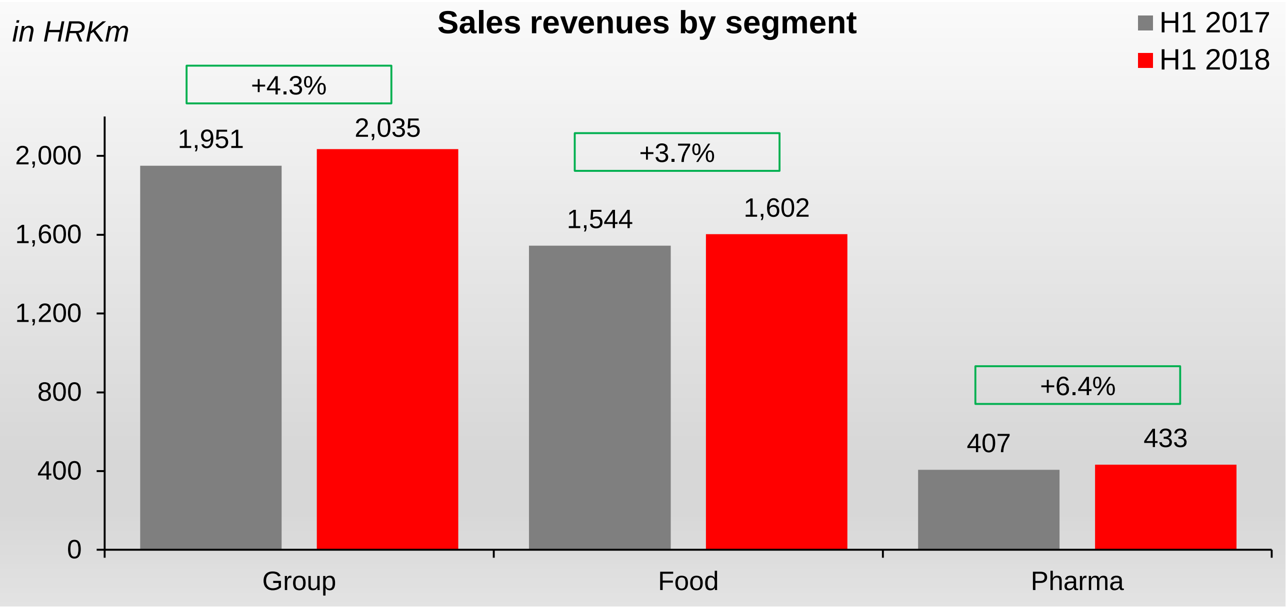
Podravka Group business results for 1-6 2018 period

Strong sales revenues growth of both segments



Net foreign exchange (FX) impact on sales revenues:

HRKm	Own brands	Other sales	Total
Food	(12)	1	(11)
Pharmaceuticals	(15)	(0)	(15)
Group	(27)	1	(26)

Currency	*HRKm*
EUR	(20)
RUB	(4)
Other	(2)
Total	(26)

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in 1-6 2018 if FX rates had remained on the same levels as in 1-6 2017.

Food segment in H1 2018[1]:

- **Own brands** → 4.8% higher sales (+5.7% excl. FX), primarily due to the growth in sales of business units Žito and Lagris, Culinary and Baby food, sweets and snacks, as a result of increased selling and marketing activities and expanded distribution of certain categories,
- **Other sales** → 9.3% lower sales (-10.0% excl. FX), primarily as a result of trade goods sales decrease,
- **Total Food** → 3.7% higher sales (+4.5% excl. FX).

