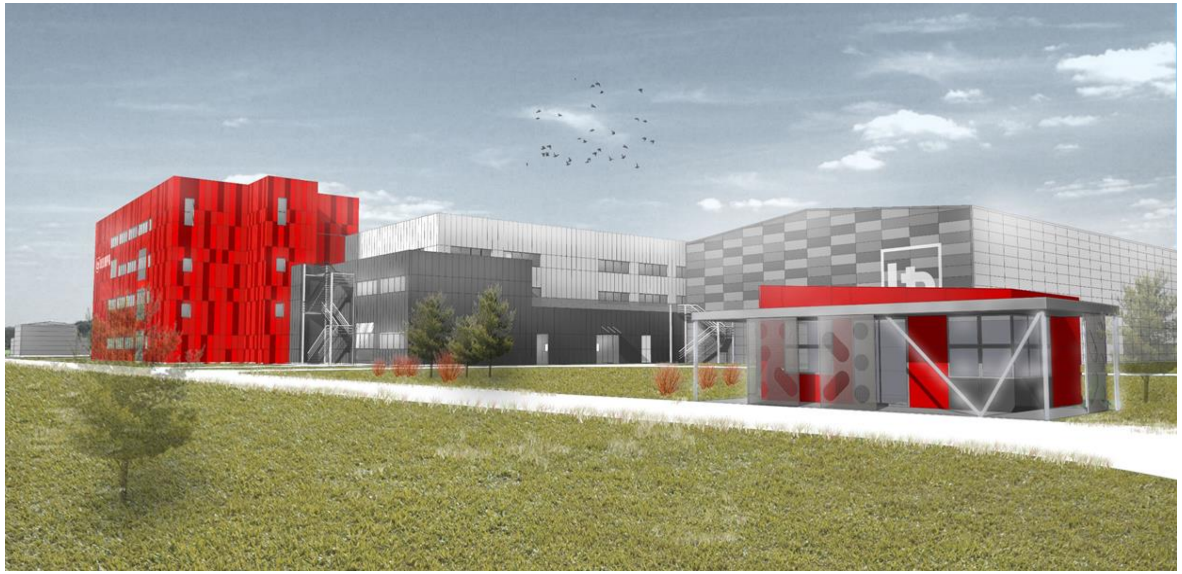
- Insufficient production capacities due to perennial volume growth → 150% capacity increase,
- Investment in new technologies that will enable production of new-age products in the form of foams, sprays, bandages etc.

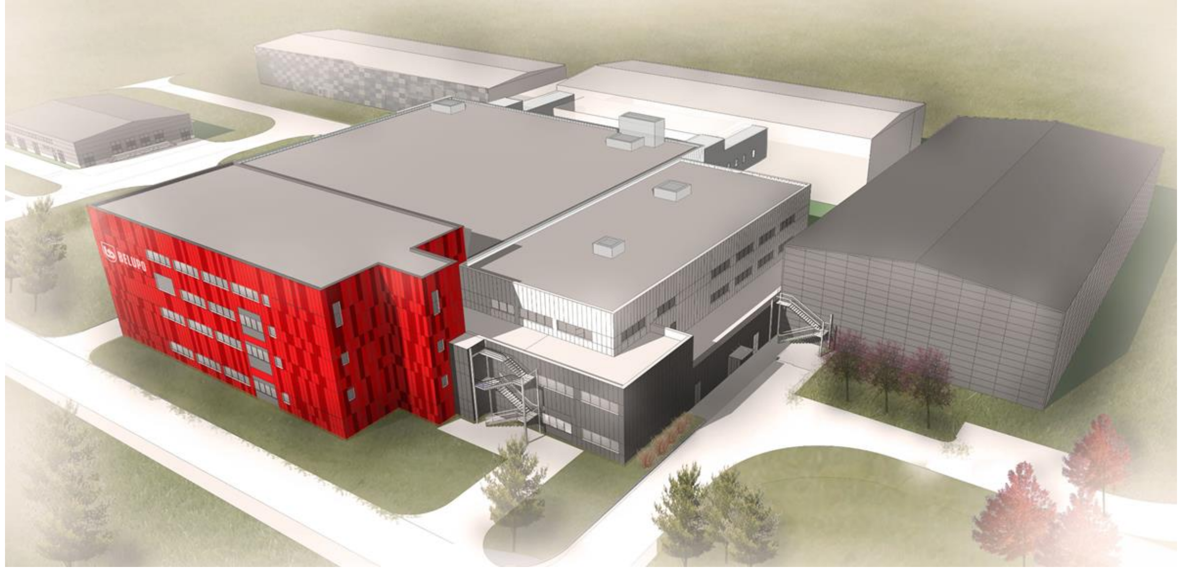
Project financing:

- Total value of investment HRK 530m (EUR 70m),
- 55% loan from HBOR, 45% own funds,
- Government incentive through income tax benefits in the amount of 40% of total investment.

Business reasons for choosing Croatia as facilities location:

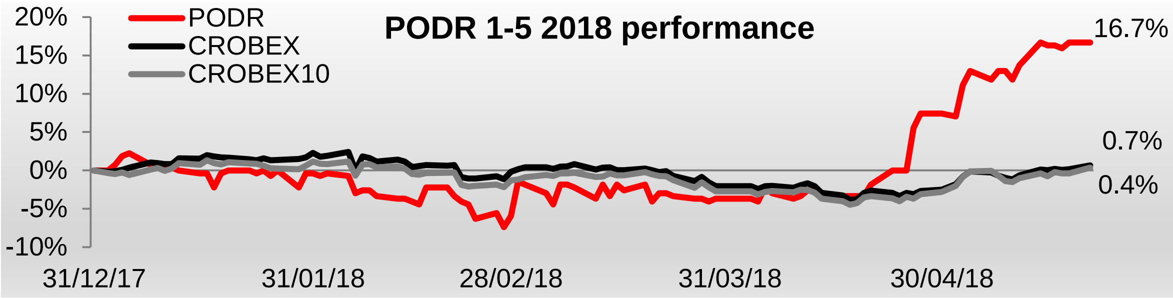
- High speed in obtaining all permits,
- Tax incentives for strategic investments,
- Availability of highly-educated workforce at acceptable cost level,
- Incentives for hiring young workforce,
- Proximity to other Belupo locations.

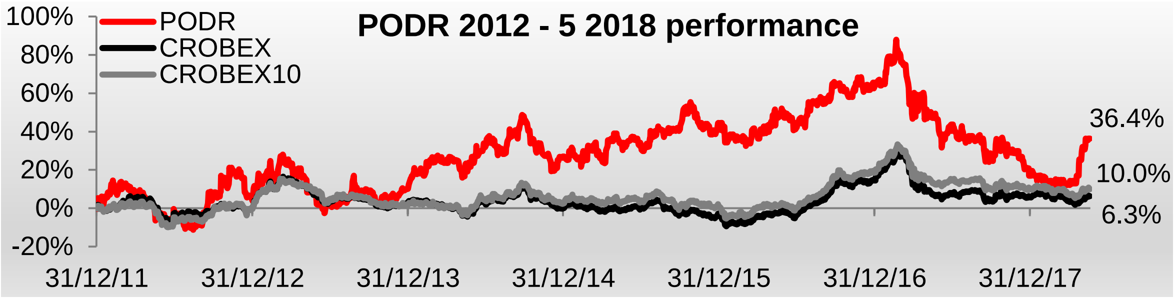




Podravka's share price movement in Q1 2018 under the influence of key customer situation

(HRK; units)	Q1 2017	Q1 2018	% change
Average daily price	389	265	(31.8%)
Average daily number of transactions	27	13	(53.0%)
Average daily volume	1,964	1,534	(21.9%)
Average daily turnover	763,021	406,530	(46.7%)
Reported earnings per share	10	3	283.6%
Normalized earnings per share	24	31	29.8%





Analysts	Recommendation	Target price	Potential[1]
InterCapital	Under review	-	n/a
Raiffeisen BANK	Hold	HRK 300	(4.8%)
ERSTE Group	Accumulate	HRK 370	17.5%
UniCredit	Buy	HRK 399	26.7%
WOOD & COMPANY	Hold	HRK 376	19.4%

Peer group multiples[2]	EV/Sales	EV/ EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	1.9	11.7	17.2	2.7	35.3
Normalized weight. av. peer group[3]	1.6	10.9	15.6	2.4	20.3
Podravka Group reported	0.8	7.4	21.2	0.7	31.3
Podravka Group normalized[4]	0.8	6.5	10.4	0.7	10.2

Peer group food: Atlantic Grupa, Ebro, Hochdorf, La Doria, McCormick, Orkla;

Peer group pharma: Alkaloid, Richter Gedeon, Hikma Pharmaceuticals, Krka, Recordati, Stada Arzneimittel.

[1]Compared to the last price on 21st May 2018; [2]Obtained from Bloomberg on 22nd May 2018; [3]Calculated excluding max. and min. Values; [4]Normalized for items stated in the publication of Q1 2018 and 2017 results.

