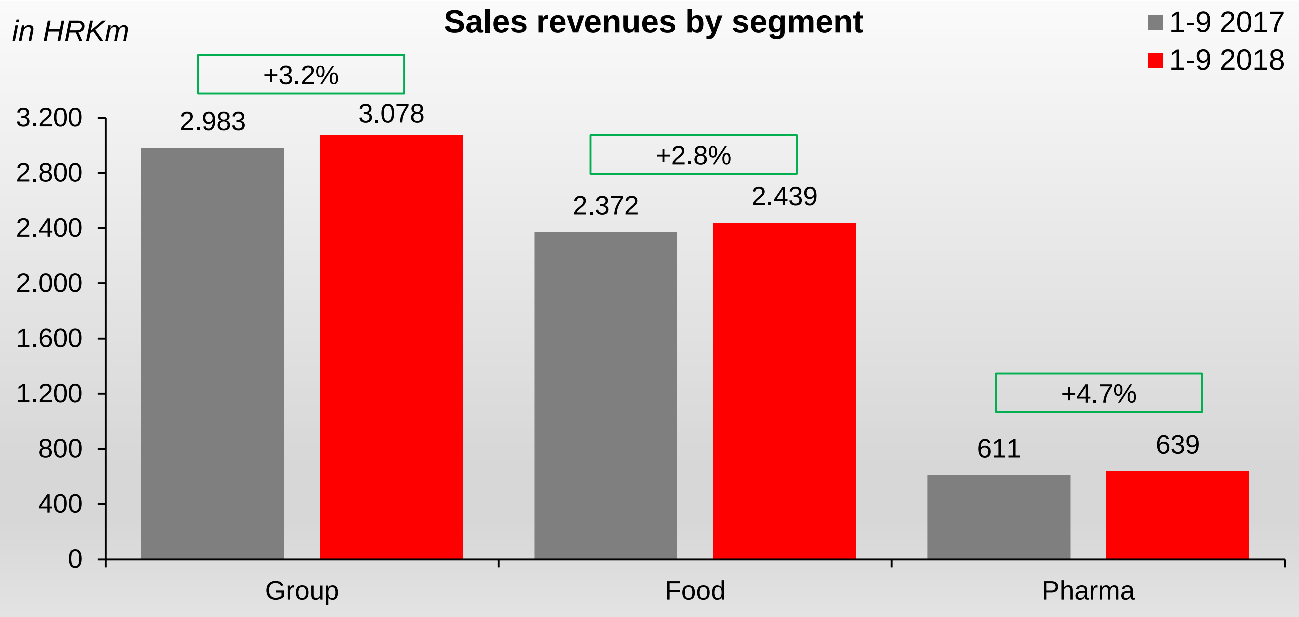
Podravka Group business results for 1-9 2018 period

Strong top-line growth in both business segments



Net foreign exchange (FX) impact on sales revenues:

HRKm	Own brands	Other sales	Total
Food	(15)	1	(14)
Pharmaceuticals	(18)	(0)	(18)
Group	(33)	1	(32)

Currency	*HRKm*
RUB	(25)
EUR	(4)
Other	(3)
Total	(32)

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in 1-9 2018 if FX rates had remained on the same levels as in 1-9 2017.

Food segment in 1-9 2018[1]:

- **Own brands** → 3.8% higher sales (+4.5% excl. FX), primarily due to the continued growth in sales of business units Culinary, Baby food, sweets and snacks, Žito and Lagris, as a result of increased selling and marketing activities, product innovation and expanded distribution of certain categories,
- **Other sales** → 8.3% lower sales (-8.9% excl. FX), as a consequence of decrease in sales of trade goods,
- **Total Food** → 2.8% higher sales (+3.4% excl. FX).