Pharmaceuticals segment in H1 2018[1]:

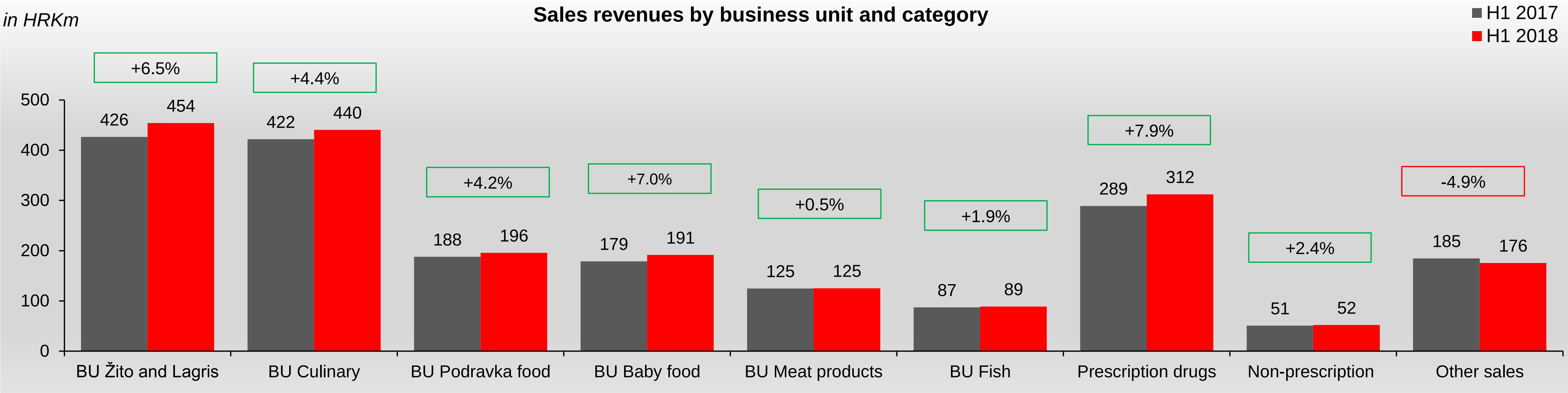
- **Own brands** → 7.1% higher sales (+11.4% excl. FX) primarily due to the increase in sales in the Russian market and the expanded distribution in the central European markets,
- **Other sales** → 2.8% higher sales (+3.1% excl. FX) as a result of higher sales in Deltis Pharm pharmacies,
- **Total Pharmaceuticals** → 6.4% higher sales (+10.1% excl. FX).

Podravka Group in H1 2018[1]:

- **Own brands** → 5.3% higher sales (+6.8% excl. FX),
- **Other sales** → 4.9% lower sales (-5.2% excl. FX),
- **Total Podravka Group** → 4.3% higher sales (+5.6% excl. FX).

[1]Percentages in the text relate to performance in 1-6 2018 compared to 1-6 2017.

All business units recorded sales revenues growth

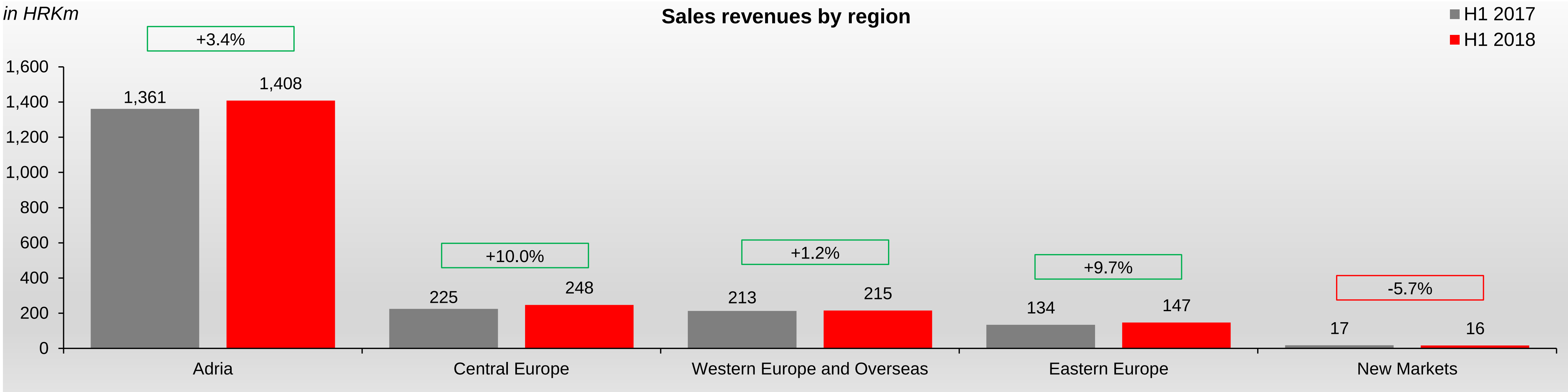


Business unit and category performance in H1 2018[1]:

