



Podravka Group

Always with a heart!

LSEG, CIS & CEE Conference, London, 20th April 2018





The Company

Business

Investment highlights

2017 unaudited results

Podravka Group at a glance



BUSINESS:

- Branded food – primary business,
- Generic pharmaceuticals.



2017 FIGURES:

- HRK 4,111m (EUR 541m) of sales,
- HRK 5,106m (EUR 672m) of assets,
- 6,306 employees.

YEAR OF ESTABLISHMENT: 1947

- 71 years in food production,
- 46 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 1,808m (EUR 238m).*

Note: all figures in this presentation are translated at HRK/EUR FX rate of 7.6 to avoid FX differences; *MCap on 31st March 2018, calculated on weighted average number of shares 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



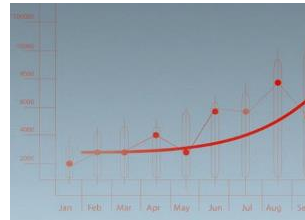
1970

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

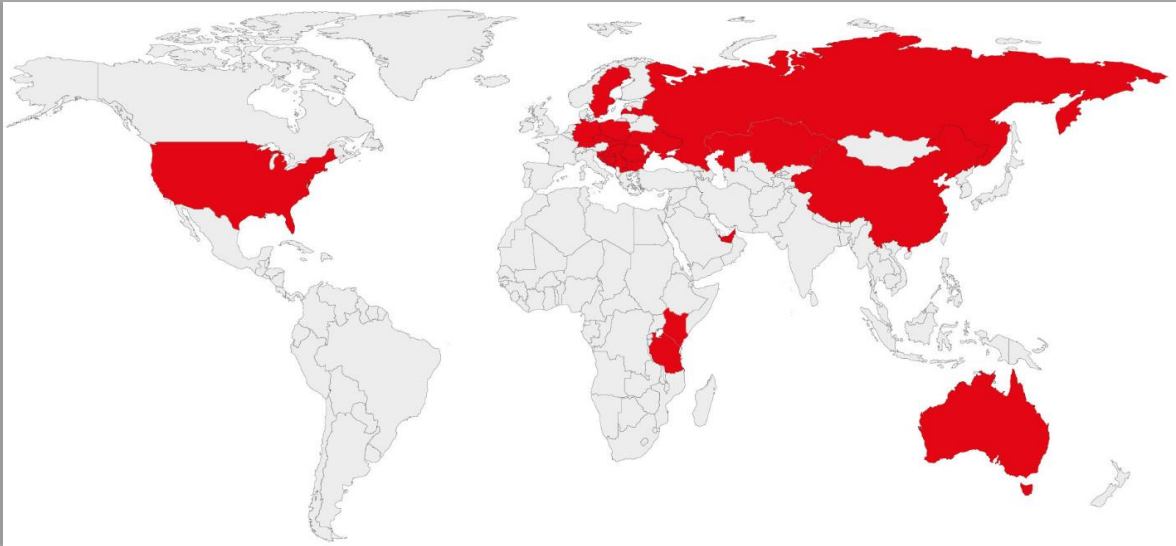
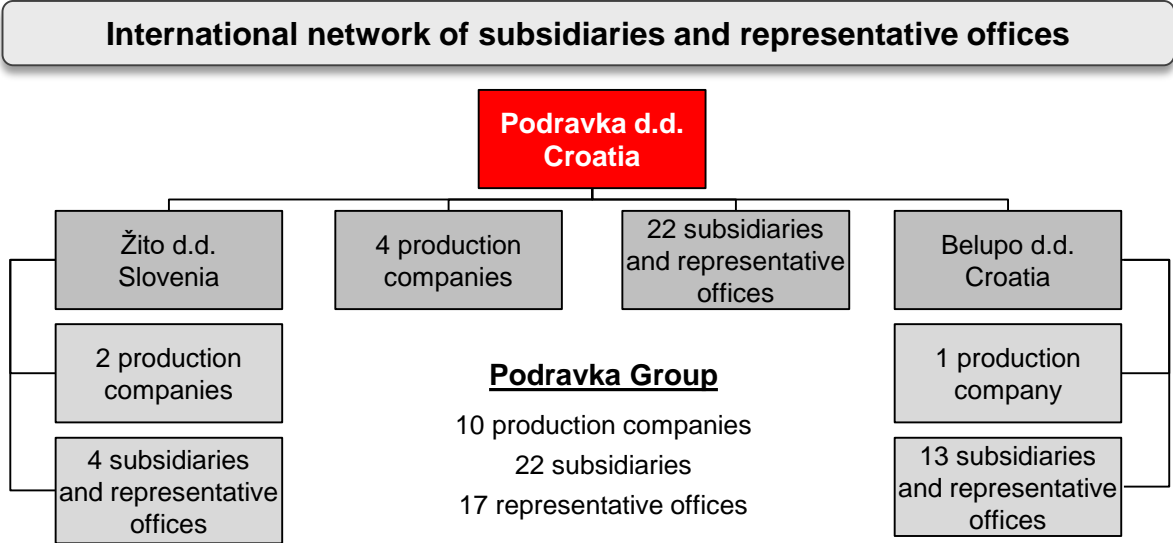
Žito, Slovenian food producer, acquisition



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

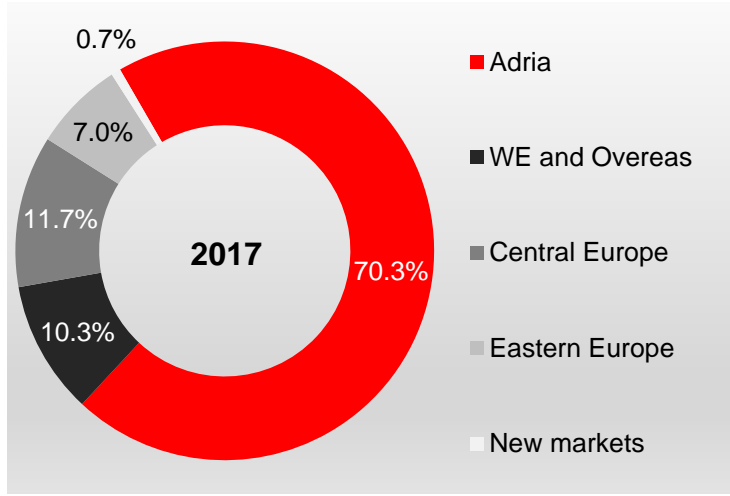


Own distribution network in 11 countries

1. Bosnia and Herzegovina
2. Czech Republic
3. Montenegro
4. Croatia
5. Hungary
6. Macedonia
7. Poland
8. Slovakia
9. Slovenia
10. Serbia
11. Russia