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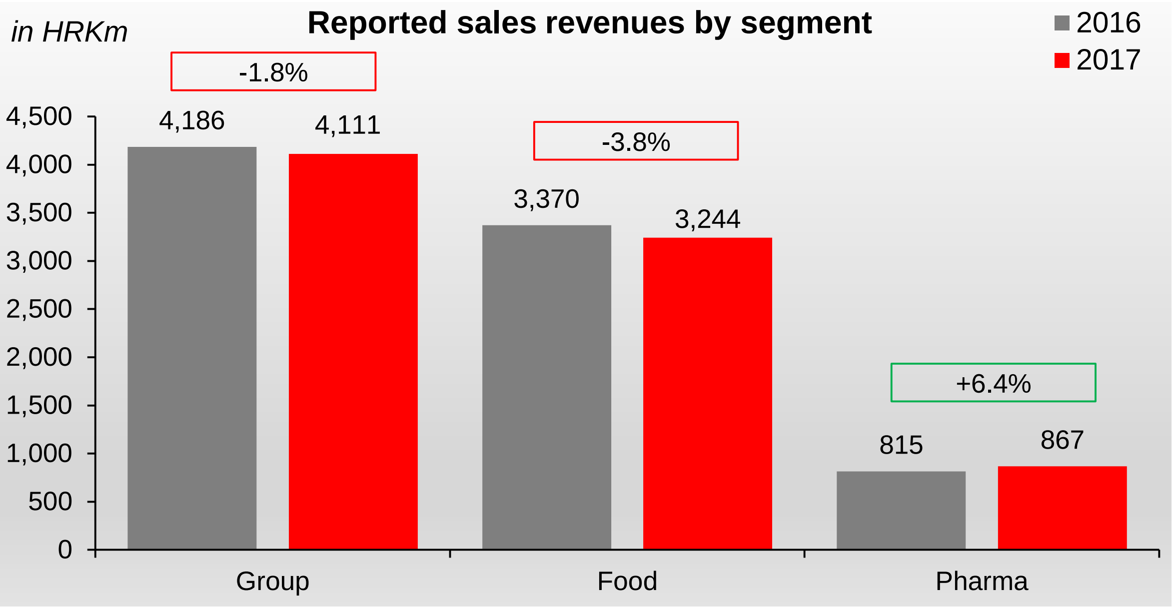
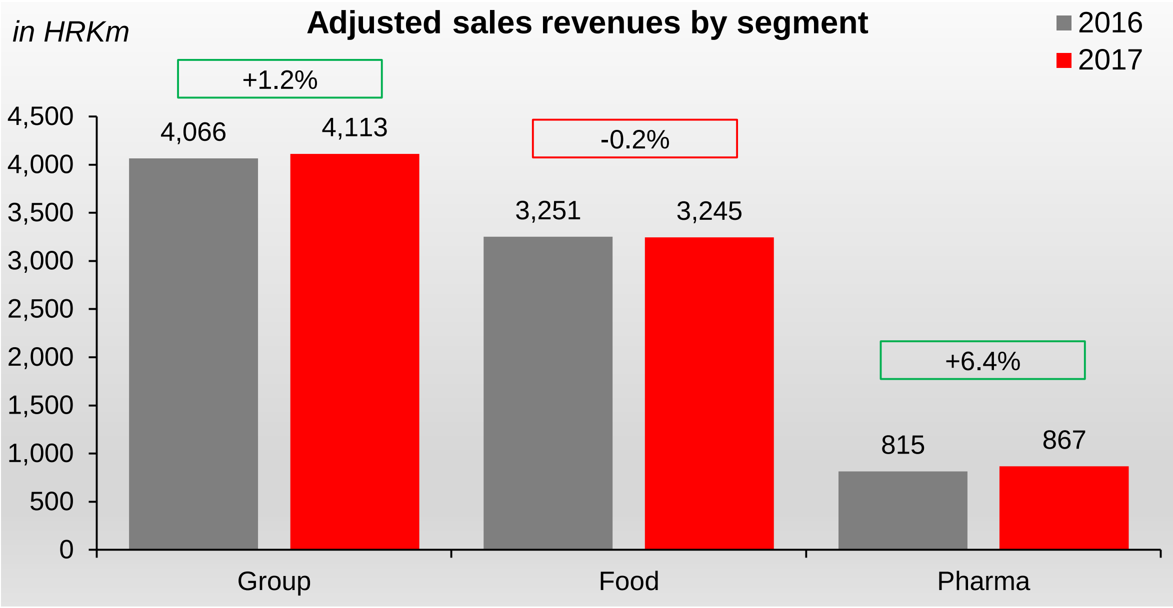
Strong growth of Pharmaceutical segment sales in 2017





	Group	Food	Pharma	Group	Food	Pharma
Excl. FX[1] →	-1.9%	-3.6%	+4.8%	+1.0%	+0.0%	+4.8%

Adjusted sales revenues exclude/include:

- **Beverages business** → sold at the end of 2016; HRK 82.2m excluded from 2016 and HRK 0.4m from 2017 to provide like-for-like comparison,
- **One-off sales of BU Meat** → in February 2016 extraordinary delivery of buffer stock to the Ministry of Economy was made related to the migration of population from war-torn areas; HRK 12.0m excluded from 2016 to provide like-for-like comparison,
- **Inconsistencies in the treatment of recording revenue** → identified in the Food segment on the Russian market, largely a result of a different trade marketing activities classification; HRK 25.4m excluded from 2016 and HRK 2.2m included in 2017 to provide LFL comparison.

Estimated net foreign exchange (FX) impact on reported sales revenues:

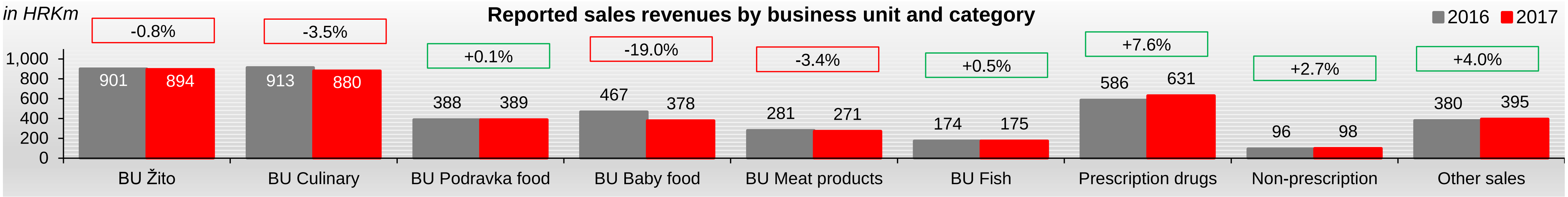
HRKm	Own brands	Other sales	Total
Food	(5.7)	(0.1)	(5.8)
Pharmaceuticals	13.6	(0.8)	12.8
Group	7.8	(0.9)	7.0

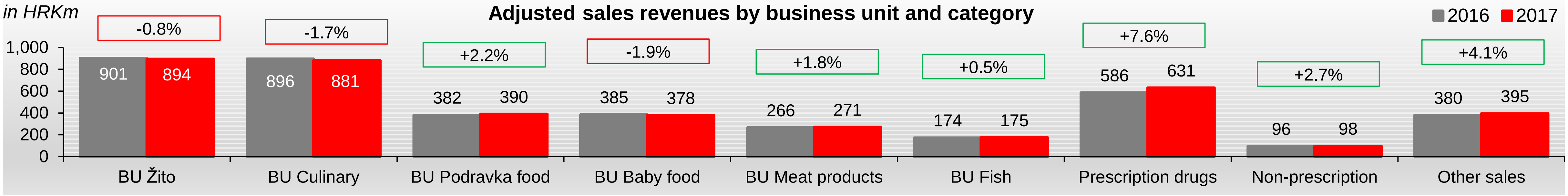
Currency	HRKm
EUR	(14.7)
RUB	23.0
Other	(1.3)
Total	7.0

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in 2017 if FX rates had remained on the same levels as in 2016.

[1]Performance in 2017 compared to 2016 excluding the estimated net impact of foreign exchange differences.