- **BU Žito and Lagris (+6.5%; +6.7% excl. FX)** → increased sales in the Bakery and mill products and the Core food categories, which is supported by the continuous growth of the Bakery and mill products category in the Western Europe region markets and, among other things, the stabilization of sales to the key customer in the market of Slovenia,
- **BU Culinary (+4.4%; +6.2% excl. FX)** → sales growth primarily in the categories Seasonings and Soups, due to intensive promotional activities resulting in sales growth in most regions,
- **BU Podravka food (+4.2%; +5.5% excl. FX)** → higher sales due to selling and marketing activities in the categories Condiments, Flour and Tomato in the markets of Croatia and Poland,
- **BU Baby food, sweets and snacks (+7.0%; +7.3% excl. FX)** → sales growth due to selling and marketing activities in categories Creamy spreads and Baby food in the market of Croatia. The Creamy spreads category records a significant increase in sales as a result of well-received new and innovated products of the Lino Lada brand,
- **BU Meat products, meat solutions and savoury spreads (+0.5%; +1.2% excl. FX)** → sales growth in the Ready-to-eat meals category as a result of selling and marketing activities,
- **BU Fish (+1.9%; +1.6% excl. FX)** → higher sales primarily due to selling activities in the Adria region markets,
- **Prescription drugs (+7.9%; +12.5% excl. FX)** → the most significant sales growth in the market of Russia due to higher demand, and in the Central Europe region markets as a result of positive market response to new products,
- **Non-prescription programme (+2.4%; +5.2% excl. FX)** → sales growth in the OTC drugs subcategory on the markets of the Adria region,
- **Other sales (-4.9%; -5.2% excl. FX)** → lower trade goods sales revenues.

[1]Percentages in the text relate to performance in 1-6 2018 compared to 1-6 2017.

Majority of regions recorded sales growth in 1-6 2018



Region performance in H1 2018[1]:

- **Adria (+3.4%; +3.7% excl. FX) → food** sales 3.9% higher where all business units record sales growth, primarily as the result of selling and marketing activities, acceptance of new and innovated products and the stabilization of sales to the key buyer in the market of Slovenia; **pharmaceuticals** sales 1.9% higher where all categories record sales growth,
- **Central Europe (+10.0%, +8.7% excl. FX) → food** sales 9.1% higher with the most significant impact on the Food segment came from the Žito and Lagris business unit and from the Culinary business unit following stronger selling and marketing activities; **pharmaceuticals** sales rose 16.7% due to the acceptance of new products in the markets of Poland, the Czech Republic and Slovakia,
- **Western Europe and Overseas (+1.2%; +3.6% excl. FX) → food** sales 1.3% higher as a result of continuous expansion of the product range and distribution of the Žito and Lagris business unit in the markets of Italy, Germany and Spain and Condiments in the German market; **pharmaceuticals** revenues recorded a mild decrease of HRK 0.3m,
- **Eastern Europe (+9.7%, +24.7% excl. FX) → food** sales 5.0% lower which is primarily a consequence of the decrease in sales of the Podravka Food business unit; **pharmaceuticals** sales rose 20.4% following the increased demand for the Prescription drugs category,
- **New markets (-5.7%; -5.0% excl. FX) → food** sales is HRK 1.6m lower where the most significant impact on the sales decrease came from lower sales of the Lagris company trade goods; **pharmaceuticals** sales is HRK 0.6m higher.