Pharmaceuticals segment in 1-9 2018[1]:

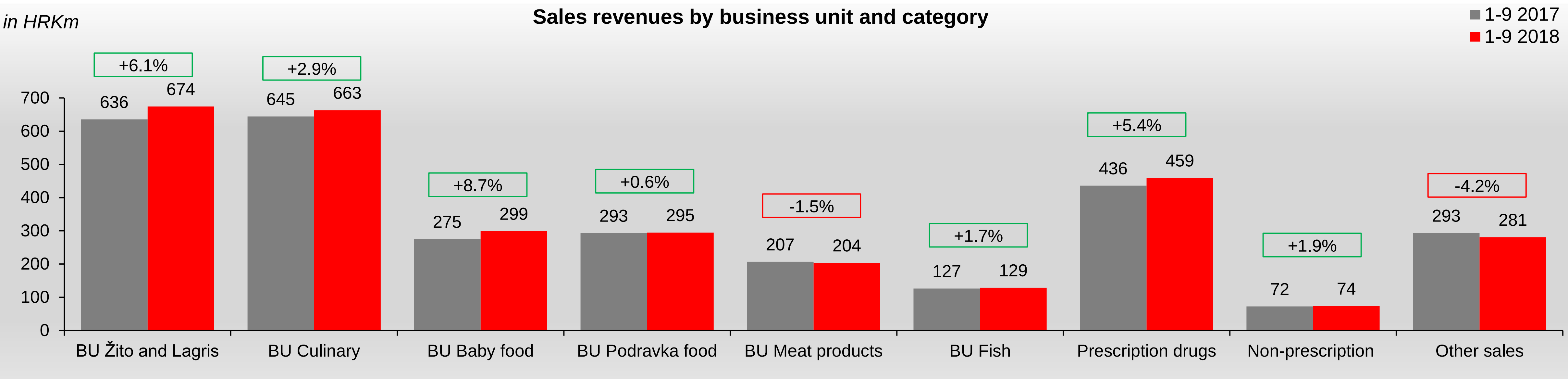
- **Own brands** → 4.9% higher sales (+8.4% excl. FX), primarily due to the increase in sales in the Russian market and higher sales in the markets of the Adria and Central Europe regions,
- **Other sales** → 3.4% higher sales (+3.6% excl. FX) as a result of higher sales of trade goods in Farmavita and in Deltis Pharm pharmacies,
- **Total Pharmaceuticals** → 4.7% higher sales (+7.6% excl. FX).

Podravka Group in 1-9 2018[1]:

- **Own brands** → 4.0% higher sales (+5.2% excl. FX),
- **Other sales** → 4.2% lower sales (-4.5% excl. FX),
- **Total Podravka Group** → 3.2% higher sales (+4.3% excl. FX).

[1]Percentages in the text relate to performance in 1-9 2018 compared to 1-9 2017.

