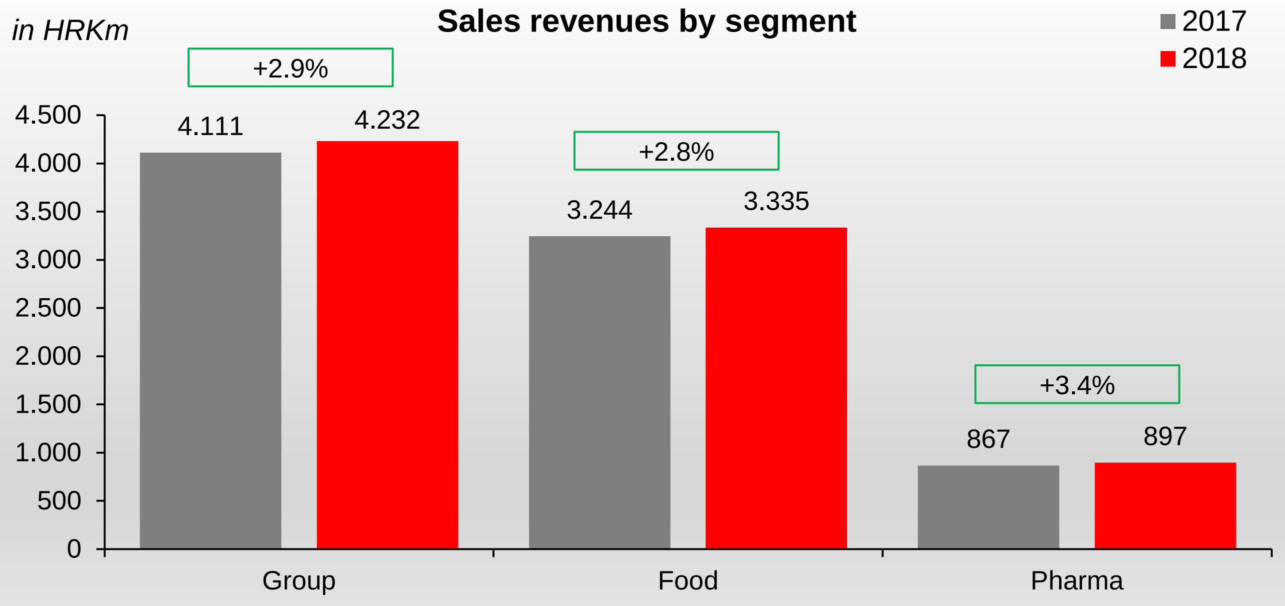
Podravka Group business results for 1-12 2018 period

Own brands records significant organic growth of 3.4%



Net foreign exchange (FX) impact on sales revenues:

HRKm	Own brands	Other sales	Total
Food	(26)	1	(25)
Pharmaceuticals	(25)	(1)	(26)
Group	(51)	0	(51)

Currency	*HRKm*
RUB	(33)
EUR	(8)
Other	(10)
Total	(51)

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

Food segment in 2018:

- **Own brands** → 3.6% higher sales (+4.4% excl. FX), primarily due to the continued growth in sales of business units Žito and Lagris, Baby food, sweets and snacks and Culinary, as a result of increased selling and marketing activities, launching of new products and expanded distribution of certain categories,
- **Other sales** → 5.7% lower sales (-5.9% excl. FX), as a result of lower sales of trade goods in the Croatian market,
- **Total Food** → 2.8% higher sales (+3.6% excl. FX).

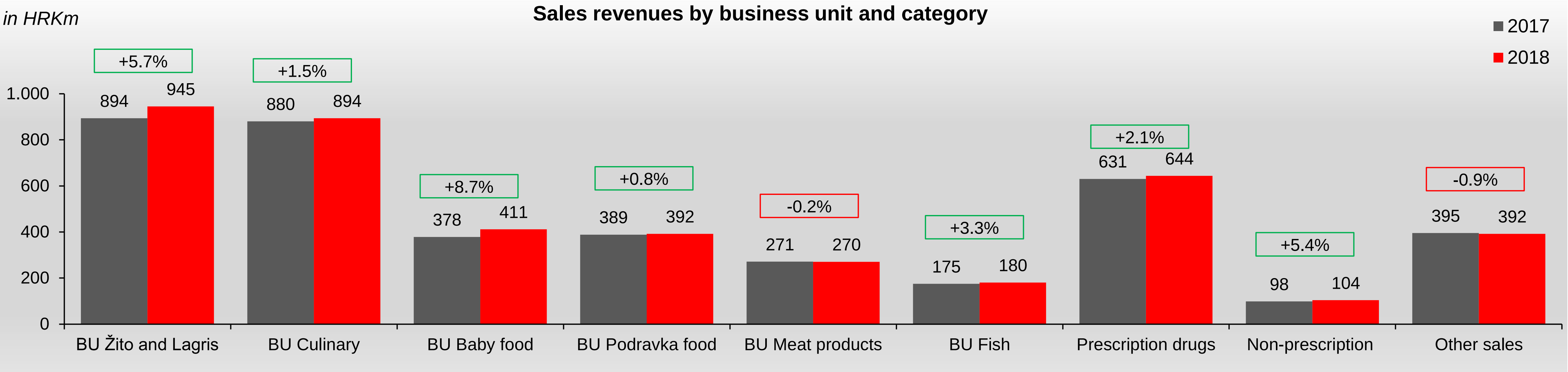
Pharmaceuticals segment in 2018:

- **Own brands** → 2.5% higher sales (+5.9% excl. FX), primarily due to the continued trend of the increased demand in the Russian market and the expanded distribution on the markets of the Central Europe,
- **Other sales** → 8.0% higher sales (+8.5% excl. FX) as a result of higher sales of trade goods in the Farmavita company due to strategic focus on the more profitable trade goods range,
- **Total Pharmaceuticals** → 3.4% higher sales (+6.4% excl. FX).

Podravka Group in 2018:

- **Own brands** → 3.4% higher sales (+4.7% excl. FX),
- **Other sales** → 0.9% lower sales (-0.9% excl. FX),
- **Total Podravka Group** → 2.9% higher sales (+4.2% excl. FX).

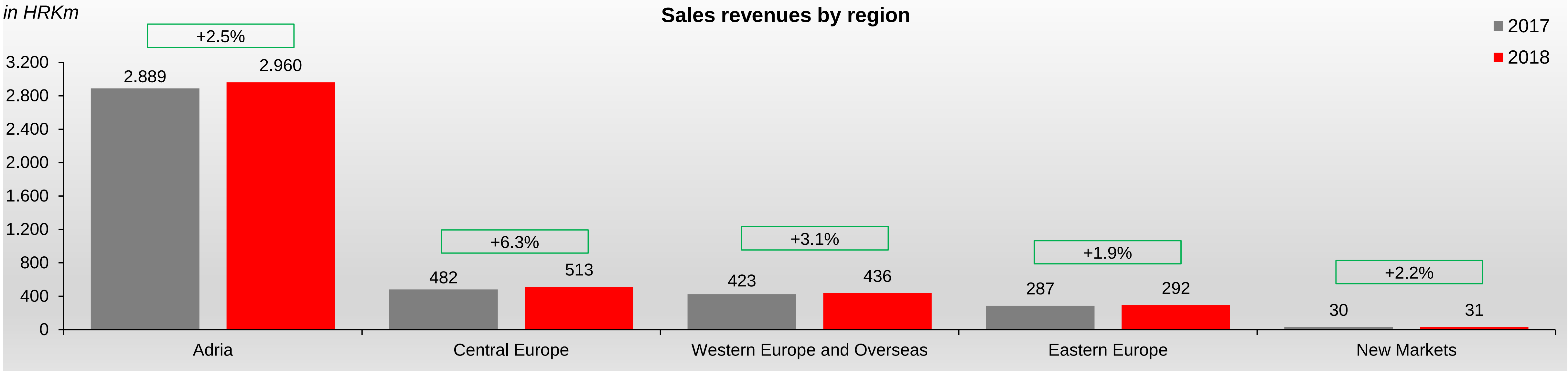
Supporting growth through innovation and effective marketing activities



Business unit and category performance in 2018:

- **BU Žito and Lagris (+5.7%; +6.4% excl. FX)** → continuous growth in the Bakery and mill products in the market of Slovenia and markets of Western Europe as well as growth of Core food category in markets of Central Europe,
- **BU Culinary (+1.5%; +3.1% excl. FX)** → sales growth in most regions primarily driven by Soups and Bouillons, due to optimum mix of selling and marketing activities,
- **BU Baby food, sweets and snacks (+8.7%; +9.0% excl. FX)** → sales growth due to stronger marketing activities in categories Creamy spreads, Baby food and Snacks in the market of Croatia; new and innovated products of the Lino Lada brand continue to drive growth in the Creamy spreads category,
- **BU Podravka food (+0.8%; +1.9% excl. FX)** → higher sales due to selling and marketing activities and expanded distribution in the Condiments, Tomato and Flour categories,
- **BU Meat products, meat solutions and savoury spreads (-0.2%; +0.3% excl. FX)** → lower sales resulting from different dynamics of selling and marketing activities in market of Croatia and change of distributor in the DACH region,
- **BU Fish (+3.3%; +3.2% excl. FX)** → higher sales primarily due to stronger selling and marketing activities in the Adria region market,
- **Prescription drugs (+2.1%; +5.6% excl. FX)** → the most significant growth in the markets of the Eastern Europe region due to the continued trend of higher demand, and in the markets of the Central Europe region as a result of the expanded distribution,
- **Non-prescription programme (+5.4%; +7.9% excl. FX)** → higher sales as a consequence of the growth in the OTC drugs subcategory in the market of Bosnia and Herzegovina due to increased focus on the non-prescription programme, and in the market of Russia,
- **Other sales (-0.9%; -0.9% excl. FX)** → lower trade goods sales revenues in the Food segment on the Croatian market.

Most significant growth came from traditional markets



Region performance in 2018:

- **Adria (+2.5%; +2.8% excl. FX) → food** sales 2.6% higher driven by sales growth in all business units, primarily as the result of new and innovated products as well as selling and marketing activities; **pharmaceuticals** sales 1.9% higher due to organic growth and increase in other sales related to the more profitable part of trade goods range,
- **Central Europe (+6.3%, +6.7% excl. FX) → food** sales 5.6% higher with the most significant impact on the Food segment came from the Culinary business unit and from the Žito and Lagris business unit as a result of the extended product range; **pharmaceuticals** sales rose 11.7% due to the increased demand and launching new products in the markets of Poland, the Czech Republic and Slovakia,
- **Western Europe and Overseas (+3.1%; +4.6% excl. FX) → food** sales 3.3% 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. This compensated for a mild decrease in the **pharmaceuticals** segment revenues,
- **Eastern Europe (+1.9%, +13.5% excl. FX) → food** sales 5.1% lower mainly as a result of the unfavourable effect of foreign exchange differences, while in the **pharmaceuticals** segment the increased demand for the Prescription drugs category annulled the unfavorable effect of foreign exchange differences and led to a 6.2% revenue growth,
- **New markets (+2.2%; +2.7% excl. FX) →** decrease in the revenues of the **food** segment came from lower sales of the Lagris company trade goods in the Asian market, which was compensated by the increase in sales of the **pharmaceuticals** segment.

Food profitability is a result of favorable sales structure and efficient cost management

Food segment	REPORTED				NORMALIZED[1]			
(in HRKm)	2017	2018	Δ	%	2017	2018	Δ	%
Sales revenue	3,243	3,335	92	2.8%	3,244	3,335	92	2.8%
Gross profit	1,039	1,111	71	6.9%	1,058	1,112	54	5.1%
EBITDA	243	323	80	32.7%	277	317	40	14.4%
EBIT	8	173	165	1,982.4%	134	180	46	34.3%
Net profit after MI	(30)	145	175	589.7%	83	150	67	80.6%
Gross margin	32.0%	33.3%		+126 bp	32.6%	33.3%		+74 bp
EBITDA margin	7.5%	9.7%		+218 bp	8.6%	9.5%		+97 bp
EBIT margin	0.3%	5.2%		+494 bp	4.1%	5.4%		+127 bp
Net profit margin after MI	(0.9%)	4.3%		+526 bp	2.6%	4.5%		+194 bp

<u>Food segment profitability in 2018:</u>

- **Normalized gross profit** → higher HRK 54m as a consequence of higher sales revenues and favourable sales structure,
- **Normalized EBIT** → higher HRK 46m, as a result of increase in sales of profitable categories and lower operating expenses such as: i) changed business model in the MENA markets, ii) terminated business activities in the market of Tanzania, iii) lower share option expenses (HRK 1m in 2018; HRK 12m in 2017). Decrease in operating expenses enabled higher marketing investments in own brands,
- **Normalized net profit after MI** → higher HRK 67m due to, apart from aforementioned, lower interest expense and positive FX effects on borrowings, compensating for higher tax expenses.

One-off impacts in HRKm	2017	2018
Severance payments	(31)	(5)
Other (expenses)/revenues above EBIT	(6)	(6)
Value adjustments (expenses)/revenues	(89)	4
ESOP financial expenses	(3)	(2)
Estimated impact on taxes	16	4

[1]Normalized for one-off impacts, the analysis of the obtained normalised result is provided on slide 28.