[1]Percentages in the text relate to performance in 1-6 2018 compared to 1-6 2017.

Strong growth of food profitability in H1 2018

Food segment	REPORTED				NORMALIZED[1]			
(in HRKm)	H1 2017	H1 2018	Δ	%	H1 2017	H1 2018	Δ	%
Sales revenue	1,544	1,602	58	3.7%	1,544	1,602	58	3.7%
Gross profit	485	541	56	11.5%	485	541	56	11.5%
EBITDA	84	172	88	103.9%	105	174	69	65.2%
EBIT	9	106	96	1033.8%	30	108	77	255.4%
Net profit after MI	(5)	85	90	n/a	16	87	71	442.0%
Gross margin	31.4%	33.8%		+235 bp	31.4%	33.8%		+235 bp
EBITDA margin	5.5%	10.7%		+526 bp	6.8%	10.9%		+404 bp
EBIT margin	0.6%	6.6%		+598 bp	2.0%	6.7%		+476 bp
Net profit margin after MI	(0.3%)	5.3%		+560 bp	1.0%	5.4%		+437 bp

Food segment profitability in H1 2018:

- **Normalized gross profit** → higher due to higher sales revenues and favourable sales structure,
- **Normalized EBIT** → an additional positive impact came from: i) the absence of share option expenses that amounted to HRK 9.3m in H1 2017, ii) lower selling costs as a result, among other, of the changed business model in the MENA markets, terminated business activities in the market of Tanzania and lower amortisation and iii) absence of provisions for trade receivables,
- **Normalized net profit after MI** → an additional positive effect came from lower interest expense following the refinancing of borrowings under more favourable commercial terms and positive effects of foreign exchange differences on borrowings, partly compensating for higher tax expenses.

One-off impacts in HRKm	H1 2017	H1 2018
Severance payments	(21)	(2)

[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)	**H1 2017**	**H1 2018**	**Δ**	**%**	**H1 2017**	**H1 2018**	**Δ**	**%**
Sales revenue	407	433	26	6.4%	407	433	26	6.4%
Gross profit	208	220	11	5.4%	215	220	5	2.3%
EBITDA	56	72	16	28.8%	68	72	4	6.1%
EBIT	36	44	8	23.2%	47	44	(4)	(7.8%)
Net profit after MI	30	36	6	21.3%	42	36	(6)	(13.4%)
Gross margin	51.2%	50.7%		-50 bp	52.8%	50.7%		-205 bp
EBITDA margin	13.7%	16.6%		+289 bp	16.6%	16.6%		-5 bp
EBIT margin	8.7%	10.1%		+138 bp	11.7%	10.1%		-156 bp
Net profit margin after MI	7.3%	8.3%		+103 bp	10.3%	8.4%		-191 bp

Pharmaceuticals segment profitability in H1 2018:

- **Normalized gross profit** → higher due to the sales revenues growth and positive impact of the sales structure itself,
- **Normalized EBIT** → lower mainly due to higher depreciation costs related to the new factory and revenues recorded in H1 2017 from the collection of trade receivables, for which provisions were made in 2016,
- **Normalized net profit after MI** → additional negative effect came from lower net finance income and higher tax liability.

One-off impacts in HRKm	H1 2017	H1 2018
New pharmaceuticals factory expenses	(6)	-
Severance payments	(6)	(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)	H1 2017	H1 2018	Δ	%	H1 2017	H1 2018	Δ	%
Sales revenue	1,951	2,035	84	4.3%	1,951	2,035	84	4.3%
Gross profit	694	761	67	9.7%	700	761	61	8.7%
EBITDA	140	244	104	74.0%	173	246	73	42.1%
EBIT	45	149	104	233.2%	78	151	74	94.7%
Net profit after MI	25	121	96	386.7%	58	123	65	112.7%
Gross margin	35.6%	37.4%		+182 bp	35.9%	37.4%		+150 bp
EBITDA margin	7.2%	12.0%		+479 bp	8.9%	12.1%		+321 bp
EBIT margin	2.3%	7.3%		+504 bp	4.0%	7.4%		+345 bp
Net profit margin after MI	1.3%	5.9%		+466 bp	3.0%	6.0%		+308 bp