Business units facing internal and external challenges



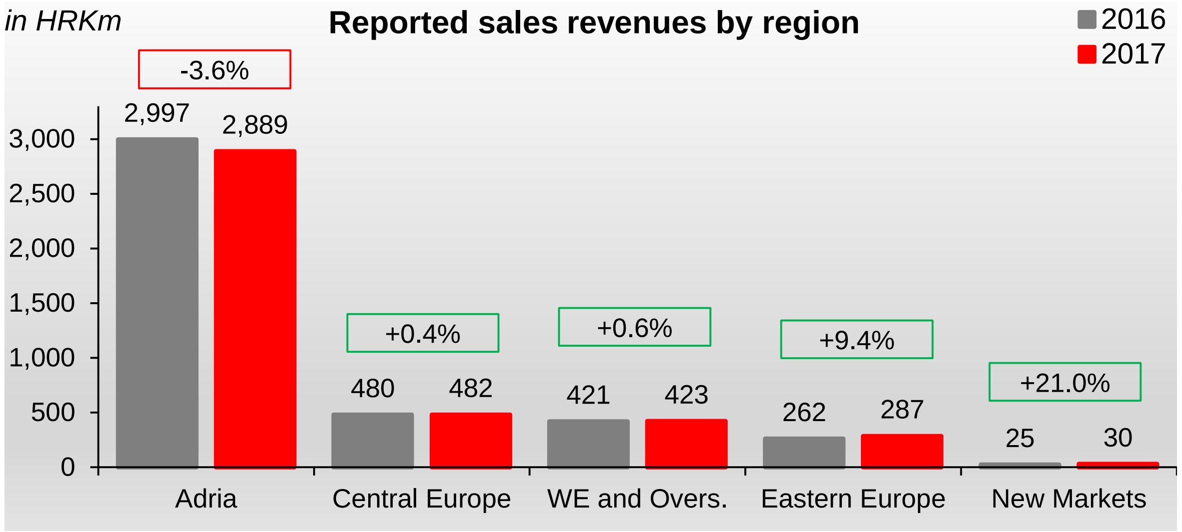


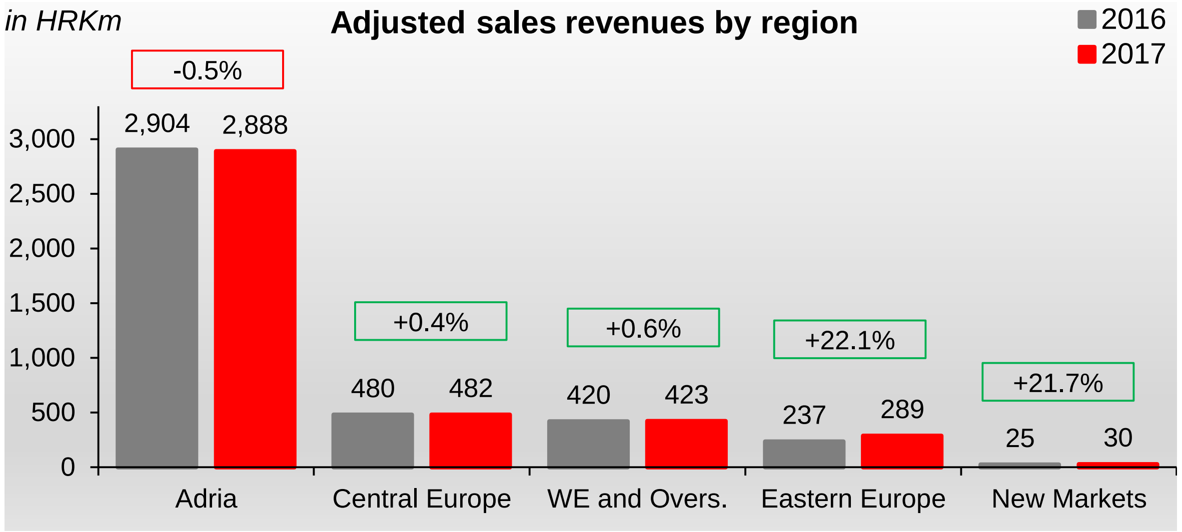
Adjusted business unit and category performance in 2017[1]:

- **BU Žito (-0.0% excl. FX)** → sales increase in Italy, Germany and Spain due to the product range extension and distribution, annulled by unlisting of a certain bakery range that began at the end of 2016 on the Slovenian market,
- **BU Culinary (-2.0% excl. FX)** → lower sales primarily due to lower sales in Western Europe related to the sales dynamics to the new distributor,
- **BU Podravka food (+1.8% excl. FX)** → higher sales on the back of extended range of vegetables in the Croatian market,
- **BU Baby food, sweets and snacks (-1.4% excl. FX)** → lower sales of the snacks range due to poor acceptance of the redesign launched in mid 2016,
- **BU Meat products, meat solutions and savoury spreads (+2.1% excl. FX)** → sales growth of Food Solution sub segment,
- **BU Fish (+0.8% excl. FX)** → sales growth primarily due to higher sales of own brands in the Croatian market,
- **Prescription drugs (+5.5% excl. FX)** → revenue growth in the Russian market as a consequence of the product range extension and positive FX effect,
- **Non-prescription programme (+1.3% excl. FX)** → extension of the product range and positive effect of foreign exchange differences in the Russian market; implemented selling and marketing activities in the Croatian market,
- **Other sales (+4.3% excl. FX)** → trade goods sales growth.

[1]Percentages in the text relate to performance in 2017 compared to 2016.

Positive developments of Eastern Europe region in 2017





Adjusted region performance in 2017[1]:

- **Adria (+0.1% excl. FX) → food** sales 0.6% lower due to the decrease of the BU Žito revenues on the Slovenian market as a result of unlisting of a certain bakery range that began at the end of 2016. The most significant sales growth was recorded by the BU Podravka food due to expansion of the vegetables range distribution on the Croatian market; **pharmaceuticals** sales were slightly lower than in 2016,
- **Central Europe (-0,3% excl. FX) → food** sales 0.7% lower due to lower sales of trade goods of the Lagris company that was offset by higher sales of own brands; **pharmaceuticals** sales 9.8% higher due to growth in markets of Poland and Czech Republic,
- **Western Europe and Overseas (+1.1% excl. FX) → food** sales 0.6% higher due to the extension of the product range and distribution of the BP Žito in the markets of Italy, Germany and Spain and from trade goods sales growth. This positive effect was partially offset by a decrease in sales due to sales dynamics with the new distributor to which total sales in the last two months of 2016 amounted to the sales realised in the first four and half months of 2017; **pharmaceuticals** sales records a mild revenue growth in the market of Germany,
- **Eastern Europe (+12,3% excl. FX) → food** sales 7.8% higher due to selling activities in the Culinary range with the most significant customers and the increase in sales of trade goods of the Lagris company; **pharmaceuticals** sales rose 33.1% due to extension of product range,
- **New markets (+22.5% excl. FX) → food** sales 11.1% higher due to sales growth in BU Baby food, sweets and snacks and of trade goods of the company Lagris; **pharmaceuticals** sales 41.7% higher due to the Prescription drugs category growth in the market of Turkey.

[1]Percentages in the text relate to performance in 2017 compared to 2016.

Food profitability burdened by significant one-off items in 2017

Food segment	REPORTED				NORMALIZED[1]			
(in HRKm)	2016	2017	Δ	%	2016	2017	Δ	%
Sales revenue	3,370	3,244	(127)	(3.8%)	3,370	3,244	(127)	(3.8%)
Gross profit	1,107	1,039	(68)	(6.1%)	1,107	1,058	(49)	(4.4%)
EBITDA	317	243	(74)	(23.3%)	314	277	(37)	(11.7%)
EBIT	158	8	(150)	(94.7%)	165	134	(30)	(18.3%)
Net profit after MI	111	(30)	(141)	(126.6%)	121	83	(38)	(31.6%)
Gross margin	32.8%	32.0%		-80 bp	32.8%	32.6%		-23 bp
EBITDA margin	9.4%	7.5%		-191 bp	9.3%	8.6%		-77 bp
EBIT margin	4.7%	0.3%		-444 bp	4.9%	4.1%		-74 bp
Net profit margin after MI	3.3%	(0.9%)		-421 bp	3.6%	2.6%		-104 bp

Food segment profitability in 2017:

- **Normalized gross profit** → impacted by lower sales revenues, but also by unfavourable changes in sales structure,
- **Normalized EBIT** → additionally impacted by lower profitability of the Žito Group, higher expenses of exercised share options (HRK 12.5m in 2017; HRK 7.0m in 2016), unfavourable movements of FX differences from trade receivables and payables (HRK 5.2m losses in 2017; HRK 3.1m gains in 2016),
- **Normalized net profit after MI** → additionally impacted by unfavourable movements of FX differences on borrowings (HRK 10.6m losses in 2017; HRK 8.6m gains in 2016) which was partly mitigated by lower interest expense.

One-off impacts in HRKm	2016	2017
Value adjustments	(9)	(89)
Severance payments	(12)	(31)
Other (expenses)/revenues above EBIT	14	(6)
ESOP[2] financial expenses	(2)	(3)
Deferred tax assets	(1)	16

[1]Normalized for one-off impacts, normalization of results doesn't include potential tax impacts that would arise from the normalization process; [2]Employee stock ownership programme.

Pharma profitability positively impacted by favourable sales structure

Pharmaceuticals segment	REPORTED				NORMALIZED[1]			
(in HRKm)	2016	2017	Δ	%	2016	2017	Δ	%
Sales revenue	815	867	52	6.4%	815	867	52	6.4%
Gross profit	428	445	17	3.9%	431	470	40	9.2%
EBITDA	154	131	(23)	(15.2%)	157	157	0	0.0%
EBIT	111	83	(28)	(25.2%)	116	117	1	0.9%
Net profit after MI	71	48	(23)	(32.7%)	76	83	6	8.1%
Gross margin	52.5%	51.3%		-125 bp	52.8%	54.2%		+139 bp
EBITDA margin	18.9%	15.1%		-383 bp	19.3%	18.1%		-115 bp
EBIT margin	13.6%	9.5%		-404 bp	14.2%	13.5%		-74 bp
Net profit margin after MI	8.7%	5.5%		-321 bp	9.4%	9.5%		+15 bp

Pharmaceuticals segment profitability in 2017:

- **Normalized gross profit** → impacted by increase in revenues, but also by favourable changes in sales structure,
- **Normalized EBIT** → additionally impacted by higher marketing expenses due to higher investments in the Russian market and extremely unfavourable movements of FX differences from trade receivables and payables (HRK 7.3m losses in 2017; HRK 15.4m gains in 2016). Share option expenses were slightly below the comparative period (HRK 0.2m in 2017; HRK 1.0m in 2016),
- **Normalized net profit after MI** → additionally impacted by higher financial income and positive movement of FX differences on borrowings (HRK 0.3m gains in 2017; HRK 2.6m losses in 2016).

