

Podravka Group

Always with a heart!

Belgrade Stock Exchange Investor Conference, Belgrade, 7th November 2017





The Company

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2016 results

1-9 2017 results

Podravka Group at a glance



BUSINESS:

- Branded food – primary business,
- Generic pharmaceuticals.



2016 FIGURES:

- HRK 4,185.5 million of sales,
- HRK 5,285.7 million of total assets,
- 6,404 employees.

YEAR OF ESTABLISHMENT: 1947

- 70 years in food production,
- 45 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 2,083.1 million*.

*MCap on 3rd November 2017, 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



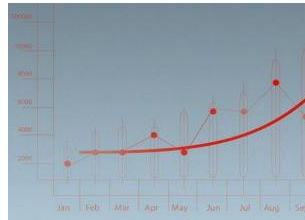
1970

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



2015

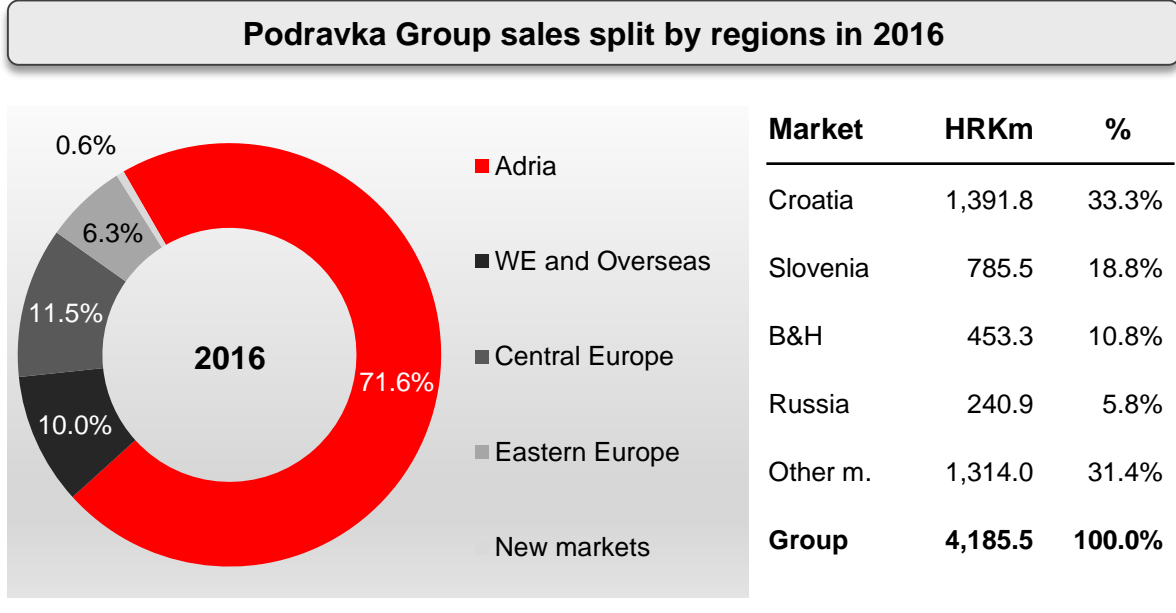
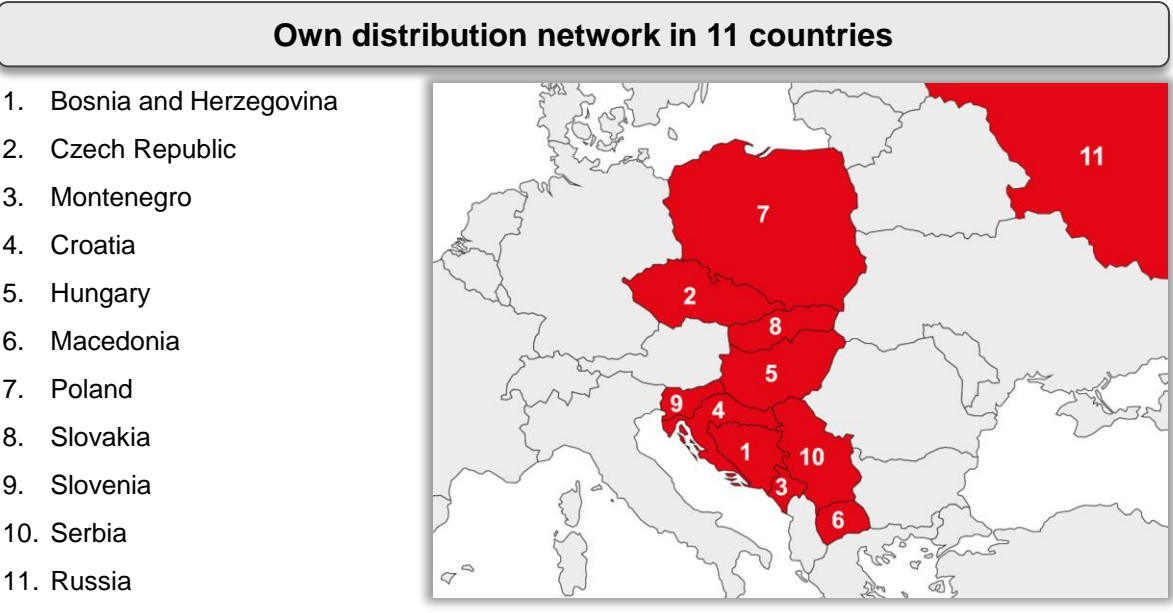
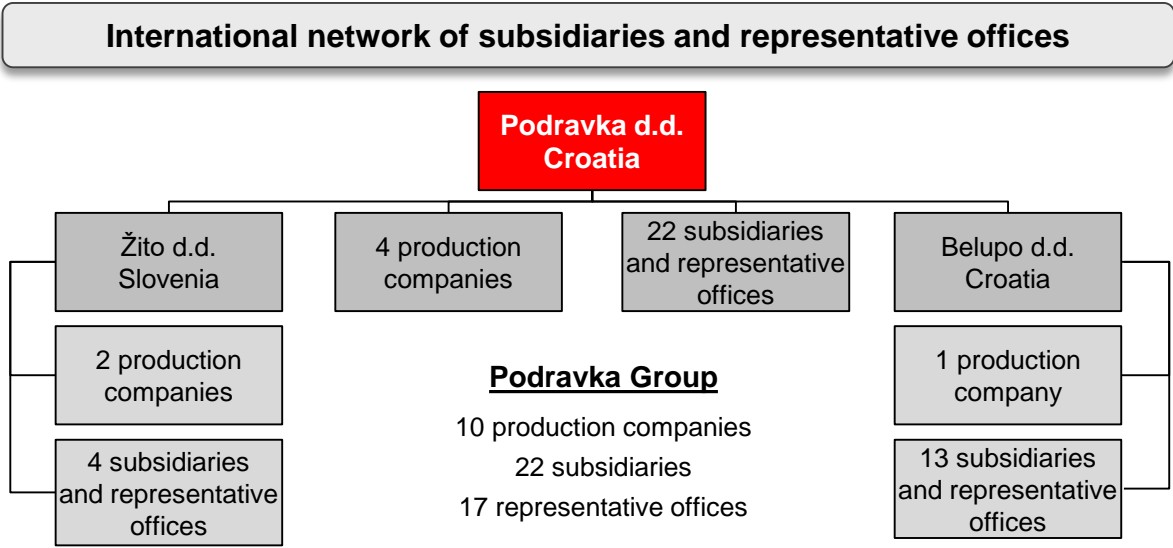
Žito, Slovenian food producer, acquisition



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



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

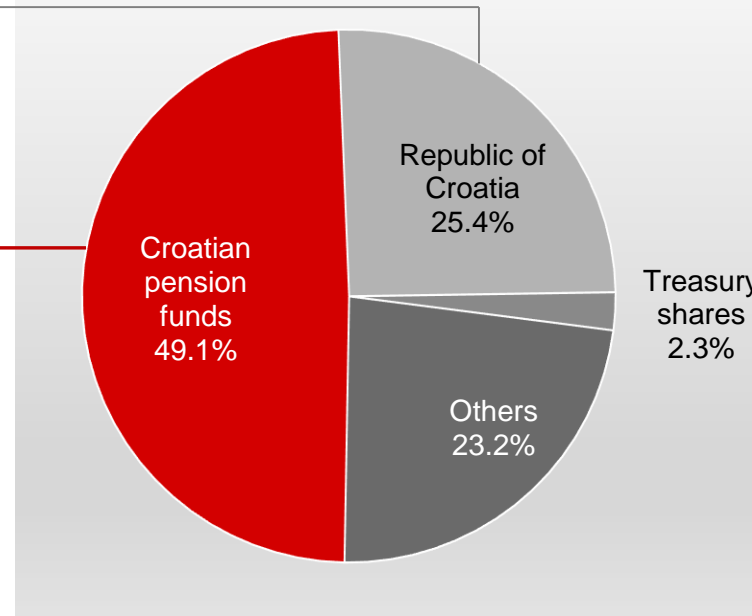
Vice President:

- Luka Burilović → professional manager

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 30 September 2017



Audit committee

President:

- Ivana Matovina

Members:

- Dubravko Štimac, Slavko Tešija, Petar Vlaić

Remuneration committee

President:

- Luka Burilović

Members:

- Dubravko Štimac, Petar Miladin

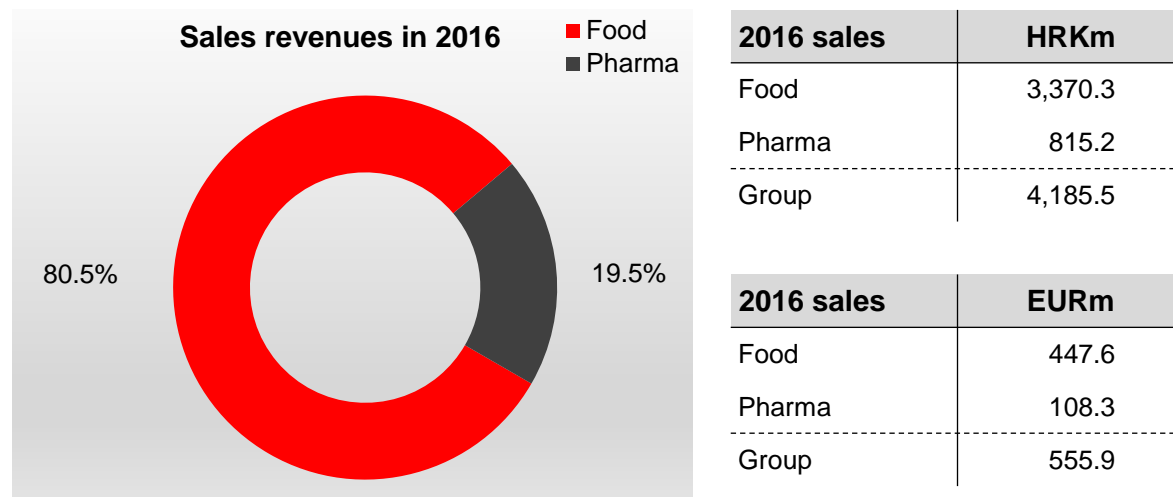
Corporate governance committee

Members:

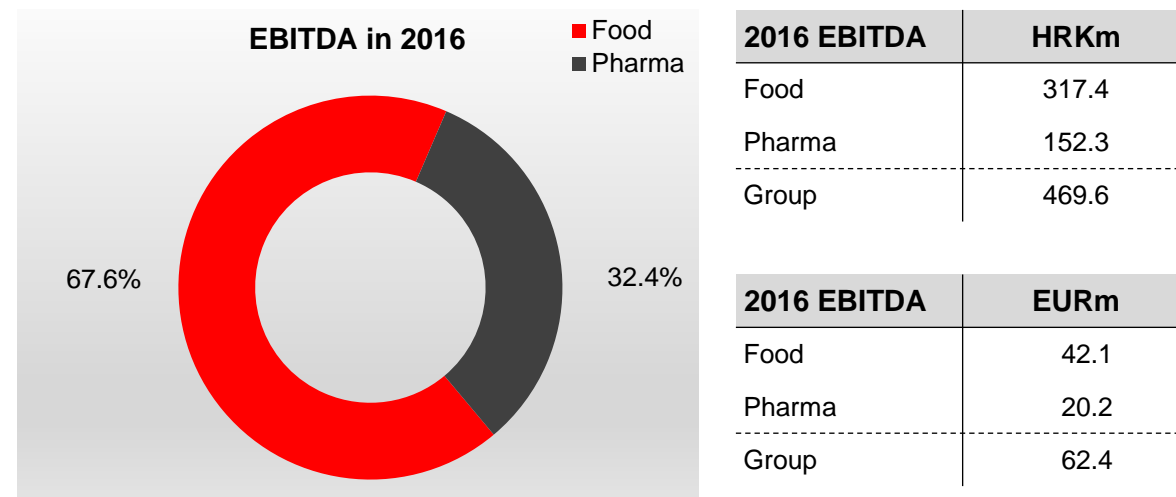
- Marko Kolaković, Petar Miladin, Petar Vlaić, Luka Burilović

Snapshot of key financial figures

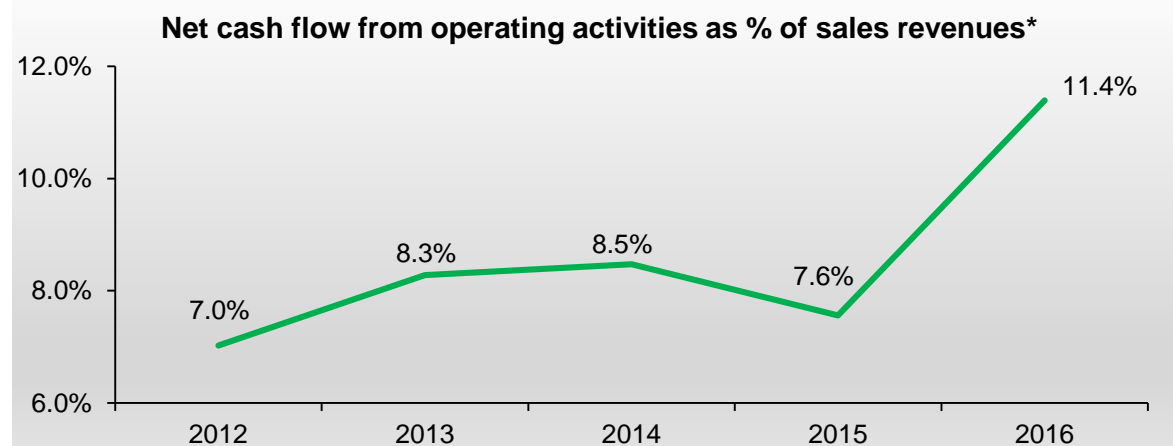
Sales revenues split



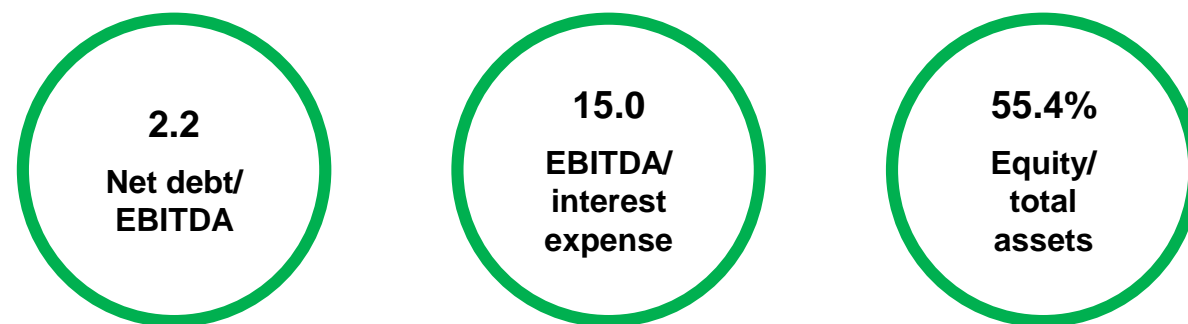
EBITDA split



Stable cash position



Low and sustainable debt level**



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

**2016 figures.



The Company

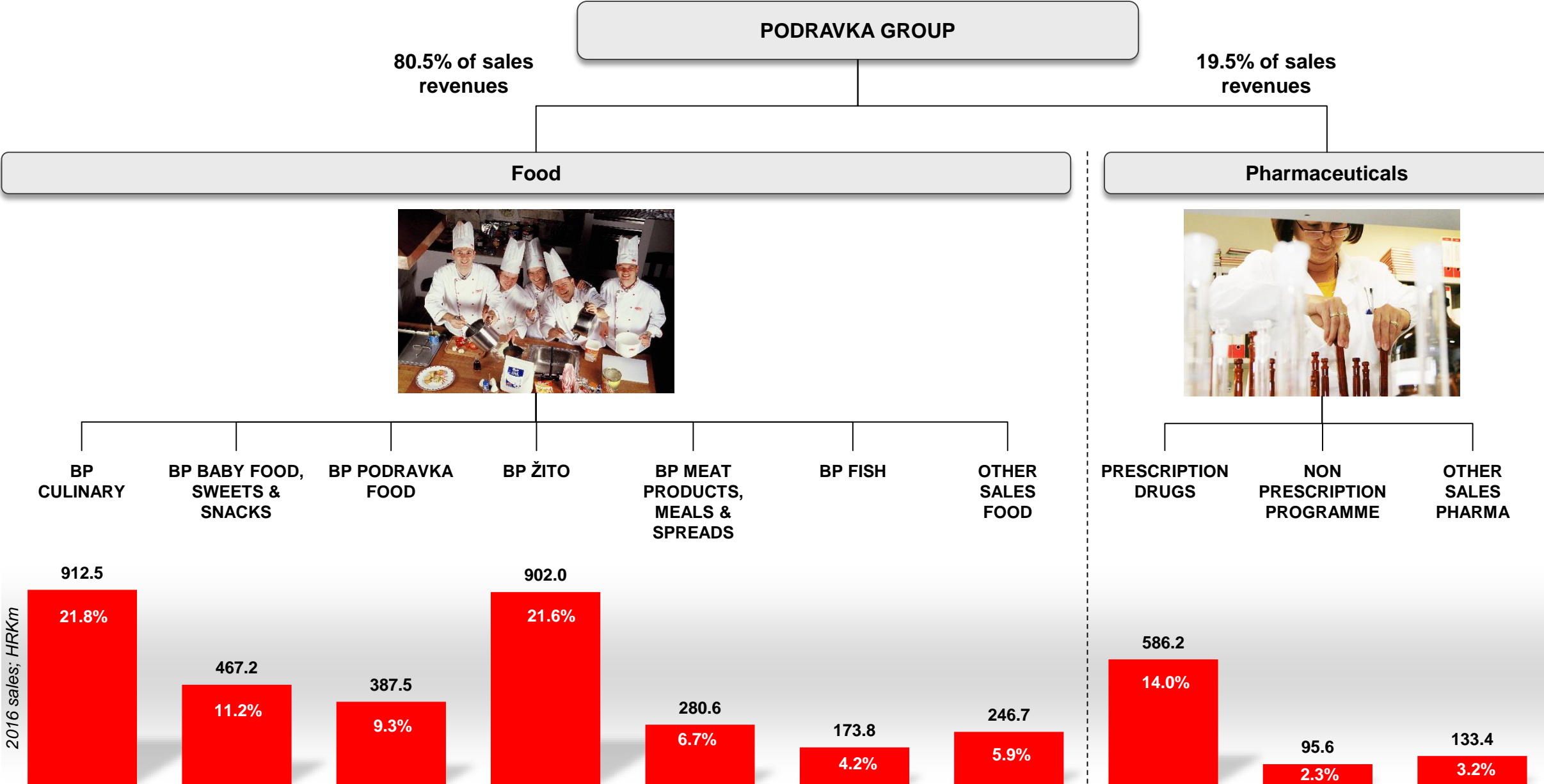
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A well diversified product portfolio divided in two business areas



Culinary category is a cornerstone of food business

Food segment products overview						2016 sales; % of total
BP CULINARY <ul style="list-style-type: none"> Seasonings, monospices, soups, ready-to-cook meals and bouillons, food mixes, private labels, service production. 	      					HRK 912.5m 21.8%
BP BABY FOOD, SWEETS & SNACKS <ul style="list-style-type: none"> Lino world, sweets, snacks, drinks, private labels, service production. 	      					HRK 467.2m 11.2%
BP PODRAVKA FOOD <ul style="list-style-type: none"> Condiments, tomato, sauces, fruit, vegetables, Podravka flour, private labels, service production. 	      					HRK 387.5m 9.3%
BP ŽITO <ul style="list-style-type: none"> Core food, bakery and mill products, tea, confectionery, cereals for adults, private labels, service production. 	     					HRK 902.0m 21.6%
BP MEAT PRODUCTS, MEALS AND SPREADS <ul style="list-style-type: none"> Canned meat, sausages, other meat, Food Solution, private labels, service production. 	   					HRK 280.6m 6.7%
BP FISH <ul style="list-style-type: none"> Fish products, private labels, service production. 	    					HRK 173.8m 4.2%
OTHER SALES <ul style="list-style-type: none"> Trade goods, other. 	   					HRK 246.7m 5.9%

Prescription drugs category is a cornerstone of pharmaceutical business

Pharmaceutical segment products overview				2016 sales; % of total	
<div><div>PRESCRIPTION DRUGS</div><div><ul style="list-style-type: none">For skin disorders*For heart and blood vessels,For central nervous system,For 8 more areas.</div></div>	<div><div></div><div></div></div>			HRK 586.2m	14.0%
<div><div>NON-PRESCRIPTION PROGRAMME</div><div><ul style="list-style-type: none">OTC medicine,Dietary products,Natural products.</div></div>	<div><div></div><div></div></div>			HRK 95.6m	2.3%
<div><div>OTHER SALES</div><div><ul style="list-style-type: none">Trade goods,Services.</div></div>	<div></div>			HRK 133.4m	3.2%

*Strategic products with international potential.

High-quality brands with exceptional recognisability and strong international potential

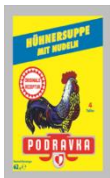


VEGETA

- Universal seasoning, category synonym in Adria region,
- For years No. 1 FMCG brand in CRO and in the top 3 in the region,
- Number 1 brand in Europe in universal seasoning category,

- Superbrand award in more than 15 European countries,
- Laur consumenta award in Poland for 2004-2014 period.