Group profitability in H1 2018:

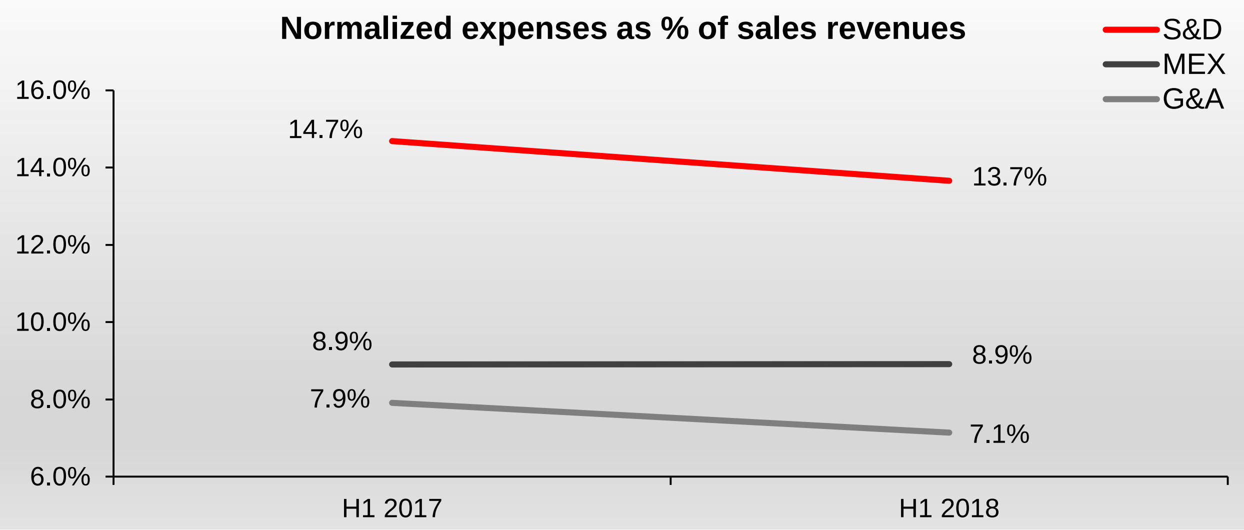
- **Normalized gross profit** → the increase in gross profit came from both business segments,
- **Normalized EBIT** → EBIT growth is the result of the Food segment operating profit growth, while the Pharmaceuticals segment had a negative effect on the growth in Group's operating profit, primarily due to higher depreciation costs related to the new factory,
- **Normalized net profit after MI** → higher as a result of the increase in net profit after minority interests of the Food segment, while the Pharmaceuticals segment had a negative effect on the growth in Group's net profit after minority interests, primarily due to higher depreciation costs related to the new factory.

One-off impacts in HRKm	H1 2017	H1 2018
Severance payments	(27)	(2)
New pharmaceuticals factory expenses	(6)	-

[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)	1.3%	1.9%
General and administrative expenses (G&A)	(18.5%)	(5.9%)
Sales and distribution costs (S&D)	(3.0%)	(3.0%)
Marketing expenses (MEX)	4.3%	4.3%
Other expenses / revenues, net	(38.8%)	(38.8%)
Total	**(1.1%)**	**0.5%**



[1]Normalized for one-off impacts.