One-off impacts in HRKm	2016	2017
New pharmaceuticals factory expenses	(2)	(25)
Severance payments	(1)	(9)
Value adjustments	(2)	-
ESOP[2] financial expenses	(1)	(1)
Deferred tax assets	0	-

[1]Normalized for one-off impacts, normalization of results doesn't include potential tax impacts that would arise from the normalization process; [2]Employee stock ownership programme.

Group profitability movement under the influence of Food segment profitability

Podravka Group	REPORTED				NORMALIZED[1]			
(in HRKm)	**2016**	**2017**	**Δ**	**%**	**2016**	**2017**	**Δ**	**%**
Sales revenue	4,186	4,111	(74)	(1.8%)	4,186	4,111	(75)	(1.8%)
Gross profit	1,535	1,484	(51)	(3.3%)	1,538	1,528	(10)	(0.6%)
EBITDA	471	374	(97)	(20.6%)	472	435	(37)	(7.8%)
EBIT	269	91	(178)	(66.1%)	280	251	(29)	(10.4%)
Net profit after MI	182	18	(164)	(90.0%)	198	166	(32)	(16.2%)
Gross margin	36.7%	36.1%		-58 bp	36.7%	37.2%		+43 bp
EBITDA margin	11.3%	9.1%		-216 bp	11.3%	10.6%		-69 bp
EBIT margin	6.4%	2.2%		-421 bp	6.7%	6.1%		-59 bp
Net profit margin after MI	4.4%	0.4%		-391 bp	4.7%	4.0%		-70 bp

Group profitability in 2017:

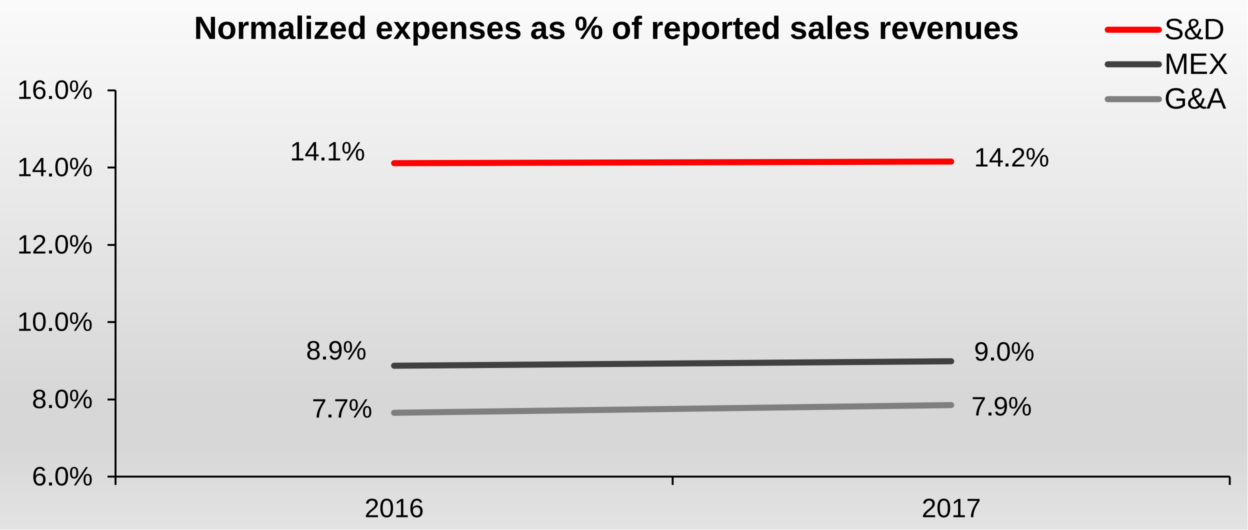
- **Normalized gross profit** → Pharmaceuticals segment gross profit growth to the high extent compensated for the lower gross profit of the food segment,
- **Normalized EBIT** → additionally impacted by lower profitability of the Žito Group, higher expenses of exercised share options (HRK 12.8m in 2017; HRK 8.0m in 2016), unfavourable movements of FX differences from trade receivables and payables (HRK 12.5m losses in 2017; HRK 18.5m gains in 2016),
- **Normalized net profit after MI** → additionally impacted by unfavourable movements of FX differences on borrowings (HRK 10.3m losses in 2017; HRK 6.0m gains in 2016) which was partly mitigated by lower interest expense.

One-off impacts in HRKm	2016	2017
Value adjustments	(11)	(89)
Severance payments	(12)	(40)
New pharmaceuticals factory expenses	(2)	(25)
Other (expenses)/revenues above EBIT	14	(6)
ESOP[2] financial expenses	(3)	(4)
Deferred tax assets	(1)	16

[1]Normalized for one-off impacts, normalization of results doesn't include potential tax impacts that would arise from the normalization process; [2]Employee stock ownership programme.

Successful cost side optimization in 2017

Operating expenses 17 vs. 16 % change	REPORTED	NORMALIZED[1]
Cost of goods sold (COGS)	(0.9%)	(2.4%)
General and administrative expenses (G&A)	10.8%	0.7%
Sales and distribution costs (S&D)	6.6%	(1.5%)
Marketing expenses (MEX)	(0.5%)	(0.5%)
Other expenses / revenues, net	n/a	n/a
Total	2.6%	(1.2%)



[1]Normalized for one-off impacts.

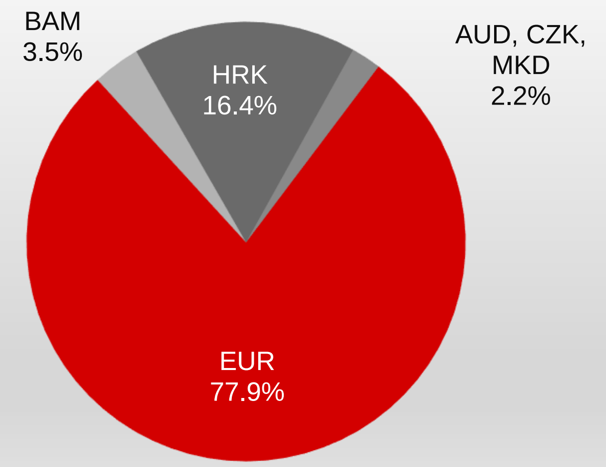
Key highlights of normalized operating expenses in 2017:

- **Cost of goods sold (COGS):**
  - Lower 2.4% primarily as a result of lower sales in the Food segment,
- **General and administrative expenses (G&A):**
  - Higher 0.7% than in the comparative period primarily due to the higher costs of exercised share options (HRK 12.8m in 2017; HRK 8.0m in 2016),
- **Sales and distribution expenses (S&D):**
  - Lower 1.5% due to, among other, disinvestment of the Beverages business that was incurring significant distribution costs,
- **Marketing expenses (MEX):**
  - Lower 0.5% as a result of fewer marketing activities in the Food segment, while the Pharmaceuticals segment recorded an increase in marketing expenses, primarily in the Russian market,
- **Other expenses / revenues, net:**
  - Item includes FX differences from trade receivables and trade payables that were HRK 12.5m negative in 2017, while in 2016 they were HRK 18.5m positive. In 2017, other expenses/revenues item amounted to negative HRK 2.5m, while in the comparative period it amounted to positive HRK 25.4m.

Lower interest expenses and weighted average cost of debt reflects successful debt management

(in HRKm)[1]	2016	2017	% change
Net debt	1,042	909	(12.7%)
Interest expense	31	27	(14.6%)
Net debt / normalized EBITDA	2.2	2.1	(5.3%)
Normalized EBIT / interest expense	8.9	9.3	4.9%
Equity to total assets ratio	55.4%	57.2%	+187 bp

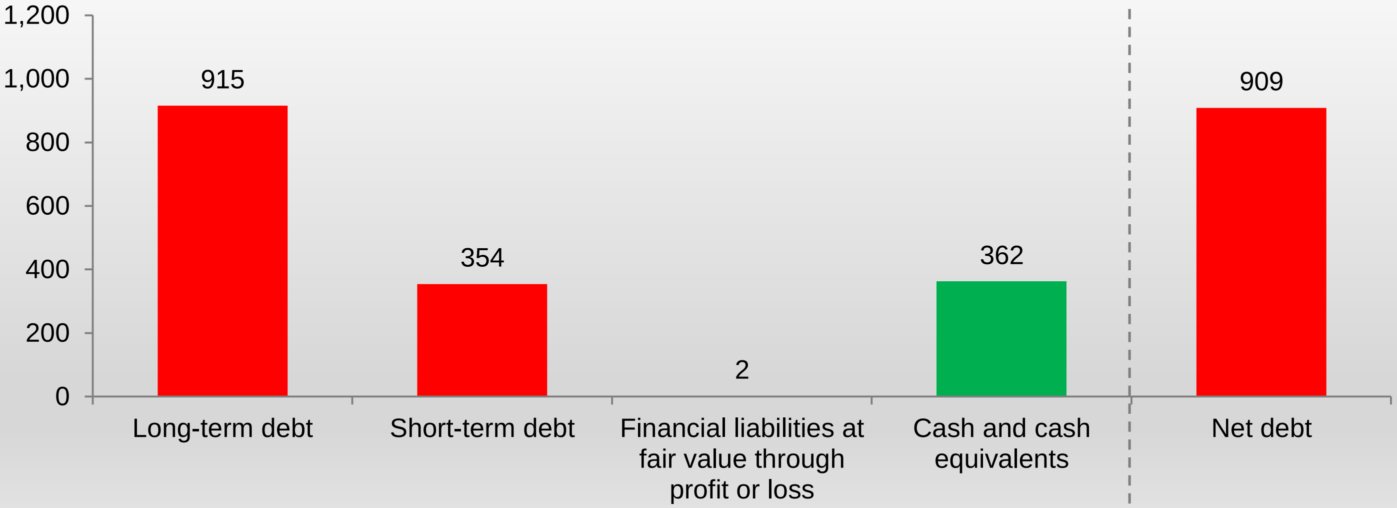
Currency structure of debt as at 31 December 2017