Significant organic growth of 4.0% with BU Žito and Lagris as main driver

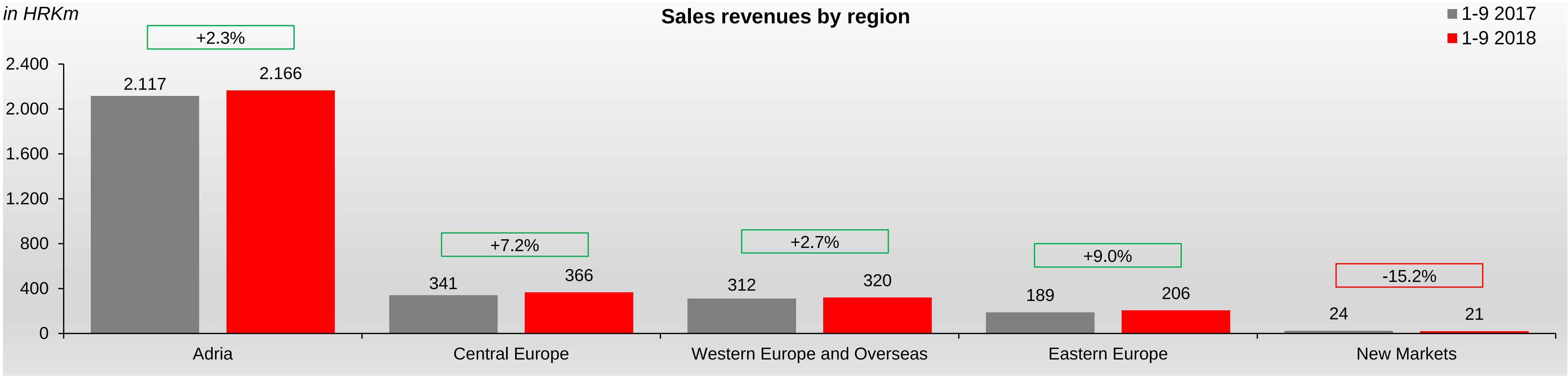


Business unit and category performance in 1-9 2018[1]:

- **BU Žito and Lagris (+6.1%; +6.3% excl. FX)** → continuous growth in the Bakery and mill products in the market of Slovenia and markets of Western Europe, as a result of stronger selling activities and expanded distribution,
- **BU Culinary (+2.9%; +4.4% excl. FX)** → sales growth in most regions primarily driven by Seasonings and Soups categories, as a consequence of intensive promotional activities,
- **BU Baby food, sweets and snacks (+8.7%; +8.9% 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 (+0.6%; +1.6% 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 (-1.5%; -1.0% 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 (+1.7%; +1.6% excl. FX)** → higher sales primarily due to stronger selling and marketing activities in the Adria region market,
- **Prescription drugs (+5.4%; +9.1% excl. FX)** → the most significant sales growth in the market of Russia due to higher demand, and in the markets of Adria and Central Europe regions,
- **Non-prescription programme (+1.9%; +4.2% 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,
- **Other sales (-4.2%; -4.5% excl. FX)** → lower trade goods sales revenues in the Food segment on the Croatian market.

[1]Percentages in the text relate to performance in 1-9 2018 compared to 1-9 2017.

Positive sales trend continues in nearly all regions



Region performance in 1-9 2018[1]:

- **Adria (+2.3%; +2.5% excl. FX) → food** sales 2.6% higher driven by sales growth in all business units, as a consequence of new and innovated products as well as selling and marketing activities; **pharmaceuticals** sales 1.2% higher due to organic growth and increase in other sales,
- **Central Europe (+7.2%, +6.7% excl. FX) → food** sales 6.5% higher with the most significant impact on the Food segment came from the Culinary business unit and from the Žito and Lagris business unit following stronger selling and marketing activities; **pharmaceuticals** sales rose 12.8% due to the increased demand and launching new products in the markets of Poland, the Czech Republic and Slovakia,
- **Western Europe and Overseas (+2.7%; +4.6% excl. FX) → food** sales 3.1% 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; **pharmaceuticals** revenues recorded a mild decrease of HRK 1.1m due to changed dynamics of annual deliveries,
- **Eastern Europe (+9.0%, +22.2% excl. FX) → food** sales 2.8% lower which is primarily a consequence of the decrease in sales of the Podravka Food business unit that was not fully compensated by growth of Culinary business unit; **pharmaceuticals** sales rose 18.0% following the increased demand for the Prescription drugs category,
- **New markets (-15.2%; -14.8% excl. FX) → food** sales is HRK 3.3m lower because of the lower sales of the Lagris company trade goods in the Asian market; **pharmaceuticals** sales is HRK 0.4m lower.

[1]Percentages in the text relate to performance in 1-9 2018 compared to 1-9 2017.

Strong growth of food profitability in 1-9 2018

Food segment	REPORTED				NORMALIZED[1]			
(in HRKm)	**1-9 2017**	**1-9 2018**	**Δ**	**%**	**1-9 2017**	**1-9 2018**	**Δ**	**%**
Sales revenue	2,372	2,439	67	2.8%	2,372	2,439	67	2.8%
Gross profit	757	827	70	9.3%	758	828	71	9.3%
EBITDA	170	281	111	65.1%	195	272	77	39.3%
EBIT	60	182	122	202.5%	85	173	88	103.0%
Net profit after MI	20	144	124	594.6%	48	133	85	177.5%
Gross margin	31.9%	33.9%		+201 bp	31.9%	34.0%		+202 bp
EBITDA margin	7.2%	11.5%		+435 bp	8.2%	11.2%		+292 bp
EBIT margin	2.5%	7.5%		+492 bp	3.6%	7.1%		+350 bp
Net profit margin after MI	0.9%	5.9%		+505 bp	2.0%	5.5%		+344 bp