Podravka Group sales split by regions in 2017



Market	HRKm	EURm	%
Croatia	1,355	178	33.0%
Slovenia	742	98	18.0%
B&H	430	57	10.5%
Russia	264	35	6.4%
Other m.	1,320	173	32.1%
Group	4,111	541	100.0%

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

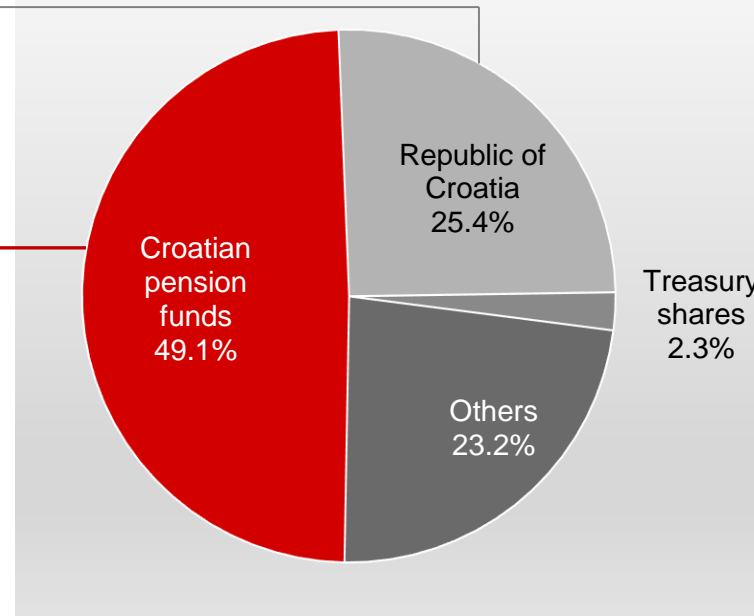
Vice President:

- Luka Burilović → president of Croatian Chamber of Economy

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 31 December 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

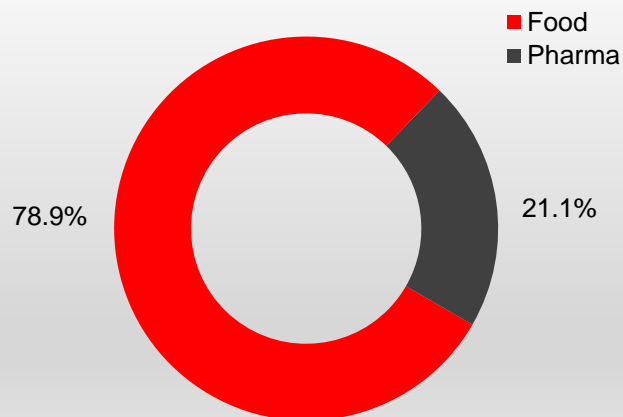
Members:

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

Snapshot of key financial figures

Reported sales revenues split

Reported sales revenues in 2017

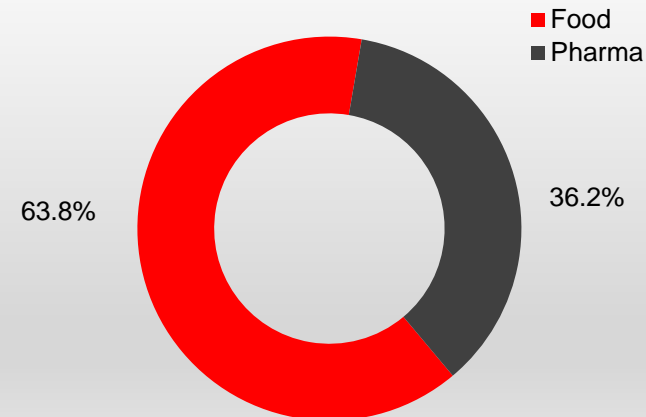


2017 sales	HRKm
Food	3,244
Pharma	867
Group	4,111

2017 sales	EURm
Food	427
Pharma	114
Group	541

Normalized EBITDA split

Normalized EBITDA in 2017

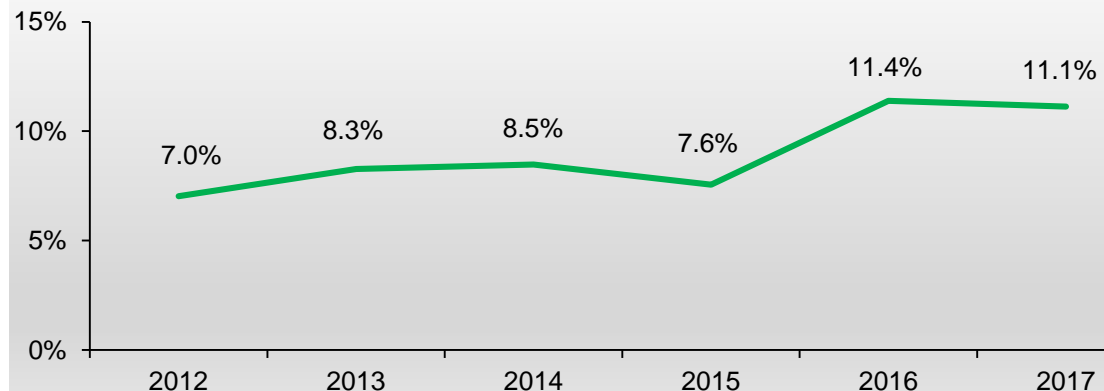


2017 EBITDA	HRKm
Food	278
Pharma	157
Group	435

2017 EBITDA	EURm
Food	36
Pharma	21
Group	57

Stable cash position

Net cash flow from operating activities as % of sales revenues¹



Low and sustainable debt level²

2.1
Net debt/
normalized
EBITDA

9.3
Normalized
EBIT/
interest
expense

57.4%
Equity/
total
assets

¹Due to sales revenues reclassification in 2016, 2012-2014 % are made by approximation; ²2017 unaudited figures.



