

Audited Podravka Group business Results for 1-12 2017 period



Key highlights of 2017

Changes of Supervisory and Management Board members of Podravka Inc.

- SB members recall (Mato Crikvenac, Ivo Družić, Dinko Novoselec) and appointment (Marko Kolaković, Slavko Tešija, Luka Burilović, Damir Grbavac, Ivana Matovina),
- Appointment of Marin Pucar as the president of MB; appointment of Ljiljana Šapina, Hrvoje Kolarić, Davor Doko and Marko Đerek as MB members,
- MB term lasts until 23rd February 2022.



Redefining business models on the markets of Africa, MENA and China

- Since 2015 new markets continuously departed from business plans on which the business decision to invest in these markets was grounded,
- Estimated total negative result on three HUB's in 2017 amounts to HRK 27.9m on the EBITDA level or HRK 51.6m on the net profit level,
- Consequently, management adopted decisions to terminate business operations in Tanzania and China, while in the MENA market new business model will be introduced,
- At the end of 2017 the Group recorded HRK 16.3m cost of impairment of assets for the company in Africa, HRK 1.3m cost of impairment for the company in MENA and HRK 1.3m provision expense for closing the representative office in China.

Commissioning of the new pharmaceuticals factory

- On 16th May 2017 two new production plants were opened for solid, semi-solid and liquid drugs, representing the extension of the existing factories of solid and semi-solid drugs,
- The value of the investment is HRK 535 mill.,
- 45% of the investment was financed by own funds and 55% by a loan from Croatian Bank for Reconstruction and Development (HBOR).

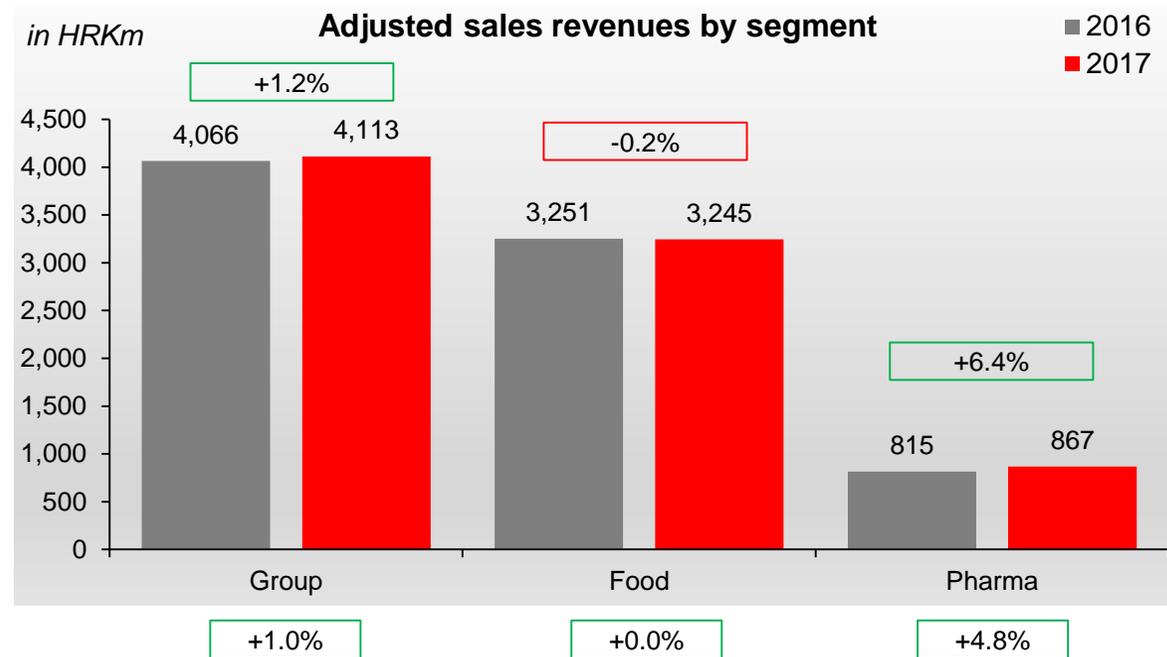
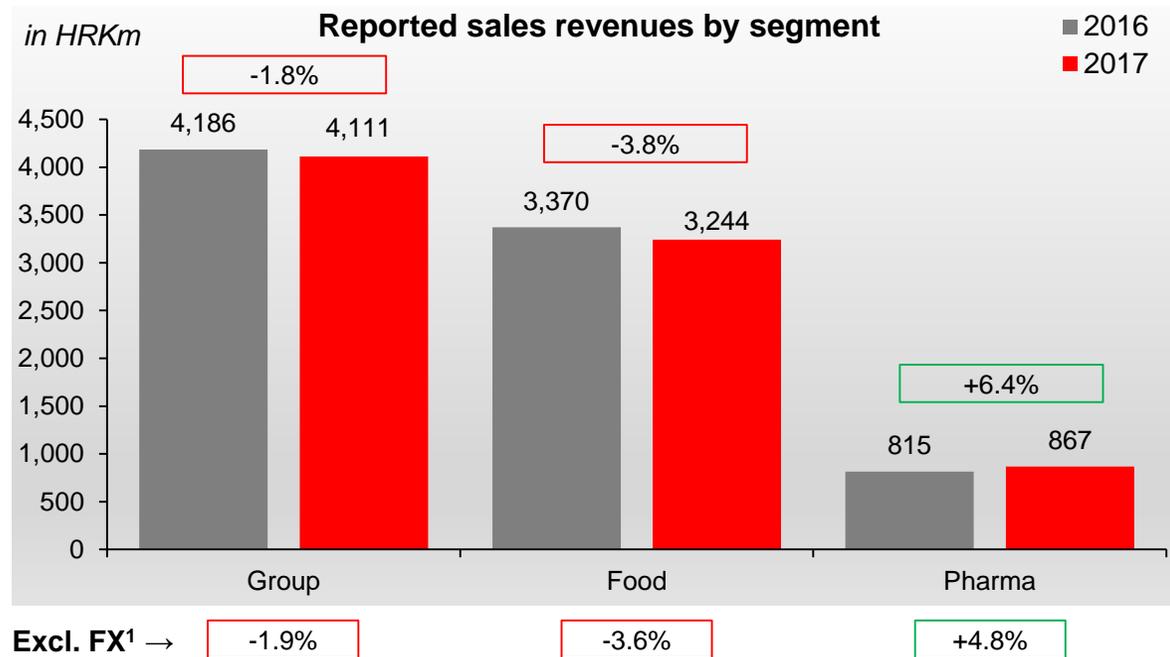