Vol. MP ¹	ADRIA	POL	SLK	CZE	RUS
Vegeta	1	2	1	3	2



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	7



LINO

- Dehydrated baby food; umbrella brand,
- Category synonym 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

- Powdered product for preparation of sweets,
- No. 1 or strong No. 2 brand in Adria region,

- 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 (MEDITERRANEAN ASSORTMENT)

- One of the most recognisable brands in canned fish category in the Adria region,
- Flagship of Mediterranean cuisine,

- 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	2	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

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



The Company

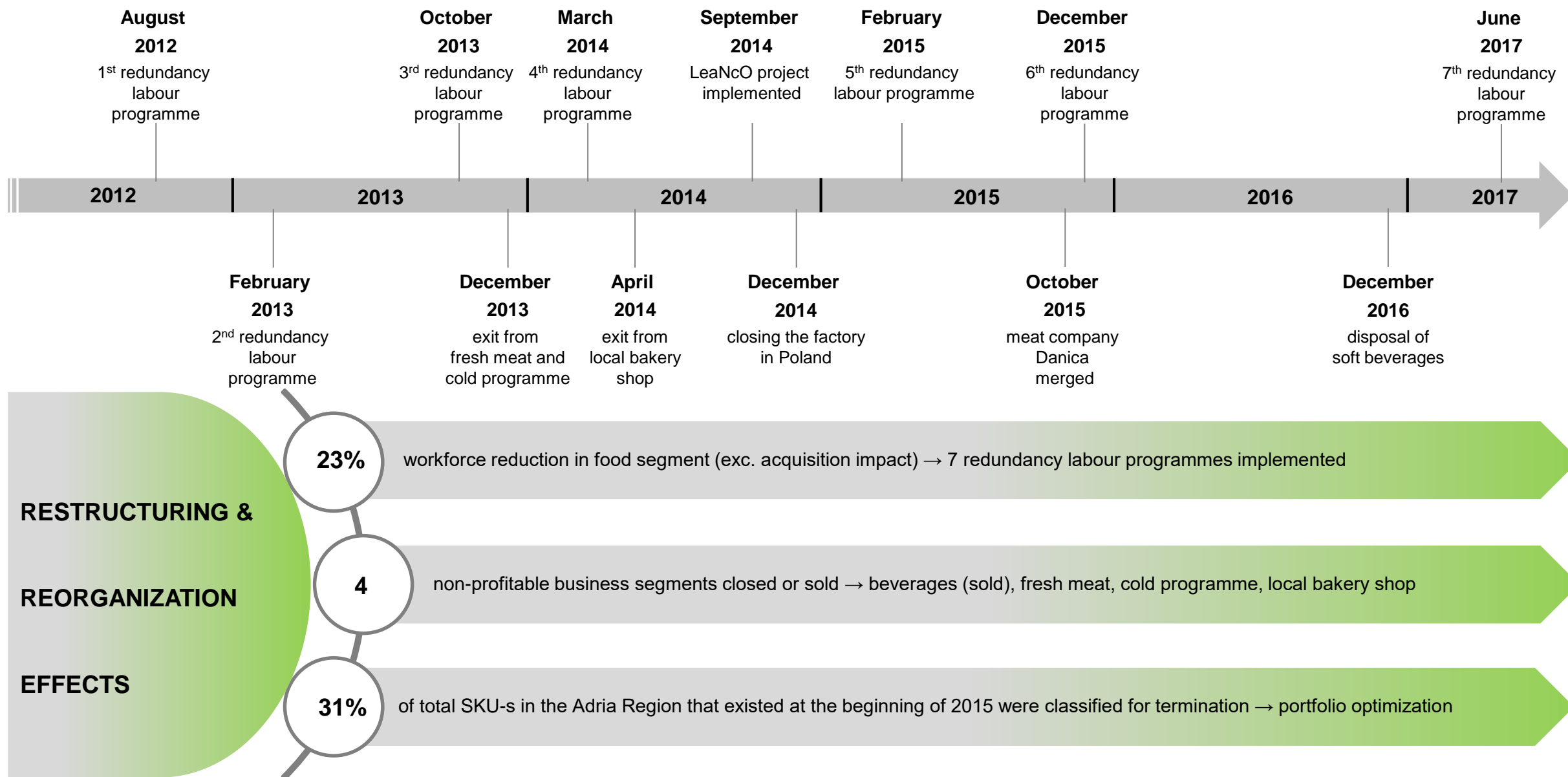
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Successful implementation of restructuring and reorganization process



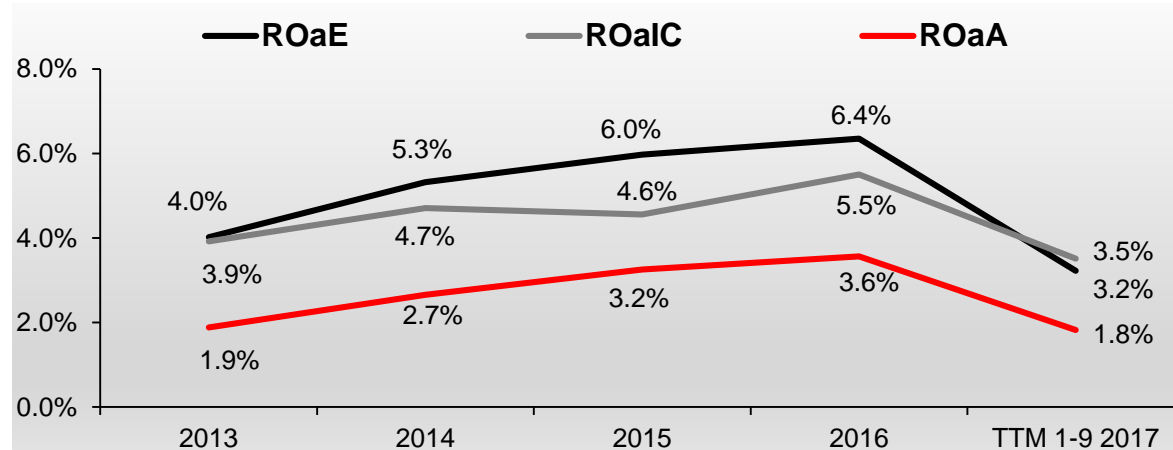
Significantly improved financial position

Restructuring related one-off items burdened past profitability

(in HRKm)	2012	2013	2014	2015	2016	1-9 2017
Value adjustments	(32.3)	(80.8)	(27.8)	(34.6)	(9.3)	-
Severance payments	(49.9)	(57.2)	(72.1)	(41.1)	(1.9)	(30.3)
Other	(44.3)	4.6	9.8	298.4*	7.8	-
Total net one-off items	(126.5)	(133.4)	(90.1)	222.7	(3.4)	(30.3)

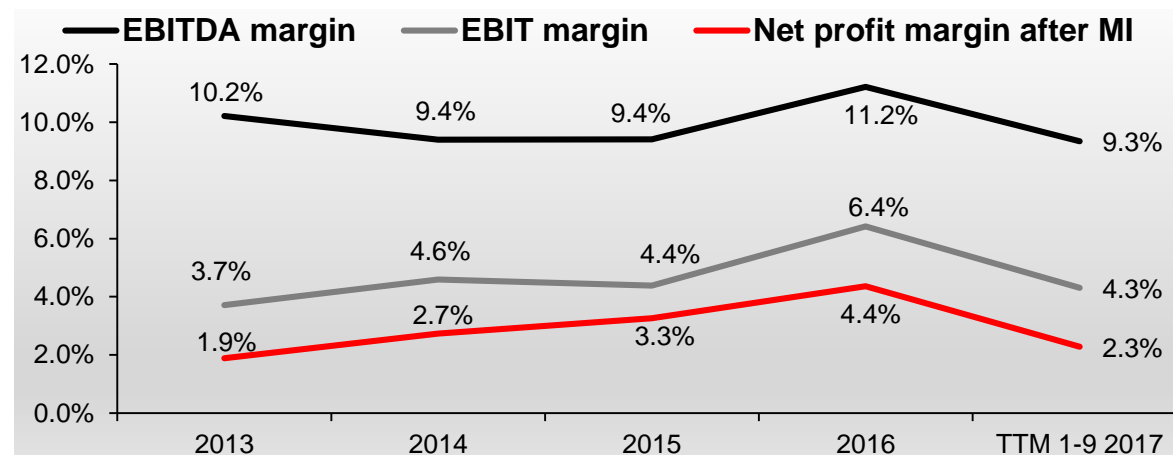
*HRK 115.7m of gain on a bargain purchase from Žito acquisition (badwill), HRK 163.7m of deferred tax income from Croatian government's incentives for the construction of new Belupo pharmaceutical factories, HRK 19.0m refers to other items.

Žito acquisition reflected in return rates¹



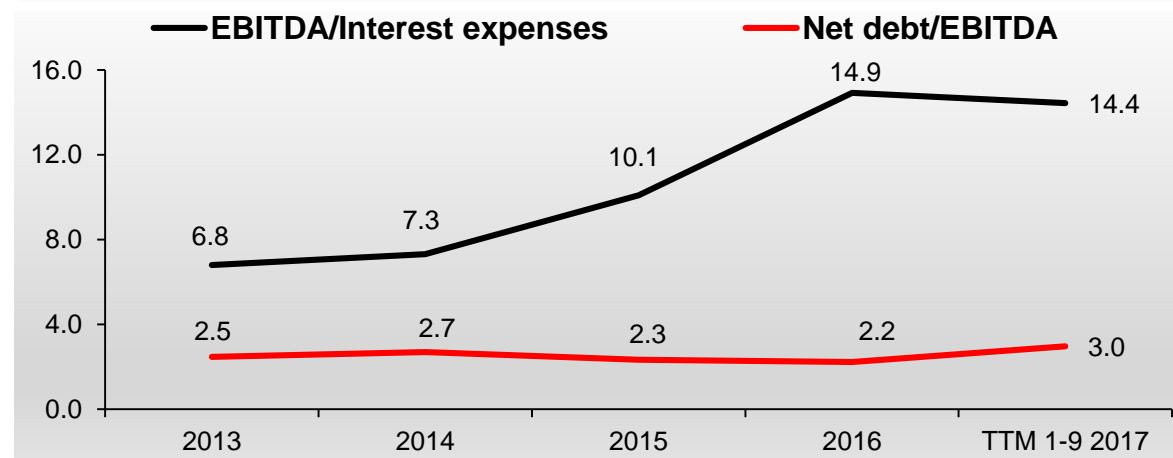
¹2015 figures include Podravka and Žito Group full year figures, excluding consolidation effects and adjusted for Belupo tax incentives impacts.