Food segment profitability in 1-9 2018:

- **Normalized gross profit** → higher HRK 71m as a consequence of higher sales revenues and favorable sales structure,
- **Normalized EBIT** → higher HRK 88m, as a result of increase in sales of profitable categories, absence of share option expenses (amounted to HRK 10m in 1-9 2017) and lower selling and distribution cost resulting from i) changed business model in the MENA markets, ii) terminated business activities in the market of Tanzania, iii) lower depreciation and amortisation and iv) lower provisions for trade receivables,
- **Normalized net profit after MI** → higher HRK 85m due to, apart from aforementioned, lower interest expense and positive FX effects on borrowings, compensating for higher tax expenses.

One-off impacts in HRKm	1-9 2017	1-9 2018
Severance payments	(24)	(3)
Other expenses/(revenues) above EBIT	(1)	12
ESOP financial expenses	(2)	(2)
Deferred tax (assets)/liabilities	-	4

[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)	**1-9 2017**	**1-9 2018**	**Δ**	**%**	**1-9 2017**	**1-9 2018**	**Δ**	**%**
Sales revenue	611	639	28	4.7%	611	639	28	4.7%
Gross profit	304	316	12	4.0%	319	316	(3)	(0.9%)
EBITDA	84	99	14	16.9%	102	99	(3)	(3.3%)
EBIT	50	57	6	12.9%	71	57	(15)	(20.4%)
Net profit after MI	33	41	8	24.6%	55	42	(13)	(23.6%)
Gross margin	49.8%	49.5%		-29 bp	52.3%	49.5%		-278 bp
EBITDA margin	13.8%	15.4%		+161 bp	16.7%	15.4%		-128 bp
EBIT margin	8.3%	8.9%		+65 bp	11.7%	8.9%		-280 bp
Net profit margin after MI	5.5%	6.5%		+104 bp	9.0%	6.6%		-242 bp

Pharmaceuticals segment profitability in 1-9 2018:

- **Normalized gross profit** → lower HRK 3m, but without a portion of new factory costs higher 4.2% due to higher sales revenues and positive impact of the sales structure itself,
- **Normalized EBIT** → lower HRK 15m, but higher HRK 2m without a portion of new factory costs. In addition to the aforementioned effects, an additional impact came from, among other, higher marketing expenses,
- **Normalized net profit after MI** → lower HRK 13m, but higher HRK 3m without a portion of new factory costs. An additional positive effect came from lower finance costs and lower minority interests, which compensated for higher tax expense.

One-off impacts in HRKm	1-9 2017	1-9 2018
New pharmaceuticals factory expenses +D&A	(15)	-
Severance payments	(6)	-
ESOP financial expenses	(0)	(0)

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

Record high operating results fuelled by growth from Food segment

Podravka Group	REPORTED				NORMALIZED[1]			
(in HRKm)	**1-9 2017**	**1-9 2018**	**Δ**	**%**	**1-9 2017**	**1-9 2018**	**Δ**	**%**
Sales revenue	2,983	3,078	95	3.2%	2,983	3,078	95	3.2%
Gross profit	1,062	1,144	82	7.8%	1,077	1,144	67	6.3%
EBITDA	254	379	125	49.1%	297	371	73	24.7%
EBIT	110	239	128	116.0%	157	230	73	46.7%
Net profit after MI	54	186	132	243.8%	103	175	72	70.3%
Gross margin	35.6%	37.2%		+158 bp	36.1%	37.2%		+107 bp
EBITDA margin	8.5%	12.3%		+380 bp	10.0%	12.0%		+208 bp
EBIT margin	3.7%	7.8%		+405 bp	5.3%	7.5%		+222 bp
Net profit margin after MI	1.8%	6.0%		+423 bp	3.5%	5.7%		+225 bp