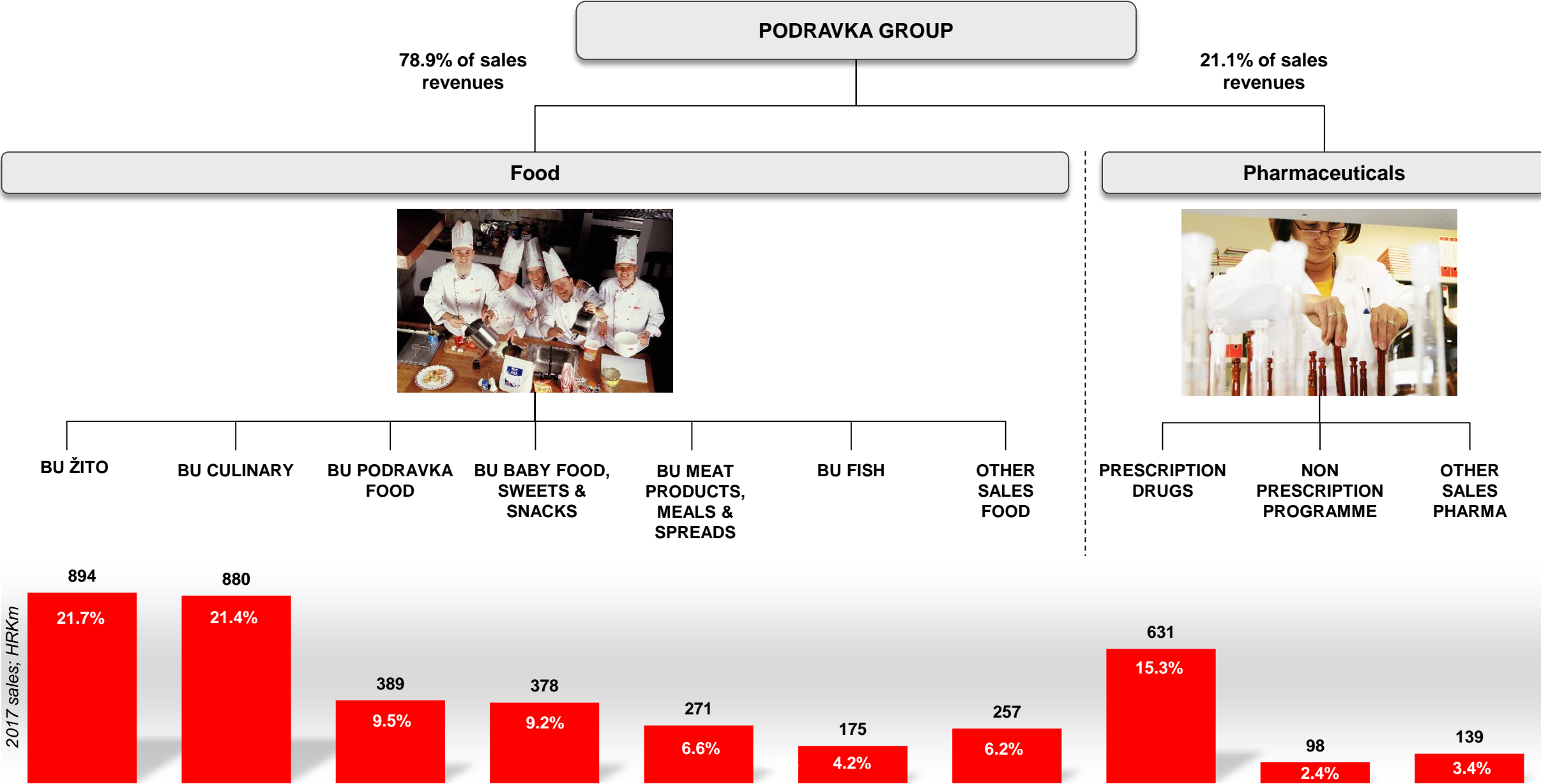
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A well diversified product portfolio divided in two business areas



Culinary category is a cornerstone of food business

Food segment products overview						2017 sales; % of total		
BU ŽITO <ul style="list-style-type: none"> Core food, bakery and mill products, tea, confectionery, cereals for adults, private labels, service production. 	     					HRK 894m	EUR 118m	21.7%
BU CULINARY <ul style="list-style-type: none"> Seasonings, monospices, soups, ready-to-cook meals and bouillons, food mixes, private labels, service production. 	      					HRK 880m	EUR 116m	21.4%
BU PODRAVKA FOOD <ul style="list-style-type: none"> Condiments, tomato, sauces, fruit, vegetables, Podravka flour, private labels, service production. 	      					HRK 389m	EUR 51m	9.5%
BU BABY FOOD, SWEETS & SNACKS <ul style="list-style-type: none"> Dehydrate baby food, cream spreads, cereals, sweets, snacks, drinks, private labels, service production. 	      					HRK 378m	EUR 50m	9.2%
BU MEAT PRODUCTS, MEALS AND SPREADS <ul style="list-style-type: none"> Canned meat, sausages, other meat, Food Solution, private labels, service production. 	   					HRK 271m	EUR 36m	6.6%
BU FISH <ul style="list-style-type: none"> Fish products, private labels, service production. 	    					HRK 175m	EUR 23m	4.2%
OTHER SALES <ul style="list-style-type: none"> Trade goods, other. 	   					HRK 257m	EUR 34m	6.2%

Prescription drugs category is a cornerstone of pharmaceutical business

Pharmaceutical segment products overview				2017 sales; % of total		
PRESCRIPTION DRUGS <ul style="list-style-type: none">For skin disordersFor heart and blood vessels,For central nervous system,For 8 more areas.		  		HRK 631m	EUR 83m	15.3%
NON-PRESCRIPTION PROGRAMME <ul style="list-style-type: none">OTC medicine,Dietary products,Natural products.		  		HRK 98m	EUR 13m	2.4%
OTHER SALES <ul style="list-style-type: none">Trade goods,Services.	   			HRK 139m	EUR 18m	3.4%

High-quality brands with exceptional recognisability and strong international potential

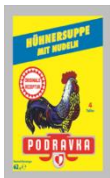


VEGETA

- Culinary brand whose products are sold in over 60 countries in the world,
- Synonym for universal seasoning category in the Adria region,
- For years No. 1 FMCG brand in Croatia and among top 3 in Adria region,

- Number 1 brand in Europe in universal food seasoning category,
- Superbrand award in more than 15 European countries.

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



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	6



LINO

- Umbrella brand for dehydrated baby food, cream spreads and cereals,
- Synonym for baby food category 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

- Product for preparation of sweets and ready-made sweets,
- Market leader/strong No. 2 brand in Adria region,
- Sold in 20 countries around the world,

- 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,
- Widest range of canned fish – tuna, sardines, mackerel and Baltic fish.

- 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	1	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.