Key highlights:

- Net debt decrease → repayment of a part of borrowings,
- Lower interest expenses → repayment of a part of borrowings,
- Net debt/normalized EBITDA drop due to lower net debt,
- **Weighted average cost of debt:**
  - As at 31 December 2017 → 2.0%,
  - As at 31 December 2013 → 4.3%.

Net debt components in HRKm as at 31 December 2017



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

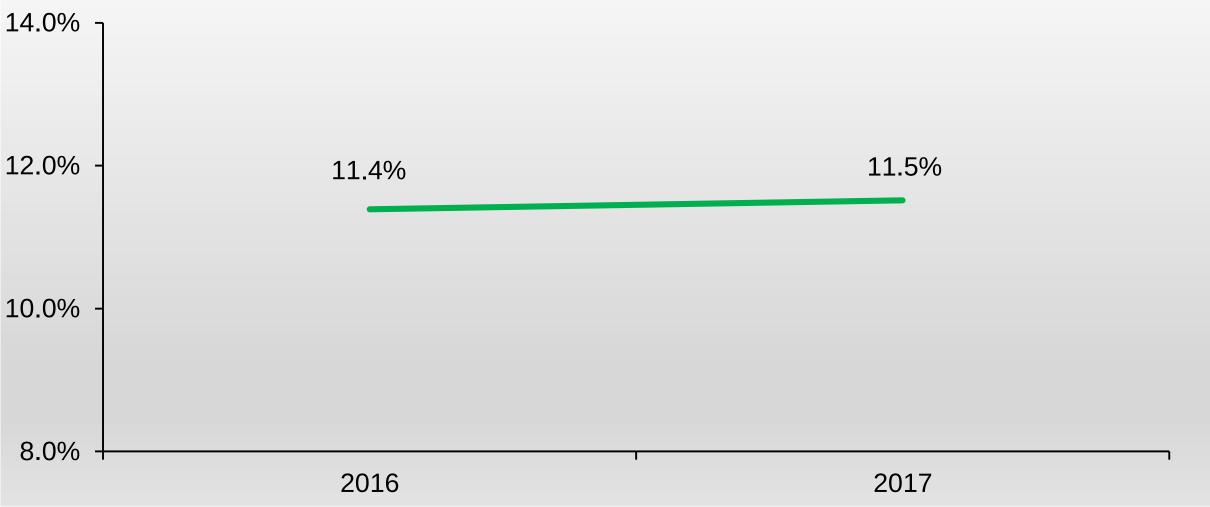
Stable level of net cash from operating activities

Working capital movement in BS	31 December 2017 / 31 December 2016	Impact
Inventories	4.2%	▪ Increased plans for the production of own products and trade goods led to higher level of inventories.
Trade and other receivables	(19.5%)	▪ Value adjustment of Agrokor receivables, a portion of recourse bills of exchange was collected, lower sales in Food segment, better collection in the Pharmaceuticals segment in the domestic and foreign markets.
Trade and other payables	(10.6%)	▪ Settlement of a portion of trade payables for the construction of the new pharmaceuticals factory and the repurchase of recourse bills of exchange from a factoring company. Recourse bills of exchange on 31 December 2016 were booked under other payables position.

(in HRKm)	2016	2017	Δ
Net cash from operating activities	477	473	(3)
Net cash from investing activities	(359)	(191)	168
Net cash from financing activities	(72)	(258)	(186)
Net change of cash and cash equivalents	46	25	(21)

- **CAPEX** in 2018 is expected to be at the level of HRK 217m, in 2019 at the level of HRK 250 - 300m, and in 2020 and 2022 at the level of HRK 200m.

Net cash flow from operating activities as % of sales



One-off items in 2017 and 2016

One-off items	2016			2017			∆		
(in HRKm)	**Group**	**Food**	**Pharma**	**Group**	**Food**	**Pharma**	**Group**	**Food**	**Pharma**
+expense related to China closing	-	-	-	(1)	(1)	-	(1)	(1)	-
+severance payments expenses	(13)	(12)	(1)	(40)	(31)	(9)	(27)	(19)	(8)
+revenues from Beverages sales	8	8	-	-	-	-	(8)	(8)	-
+revenues from reverse leasing Umag	7	7	-	-	-	-	(7)	(7)	-
+value adjustments (expenses)/revenues	(11)	(9)	(2)	(89)	(89)	-	(78)	(80)	2
+Warzyvko & Perfecta brands	-	-	-	*(18)*	*(18)*	-	*(18)*	*(18)*	-
+inventories in Serbia	-	-	-	*(11)*	*(11)*	-	*(14)*	*(14)*	-
+assets in MENA	-	-	-	*(1)*	*(1)*	-	*(1)*	*(1)*	-
+assets in Africa	-	-	-	*(16)*	*(16)*	-	*(16)*	*(16)*	-
+Beverages assets	*(9)*	*(9)*	-	-	-	-	*9*	*9*	-
+Agrokor receivables	-	-	-	*(44)*	*(44)*	-	*(44)*	*(44)*	-
+other one-off value adjustments	*(2)*	*0*	*(2)*	*1*	*1*	-	*3*	*1*	*2*
+amortization expenses	-	-	-	(3)	(3)	-	(3)	(3)	-
+ESOP programme expenses	(3)	(2)	(1)	(4)	(3)	(1)	(1)	(1)	(0)
+new Belupo factory expenses (+amortization)	(2)	-	(2)	(25)	-	(25)	(23)	-	(23)
+other one-off expenses	-	-	-	(2)	(2)	-	(2)	(2)	-
+deferred tax assets	(1)	(1)	0	16	16	-	17	17	(0)

The Company

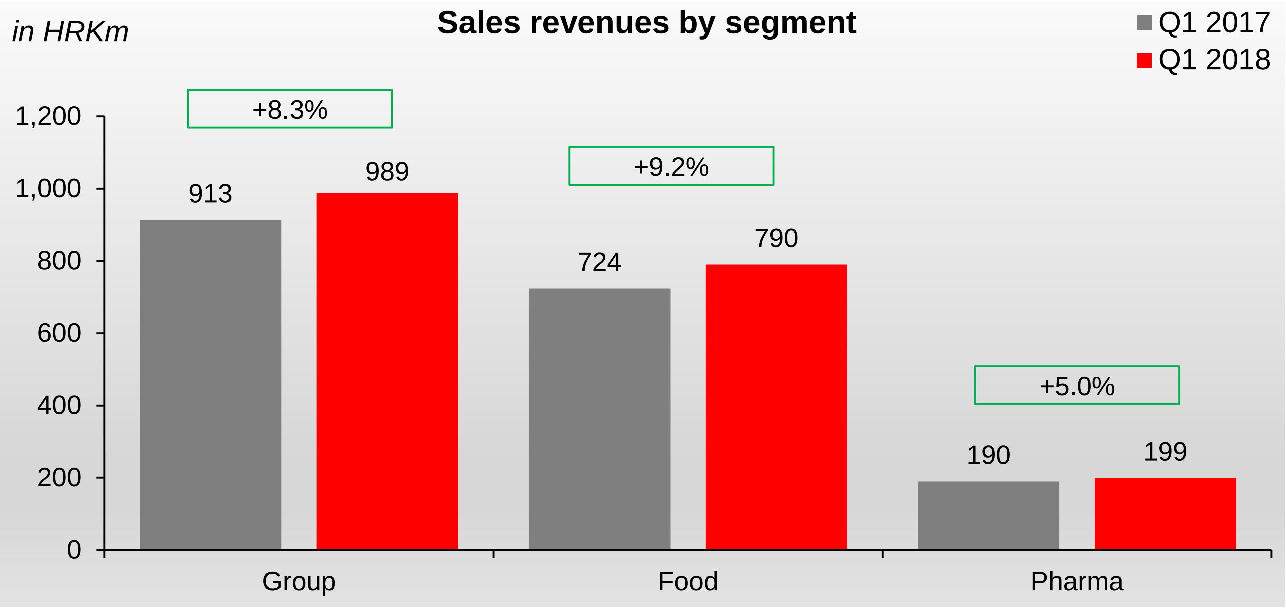
Business

Investment highlights

2017 results

Q1 2018 results

Strong sales revenues growth of both segments



Net foreign exchange (FX) impact on sales revenues:

HRKm	Own brands	Other sales	Total
Food	(5.7)	0.6	(5.1)
Pharmaceuticals	(4.7)	(0.1)	(4.8)
Group	(10.4)	0.5	(9.9)

Currency	*HRKm*
EUR	(2.2)
RUB	(7.3)
Other	(0.5)
Total	(9.9)

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in 1-3 2018 if FX rates had remained on the same levels as in 1-3 2017.