Group profitability in 1-9 2018:

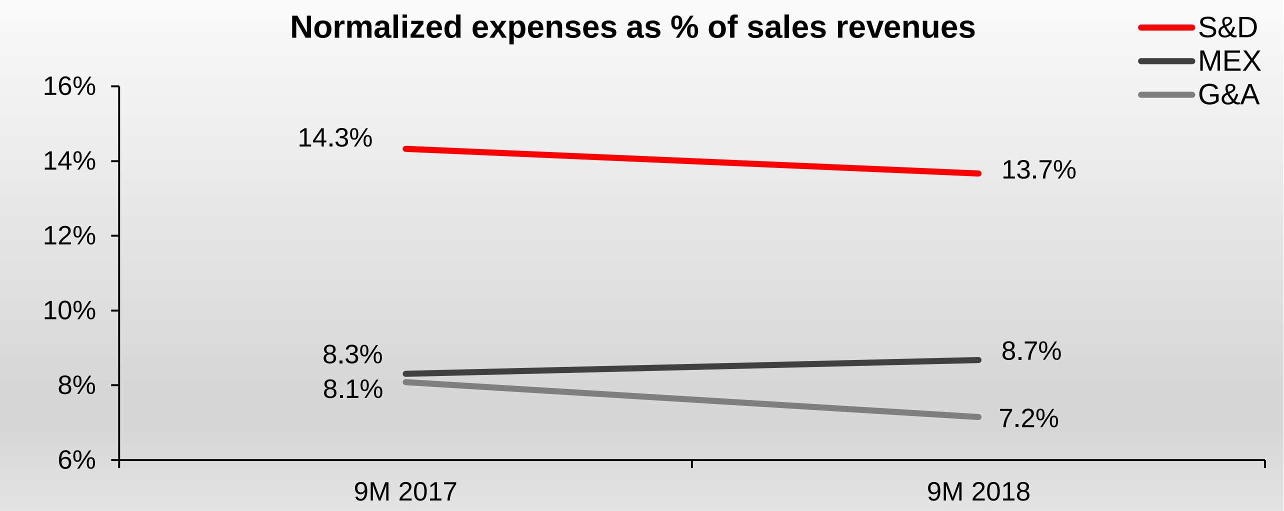
- **Normalized gross profit** → higher 6.3% (+7.8% without a portion of new factory costs) due to higher sales revenues and positive impact of sales structure itself,
- **Normalized EBIT** → higher HRK 73m (HRK +90m without a portion of new factory costs) as an additional consequence of i) the absence of share option expense, ii) lower selling and distribution cost and iii) higher marketing expenses,
- **Normalized net profit after MI** → higher HRK 72m (HRK +89m without a portion of new factory costs) as a result of, apart from aforementioned, lower finance cost and lower minority interest, which compensated for higher tax expense.

One-off impacts in HRKm	1-9 2017	1-9 2018
Severance payments	(30)	(3)
New pharmaceuticals factory expenses + D&A	(15)	-
Other expenses/(revenues) above EBIT	(1)	12
ESOP financial expenses	(3)	(2)
Deferred tax (assets)/liabilities	-	4

[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)	0.7%	1.4%
General and administrative expenses (G&A)	(18.7%)	(8.6%)
Sales and distribution costs (S&D)	(1.1%)	(1.5%)
Marketing expenses (MEX)	7.8%	7.8%
Other expenses / revenues, net	(213.2%)	(54.8%)
Total	**(1.2%)**	**0.8%**



[1]Normalized for one-off impacts.