Profitability improvement despite negative FX impact

Pharmaceuticals segment	REPORTED				NORMALIZED[1]			
(in HRKm)	2017	2018	Δ	%	2017	2018	Δ	%
Sales revenue	867	897	29	3.4%	867	897	29	3.4%
Gross profit	445	448	3	0.7%	470	452	(18)	(3.8%)
EBITDA	131	141	10	7.6%	157	147	(10)	(6.6%)
EBIT	83	85	2	2.9%	117	91	(25)	(21.8%)
Net profit after MI	48	61	13	26.7%	83	66	(16)	(19.7%)
Gross margin	51.3%	49.9%		-136 bp	54.2%	50.4%		-378 bp
EBITDA margin	15.1%	15.7%		+62 bp	18.1%	16.4%		-176 bp
EBIT margin	9.5%	9.5%		-5 bp	13.5%	10.2%		-328 bp
Net profit margin after MI	5.5%	6.8%		+125 bp	9.5%	7.4%		-213 bp

Pharmaceutical segment profitability in 2018:

- **Normalized gross profit** → lower 4%, while without unabsorbed costs of the new factory would grow 0.5% due to higher sales revenues and positive impact of the sales structure itself,
- **Normalized EBIT** → lower HRK 25m, but lower HRK 5m without unabsorbed costs of the new factory costs in both periods. In addition to the effects above EBIT level, an additional impact came from foreign exchange differences on trade receivables and payables (HRK -13m in 2018; HRK -7m in 2017) and recorded revenue from released provisions for trade receivables in 2017, which are significantly lower in 2018,
- **Normalized net profit after MI** → lower HRK 16m, but higher HRK 4m without a portion of new factory costs in both periods. An additional positive effect came from lower interest expense, positive effects of foreign exchange differences on borrowings and lower tax expenses.

One-off impacts in HRKm	2017	2018
Value adjustments (expenses)/revenues	-	(5)
New Belupo factory expenses + dep.	(25)	-
Severance payments	(9)	(1)
ESOP financial expenses	(1)	(0)
Estimated impact on taxes	-	1

[1]Normalized for one-off impacts, the analysis of the obtained normalised result is provided on slide 28.

Group profitability improvement as result of sustainable organic growth with increased cost discipline

Podravka Group	REPORTED				NORMALIZED[1]			
(in HRKm)	**2017**	**2018**	**Δ**	**%**	**2017**	**2018**	**Δ**	**%**
Sales revenue	4,111	4,232	121	2.9%	4,111	4,232	121	2.9%
Gross profit	1,484	1,558	74	5.0%	1,528	1,565	36	2.4%
EBITDA	374	464	90	24.0%	435	465	30	6.8%
EBIT	91	258	167	183.8%	251	272	21	8.3%
Net profit after MI	18	206	187	1,027.2%	166	216	51	30.6%
Gross margin	36.1%	36.8%		+72 bp	37.2%	37.0%		-20 bp
EBITDA margin	9.1%	11.0%		+186 bp	10.6%	11.0%		+40 bp
EBIT margin	2.2%	6.1%		+389 bp	6.1%	6.4%		+32 bp
Net profit margin after MI	0.4%	4.9%		+442 bp	4.0%	5.1%		+108 bp

Group profitability in 2018:

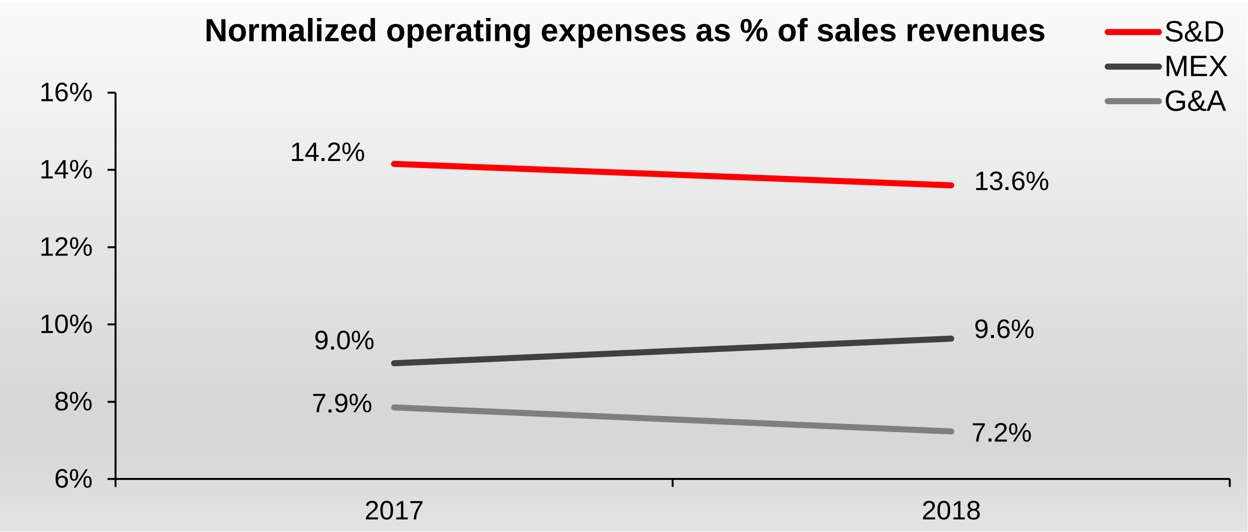
- **Normalized gross profit** → higher 2.4%, while without unabsorbed costs of the new factory in both periods would grow by +3.7% due to higher sales revenues and positive impact of sales structure itself,
- **Normalized EBIT** → higher HRK 21m, while without unabsorbed costs of the new factory in both periods it would be HRK 41 million higher as an additional consequence of i) the absence of share option expense, ii) lower selling and distribution cost and iii) higher marketing expenses,
- **Normalized net profit after MI** → higher HRK 51m, while without unabsorbed costs of the new factory in both periods it would be HRK 72 million higher as a result of, apart from aforementioned, lower interest cost and foreign exchange gains on borrowings.

One-off impacts in HRKm	2017	2018
Severance payments	(40)	(6)
New Belupo factory expenses + D	(25)	-
Other (expenses)/revenues above EBIT	(6)	(6)
Value adjustments (expenses)/revenues	(89)	(1)
ESOP financial expenses	(4)	(2)
Estimated impact on taxes	16	5

[1]Normalized for one-off impacts, the analysis of the obtained normalised result is provided on slide 28.

Lower operating expenses as % of sales revenues

Operating expenses 18 vs. 17 % change	REPORTED	NORMALIZED[1]
Cost of goods sold (COGS)	1.8%	2.5%
General and administrative expenses (G&A)	(15.5%)	(5.2%)
Sales and distribution costs (S&D)	(9.6%)	(1.1%)
Marketing expenses (MEX)	10.3%	10.3%
Other expenses / revenues, net	(53.7%)	24.5%
Total	**(13.3%)**	**6.2%**



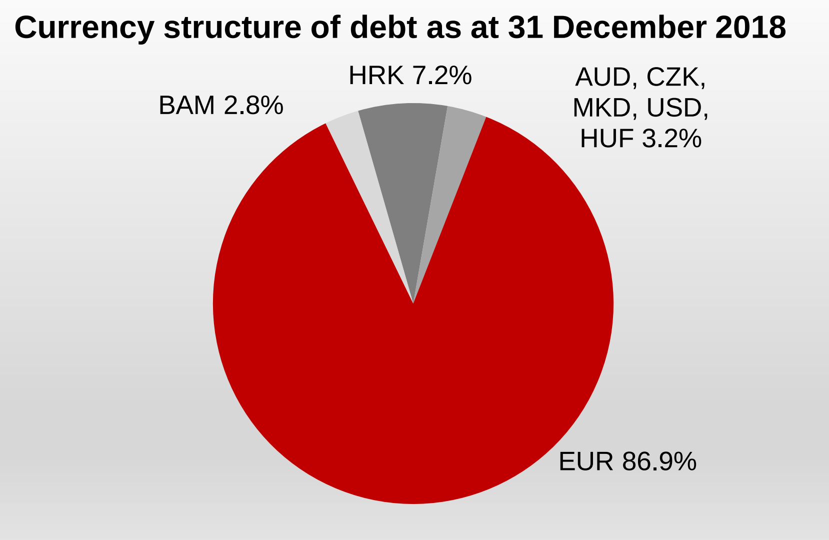
[1]Normalized for one-off impacts.