Positive profitability margins movement¹



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

Sustainable debt level¹



Expansion of pharmaceutical capacities to satisfy international demand

Construction of new pharmaceutical facilities

Project:

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

Project reasoning:

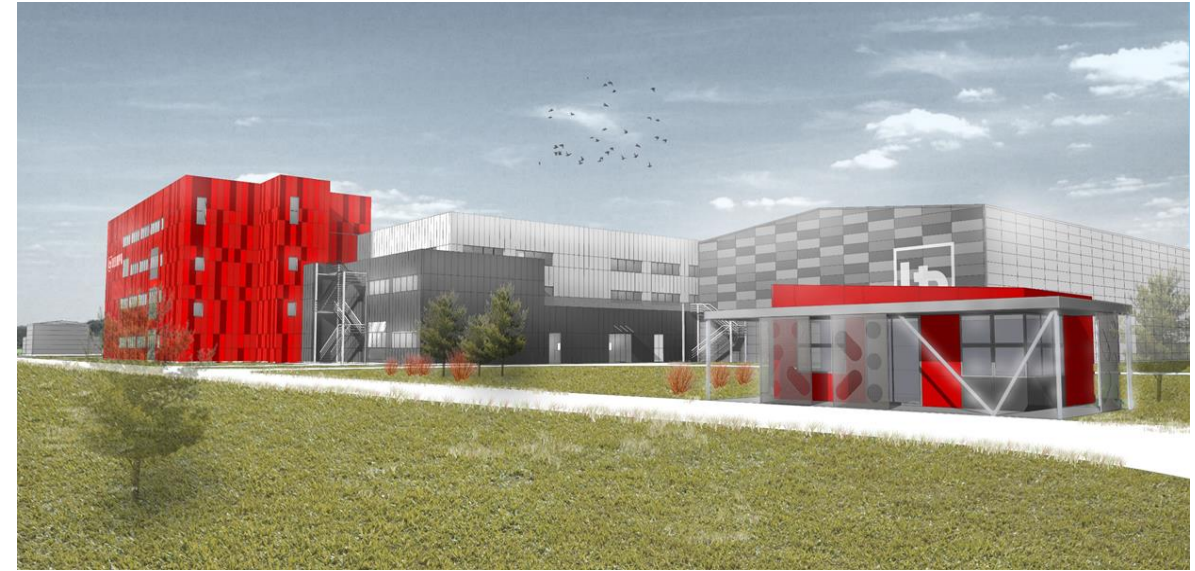
- Insufficient production capacities due to perennial volume growth → capacity increased by 150%,
- Acquiring of new technologies for product differentiation.

Project financing:

- Total value of investment HRK 530 million,
- 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:

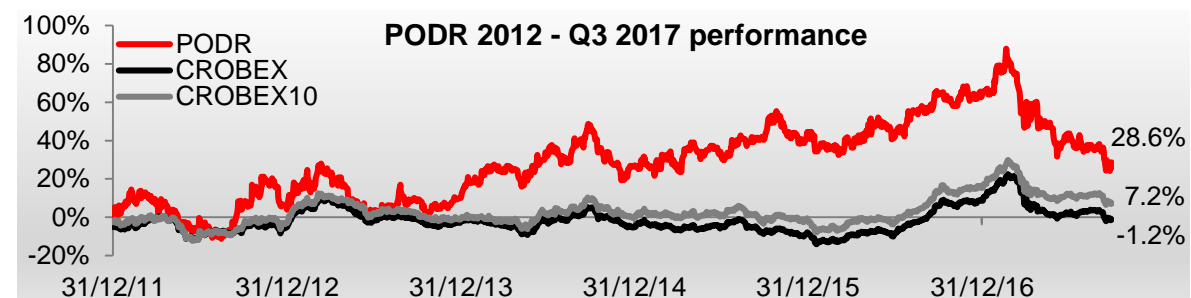
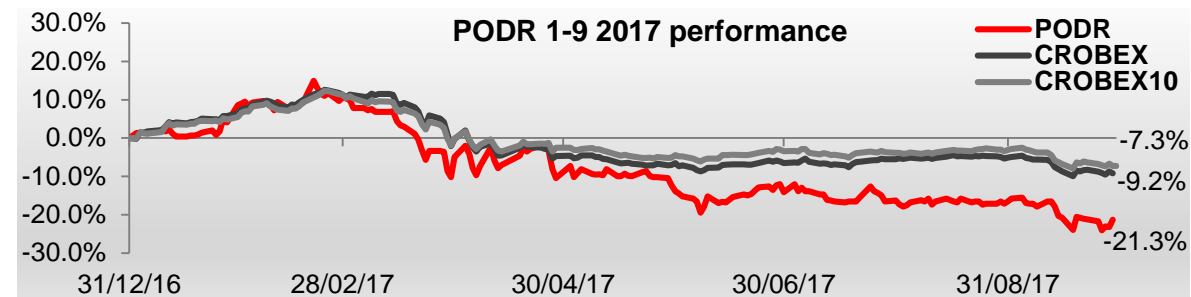
- High speed in obtaining all permits,
- Tax incentives for strategic investments,
- Availability of highly-educated workforce at acceptable cost level,
- Incentives for hiring young workforce,
- Proximity to other Belupo locations.



Podravka's share price movement in 1-9 2017 under the influence of key customer situation

(HRK; units)	1-9 2017	1-9 2017/ 1-9 2016	2016 / 2015	2015 / 2014
Average daily price	362.4	6.1%	9.4%	7.4%
Average daily number of transactions	18	77.7%	(8.9%)	(9.1%)
Average daily volume	1,249	5.3%	(36.0%)	11.3%
Average daily turnover	452,527.8	11.7%	(30.0%)	19.6%
Reported earnings per share	13.6	(48.4%)	(11.2%)	276.9%
Adjusted earnings per share	21.8	(18.9%)	8.2%	31.6%

Analysts	Recommendation	Target price	Potential ¹
InterCapital	Under review	-	n/a
Raiffeisen BANK	Hold	HRK 380.00	26.7%
ERSTE Group	Buy	HRK 370.00	23.3%
UniCredit	Buy	HRK 398.96	33.0%
WOOD & COMPANY	Hold	HRK 376.00	25.3%



Peer group multiples ²	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.2	13.7	19.4	3.7	22.0
Normalized weight. av. peer group ³	1.8	12.9	18.4	2.6	20.6
Podravka Group reported	0.8	8.5	18.3	0.7	22.1
Podravka Group normalized ⁴	0.8	7.6	13.9	0.7	13.8

¹Compared to the last price on 3rd November 2017,

²Obtained from Bloomberg on 9th October 2017,

³Calculated excluding max. and min. values.

⁴Normalized for items stated in the publication of 2016 and 1-9 2017 results.

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

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



The Company

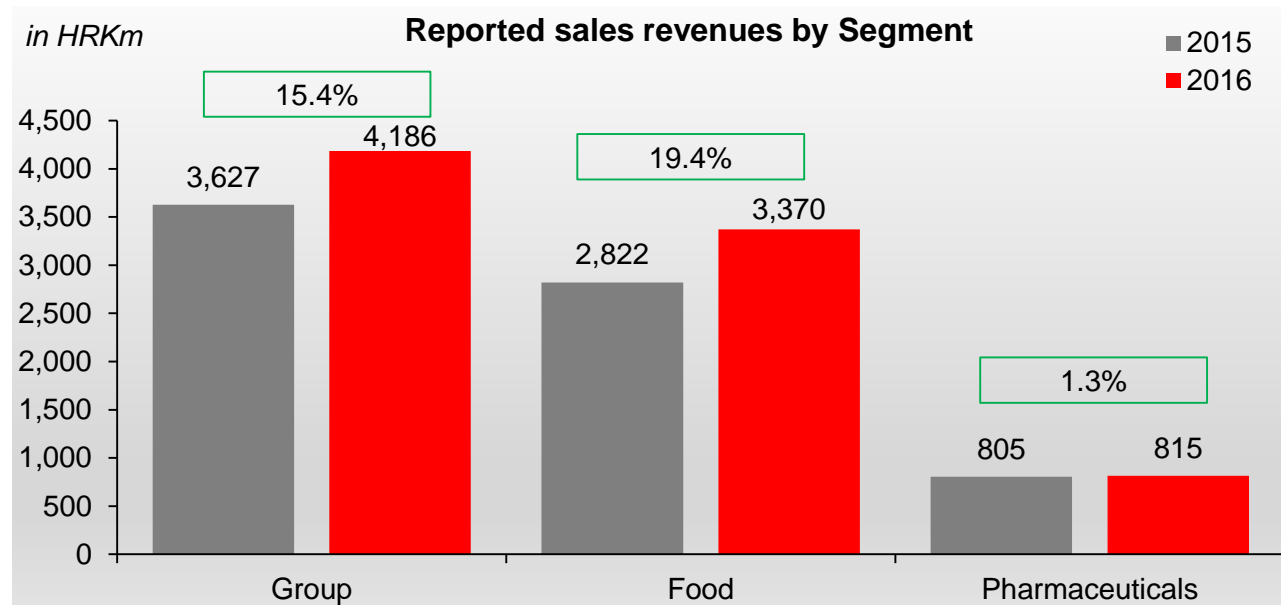
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Growth of own brands despite negative FX differences, negative contribution of other sales



Net impact of foreign exchange (FX) on sales revenues:

HRKm	Own brands	Other sales	Total	Currency	HRKm
Food	(32.9)	(4.7)	(37.6)	RUB	(21.1)
Pharmaceuticals	(15.9)	(0.9)	(16.8)	EUR	(12.9)
Group	(48.8)	(5.6)	(54.4)	Other	(20.4)
				Total	(54.4)

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in 2016 if FX rates had remained on the same levels as in 2015.

Pro-forma Food in 2016¹:

- Own brands** → 0.6% lower sales (+0.6% excl. FX), arising from negative FX differences and negative trends in the movement of key subcategories in the Adria region,
- Other sales** → 5.2% lower sales (-4.3% excl. FX) due to decreased scope of cooperation in the area of private labels,
- Total SBA Food** → 1.3% lower sales (-0.2% excl. FX).

Pharmaceuticals in 2016¹:

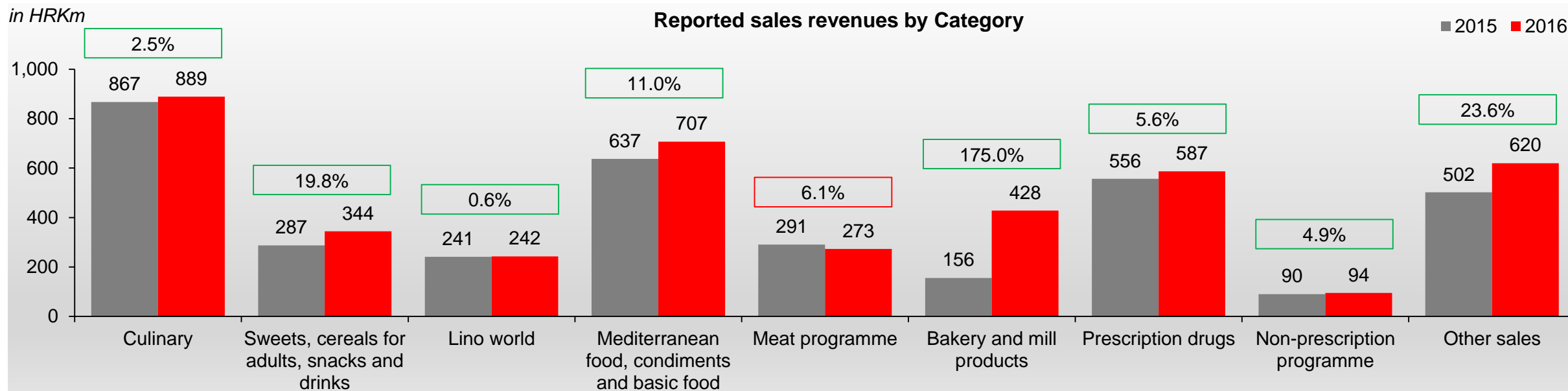
- Own brands** → 5.5% higher sales (+7.9% excl. FX) due to the expansion of the business cooperation in Russia,
- Other sales** → 15.8% lower sales (-15.3% excl. FX) as a result of stronger focus on own brands and consequently lower distribution of trade goods,
- Total SBA Pharmaceuticals** → 1.3% higher sales (+3.4% excl. FX).