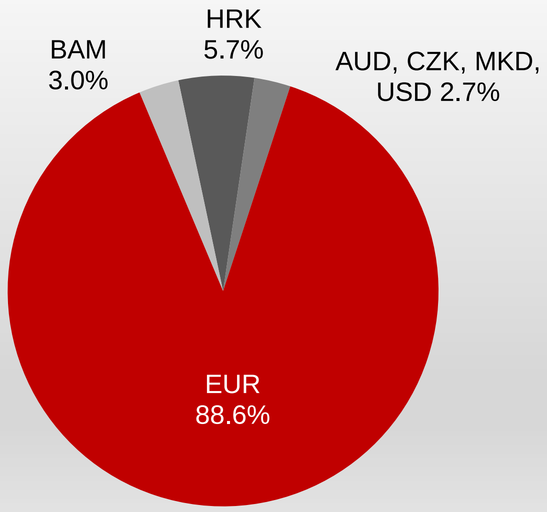
Key highlights of normalized operating expenses in 1-9 2018:

- **Cost of goods sold (COGS):**
  - Higher 1.4%, while without a portion of new factory cost in both periods, it would be 0.6% higher,
- **General and administrative expenses (G&A):**
  - Lower 8.6% primarily as a result of lower staff costs and lower expenses of taxes and contributions not related to results,
- **Sales and distribution expenses (S&D):**
  - Lower 1.5% 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 as a result of HRK 3.3m of distribution rights amortisation costs in 1-9 2017 that are not present in 1-9 2018,
- **Marketing expenses (MEX):**
  - Growth of 7.8% mainly as a result of higher marketing activities in both business segments,
- **Other expenses / revenues, net:**
  - In 1-9 2018, other income and expenses amounted to HRK +5m, while in the comparative period they amounted to HRK -4m. This line item includes foreign exchange differences from trade receivables and trade payables that amounted to HRK -13m in 1-9 2018, while in the comparative period they amounted to HRK -11m.

Further improvement of debt indicators

(in HRKm)[1]	2017	1-9 2018	% change
Net debt	909	869	(4.4%)
Interest expense	27	21	(23.8%)
Net debt / normalized EBITDA	2.1	1.7	(18.2%)
Normalized EBIT / interest expense	9.3	15.8	69.5%
Equity to total assets ratio	57.2%	62.5%	+522 bp

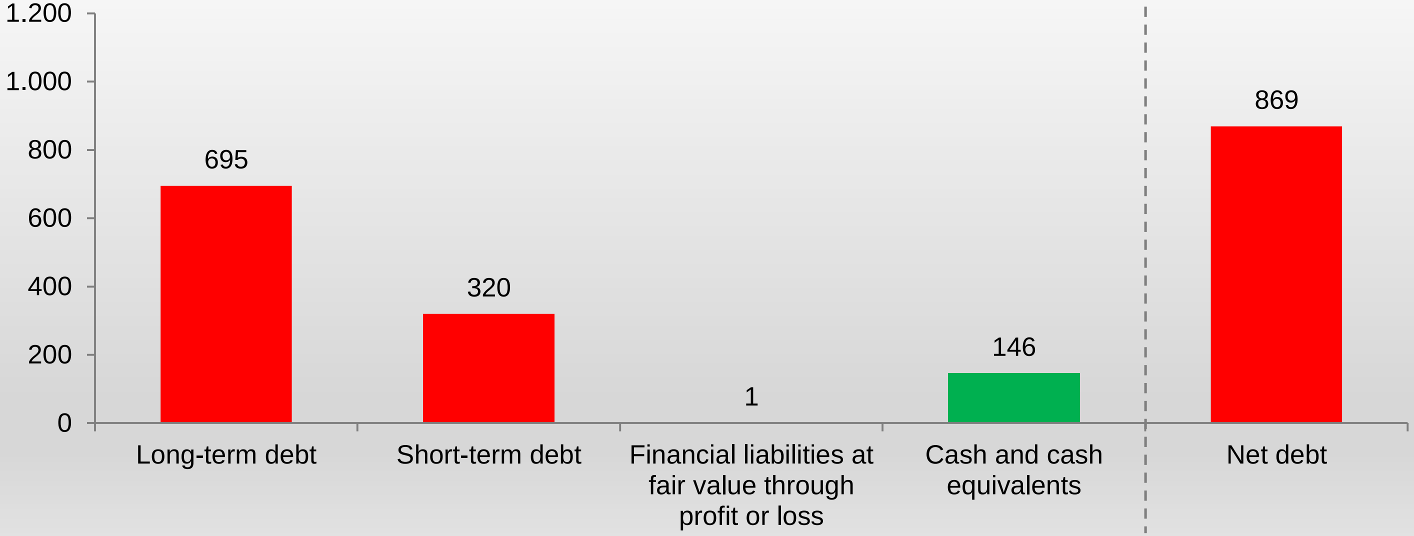
Currency structure of debt as at 30 September 2018