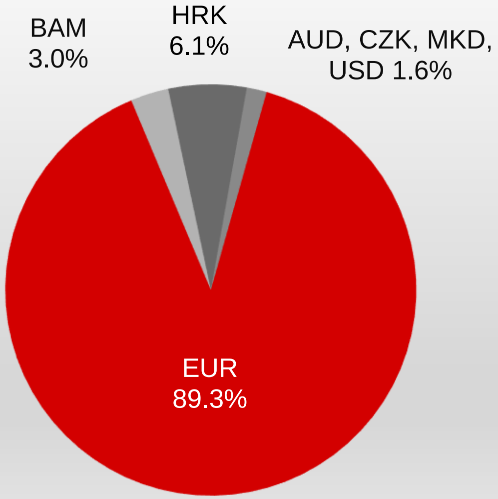
Key highlights of normalized operating expenses in H1 2018:

- **Cost of goods sold (COGS):**
  - Higher 1.9% as a consequence of higher sales in both business segments. Recorded costs are also impacted by higher depreciation costs related to the new Belupo factory, which are calculated from July 2017 and amount to HRK 6.2m in H1 2018,
- **General and administrative expenses (G&A):**
  - Lower 5.9% primarily as a result of the absence of share option expenses that amounted to HRK 10.0m in H1 2017,
- **Sales and distribution expenses (S&D):**
  - Lower 3.0% due to: i) lower selling costs as a result of the changed business model in the MENA markets and terminated business activities in the market of Tanzania, ii) lower amortisation costs where in H1 2017 we had HRK 3.3m of distribution rights amortisation costs, that are not present in H1 2018 and iii) the absence of provisions for trade receivables in the Food segment,
- **Marketing expenses (MEX):**
  - Growth of 4.3% mainly as a result of higher marketing activities in the Food segment,
- **Other expenses / revenues, net:**
  - In H1 2018, other income and expenses amounted to negative HRK 4.5m, while in the comparative period they amounted to negative HRK 7.4m. This line item includes foreign exchange differences from trade receivables and trade payables that amounted to negative HRK 11.9m in H1 2018, while in the comparative period they amounted to negative HRK 11.3m.

Further improvement of debt indicators

(in HRKm)[1]	2017	H1 2018	% change
Net debt	909	858	(5.6%)
Interest expense	27	23	(13.0%)
Net debt / normalized EBITDA	2.1	1.7	(19.2%)
Normalized EBIT / interest expense	9.3	13.9	48.7%
Equity to total assets ratio	57.2%	60.9%	+364 bp

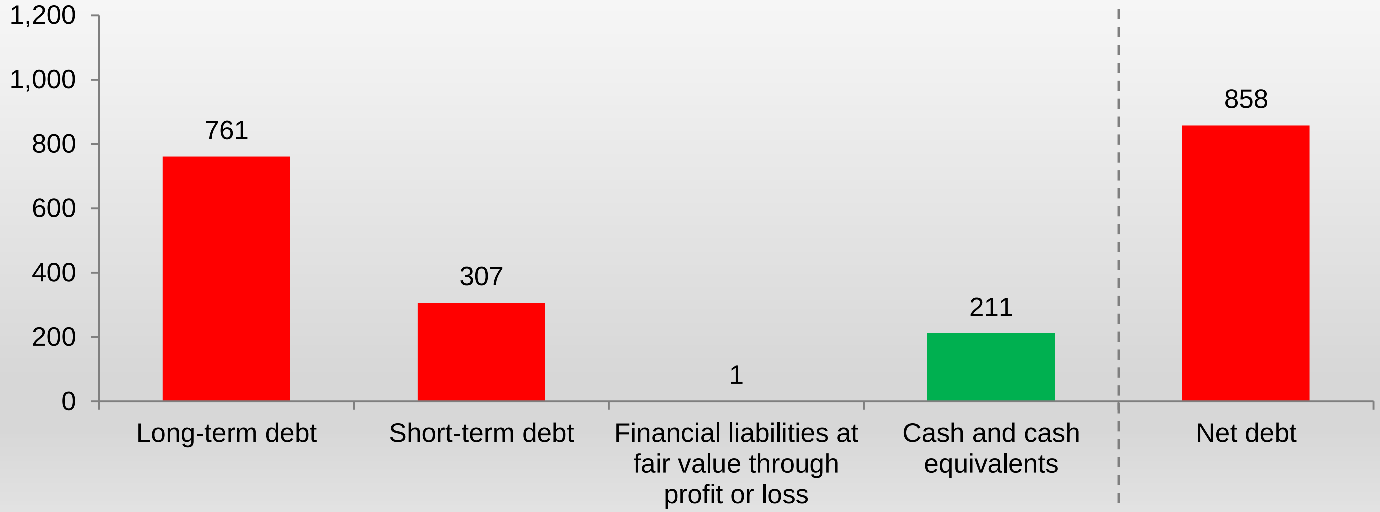
Currency structure of debt as at 30 June 2018