Food segment in Q1 2018[1]:

- **Own brands** → 10.3% higher sales (+11.1% excl. FX), primarily as a result of increased selling and marketing activities partly related to the pre-Easter period and expanded distribution of certain categories,
- **Other sales** → 5.4% lower sales (-6.5% excl. FX), primarily as a result of trade goods sales decrease,
- **Total Food** → 9.2% higher sales (+9.9% excl. FX).

Pharmaceuticals segment in Q1 2018[1]:

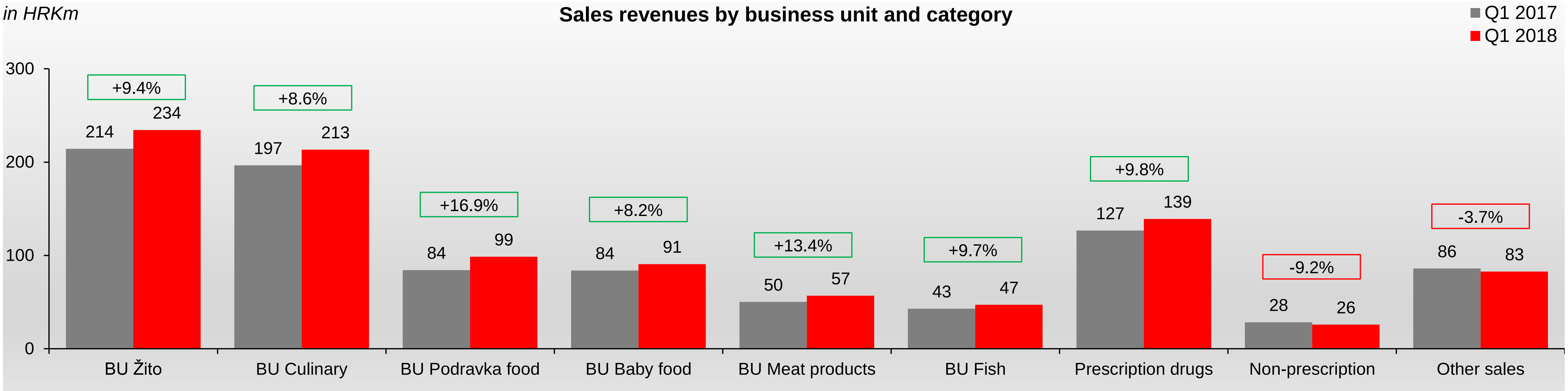
- **Own brands** → 6.3% higher sales (+9.4% excl. FX) due to the expanded distribution in the Central European markets and increased demand in the market of Russia,
- **Other sales** → 1.3% lower sales (-1.0% excl. FX) due to the strategic focus on more profitable trade goods range, resulting in lower revenues, but higher profitability,
- **Total Pharmaceuticals** → 5.0% higher sales (+7.5% excl. FX).

Podravka Group in Q1 2018[1]:

- **Own brands** → 9.5% higher sales (+10.8% excl. FX),
- **Other sales** → 3.7% lower sales (-4.3% excl. FX),
- **Total Podravka Group** → 8.3% higher sales (+9.4% excl. FX).

[1]Percentages in the text relate to performance in 1-3 2018 compared to 1-3 2017.

All business units recorded sales revenues growth

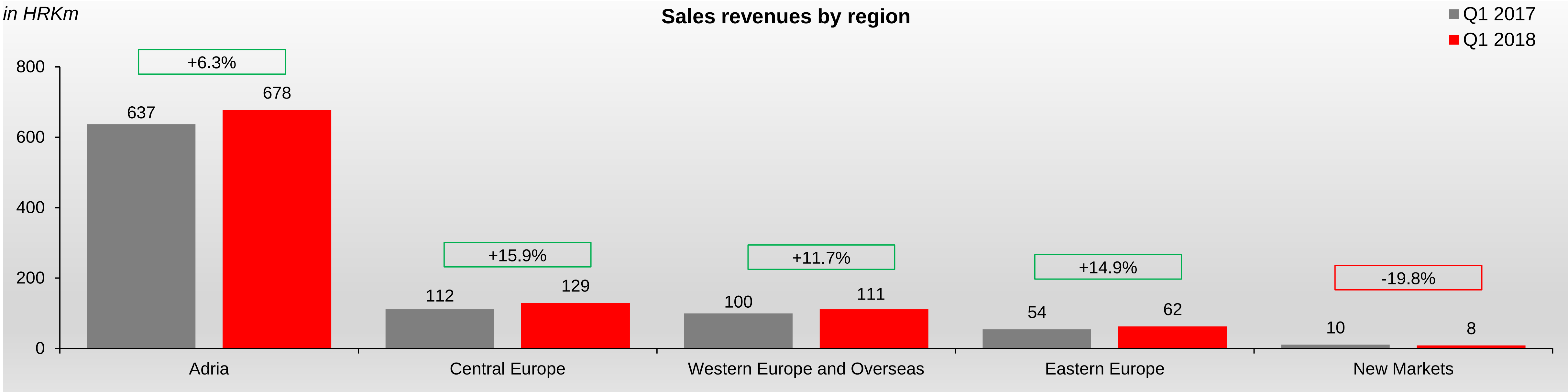


Business unit and category performance in Q1 2018[1]:

- **BU Žito (+9.4%; +9.6% excl. FX)** → increased sales in the Bakery and mill products category due to, among other, stabilised sales to the key buyer in the Slovenian market. The sales increase is also supported by the continuous growth of the Bakery and mill products category in the Western Europe region markets and the expanded distribution in the Central Europe region markets,
- **BU Culinary (+8.6%; +10.1% excl. FX)** → sales growth primarily in the categories Seasonings and Soups, where the sales growth was recorded in most regions;
- **BU Podravka food (+16.9%; +18.5% excl. FX)** → stronger selling and marketing activities in the categories Flour, Fruit and Condiments in the market of Croatia and the expansion of frozen vegetables distribution in the Russian market,
- **BU Baby food, sweets and snacks (+8.2%; +8.6% excl. FX)** → stronger selling and marketing activities in categories Baby food and Sweets in the market of Croatia,
- **BU Meat products, meat solutions and savoury spreads (+13.4%; +14.5% excl. FX)** → higher sales as a result of stronger selling and marketing activities,
- **BU Fish (+9.7%; +9.3% excl. FX)** → higher sales primarily due to selling activities in the Adria region markets,
- **Prescription drugs (+9.8%; +13.3% excl. FX)** → the most significant sales growth in the market of Russia due to higher demand, and in the Central Europe region markets due to expanded distribution,
- **Non-prescription programme (-9.2%; -7.8% excl. FX)** → sales growth in the markets of the Adria region and the Central Europe region did not fully compensate for the decrease in sales in the Russian market due to different sales dynamics compared to the comparative period,
- **Other sales (-3.7%; -4.3% excl. FX)** → lower trade goods sales revenues.

[1]Percentages in the text relate to performance in 1-3 2018 compared to 1-3 2017.

Majority of regions recorded sales growth in 1-3 2018



Region performance in Q1 2018[1]:

- **Adria (+6.3%; +6.6% excl. FX) → food** sales 7.9% higher where all business units record sales growth, primarily as the result of selling and marketing activities and the stabilization of sales to the key buyer in the market of Slovenia; **pharmaceuticals** sales 0.8% higher where own brands sales growth compensated for lower sales of trade goods,
- **Central Europe (+15.9%, +13.5% excl. FX) → food** sales 12.1% higher with the most significant impact on the Food segment came from the Žito business unit due to expanded distribution of own brands and private labels and from the Culinary business unit following stronger selling and marketing activities; **pharmaceuticals** sales rose 48.3% due to expanded distribution on the markets of Poland, the Czech Republic and Slovakia,
- **Western Europe and Overseas (+11.7%; +14.9% excl. FX) → food** sales 11.7% higher where sales growth was recorded by all business units of the Food segment, and it should be noted that in the first quarter of 2018, the continuous extension of the Žito business unit range and distribution in the markets of Italy, Germany and Spain continues; **pharmaceuticals** recorded sales at the same level as in the comparative period,
- **Eastern Europe (+14.9%, +28.3% excl. FX) → food** sales 23.0% higher with sales growth of the Culinary and Podravka Food business units due to expanded distribution; **pharmaceuticals** sales rose 8.9% where the increased demand for the Prescription drugs category compensated for the lower sales of the Non-prescription programme category,
- **New markets (-19.8%; -19.1% excl. FX) → food** sales 25.9% lower where the most significant impact on the sales decrease came from lower sales of the Lagris company trade goods; **pharmaceuticals** sales 7.6% lower.

[1]Percentages in the text relate to performance in 1-3 2018 compared to 1-3 2017.