Key highlights:

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

Net debt components in HRKm as at 30 September 2018



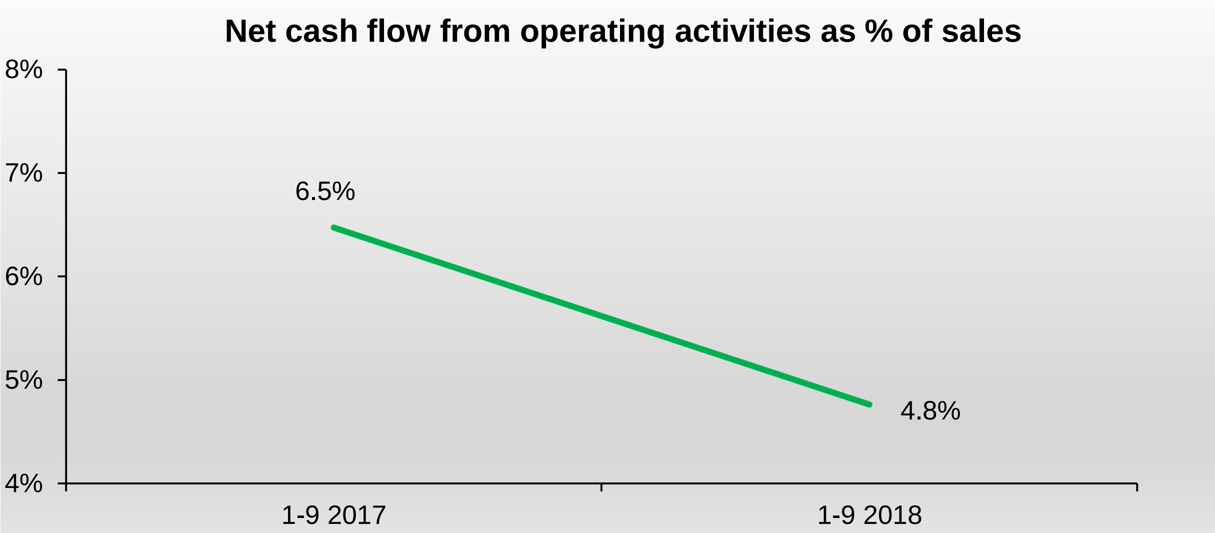
[1]All P&L figures are calculated on the trailing 12 months level, while BS figures are taken at the end of period.

Lower level of net cash from operating activities reflects working capital movement in 1-9 2018

Working capital movement in BS	30 September 2018 / 30 September 2017	Impact
Inventories	6.0%	▪ Impacted mainly 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	(9.6%)	▪ Result of significant impairments at the end of 2017 related to receivables from the Agrokor companies in the amount of HRK 44 million, and better collection of receivables in the Pharmaceuticals segment,
Trade and other payables	(1.3%)	▪ Lower HRK 8.5m compared to 30 September 2017.