Other key highlights of 2017

- **Exposure to the key buyer in the Adria region** → reduced exposure throughout the year, value adjustment of receivables in the amount of HRK 44.1 mil.,
- **Refinancing borrowings under more favourable terms** → expected savings of HRK 9.3m on interest expenses in 2018 and HRK 25.4m until final maturities,
- **Stricter control of investments in 2017 and plans for 2018** → HRK 203.8m of Capex realized in 2017, while Capex plan for 2018 amounts to HRK 217.4m,
- **Stable dividend policy implementation continues** → on 30 August 2017 dividend in the gross amount of HRK 7.00 per share was paid out.

Note: The term 2017 relates to the period January 2017 - December 2017, while the term 2016 relates to the period January 2016 - December 2016.

Strong growth of Pharmaceutical segment sales in 2017



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.

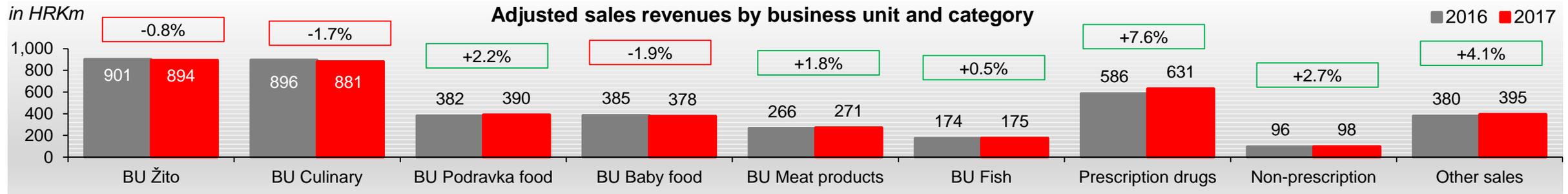
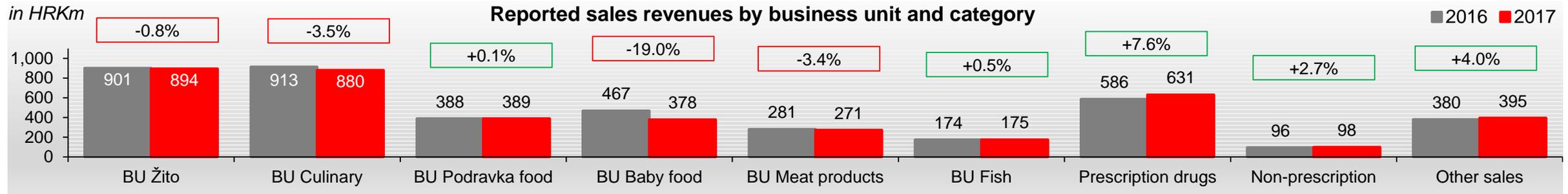
Estimated net foreign exchange (FX) impact on reported sales revenues:

HRKm	Own brands	Other sales	Total	Currency	HRKm
Food	(5.7)	(0.1)	(5.8)	EUR	(14.7)
Pharmaceuticals	13.6	(0.8)	12.8	RUB	23.0
Group	7.8	(0.9)	7.0	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.

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

Business units facing internal and external challenges



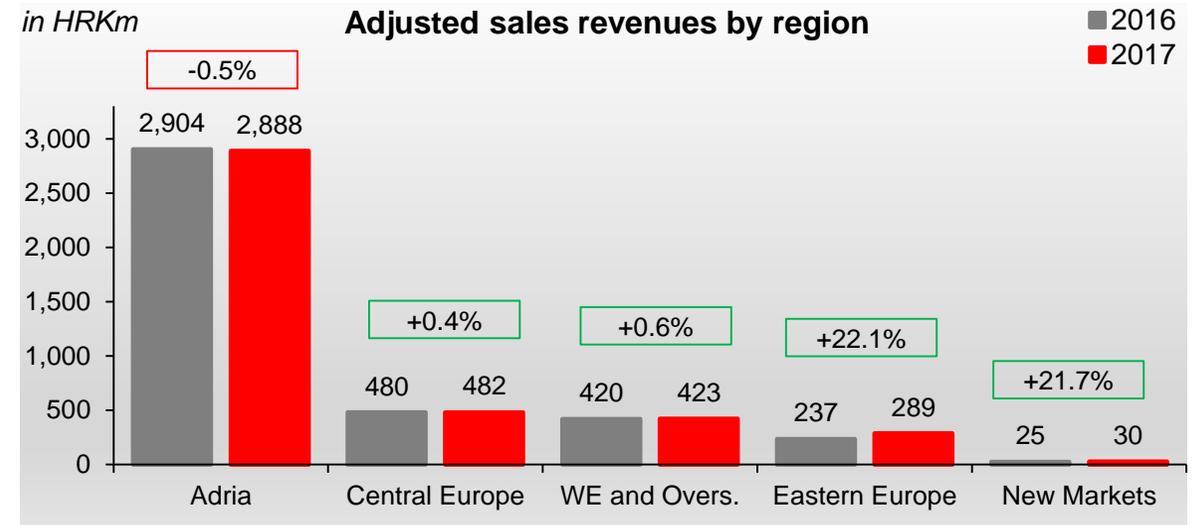
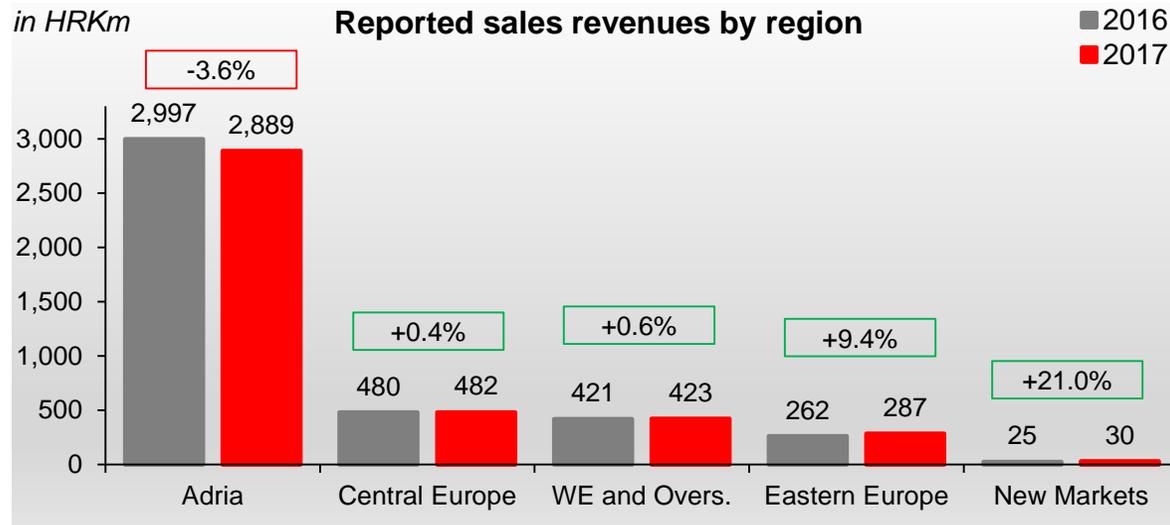
Adjusted business unit and category performance in 2017¹:

- **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.

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

Positive developments of Eastern Europe region in 2017



Adjusted region performance in 2017¹:

- **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.

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

Food profitability burdened by significant one-off items in 2017

Food segment (in HRK _m)	REPORTED				NORMALIZED ¹			
	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 HRK_m

	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

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

Pharma profitability positively impacted by favourable sales structure

Pharmaceuticals segment (in HRK _m)	REPORTED				NORMALIZED ¹			
	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 HRK_m

	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	-

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

Group profitability movement under the influence of Food segment profitability

Podravka Group (in HRK _m)	REPORTED				NORMALIZED ¹			
	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.

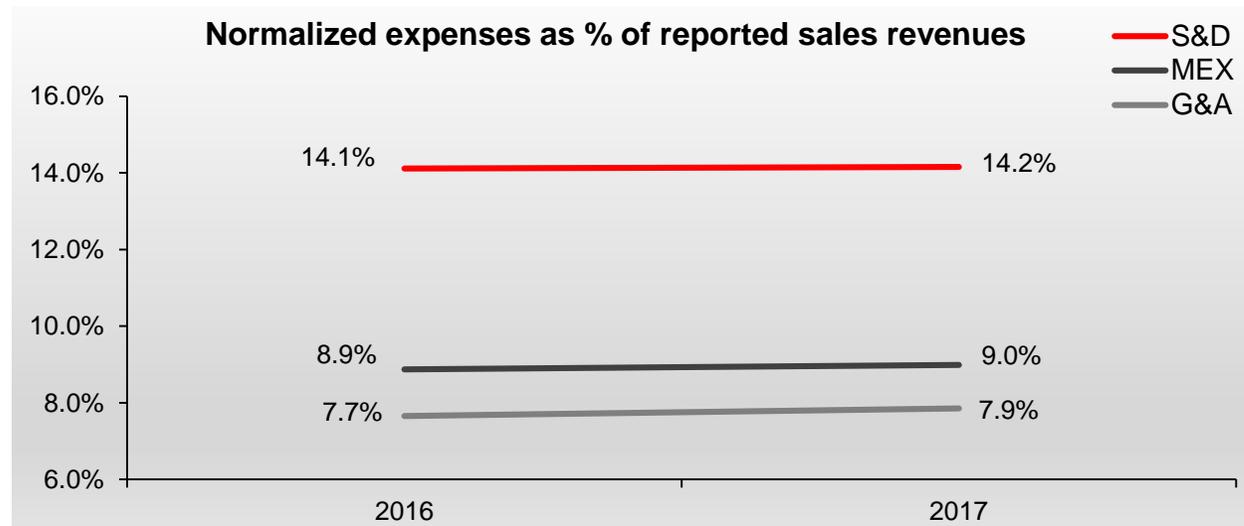
One-off impacts in HRK_m

	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

¹Normalized for one-off impacts, normalization of results doesn't include potential tax impacts that would arise from the normalization process; ²Employee 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%) 