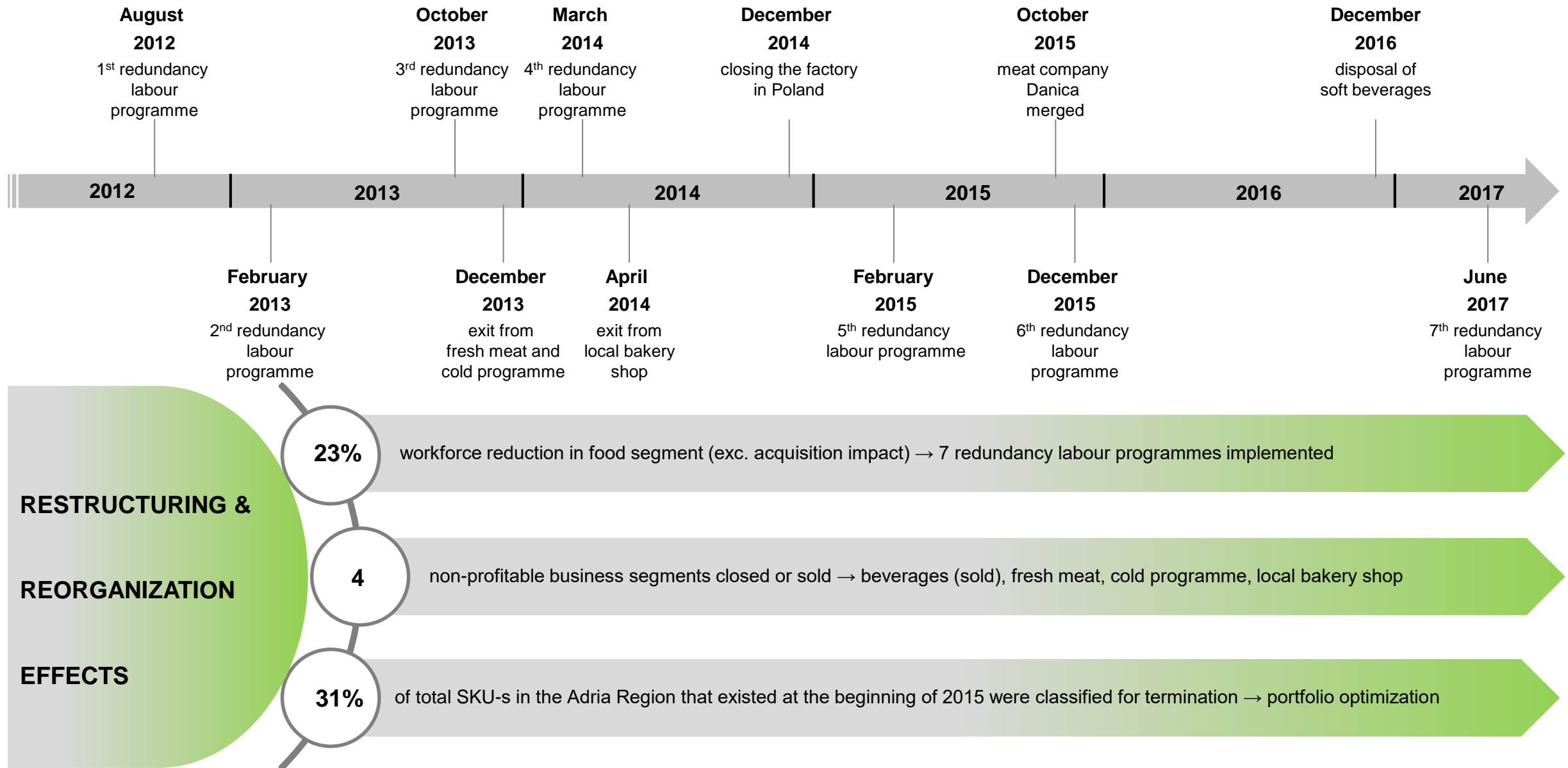
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2017 unaudited results

Continuous restructuring process in order to improve efficiency and profitability



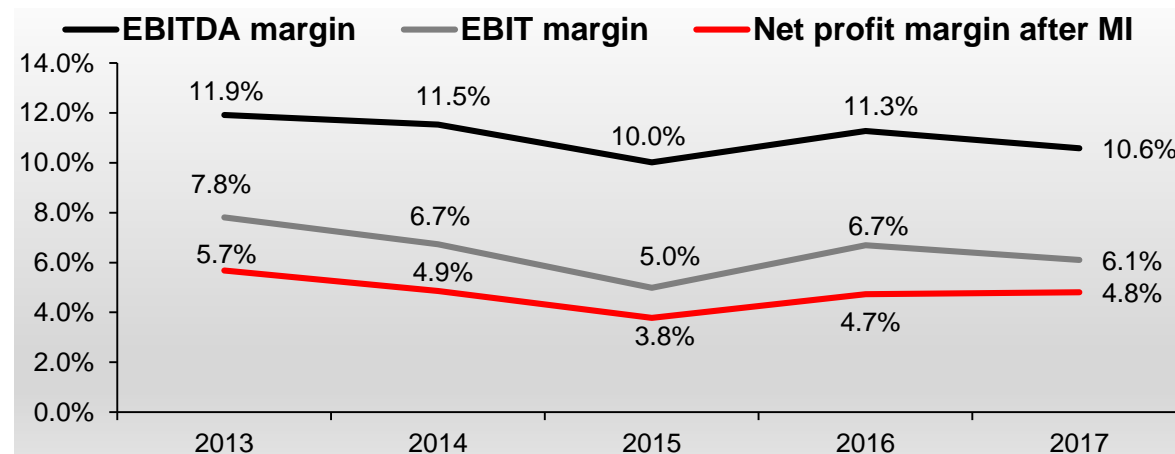
Financial position under the influence of one-off items

Restructuring related one-off items burdened profitability

(in HRKm)	2012	2013	2014	2015	2016	2017
Value adjustments	(32)	(81)	(28)	(35)	(11)	(45)
Severance payments	(50)	(57)	(72)	(41)	(12)	(40)
Other	(44)	5	10	298 ¹	8	(26)
Total net one-offs	(126)	(133)	(90)	222	(15)	(111)