Key highlights of normalized operating expenses in 2018:

- **Cost of goods sold (COGS):**
  - Higher 1.8%, while at the normalised level and without unabsorbed costs of the new factory in both periods it would be 2.5% higher due to higher sales in and sales structure itself,
- **General and administrative expenses (G&A):**
  - Lower 15.5% due to lower costs of termination benefits. At the normalised level, G&A expenses are 5.2% lower due to termination of operations in market of Tanzania at the end of 2017 and lower share option expenses (HRK 2m in 2018; HRK 13m in 2017),
- **Sales and distribution expenses (S&D):**
  - Lower 9.6% as a result of significant impairment of receivables from the Agrokor companies that were charged in 2017. At the normalised level, S&D costs are 1.1% lower due to: i) changed business model in the MENA markets ii) terminated business activities in the market of Tanzania and iii) lower amortisation costs as a result of HRK 3m of distribution rights amortisation costs in 2017 that are not present in 2018,
- **Marketing expenses (MEX):**
  - Growth of 10.3% mainly as a result of higher marketing activities in both business segments,
- **Other expenses / revenues, net:**
  - In 2018, other income and expenses amounted to HRK -12m, while in the comparative period they amounted to HRK -25m. Difference is a result of HRK 12m of other income from the sale of a portion of non-operating assets of Mirna d.d., various impairments (details provided on slide 28) as well as foreign exchange differences from trade receivables and trade payables (HRK -20m in 2018; HRK - HRK -13m in 2017).

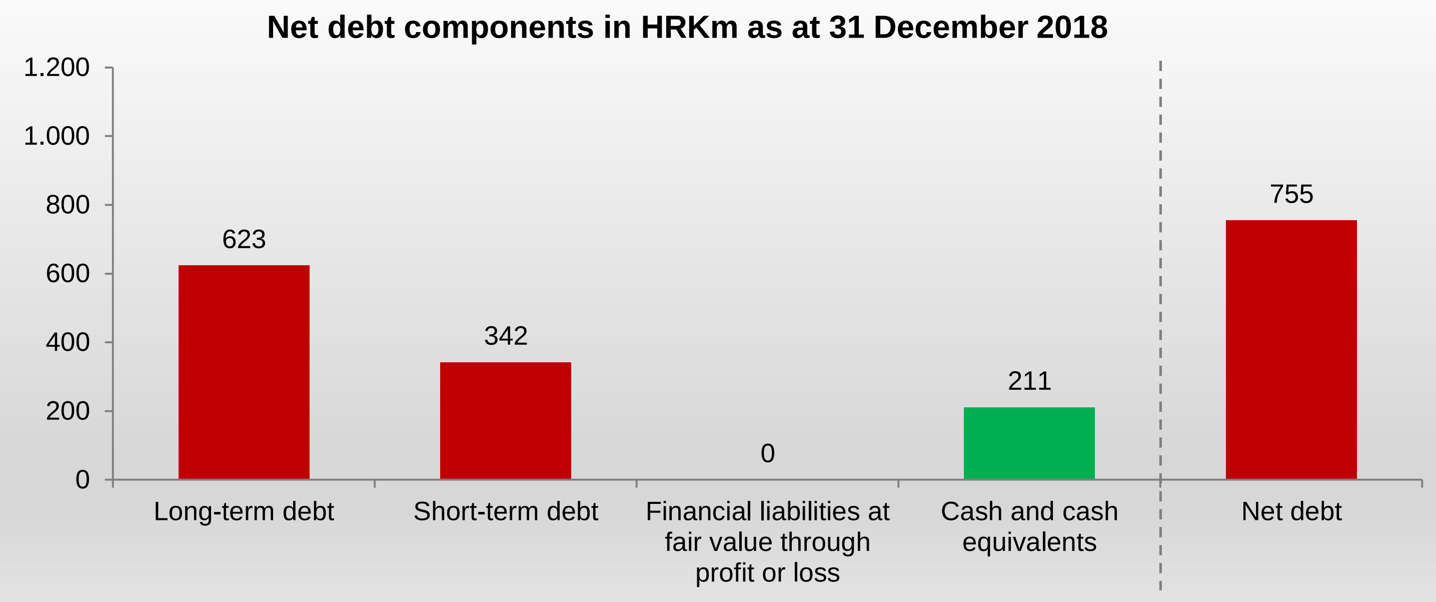
Further improvement of debt indicators

(in HRKm)[1]	2017	2018	% change
Net debt	909	755	(16.9%)
Interest expense	27	18	(33.3%)
Net debt / normalized EBITDA	2.1	1.6	(22.2%)
Normalized EBIT / interest expense	9.3	15.2	62.3%
Equity to total assets ratio	57.2%	62.9%	+566 bp



Key highlights:

- Net debt decrease → result of the repayment of a portion of borrowings,
- Lower interest expenses → repayment of a part of borrowings and better refinancing conditions,
- Net debt/normalized EBITDA drop due to higher normalized EBITDA and lower net debt,
- **Weighted average cost of debt:**
  - As at 31 December 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.