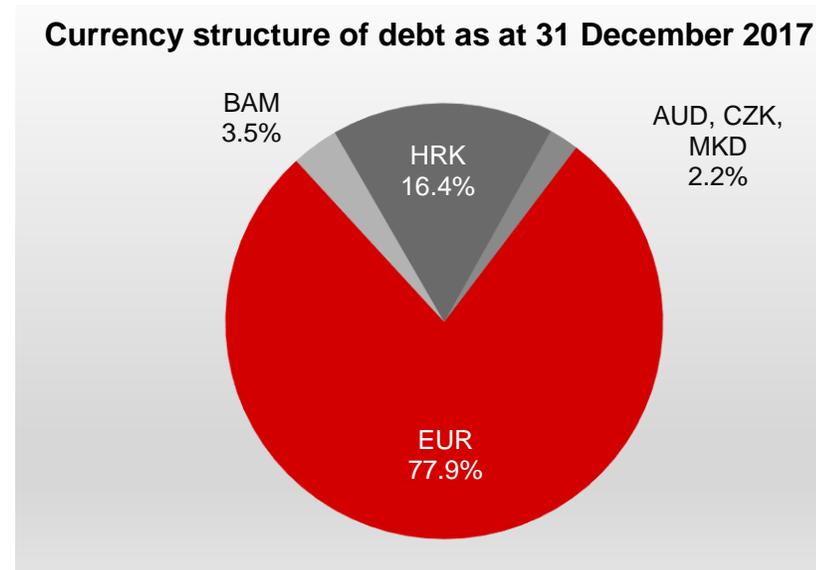
¹Normalized for one-off impacts.

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.

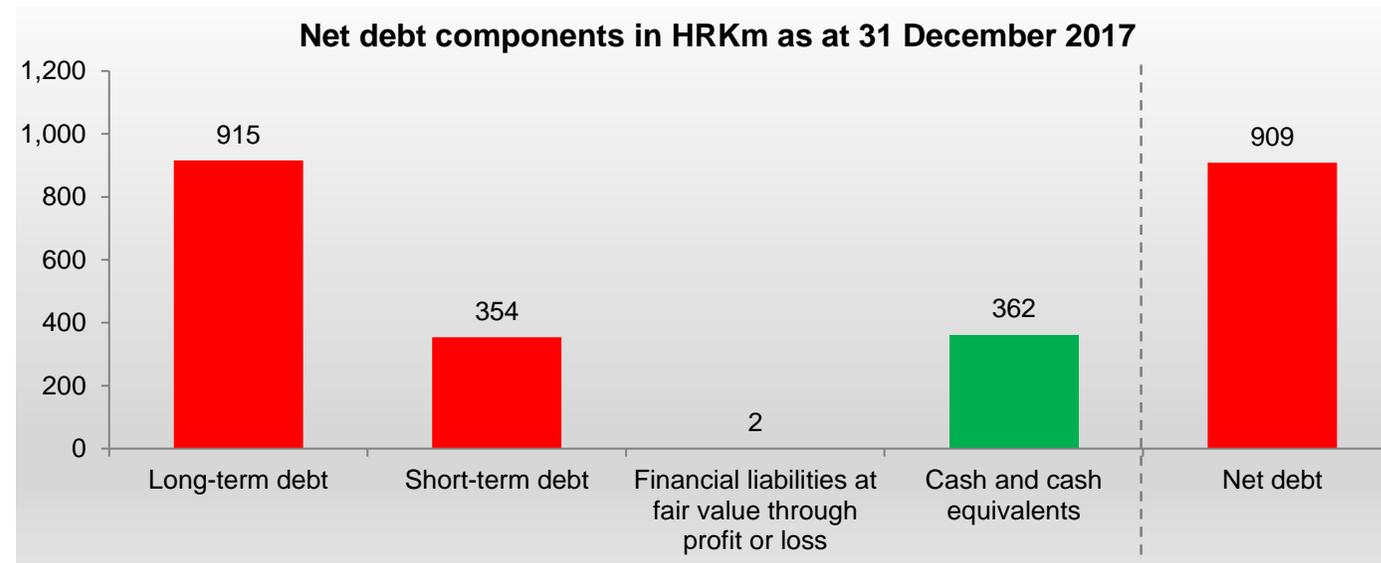
Lower interest expenses and weighted average cost of debt reflects successful debt management

<i>(in HRKm)¹</i>	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



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%.