Strong growth of food profitability in Q1 2018

Food segment	REPORTED				NORMALIZED[1]			
(in HRKm)	Q1 2017	Q1 2018	Δ	%	Q1 2017	Q1 2018	Δ	%
Sales revenue	723.6	789.8	66.3	9.2%	723.6	789.8	66.3	9.2%
Gross profit	230.1	269.4	39.3	17.1%	230.1	269.4	39.3	17.1%
EBITDA	46.1	102.5	56.4	122.2%	47.4	102.7	55.3	116.7%
EBIT	8.7	68.8	60.1	689.1%	10.0	69.1	59.1	590.1%
Net profit after MI	0.3	53.8	53.6	21,335.0%	1.5	54.1	52.5	3,419.1%
Gross margin	31.8%	34.1%		+231 bp	31.8%	34.1%		+231 bp
EBITDA margin	6.4%	13.0%		+660 bp	6.6%	13.0%		+645 bp
EBIT margin	1.2%	8.7%		+751 bp	1.4%	8.7%		+736 bp
Net profit margin after MI	0.0%	6.8%		+678 bp	0.2%	6.8%		+663 bp

Food segment profitability in Q1 2018:

- **Normalized gross profit** → impacted by higher sales revenues and favourable sales structure,
- **Normalized EBIT** → an additional positive impact came from: i) the absence of share option expenses (HRK 8.3m in Q1 2017), ii) lower MEX due to different marketing activities dynamics, and iii) lower selling expenses as a result, among other, of lower amortisation. This cushioned unfavourable FX movements on trade receivables and trade payables (HRK 4.4m FX losses in Q1 2018; HRK 2.1m FX gains in Q1 2017),
- **Normalized net profit after MI** → an additional positive effect came from lower interest expense following the refinancing of borrowings under more favourable commercial terms, which partly compensated higher tax expense, and unfavourable movements of FX differences on borrowings (HRK 0.1m FX losses in Q1 2018; HRK 3.0m FX gains in Q1 2017).

One-off impacts in HRKm	Q1 2017	Q1 2018
Severance payments	(1)	(0)

[1]Normalized for one-off impacts, normalization of results doesn't include potential tax impacts that would arise from the normalization process.

Pharma profitability positively impacted by favourable sales structure

Pharmaceuticals segment	REPORTED				NORMALIZED[1]			
(in HRKm)	Q1 2017	Q1 2018	Δ	%	Q1 2017	Q1 2018	Δ	%
Sales revenue	189.6	199.0	9.4	5.0%	189.6	199.0	9.4	5.0%
Gross profit	95.2	102.7	7.6	7.9%	96.4	102.7	6.4	6.6%
EBITDA	29.7	33.1	3.4	11.6%	31.1	33.1	2.1	6.7%
EBIT	19.5	18.8	(0.7)	(3.4%)	20.9	18.8	(2.0)	(9.7%)
Net profit after MI	17.8	16.0	(1.8)	(10.1%)	19.1	16.0	(3.2)	(16.5%)
Gross margin	50.2%	51.6%		+143 bp	50.8%	51.6%		+81 bp
EBITDA margin	15.7%	16.6%		+99 bp	16.4%	16.6%		+27 bp
EBIT margin	10.3%	9.5%		-81 bp	11.0%	9.5%		-153 bp
Net profit margin after MI	9.4%	8.0%		-134 bp	10.1%	8.0%		-206 bp

Pharmaceuticals segment profitability in Q1 2018:

- **Normalized gross profit** → impacted by higher sales revenues and favourable sales structure,
- **Normalized EBIT** → additionally impacted by, among other things, unfavourable FX movements on trade receivables and trade payables (HRK 2.3m FX losses in Q1 2018; HRK 1.9m FX gains in Q1 2017) and higher staff costs and costs of services,
- **Normalized net profit after MI** → additionally impacted by lower foreign exchange gains on borrowings (HRK 4.9m FX gains in Q1 2018; HRK 6.8m FX gains in Q1 2017).

One-off impacts in HRKm	Q1 2017	Q1 2018
New pharmaceuticals factory expenses	(1)	-
Severance payments	(0)	-

[1]Normalized for one-off impacts, normalization of results doesn't include potential tax impacts that would arise from the normalization process.

Group profitability movement under the strong influence of Food segment profitability

Podravka Group	REPORTED				NORMALIZED[1]			
(in HRKm)	Q1 2017	Q1 2018	Δ	%	Q1 2017	Q1 2018	Δ	%
Sales revenue	913.2	988.9	75.6	8.3%	913.2	988.9	75.6	8.3%
Gross profit	325.3	372.2	46.9	14.4%	326.5	372.2	45.7	14.0%
EBITDA	75.8	135.6	59.8	78.9%	78.5	135.8	57.4	73.2%
EBIT	28.2	87.7	59.5	210.7%	30.9	87.9	57.0	184.8%
Net profit after MI	18.0	69.8	51.8	287.3%	20.7	70.0	49.4	238.8%
Gross margin	35.6%	37.6%		+201 bp	35.8%	37.6%		+188 bp
EBITDA margin	8.3%	13.7%		+541 bp	8.6%	13.7%		+515 bp
EBIT margin	3.1%	8.9%		+578 bp	3.4%	8.9%		+551 bp
Net profit margin after MI	2.0%	7.1%		+509 bp	2.3%	7.1%		+482 bp

Group profitability in Q1 2018:

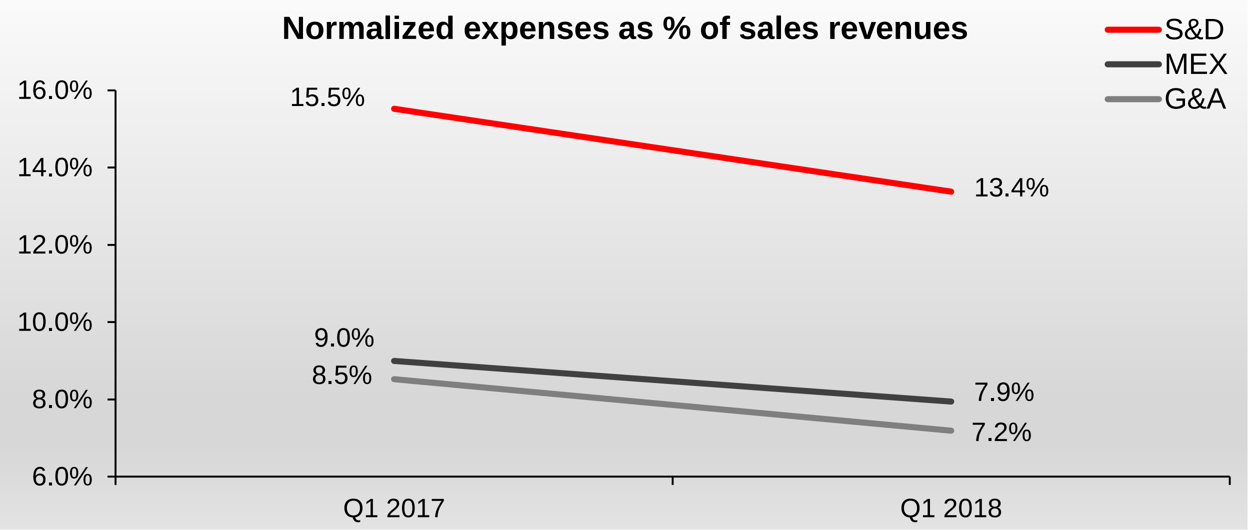
- **Normalized gross profit** → the increase in gross profit came from both business segments,
- **Normalized EBIT** → EBIT growth is the result solely of the Food segment operating profit growth. All operating expenses levels (other than cost of goods sold) decreased, while the negative effect came from unfavourable FX movements on trade receivables and trade payables (HRK 6.7m FX losses in Q1 2018; HRK 4.0m FX gains in Q1 2017),
- **Normalized net profit after MI** → an additional negative effect came from the increase in net finance costs and higher tax expense. The increase in net finance costs arises primarily from the decrease in foreign exchange gains on borrowings (HRK 4.9m FX gains in Q1 2018; HRK 9.8m FX gains in Q1 2017), which was not fully compensated by lower interest expense.

One-off impacts in HRKm	Q1 2017	Q1 2018
Severance payments	(1)	(0)
New pharmaceuticals factory expenses	(1)	-

[1]Normalized for one-off impacts, normalization of results doesn't include potential tax impacts that would arise from the normalization process.