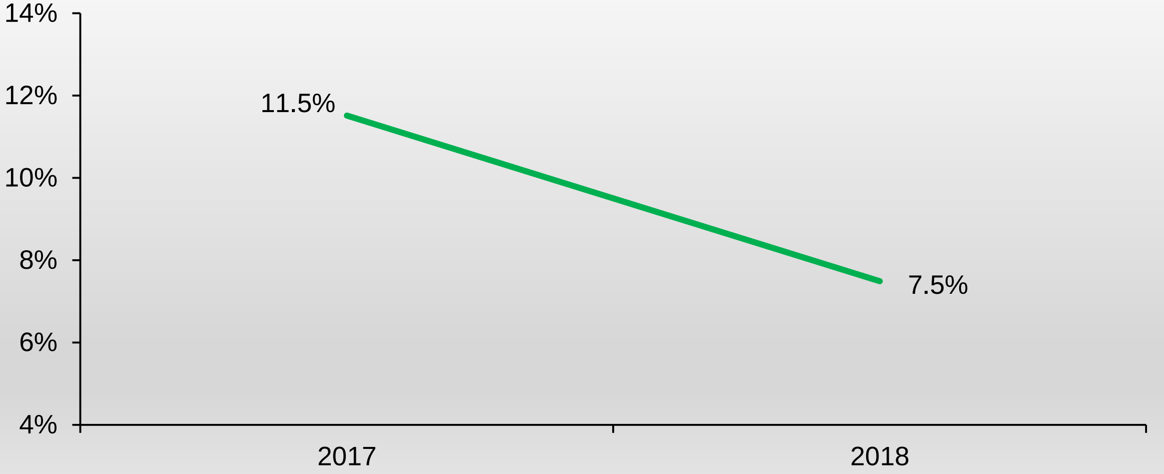
Lower level of net cash from operating activities reflects working capital movement in 2018

Working capital movement in BS	31 December 2018 / 31 December 2017	Impact
Inventories	5.3%	▪ Impacted mainly by the increase in inventories of raw materials and supplies as a result of business requirements and decisions related to the increase in inventories of certain raw materials, and the increase in inventories of finished products due to, among other, dynamics of drawing finished products by customers,
Trade and other receivables	(0.9%)	▪ Result of, among other, better collection of receivables in the Pharmaceuticals segment,
Trade and other payables	(8.5%)	▪ Lower HRK 49m compared to 31 December 2017 as a consequence of working capital management, better collection of trade and other receivables and financial risks management.

(in HRKm)	2017	2018	Δ
Net cash from operating activities	473	317	(156)
Net cash from investing activities	(190)	(126)	64
Net cash from financing activities	(258)	(342)	(83)
Net change of cash and cash equivalents	**(25)**	**(151)**	**(175)**

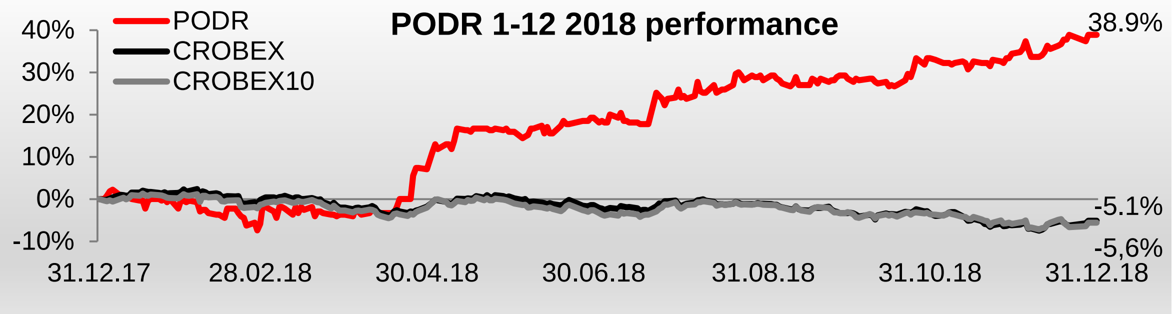
▪ **CAPEX** in 2019 is expected to be at the level of approximately HRK 210m, in 2020 at the level of HRK 200 - 250m, and in 2021-2023 period at the level of approximately HRK 200m.