Key highlights:

- Net debt decrease → result of the repayment of a part of borrowings,
- 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 30 June 2018 → 1.7%,
  - As at 31 December 2013 → 4.3%.

Net debt components in HRKm as at 30 June 2018



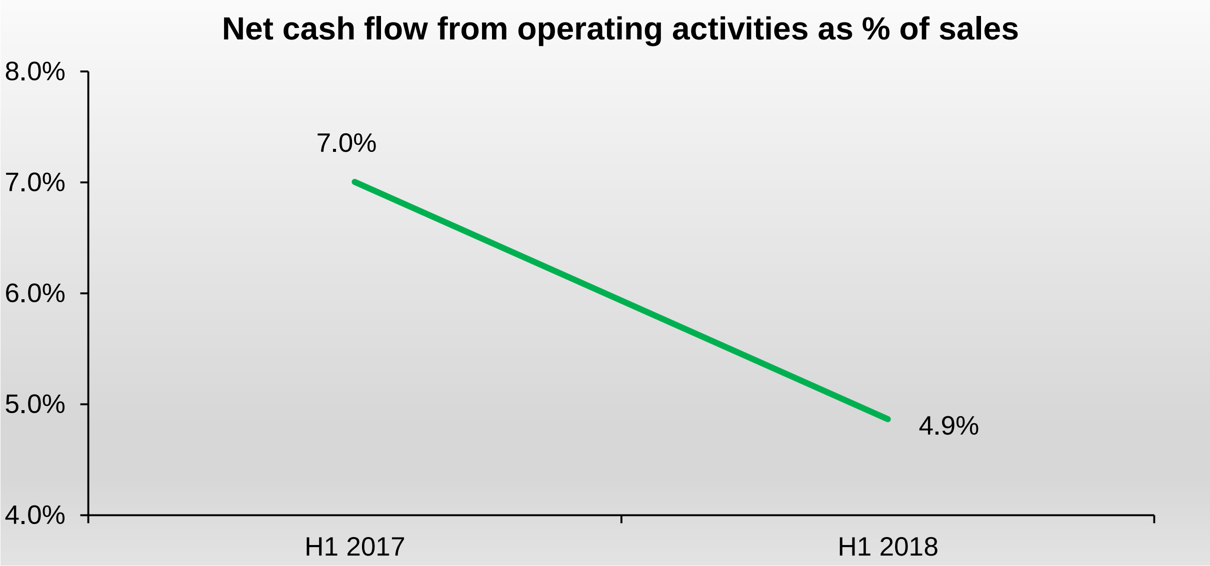
[1]All P&L figures are calculated on the trailing 12 months level, while BS figures are taken at the end of period.

Lower level of net cash from operating activities reflects working capital movement in H1 2018

Working capital movement in BS	30 June 2018 / 30 June 2017	Impact
Inventories	3.7%	▪ 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	(10.1%)	▪ The significant decrease in trade and other receivables is a result of significant impairments at the end of 2017 related to receivables from the Agrokor companies in the amount of HRK 44.1 million, and better collection of receivables in the Pharmaceuticals segment.
Trade and other payables	5.7%	▪ The increase in trade and other payables compared to 30 June 2017 was impacted by the increase in other payables, as a result of the approved dividend payable that was booked in June this year, while in 2017 it was booked in July.