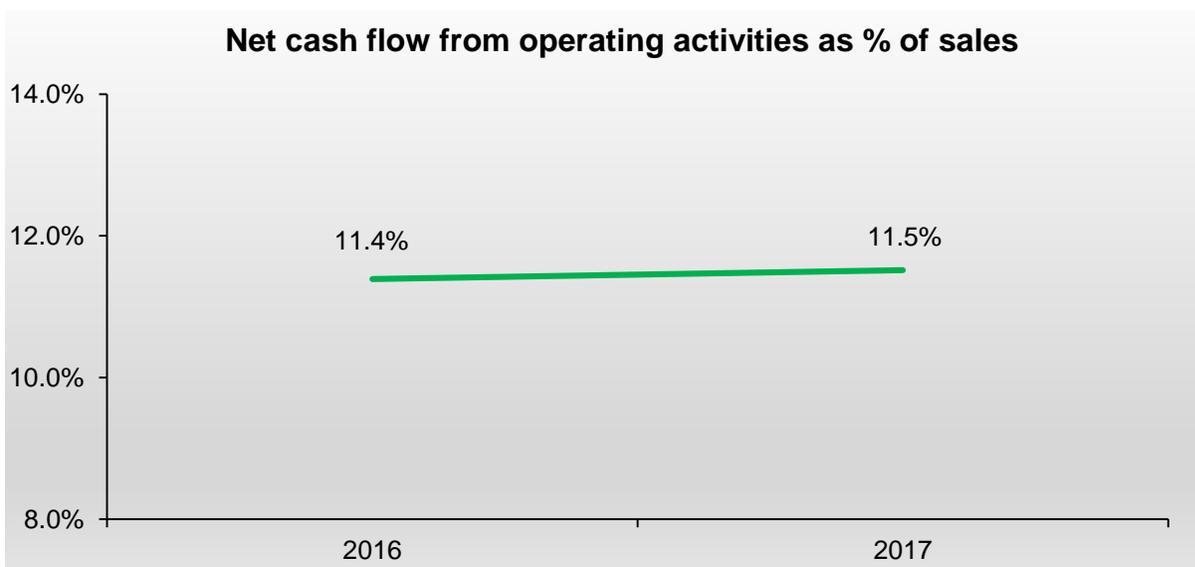
¹All P&L figures are calculated on the trailing 12 months level, while BS figures are taken at the end of period.

Stable level of net cash from operating activities

Working capital movement in BS	31 December 2017 / 31 December 2016		Impact
Inventories		4.2%	<ul style="list-style-type: none"> Increased plans for the production of own products and trade goods led to higher level of inventories.
Trade and other receivables		(19.5%)	<ul style="list-style-type: none"> 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%)	<ul style="list-style-type: none"> 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.