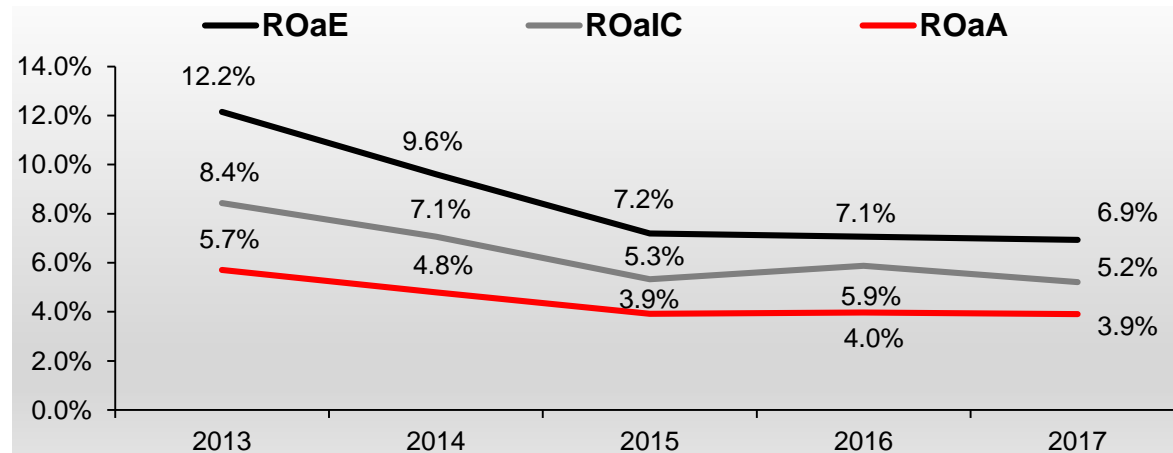
¹HRK 116m of gain on a bargain purchase from Žito acquisition (badwill), HRK 164m of deferred tax income from Croatian government's incentives for the construction of new Belupo pharmaceutical factories, HRK 19m refers to other items.

Normalized profitability margins movement²

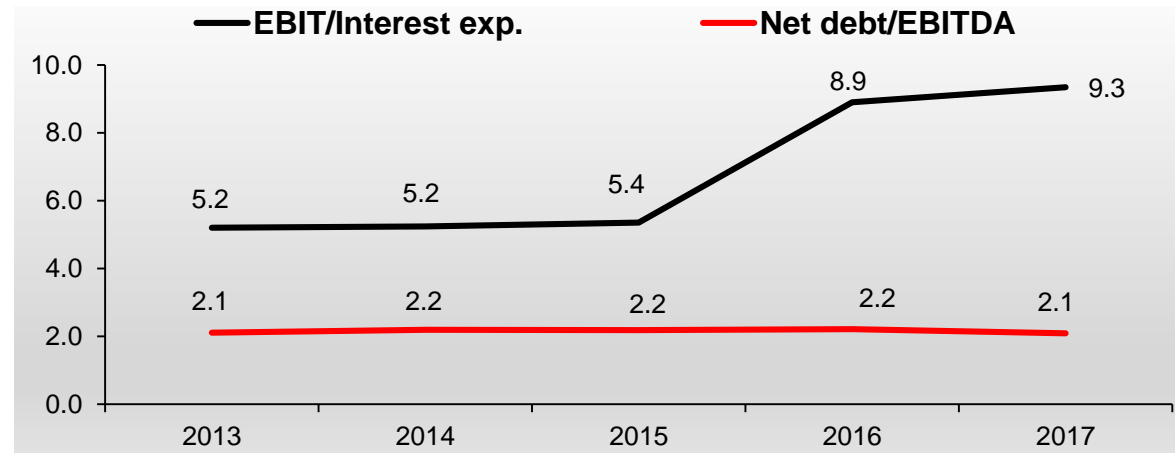


Note: Due to sales revenues reclassification in 2016, 2013-2014 margins are made by approximation.

Normalized return rates movement²



Normalized debt level movement²



²2015 figures include pro-forma Podravka Group and Žito Group full year figures.

Expansion of pharmaceutical capacities to satisfy international demand

Construction of new pharmaceutical facility

Project:

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

Project reasoning:

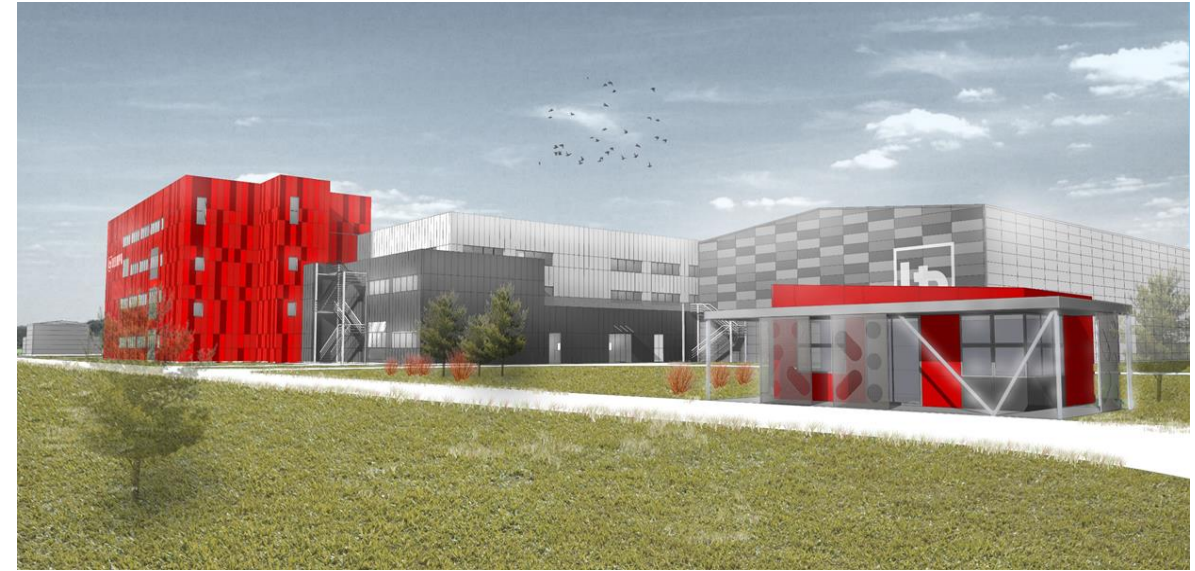
- Insufficient production capacities due to perennial volume growth → 150% capacity increase,
- Investment in new technologies that will enable production of new-age products in the form of foams, sprays, bandages etc.

Project financing:

- Total value of investment HRK 530 mil. (EUR 70 mil.),
- 55% loan from HBOR, 45% own funds,
- Government incentive through income tax benefits in the amount of 40% of total investment.