Pro-forma Podravka Group in 2016¹:

- Own brands** → 0.5% higher sales (+1.9% excl. FX),
- Other sales** → 7.7% lower sales (-6.9% excl. FX),
- Total Podravka Group** → 0.8% lower sales (+0.5% excl. FX).

¹Percentages in the text relate to performance in 2016 compared to 2015, under assumption that Žito Group has been consolidated from the beginning of 2015.

Prescription drugs category sales growth, lower other sales in pharma and in food on the pro-forma level

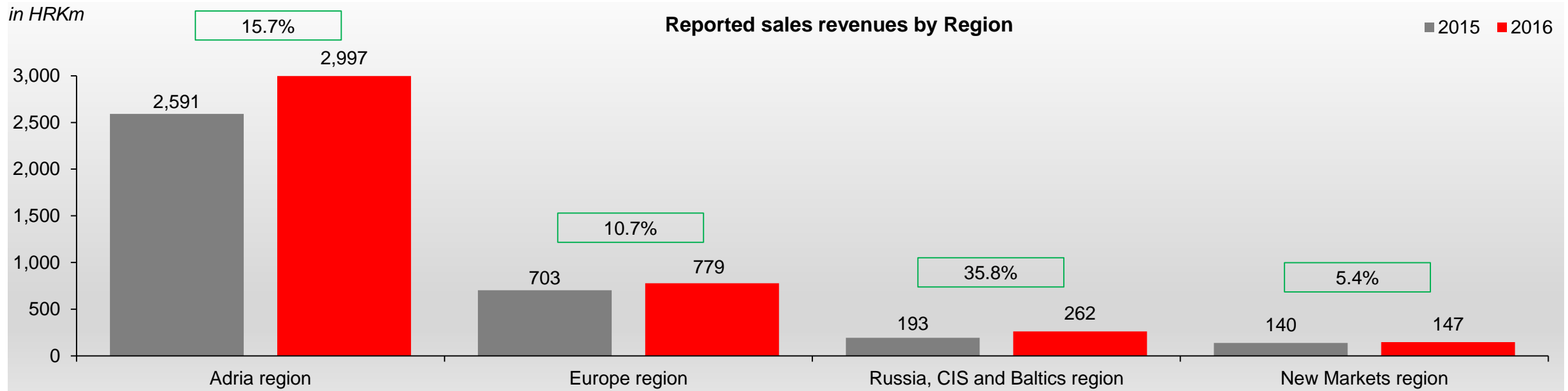


Pro-forma category performance in 2016¹:

- **Culinary (+0.6%; +2.3% excl. FX)** → Seasonings subcategory sales growth in Russia due to successful implementation of new business model, Soups sales growth in Adria region due to stronger activities,
- **Sweets, cereals for adults, snacks and drinks (-1.4%; -0.9% excl. FX)** → lower beverages sales due to decreased marketing support and higher competitors' activities,
- **Lino world (+0.6%; +1.0% excl. FX)** → activities and innovation on the Lino Lada brand in the Croatian market; introduction of baby purees range,
- **Mediterranean food, condiments and core food (-0.7%; +0.4% excl. FX)** → decrease in the overall market of some subcategories and the pressure of competitors and PL-s.
- **Meat programme (-6.1%; -5.7% excl. FX)** → restructuring of the sausage programme that currently reflects in sales revenues drop compared to the previous period,
- **Bakery and mill products (+1.1%; +2.5% excl. FX)** → increased activities in the Slovenian market; extended distribution and product range in European markets,
- **Prescription drugs (+5.6%; +8.1% excl. FX)** → expansion of business cooperation on the Russian market and heart and blood vessels assortment in the B&H market,
- **Non-prescription programme (+4.9%; +6.7% excl. FX)** → expansion of business cooperation in the Russian market and assortment extension in the Slovenian market,
- **Other sales (-7.7%; -6.9% excl. FX)** → lower sales in food and pharma.

¹Percentages in the text relate to performance in 2016 compared to 2015, under assumption that Žito Group has been consolidated from the beginning of 2015.

Decrease in the overall market of some key subcategories in the Adria region, market shares stable or increasing


















Pro-forma region performance in 2016¹:













- **Adria region (-3.2%; -2.5% excl. FX)** → **food** sales lower 3.6% due to the decrease in the overall market of some key subcategories, the restructuring of the meat programme, lower beverages sales and decreased scope of cooperation in the area of PL; **pharma** sales lower 1.8% by the decrease in sales of trade goods, while own brands recorded a sales growth,
- **Europe region (-0.3%; +1.0% excl. FX)** → **food** sales lower 0.2% due to Central Europe lower sales marked by the decrease in the overall market of the Universal seasonings subcategory, which wasn't compensated by Western Europe sales growth; **pharma** sales lower 2.5% due to activities of the existing and new competitors in the Polish market,
- **Russia, CIS and Baltic region (+33.7%; +44.4% excl. FX)** → **food** sales higher 50.6% due to the successful implementation of the new business model that resulted, among other things, with distribution and assortment extension; **pharma** sales higher 20.7% due to expanded business cooperation in the market of Russia,
- **New markets (+2.2%; +3.3% excl. FX)** → **food** sales higher 2.3% as a result of opening new markets at the beginning of 2015, but also as a result of the expansion of the distribution and the Žito product range; **pharma** sales higher 1.6%.

¹Percentages in the text relate to performance in 2016 compared to 2015, under assumption that Žito Group has been consolidated from the beginning of 2015.

Significant pharma profitability improvement due to more stable HRK/RUB FX

2016 (in HRK ¹)	Food reported		Pharmaceuticals		Podravka Group reported	
Sales revenues*	3,370.3	 19.4%	815.2	 1.3%	4,185.5	 15.4%
Gross profit	1,090.8	 13.5%	428.1	 1.0%	1,518.9	 9.7%
EBITDA	317.4	 (14.2%)	152.3	 54.0%	469.6	 0.2%
EBIT	158.2	 (33.4%)	110.7	 132.3%	268.9	 (5.7%)
Net profit after MI	111.3	 (47.0%)	71.1	 (62.0%)	182.4	 (54.1%)

*Reclassification of fees contracted with customers for promotional, marketing and similar activities from MEX to decrease of sales revenues.

2016 (% of sales revenues) ²	Food reported		Pharmaceuticals		Podravka Group reported	
Gross margin	32.4%	 -170 bp	52.5%	 -15 bp	36.3%	 -190 bp
EBITDA margin	9.4%	 -369 bp	18.7%	 +640 bp	11.2%	 -170 bp
EBIT margin	4.7%	 -372 bp	13.6%	 +766 bp	6.4%	 -144 bp
Net margin after MI	3.3%	 -414 bp	8.7%	 -1454 bp	4.4%	 -660 bp

¹Performance in 2016; % of change when compared to 2015; ²% of sales revenues in 2016; basis points change when compared to 2015.

Key highlights in 2016:
















Food reported:

- One-off items: in 2015 EBITDA and EBIT increased by HRK 97.7m and net profit by HRK 102.7m; in 2016 EBITDA increased by HRK 5.9m and EBIT and net profit decreased by HRK 3.4m. Normalized, EBIT would grow 15.6% and net profit by 6.8%,
- Reported and normalized profitability margins were lower as a result of, among other, Žito Group assortment that has lower margins than average Podravka assortment.













Pharmaceuticals:

- One-off items: in 2015 EBITDA and EBIT decreased by HRK 7.8m and net profit increased by HRK 154.6m due to significant impact of deferred tax income. Normalized, EBIT would grow by 99.6% and net profit by 117.8%,
- Normalized profitability margins are higher on all levels.

Podravka Group reported normalized profitability margin growth on all levels

2016 (in HRK ¹)	Pro-forma Food		Pharmaceuticals		Pro-forma Podravka Group	
Sales revenues*	3,370.3	 (1.3%)	815.2	 1.3%	4,185.5	 (0.8%)
Gross profit	1,090.8	 (0.4%)	428.1	 1.0%	1,518.9	 (0.0%)
EBITDA	317.4	 6.5%	152.3	 54.0%	469.6	 18.4%
EBIT	158.2	 15.4%	110.7	 132.3%	268.9	 45.5%
Net profit after MI	111.3	 (2.2%)	71.1	 (62,0%)	182.4	 (39.4%)

*Reclassification of fees contracted with customers for promotional, marketing and similar activities from MEX to decrease of sales revenues.

2016 (% of sales revenues) ²	Pro-forma Food		Pharmaceuticals		Pro-forma Podravka Group	
Gross margin	32.4%	 +27 bp	52.5%	 -15 bp	36.3%	 +27 bp
EBITDA margin	9.4%	 +69 bp	18.7%	 +640 bp	11.2%	 +181 bp
EBIT margin	4.7%	 +68 bp	13.6%	 +766 bp	6.4%	 +204 bp
Net margin after MI	3.3%	 -3 bp	8.7%	 -1454 bp	4.4%	 -278 bp

¹Performance in 2016; % of change when compared to 2015; ²% of sales revenues in 2016; basis points change when compared to 2015.

Key highlights in 2016:







Pro-forma Food:

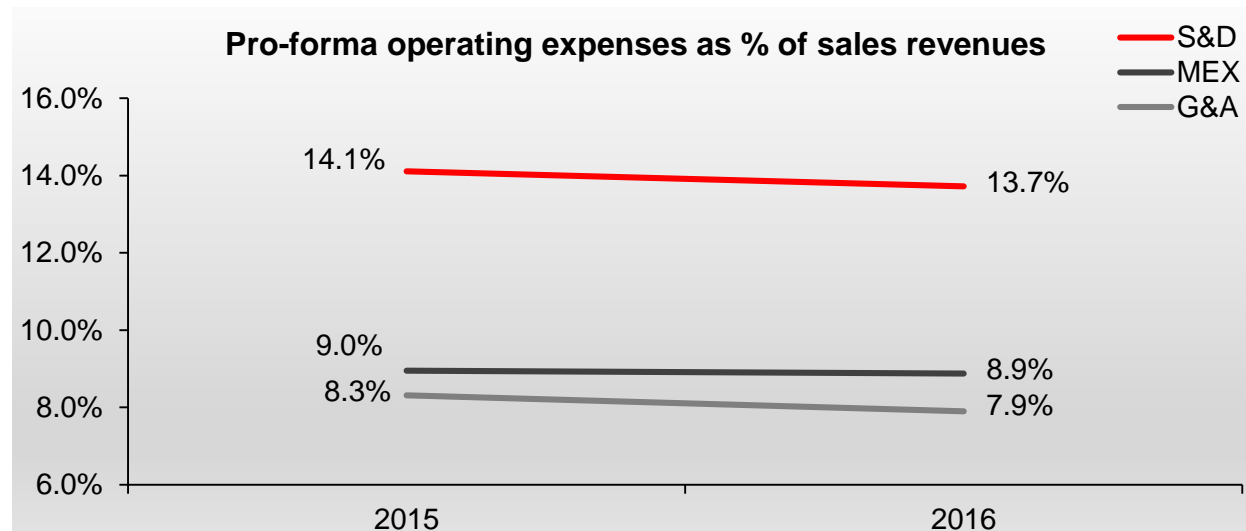
- One-off items: in 2015 EBITDA and EBIT decreased by HRK 18.0m and net profit by HRK 13.0m; in 2016 EBITDA increased by HRK 5.9m and EBIT and net profit decreased by HRK 3.4m. Normalized, EBIT would grow 4.2% and net profit would fall by 9.6%,
- The company utilised in 2015 tax losses carried forward by subsidiaries and consequently had a significantly lower tax liability compared to 2016,
- Reported and normalized profitability margins were mostly higher, except for net profit margin which was a result of lower tax liability in 2015.