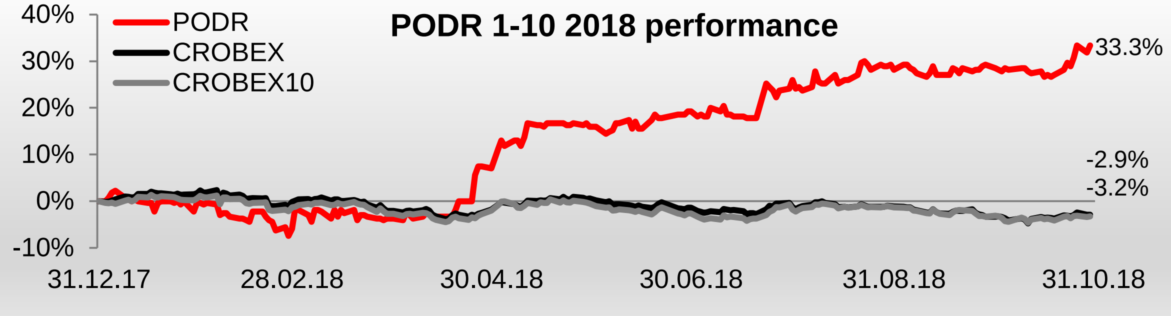
(in HRKm)	1-9 2017	1-9 2018	Δ
Net cash from operating activities	193	147	(46)
Net cash from investing activities	(171)	(69)	102
Net cash from financing activities	(181)	(294)	(112)
Net change of cash and cash equivalents	**(159)**	**(216)**	**(57)**

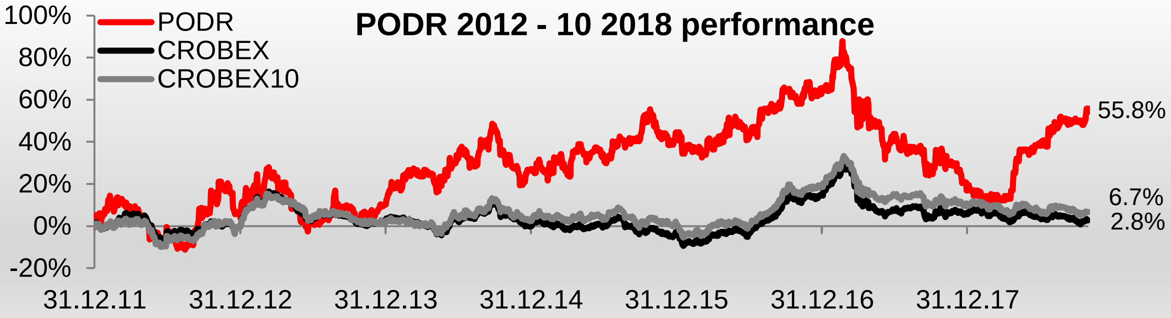
- **CAPEX** in 2018 is expected to be at the level of HRK 150m, in 2019 at the level of HRK 200 - 250m, and in 2020 and 2022 at the level of approximately HRK 200m.



Podravka's share price movement in 1-9 2018

(HRK; units)	2017	1-9 2018	% change
Weighted average daily price	362.4	297.9	(17.8%)
Average daily number of transactions	18	11	(34.8%)
Average daily volume	1.249	1.378	10.4%
Average daily turnover	452,528	410,631	(9.3%)
Reported earnings per share	2.6	21.6	721.6%
Normalized earnings per share	23.8	34.2	43.6%





Analysts	Recommendation	Target price	Potential[1]
InterCapital	Under review	-	n/a
Raiffeisen BANK	Hold	HRK 371	6.3%
ERSTE Group	Accumulate	HRK 405	16.0%
UniCredit	Buy	HRK 399	14.3%
WOOD & COMPANY	Hold	HRK 354	1.4%

Peer group multiples[2]	EV/Sales	EV/ EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	1.9	12.0	17.1	2.6	18.8
Normalized weight. av. peer group[3]	1.6	10.2	16.0	2.0	16.5
Podravka Group reported	0.8	6.7	15.2	0.8	16.2
Podravka Group normalized[4]	0.8	6.6	10.3	0.8	10.2

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

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

[1]Compared to the last price on 30th September 2018; [2]Obtained from Bloomberg on 31st October 2018; [3]Calculated excluding max. and min. values; [4]Normalized for items stated in the publication of 1-9 2018 and 2017 results.

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