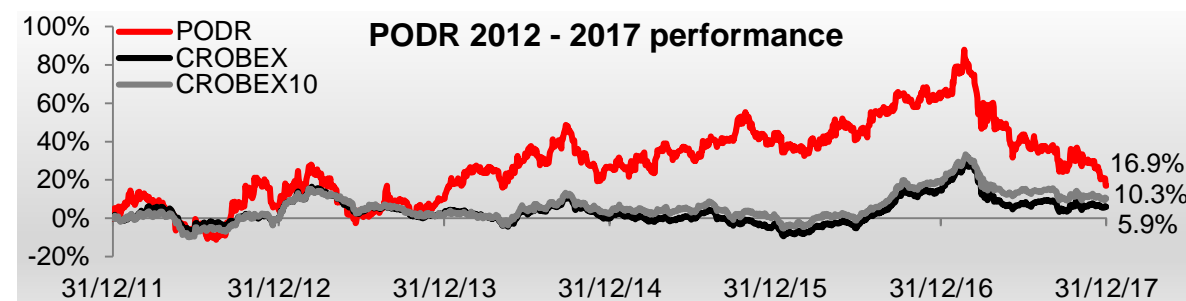
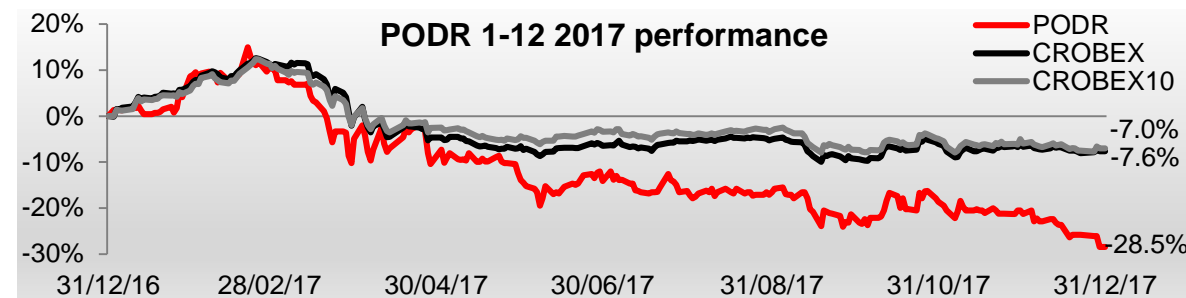
Business reasons for choosing Croatia as facilities location:

- 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 2017 under the influence of key customer situation

(HRK; EUR; units)	2016	2017	2017 / 2016
Average daily price (HRK)	349	352	1.0%
Average daily number of transactions	11	16	43.5%
Average daily volume	1,112	1,128	1.4%
Average daily turnover (HRK)	387,819	397,345	2.5%
Average daily turnover (EUR)	51,029	52,282	2.5%
Reported earnings per share (HRK)	26	8	(70.3%)
Normalized earnings per share (HRK)	28	24	(16.5%)



Analysts	Recommendation	Target price	Potential ¹
InterCapital	Under review	-	n/a
Raiffeisen BANK	Hold	HRK 300	15.4%
ERSTE Group	Buy	HRK 370	42.3%
UniCredit	Buy	HRK 399	53.4%
WOOD & COMPANY	Hold	HRK 376	44.6%

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

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

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

¹Compared to the last price on 31st March 2018; ²Obtained from Bloomberg on 27th March 2018; ³Calculated excluding max. and min. values; ⁴Normalized for items stated in the publication of unaudited 2017 results.



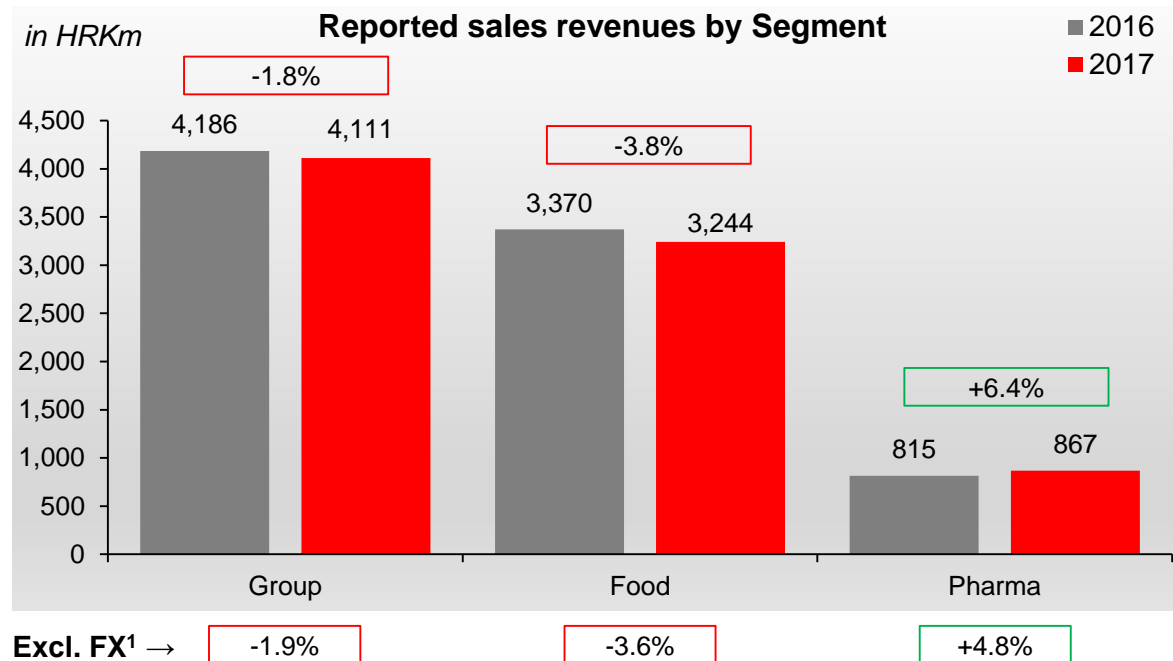
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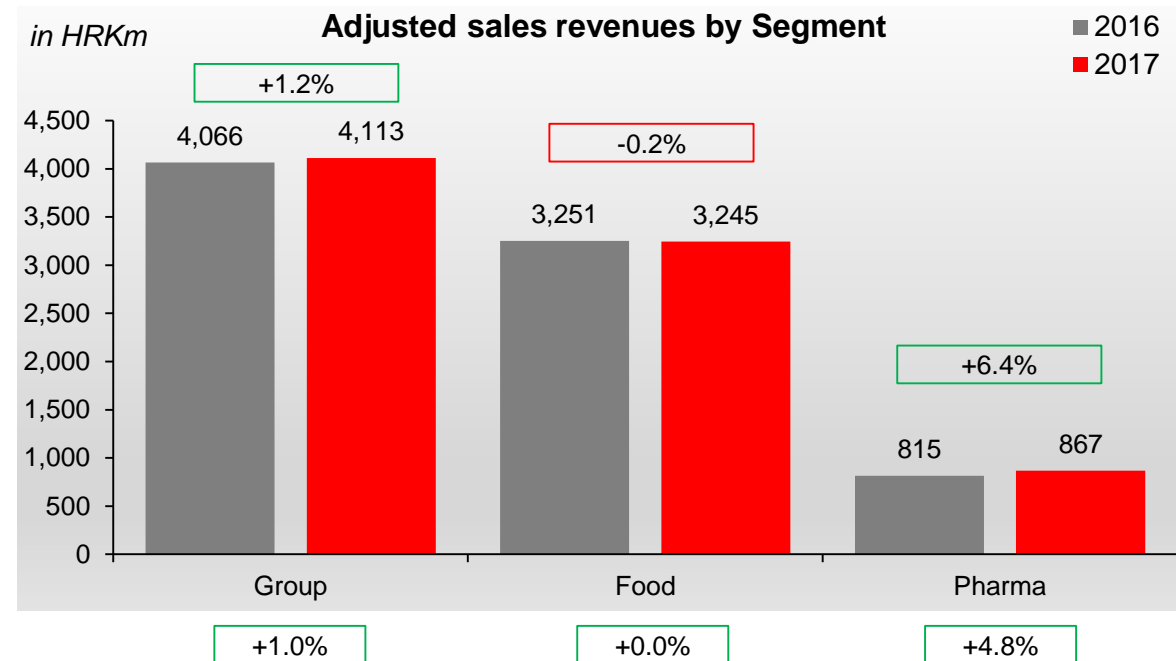
Strong growth of Pharmaceutical segment sales in 2017