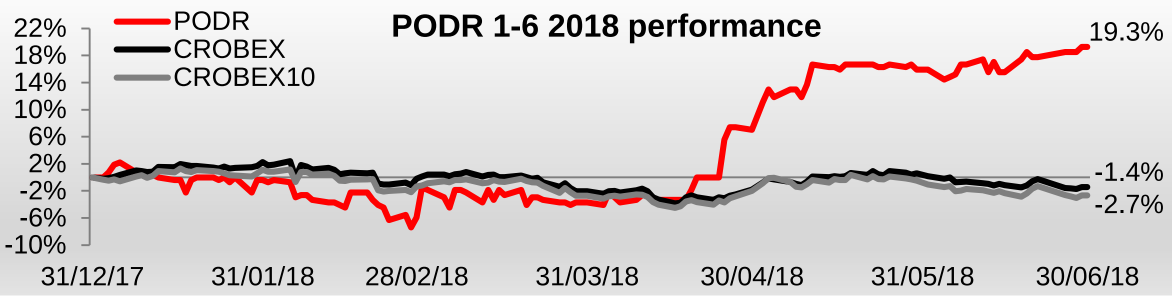
(in HRKm)	H1 2017	H1 2018	Δ
Net cash from operating activities	137	99	(38)
Net cash from investing activities	(120)	(65)	55
Net cash from financing activities	(69)	(185)	(116)
Net change of cash and cash equivalents	**(52)**	**(151)**	**(99)**

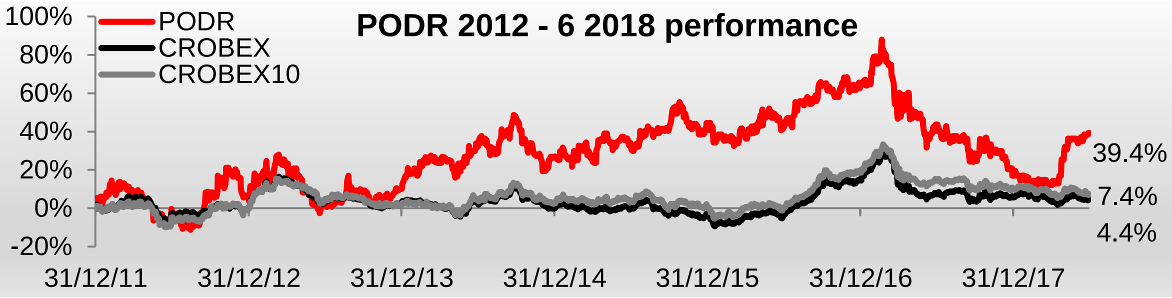
- **CAPEX** in 2018 is expected to be at the level of HRK 217m, in 2019 at the level of HRK 250 - 300m, and in 2020 and 2022 at the level of approximately HRK 200m.



Podravka's share price movement in H1 2018

(HRK; units)	2017	H1 2018	% change
Average daily price	370.0	281.8	(23.8%)
Average daily number of transactions	23	13	(44.9%)
Average daily volume	1,661	1,493	(10.1%)
Average daily turnover	614,679	420,770	(31.5%)
Reported earnings per share	3	16	525.0%
Normalized earnings per share	24	33	39.2%





Analysts	Recommendation	Target price	Potential[1]
InterCapital	Under review	-	n/a
Raiffeisen BANK	Hold	HRK 300	(6.8%)
ERSTE Group	Accumulate	HRK 370	14.9%
UniCredit	Buy	HRK 399	23.9%
WOOD & COMPANY	Hold	HRK 371	15.2%

Peer group multiples[2]	EV/Sales	EV/ EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	1.9	11.3	16.2	2.7	32.0
Normalized weight. av. peer group[3]	1.5	10.2	14.9	2.3	19.2
Podravka Group reported	1.5	12.9	21.0	0.8	18.6
Podravka Group normalized[4]	1.5	12.8	20.7	0.8	18.2

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 30th June 2018; [2]Obtained from Bloomberg on 24th July 2018; [3]Calculated excluding max. and min. Values; [4]Normalized for items stated in the publication of H1 2018 and 2017 results.

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