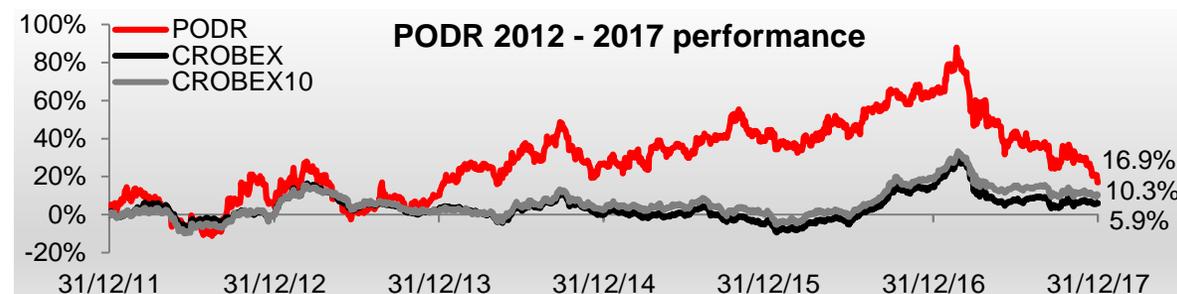
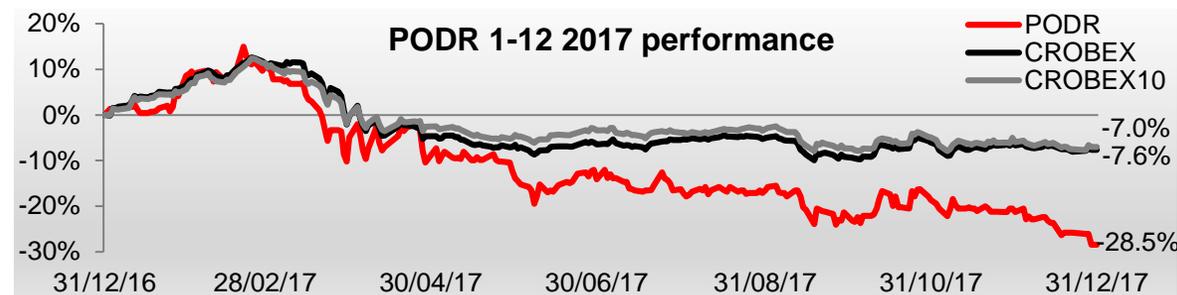
(in HRKm)	2016	2017	Δ
Net cash from operating activities	477	473	(3)
Net cash from investing activities	(359)	(191)	168
Net cash from financing activities	(72)	(258)	(186)
Net change of cash and cash equivalents	46	25	(21)

- **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.



Podravka's share price movement in 2017 under the influence of key customer situation

(HRK; units)	2017	2016	2017 / 2016
Average daily price	352.2	348.7	1.0%
Average daily number of transactions	16	11	43.5%
Average daily volume	1,128	1,112	1.4%
Average daily turnover	397,344.8	387,819.0	2.5%
Reported earnings per share	2.6	26.3	(90.0%)
Normalized earnings per share	23.8	28.5	(16.5%)



Analysts	Recommendation	Target price	Potential ¹
InterCapital	Under review	-	n/a
Raiffeisen BANK	Hold	HRK 300.00	15.4%
ERSTE Group	Buy	HRK 370.00	42.3%
UniCredit	Buy	HRK 398.96	53.4%
WOOD & COMPANY	Hold	HRK 371.00	42.7%

Peer group multiples ²	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.0	12.3	17.5	2.6	21.0
Normalized weight. av. peer group ³	1.6	11.4	16.0	2.2	18.3
Podravka Group reported	0.7	7.4	20.4	0.6	33.2
Podravka Group normalized ⁴	0.7	6.3	11.0	0.6	10.9

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

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

¹Compared to the last price on 26st March 2018; ²Obtained from Bloomberg on 27th March 2018; ³Calculated excluding max. and min. Values; ⁴Normalized for items stated in the publication of 2017 results.

One-off items in 2017 and 2016

One-off items <i>(in HRK_m)</i>	2016			2017			Δ		
	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
+ <i>Warzyvko & Perfecta brands</i>	-	-	-	(18)	(18)	-	(18)	(18)	-
+ <i>inventories in Serbia</i>	-	-	-	(11)	(11)	-	(14)	(14)	-
+ <i>assets in MENA</i>	-	-	-	(1)	(1)	-	(1)	(1)	-
+ <i>assets in Africa</i>	-	-	-	(16)	(16)	-	(16)	(16)	-
+ <i>Beverages assets</i>	(9)	(9)	-	-	-	-	9	9	-
+ <i>Agrokor receivables</i>	-	-	-	(44)	(44)	-	(44)	(44)	-
+ <i>other one-off value adjustments</i>	(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)

Contact

Podravka d.d.

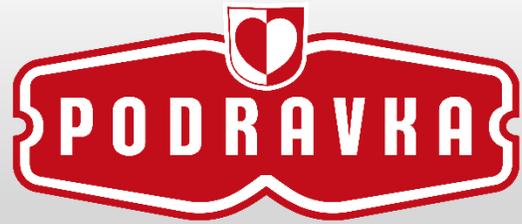
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