Adjusted sales revenues exclude/include:

- **Beverages business** → sold at the end of 2016; HRK 82.2m excluded from 2016 and HRK 0.4m from 2017 to provide like-for-like comparison,
- **One-off sales of BU Meat** → in February 2016 extraordinary delivery of buffer stock to the Ministry of Economy was made related to the migration of population from war-torn areas; HRK 12.0m excluded from 2016 to provide like-for-like comparison,
- **Inconsistencies in the treatment of recording revenue** → identified in the Food segment on the Russian market, largely a result of a different trade marketing activities classification; HRK 25.4m excluded from 2016 and HRK 2.2m included in 2017 to provide LFL comparison.

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

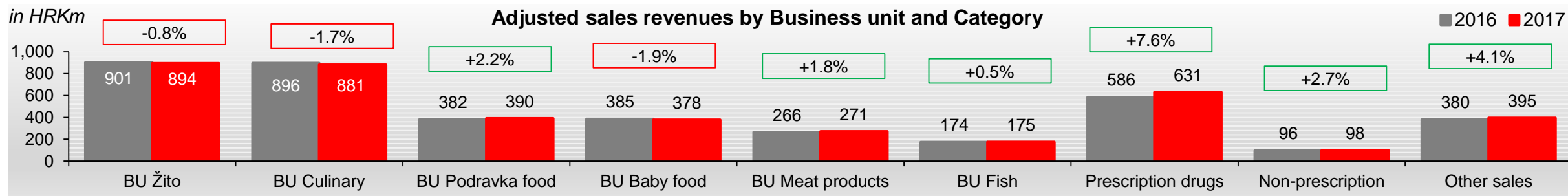
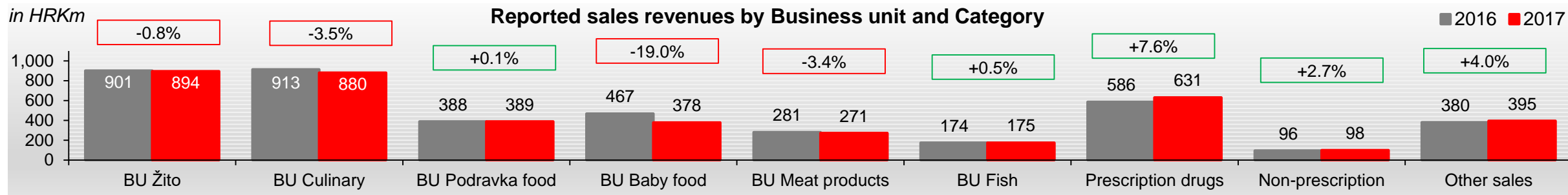


Estimated net foreign exchange (FX) impact on reported sales revenues:

HRKm	Own brands	Other sales	Total	Currency	HRKm
Food	(5.7)	(0.1)	(5.8)	EUR	(14.7)
Pharmaceuticals	13.6	(0.8)	12.8	RUB	23.0
Group	7.8	(0.9)	7.0	Other	(1.3)
				Total	7.0

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

Business units facing internal and external challenges

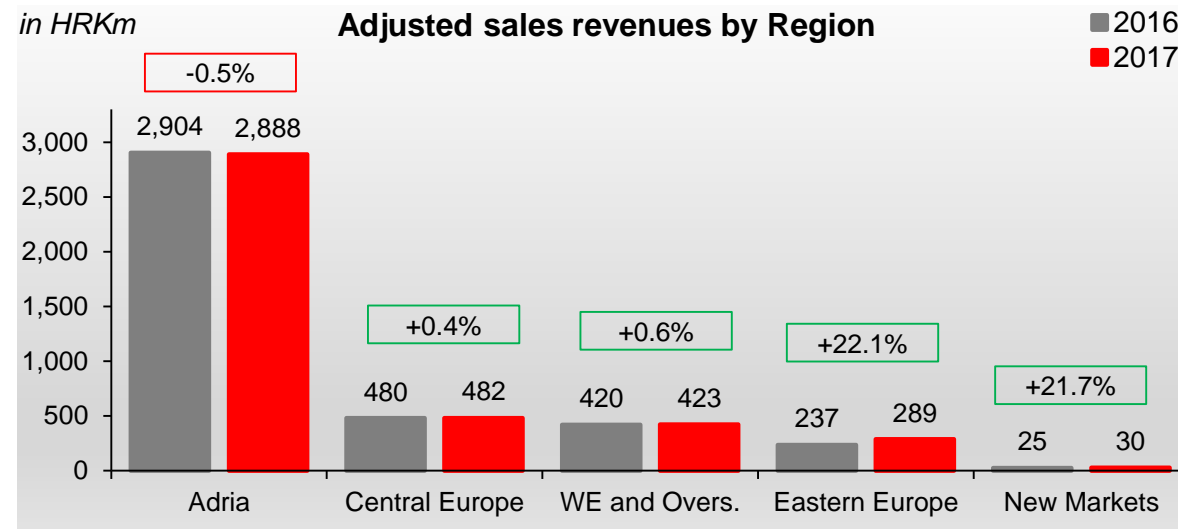
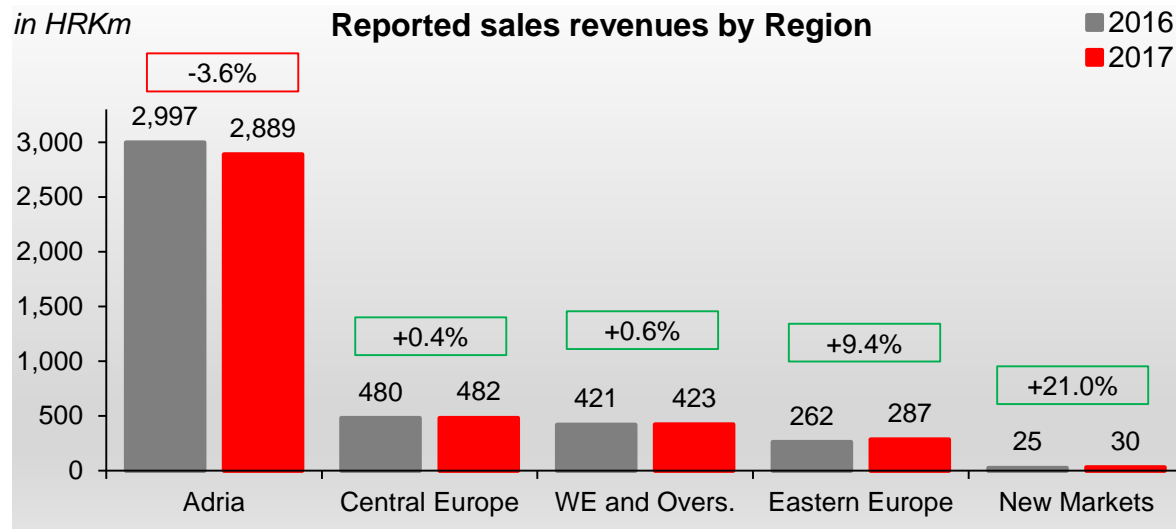