Pro-forma Podravka Group:

- Normalized, EBIT would grow 29.3% and net profit would grow 16.5%,
- Normalized profitability margins were higher on all levels.

Positive movement of operating expenses

Operating expenses	2016 / 2015 pro-forma
Cost of goods sold (COGS)	(1.2%) 
General and administrative expenses (G&A)	(5.8%) 
Sales and distribution costs (S&D)	(3.5%) 
Marketing expenses (MEX)	(1.6%) 
Other expenses / sales, net	n/a 
Total	(2.9%) 



Key highlights in 2016 on the pro-forma level:

▪ **Cost of goods sold (COGS):**

- Lower 1.2% due to a decrease in prices of certain raw materials,

▪ **General and administrative expenses (G&A):**

- 2015 was burdened with severance payments and Žito acquisition and integration costs. Excluding severance payments in 2016 and aforementioned impacts in 2015, G&A expenses would grow 6.9% due to, among other things, higher costs related to opening of new markets that were not present in the comparative period,

▪ **Sales and distribution expenses (S&D):**

- Lower 3.5% due to, among other things, synergy effects of Danica merger in Q4 2015,

▪ **Marketing expenses (MEX):**

- Decreased marketing activities in the pharmaceuticals segment in the markets of the CIS due to deteriorating business climate; temporal suspension of planned marketing activities in Western Europe due to distributor change,

▪ **Other expenses / sales, net:**

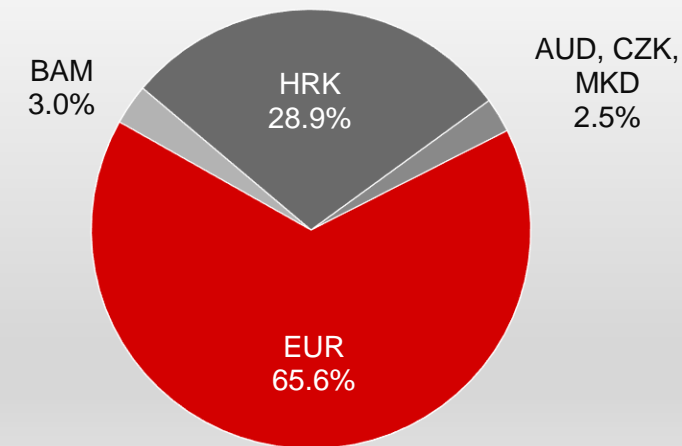
- Includes foreign exchange differences on trade receivables and payables that were positive in 2016 and negative in 2015. Thereby, impact of this OPEX item was positive in 2016 and negative in 2015.

Sustainable level of Podravka Group indebtedness

(u HRK 000) ¹	2016	2015	% change
Net debt	1,041,739	922,380	12.9%
Interest expense	31,216	36,926	(15.5%)
Net debt / EBITDA	2.2	2.0	12.7%
EBITDA / Interest expense	15.0	12.7	18.6%
Equity to total assets ratio	55.4%	56.5%	-109 bb

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

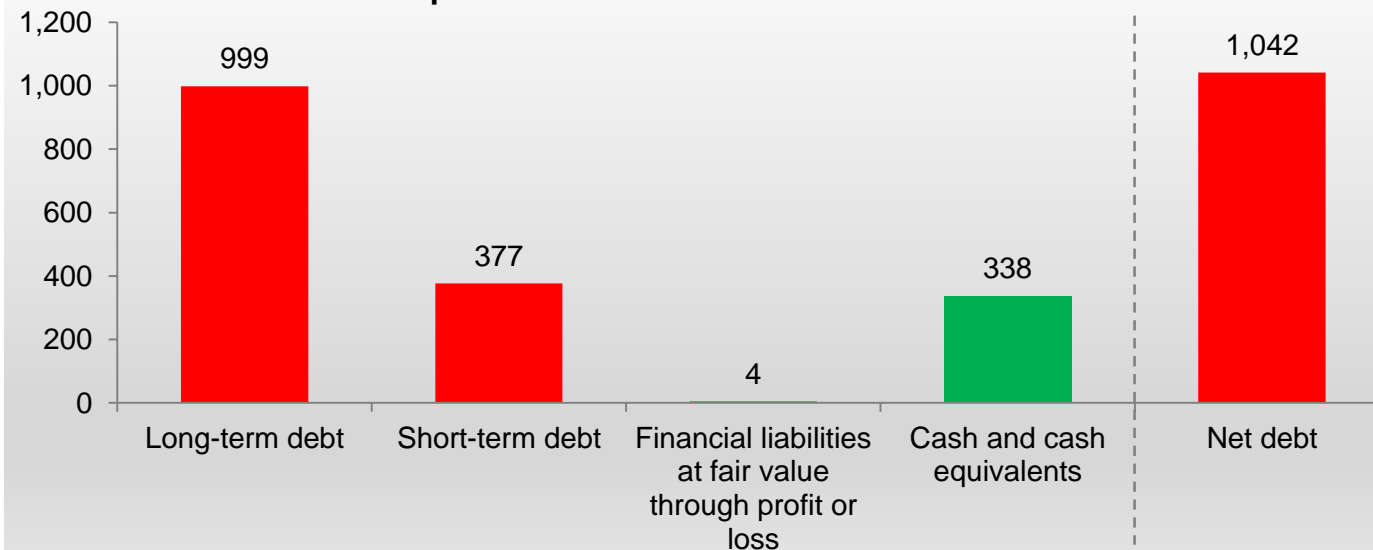
Currency structure of debt as at 31st December 2016






Key highlights:

- Net debt growth → use of long-term borrowings for the purpose of the new pharmaceutical factory construction,
- Lower interest expenses → repayment of a part of borrowings,
- Net debt/EBITDA calculated with the normalized 2015 pro-forma EBITDA is 2.2,
- Weighted average cost of debt:**
 - As at 31 December 2016 → 2.5%,
 - As at 31 December 2013 → 4.3%.

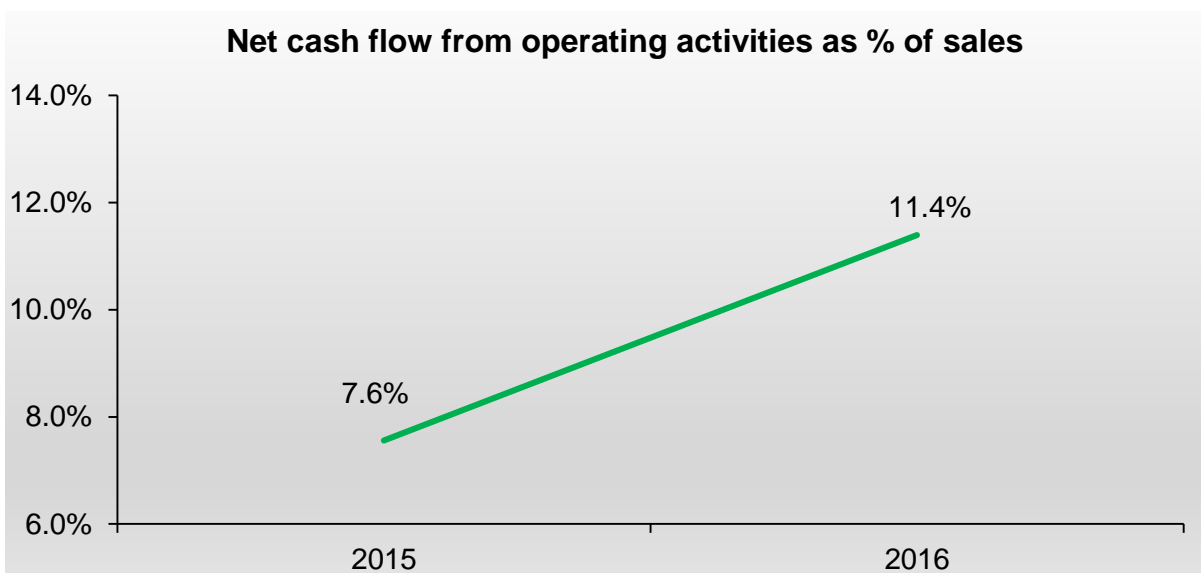
Net debt components in HRK million as at 31st December 2016



Stable level of net cash flow from operating activities

Working capital movement in BS	31 December 2016 / 31 December 2015		Impact
Inventories		(1.3%)	<ul style="list-style-type: none"> Mild inventory decrease of 1.3%, partially as a result of lower prices of certain raw materials.
Trade and other receivables		1.5%	<ul style="list-style-type: none"> Growth of 1.5% while trade receivables grew 2.8% due to, among other, slower dynamics collection of receivables in the Pharmaceuticals segment at the end of 2016 compared to the end of 2015.
Trade and other payables		3.5%	<ul style="list-style-type: none"> Growth of 3.5% while trade payables were at the level of comparative period.

(in HRK thousands)	2016	2015	Δ
Net cash from operating activities	476.7	274.2	202.5
Net cash from investing activities	(358.9)	(675.8)	316.9
Net cash from financing activities	72.1	473.0	(545.1)
Net change of cash and cash equivalents	45.7	71.4	(25.7)





The Company

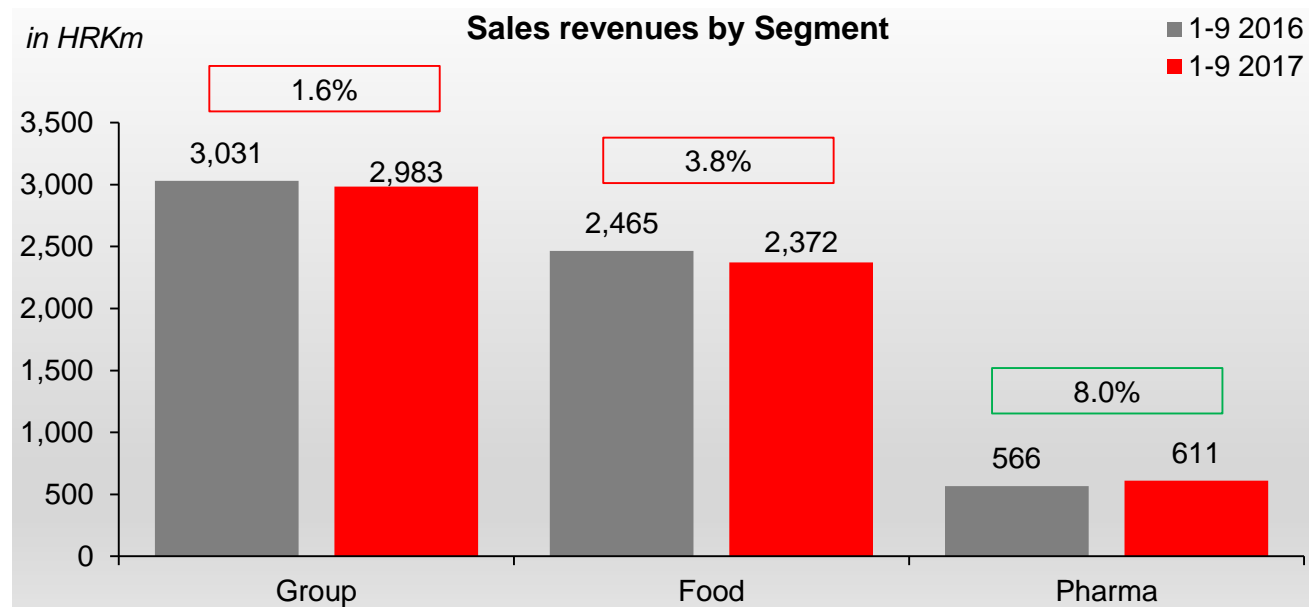
Business

Investment highlights

2016 results

1-9 2017 results

Strong growth of Pharmaceutical segment cushioned lower sales in Food segment



Net foreign exchange (FX) impact on sales revenues:

HRK _m	Own brands	Other sales	Total	Currency	HRK _m
Food	(6.8)	(1.0)	(7.8)	EUR	(14.4)
Pharmaceuticals	12.3	(0.8)	11.5	RUB	22.0
Group	5.5	(1.9)	3.6	Other	(4.0)
				Total	3.6

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in 1-9 2017 if FX rates had remained on the same levels as in 1-9 2016.