Lower operating expenses as % of sales revenues

Operating expenses 18 vs. 17 % change	REPORTED	NORMALIZED[1]
Cost of goods sold (COGS)	4.9%	5.1%
General and administrative expenses (G&A)	(10.1%)	(8.7%)
Sales and distribution costs (S&D)	(6.7%)	(6.7%)
Marketing expenses (MEX)	(4.4%)	(4.4%)
Other expenses / revenues, net	n/a	n/a
Total	1.8%	2.1%



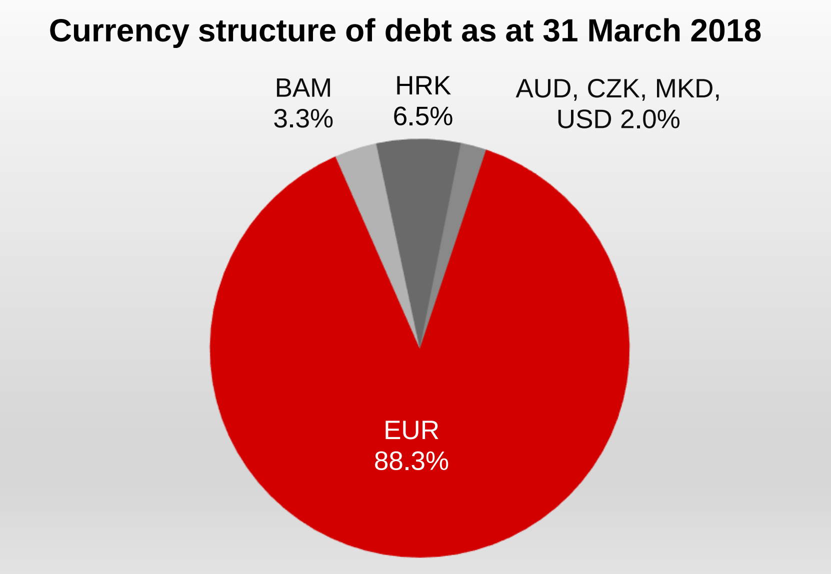
[1]Normalized for one-off impacts.

Key highlights of normalized operating expenses in Q1 2018:

- **Cost of goods sold (COGS):**
  - Higher 5.1% as a consequence of higher sales in both business segments,
- **General and administrative expenses (G&A):**
  - Lower 8.7% primarily as a result of the absence of share option expenses that amounted to HRK 9.0m in Q1 2017,
- **Sales and distribution expenses (S&D):**
  - Lower 6.7% due to, among other, lower amortisation costs. In Q1 2017, selling costs included HRK 2.5m of distribution rights amortisation, that is absent in Q1 2018,
- **Marketing expenses (MEX):**
  - Lower 4.4% mainly as a result of fewer marketing activities in the Food segment,
- **Other expenses / revenues, net:**
  - In Q1 2018, other income and expenses amounted to negative HRK 2.2m, while in the comparative period they amounted to positive HRK 6.2m. In Q1 2018, foreign exchange differences from trade receivables and trade payables amounted to negative HRK 6.7m, while in the comparative period they amounted to positive HRK 4.0m.

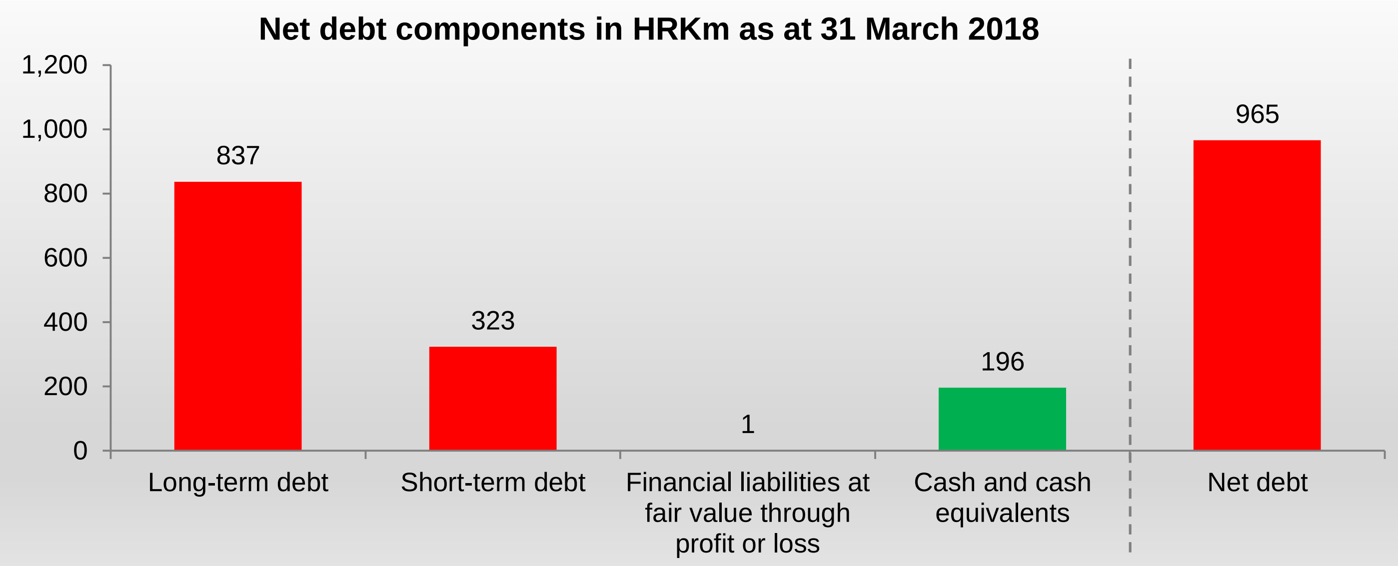
Further improvement of debt indicators

(in HRKm)[1]	2017	Q1 2018	% change
Net debt	909	965	6.2%
Interest expense	27	25	(6.9%)
Net debt / normalized EBITDA	2.1	2.0	(6.2%)
Normalized EBIT / interest expense	9.3	12.3	31.7%
Equity to total assets ratio	57.2%	60.4%	+314 bp



Key highlights:

- Net debt increase → lower level of cash and cash equivalents,
- Lower interest expenses → repayment of a part of borrowings,
- Net debt/normalized EBITDA drop due to higher normalized EBITDA,
- **Weighted average cost of debt:**
  - As at 31 March 2018 → 1.7%,
  - As at 31 December 2013 → 4.3%.



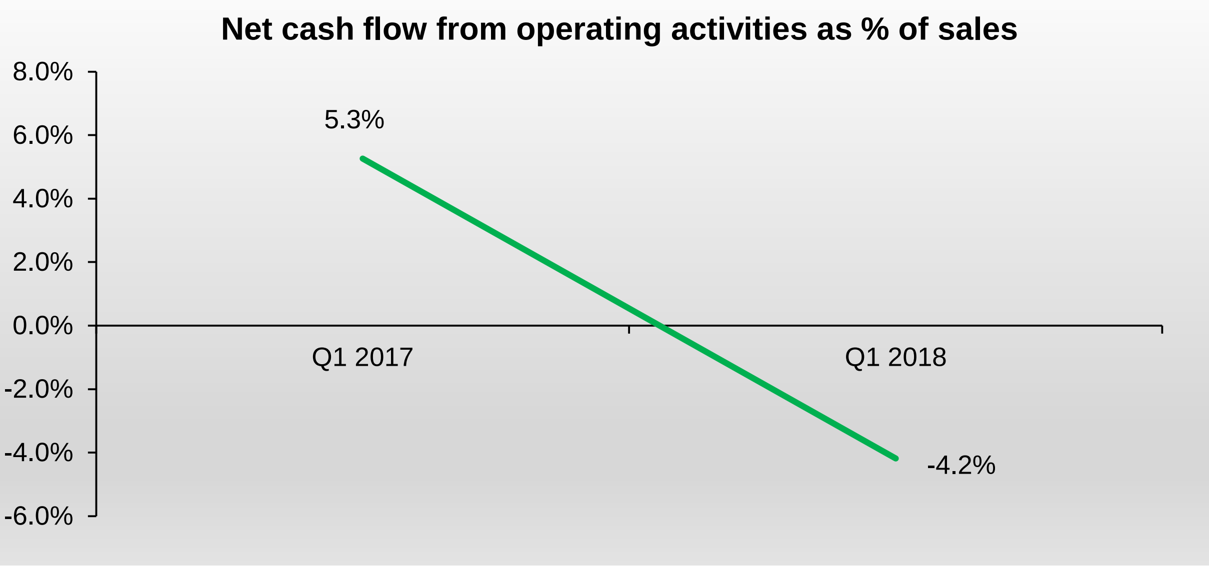
[1]All P&L figures are calculated on the trailing 12 months level, while BS figures are taken at the end of period.

Lower level of net cash from operating activities reflects working capital movement in Q1 2018

Working capital movement in BS	31 March 2018 / 31 March 2017	Impact
Inventories	4.1%	The increase in inventories was impacted, among other, by higher inventories of raw materials and supplies in the Pharmaceuticals segment in line with the planned production dynamics in 2018 and the increase in inventories of finished products in the new Belupo factory.
Trade and other receivables	(13.8%)	The significant decrease in trade and other receivables is a result of significant value adjustment at the end of 2017 related to receivables from the Agrokor companies in the amount of HRK 44.1m, and better collection of receivables in the Pharmaceuticals segment.
Trade and other payables	(18.7%)	The significant decrease in trade and other payables was impacted by the settlement of a portion of trade payables for the construction of the new pharmaceuticals factory and the repurchase of recourse bills of exchange from a factoring company.

(in HRKm)	Q1 2017	Q1 2018	Δ
Net cash from operating activities	48.1	(41.4)	(89.5)
Net cash from investing activities	(83.9)	(23.7)	60.2
Net cash from financing activities	(51.4)	(101.1)	(49.8)
Net change of cash and cash equivalents	(87.1)	(166.3)	(79.1)

- **CAPEX** in 2018 is expected to be at the level of HRK 217m, in 2019 at the level of HRK 250 - 300m, and in 2020 and 2022 at the level of approximately HRK 200m.



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