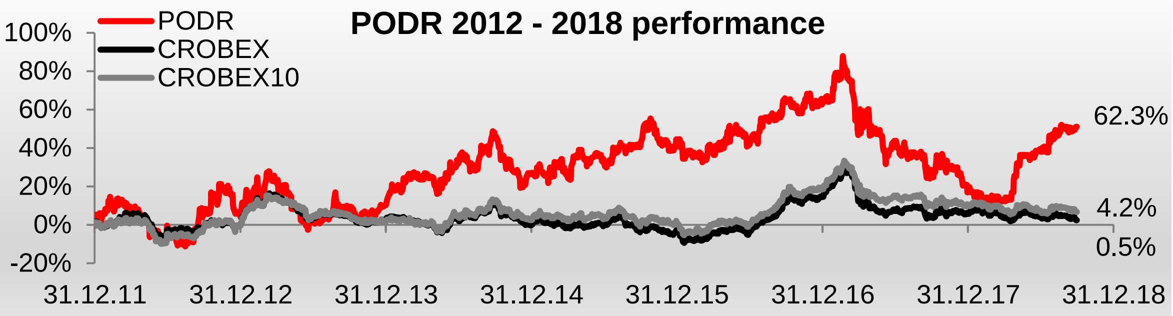
Net cash flow from operating activities as % of sales



Podravka's share price movement in 2018

(HRK; units)	2017	2018	% change
Weighted average daily price	352.2	317.1	(10.0%)
Average daily number of transactions	16	12	(25.8%)
Average daily volume	1,128	1,457	29.1%
Average daily turnover	397,344.8	461,891.8	16.2%
Reported earnings per share	2.6	29.5	1,025%
Normalized earnings per share	23.8	31.0	30.3%





Analysts	Recommendation	Target price	Potential[1]
InterCapital	Under review	-	n/a
Raiffeisen BANK	Hold	HRK 371	(1.1%)
ERSTE Group	Accumulate	HRK 405	8.0%
UniCredit	Buy	HRK 399	6.4%
WOOD & COMPANY	Hold	HRK 354	(5.6%)

Peer group multiples[2]	EV/Sales	EV/ EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	1.9	11.6	15.8	2.5	17.3
Normalized weight. av. peer group[3]	1.6	11.1	15.6	2.0	16.4
Podravka Group reported	0.8	7.4	13.2	0.9	12.7
Podravka Group normalized[4]	0.8	7.3	12.5	0.9	12.1

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 31th December 2018; [2]Obtained from Bloomberg on 26th February 2019; [3]Calculated excluding max. and min. values; [4]Normalized for items stated in the publication of 2018 and 2017 results.

One-off items in 2018 and 2017

One-off items	2017			2018			Δ		
(in HRKm)	Group	Food	Pharma	Group	Food	Pharma	Group	Food	Pharma
+expense related to China closing	(1)	(1)	-	-	-	-	1	1	-
+sale of Mirna d.d. non-operational assets	-	-	-	12	12	-	12	12	-
+severance payments expenses	(40)	(31)	(9)	(6)	(5)	(1)	34	27	8
+value adjustments (expenses)/revenues	(89)	(89)	-	(9)	(5)	(5)	80	85	(5)
+Warzyvko & Perfecta brands	(18)	*(18)*	-	-	-	-	18	18	-
+impairment of inventories	(11)	*(11)*	-	(6)	*(2)*	*(5)*	5	9	(5)
+assets in MENA	(1)	*(1)*	-	-	-	-	1	1	-
+assets in Africa	(16)	*(16)*	-	(4)	*(4)*	-	12	12	-
+value adjustments related to Agrokor	(44)	*(44)*	-	8	*8*	-	52	52	-
+other one-off value adjustments	*1*	*1*	-	(7)	*(7)*	-	(8)	(8)	-
+depreciation expenses	(3)	(3)	-	(9)	(9)	-	(7)	(7)	-
+ESOP programme expenses	(3)	(2)	(1)	(2)	(2)	(0)	-	-	-
+new Belupo factory expenses (+depreciation)	(25)	-	(25)	-	-	-	25	-	25
+other one-off expenses	(2)	(2)	-	-	-	-	2	2	-
+initial impact of IFRS 9	-	-	-	(1)	(0)	(1)	(1)	(0)	(1)
+estimated impact on taxes	16	16	-	5	4	1	(11)	(12)	1

Contact

Podravka d.d.

Ante Starčevića 32, 48 000 Koprivnica, Croatia

www.podravka.hr

Investor relations

ir@podravka.hr

tel: +385 48 65 16 65

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