Food segment in 1-9 2017¹:

- Own brands** → 4.7% lower sales (-4.4% excl. FX), primarily as a result of Divested beverage segment and lower sales of BP Meat products, meat solutions and savoury spreads realised through participation in tenders,
- Other sales** → 8.9% higher sales (+9.5% excl. FX), primarily due to trade goods sales growth,
- Total Food** → 3.8% lower sales (-3.4 % excl. FX).

Pharmaceuticals segment in 1-9 2017¹:

- Own brands** → 8.7% higher sales (+6.0% excl. FX) due to the extension of the product range and positive effect of foreign exchange differences in the market of Russia,
- Other sales** → 4.7% higher sales (+5.5% excl. FX) due to trade goods sales increase in Deltis Pharm pharmacies,
- Total Pharmaceuticals** → 8.0% higher sales (+5.9% excl. FX).

Podravka Group in 1-9 2017¹:

- Own brands** → 2.5% lower sales (-2.7% excl. FX),
- Other sales** → 7.4% higher sales (+8.1% excl. FX),
- Total Podravka Group** → 1.6% lower sales (-1.7% excl. FX).

¹Percentages in the text relate to performance in 1-9 2017 compared to 1-9 2016.

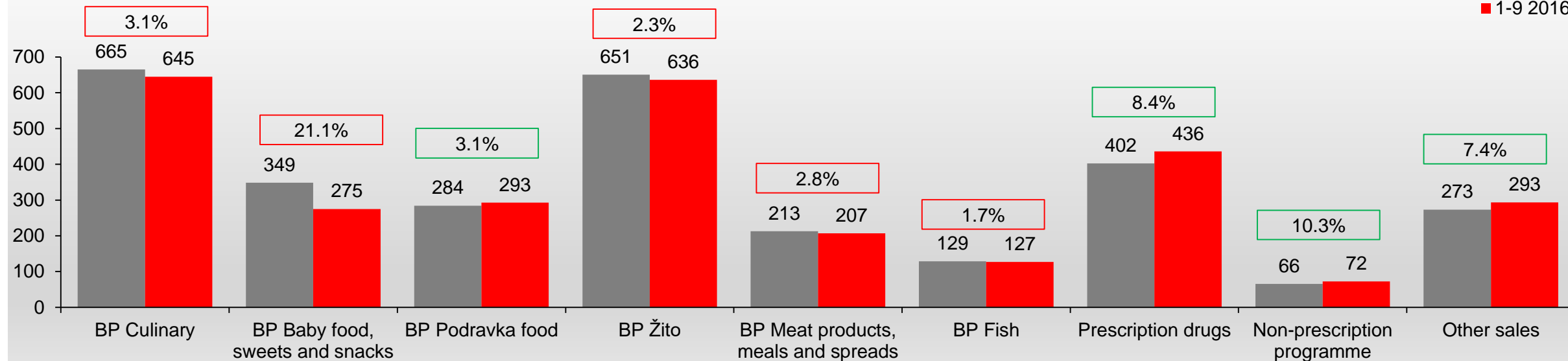
Business programmes facing internal and external challenges

in HRKm

Sales revenues by Business programme and category

■ 1-9 2017

■ 1-9 2016

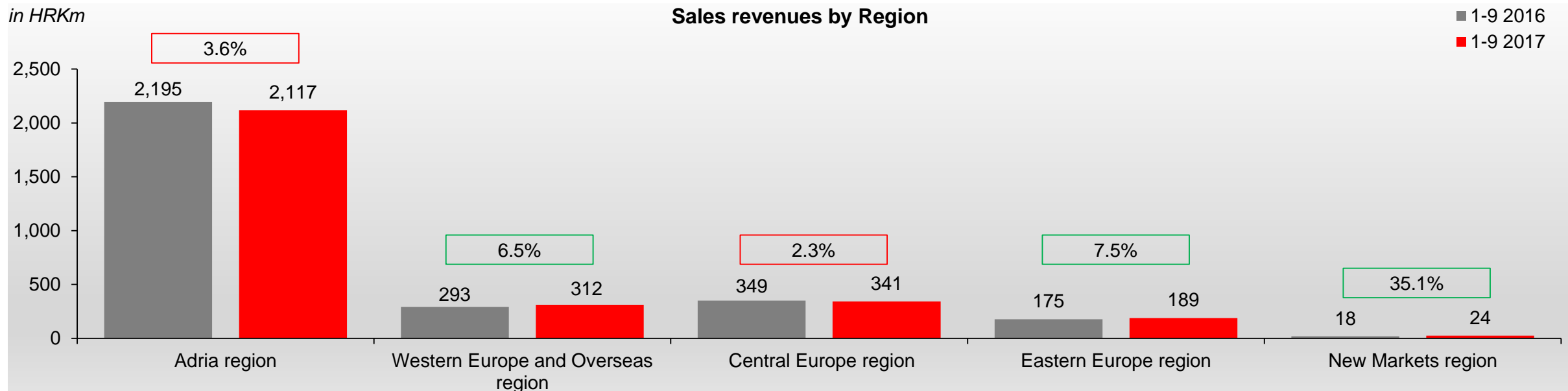


Business programme and category performance in 1-9 2017¹:

- **BP Culinary (-3.1%; -3.5% excl. FX)** → different dynamics of selling and marketing activities in CE, last-year's change of distributor in WE that is still in the process of taking over sales channels and the change of strategy of Podravka's distributor in IE;
- **BP Baby food, sweets and snacks (-21.1%; -20.6% excl. FX)** → impact of divested Beverages segment. Excl. Beverages, sales are 1.4% lower due to lower sales of snack,
- **BP Podravka food (+3.1%; +2.8% excl. FX)** → extended range of vegetables in the Croatian market,
- **BP Žito (-2.3%; -1.1% excl. FX)** → lower sales in Slovenia as a result of absence of sales of a portion of bakery range with the key buyer and aggressive price competition,
- **BP Meat products, meat solutions and savoury spreads (-2.8%; -2.6% excl. FX)** → lower sales realised through participation in tenders,
- **BP Fish (-1.7%; -1.0% excl. FX)** → portion of the range out of stock and absence of private labels orders from partners,
- **Prescription drugs (+8.4%; +5.7% excl. FX)** → revenue growth in the Russian market as a consequence of the product range extension and positive FX effect,
- **Non-prescription programme (+10.3%; +8.0% 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 (+7.4%; +8.1% excl. FX)** → trade goods and private label growth.

¹Percentages in the text relate to performance in 1-9 2017 compared to 1-9 2016.

Developments in the Adria region drive overall company revenues






























Region performance in 1-9 2017¹:

- **Adria (-3.6%; -2.8% excl. FX)** → **food** sales 5.2% lower due to: i) the absence of divested Beverage sales, ii) lower sales in Slovenia as a result of absence of sales of a portion of bakery range with the key buyer and aggressive price competition, iii) lower sales in BP Meat products realised through participation in tenders; **pharmaceuticals** sales 3.1% higher with all categories recording sales growth,
- **Western Europe and Overseas (+6.5%; +6.6% excl. FX)** → **food** sales 6.1% higher due to the extension of the product range and distribution of the BP Žito and from trade goods sales growth; **pharmaceuticals** sales records a mild revenue growth in the market of Germany,
- **Central Europe (-2.3%, -2.2% excl. FX)** → **food** sales 3.7% lower due to different dynamics of selling and marketing activities; **pharmaceuticals** sales 9.1% higher due to growth in markets of Poland and Czech Republic,
- **Eastern Europe (+7.5%, -5.1% excl. FX)** → **food** sales 12.6% lower due to change of the strategy of Podravka's distributor resulting in temporary delisting of portion of culinary product range from retail chains; **pharmaceuticals** sales rose 29.8% due to extension of product range and positive foreign exchange differences,
- **New markets (+35.1%; +36.2% excl. FX)** → **food** sales 35.6% higher due to sales growth in Culinary category and in trade goods of the company Lagris; **pharmaceuticals** sales 34.1% higher due to Prescription drugs category growth in the market of Turkey.

¹Percentages in the text relate to performance in 1-9 2017 compared to 1-9 2016.

Food sales revenues dynamics impacted Food segment and overall Group profitability

1-9 2017 (in HRKm) ¹	Food	Pharmaceuticals	Podravka Group
Sales revenues	2,372.4  (3.8%)	610.8  8.0%	2,983.1  (1.6%)
Gross profit	755.2  (6.8%)	304.2  3.6%	1,059.4  (4.0%)
EBITDA	170.0  (28.6%)	84.3  (15.1%)	254.4  (24.6%)
EBIT	60.1  (54.8%)	50.4  (26.0%)	110.5  (45.1%)
Net profit after MI	20.8  (79.0%)	33.3  (22.7%)	54.1  (62.0%)

1-9 2017 (% of sales revenues) ²	Food	Pharmaceuticals	Podravka Group
Gross margin	31.8%  -104 bp	49.8%  -212 bp	35.5%  -91 bp
EBITDA margin	7.2%  -249bp	13.8%  -375 bp	8.5%  -260 bp
EBIT margin	2.5%  -286 bp	8.3%  -379 bp	3.7%  -293 bp
Net margin after MI	0.9%  -314 bp	5.5%  -217 bp	1.8%  -288 bp

Key highlights in 1-9 2017:

Food:







- Lower gross profit is primarily a result of lower sales and the changed sales mix structure that weren't completely compensated by lower COGS,
- Other profitability levels were additionally impacted by higher expenses of exercised share options, higher costs of termination benefits and the absence of income from leaseback,
- Increase in net finance cost as a result of foreign exchange losses on borrowings.

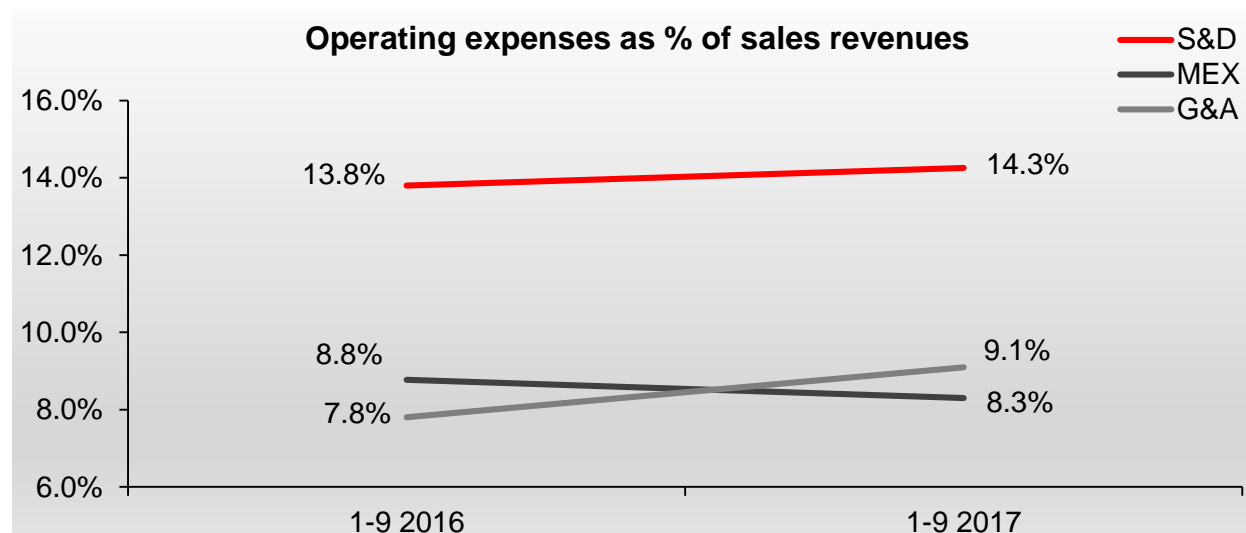
Pharmaceuticals:

- Gross profit growth, but lower gross margin due to COGS growth related to the additional fixed costs of new factory,
- Other profitability levels were additionally impacted by higher costs of termination benefits and FX losses on trade receivables and trade payables. Positive impact came from FX gains on borrowings and lower tax liability.

¹Performance in 1-9 2017; % of change when compared to 1-9 2016; ²% of sales revenues in 1-9 2017; basis points change when compared to 1-9 2016.

Lower total operating expenses under the influence of lower COGS

Operating expenses	1-9 2017 / 1-9 2016
Cost of goods sold (COGS)	(0.2%) 
General and administrative expenses (G&A)	14.8% 
Sales and distribution costs (S&D)	1.6% 
Marketing expenses (MEX)	(6.8%) 
Other expenses / revenues, net	(125.3%) 
Total	1.5% 



Key highlights in 1-9 2017:

Cost of goods sold (COGS):

- Lower 0.2% primarily as a result of lower sales in the Food segment,

General and administrative expenses (G&A):

- Higher 14.8% than in the comparative period primarily due to the costs of a larger number of exercised share options (Δ HRK +7.9 mil.) and higher costs of termination benefits (Δ HRK +22.4 mil.) than in the comparative period. Excl. costs of exercised share options and termination benefits, G&A grew 2.0%,

Sales and distribution expenses (S&D):

- Higher 1.6% due to, among other, higher costs related to previous periods,

Marketing expenses (MEX):

- Lower 6.8% as a result of lower marketing expenses in the Food segment (fewer activities and time shift of activities), while the Pharma segment recorded an increase in marketing expenses, primarily in the market of Russia,

Other expenses / revenues, net:

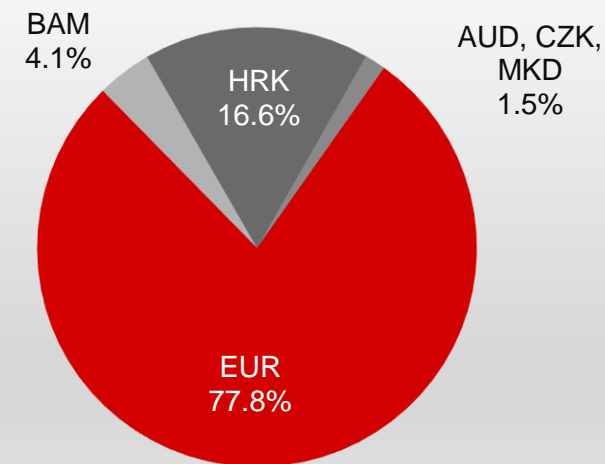
- Item includes FX differences from trade receivables and trade payables that were negative in 1-9 2017, while in 1-9 2016 they were positive. In 1-9 2017, other income and expenses amounted to negative HRK 4.5 mil., while in the comparative period they amounted to positive HRK 17.8 mil.

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

(in HRK 000) ¹	1-9 2017	2016	% change
Net debt	1,147,771	1,041,740	10.2%
Interest expense	26,766	31,477	(15.0%)
Net debt / EBITDA	3.0	2.2	33.8%
EBITDA / Interest expense	14.4	14.9	(3.2%)
Equity to total assets ratio	57.7%	55.4%	+232 bp

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

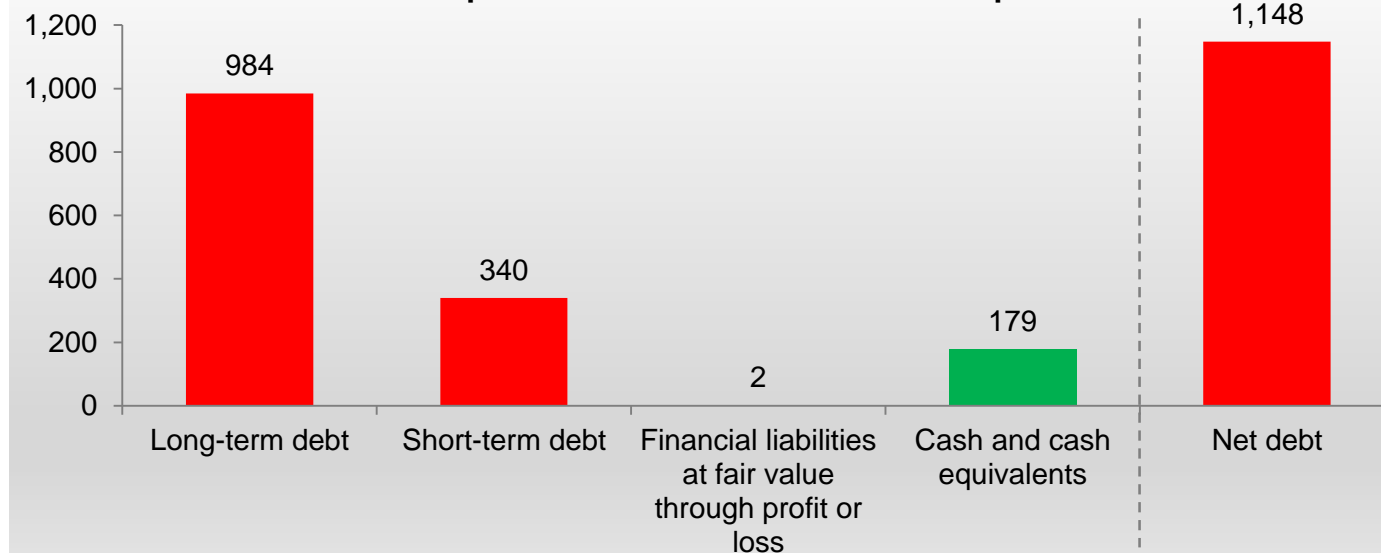
Currency structure of debt as at 30 September 2017






Key highlights:

- Net debt growth → lower level of cash and cash equivalents,
- Lower interest expenses → repayment of a part of borrowings,
- Net debt/EBITDA growth due to net debt growth and lower TTM EBITDA,
- **Weighted average cost of debt:**
 - As at 30 September 2017 → 2.0%,
 - As at 31 December 2013 → 4.3%.

Net debt components in HRK million as at 30 September 2017



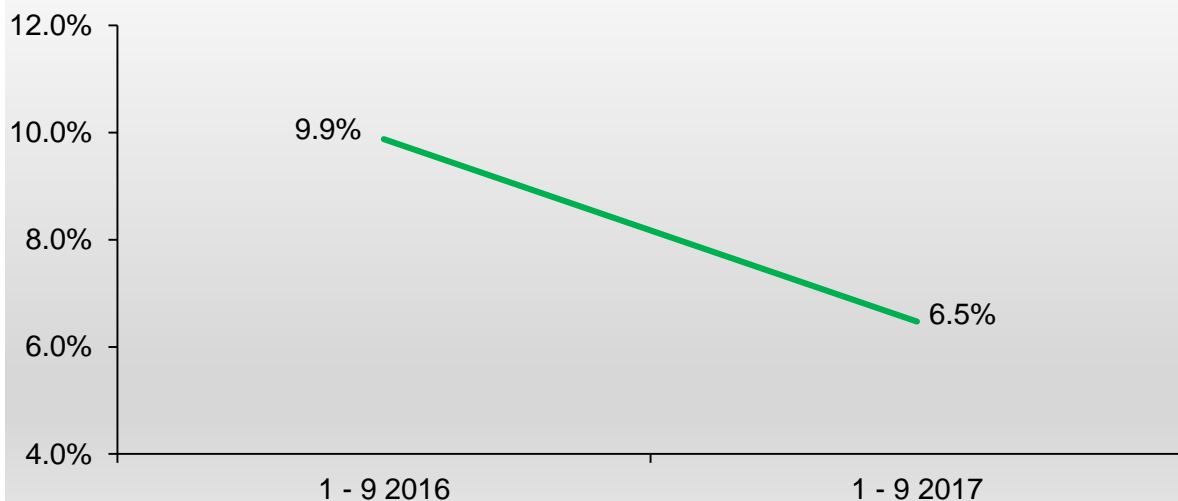
Dynamics of operating activities impacted the level of cash from operating activities

Working capital movement in BS	30 September 2017 / 30 September 2016		Impact
Inventories		0.5%	<ul style="list-style-type: none"> Slightly, by HRK 4.5 million, higher compared to 30 September 2016.
Trade and other receivables		(5.3%)	<ul style="list-style-type: none"> Better collection in the Pharmaceuticals segment in the domestic and foreign markets.
Trade and other payables		(6.0%)	<ul style="list-style-type: none"> In the comparative period a liability for recourse right on bills of exchange was added, which was in the meantime purchased by Podravka Inc. Without this liability, payables are 3.0% lower partly due to settlement of a portion of trade payables for the construction of the new pharmaceuticals factory.

<i>(in HRK thousands)</i>	1-9 2017	1-9 2016	Δ
Net cash from operating activities	193.1	299.3	(106.2)
Net cash from investing activities	(170.6)	(387.8)	217.2
Net cash from financing activities	(181.5)	16.0	(197.5)
Net change of cash and cash equivalents	(159.0)	(72.4)	(86.5)

- **CAPEX** in 2017 is expected to be at the level of HRK 250 - 250m, in 2018 at the level of HRK 250 - 300m, and in 2019 and 2020 at the level of HRK 200 - 250m.

Net cash flow from operating activities as % of sales



Contact

Podravka d.d.

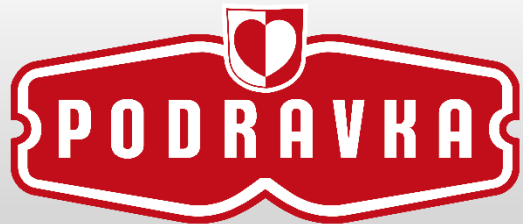
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Podravka Group

Always with a heart!

Belgrade Stock Exchange Investor Conference, Belgrade, 7th November 2017