Adjusted business unit and category performance in 2017:

- **BU Žito (-0.0% excl. FX)** → sales increase in Italy, Germany and Spain due to the product range extension and distribution, annulled by unlisting of a certain bakery range that began at the end of 2016 on the Slovenian market,
- **BU Culinary (-2.0% excl. FX)** → lower sales primarily due to lower sales in Western Europe related to the sales dynamics to the new distributor,
- **BU Podravka food (+1.8% excl. FX)** → higher sales on the back of extended range of vegetables in the Croatian market,
- **BU Baby food, sweets and snacks (-1.4% excl. FX)** → lower sales of the snacks range due to poor acceptance of the redesign launched in mid 2016,
- **BU Meat products, meat solutions and savoury spreads (+2.1% excl. FX)** → sales growth of Food Solution sub segment,
- **BU Fish (+0.8% excl. FX)** → sales growth primarily due to higher sales of own brands in the Croatian market,
- **Prescription drugs (+5.5% excl. FX)** → revenue growth in the Russian market as a consequence of the product range extension and positive FX effect,
- **Non-prescription programme (+1.3% excl. FX)** → extension of the product range and positive effect of foreign exchange differences in the Russian market; implemented selling and marketing activities in the Croatian market,
- **Other sales (+4.3% excl. FX)** → trade goods sales growth.

Note: percentages in the text relate to performance in 2017 compared to 2016.

Positive developments of Eastern Europe region in 2017



Adjusted region performance in 2017:

- **Adria (+0.1% excl. FX)** → **food** sales 0.6% lower due to the decrease of the BU Žito revenues on the Slovenian market as a result of unlisting of a certain bakery range that began at the end of 2016. The most significant sales growth was recorded by the BU Podravka food due to expansion of the vegetables range distribution on the Croatian market; **pharmaceuticals** sales were slightly lower than in 2016,
- **Central Europe (-0,3% excl. FX)** → **food** sales 0.7% lower due to lower sales of trade goods of the Lagris company that was offset by higher sales of own brands; **pharmaceuticals** sales 9.8% higher due to growth in markets of Poland and Czech Republic,

- **Western Europe and Overseas (+1.1% excl. FX)** → **food** sales 0.6% higher due to the extension of the product range and distribution of the BP Žito in the markets of Italy, Germany and Spain and from trade goods sales growth. This positive effect was partially offset by a decrease in sales due to sales dynamics with the new distributor to which total sales in the last two months of 2016 amounted to the sales realised in the first four and half months of 2017; **pharmaceuticals** sales records a mild revenue growth in the market of Germany,
- **Eastern Europe (+12,3% excl. FX)** → **food** sales 7.8% higher due to selling activities in the Culinary range with the most significant customers and the increase in sales of trade goods of the Lagris company; **pharmaceuticals** sales rose 33.1% due to extension of product range,
- **New markets (+22.5% excl. FX)** → **food** sales 11.1% higher due to sales growth in BU Baby food, sweets and snacks and of trade goods of the company Lagris; **pharmaceuticals** sales 41.7% higher due to the Prescription drugs category growth in the market of Turkey.

Note: percentages in the text relate to performance in 2017 compared to 2016.

Food profitability burdened by significant one-off items in 2017

Food segment (in HRKm)	REPORTED				NORMALIZED ¹			
	2016	2017	Δ	%	2016	2017	Δ	%
Sales revenue	3,370	3,244	(127)	(3.8%)	3,370	3,244	(127)	(3.8%)
Gross profit	1,107	1,039	(68)	(6.1%)	1,107	1,058	(49)	(4.4%)
EBITDA	317	243	(74)	(23.3%)	314	277	(37)	(11.7%)
EBIT	158	52	(106)	(66.9%)	165	134	(30)	(18.3%)
Net profit after MI	111	7	(105)	(94.1%)	121	83	(38)	(31.6%)
Gross margin	32.8%	32.0%		-80 bp	32.8%	32.6%		-23 bp
EBITDA margin	9.4%	7.5%		-191 bp	9.3%	8.6%		-77 bp
EBIT margin	4.7%	1.6%		-308 bp	4.9%	4.1%		-74 bp
Net profit margin after MI	3.3%	0.2%		-310 bp	3.6%	2.6%		-104 bp

Food segment profitability in 2017:

- **Normalized gross profit** → impacted by lower sales revenues, but also by unfavourable changes in sales structure,
- **Normalized EBIT** → additionally impacted by lower profitability of the Žito Group, higher expenses of exercised share options (HRK 12.5m in 2017; HRK 7.0m in 2016), unfavourable movements of FX differences from trade receivables and payables (HRK 5.2m losses in 2017; HRK 3.1m gains in 2016),
- **Normalized net profit after MI** → additionally impacted by unfavourable movements of FX differences on borrowings (HRK 10.6m losses in 2017; HRK 8.6m gains in 2016) which was partly mitigated by lower interest expense

One-off impacts in HRKm	2016	2017
Value adjustments	(9)	(45)
Severance payments	(12)	(31)
Other expenses/(revenues) above EBIT	14	(6)
ESOP ² financial expenses	(2)	(3)
Deferred tax assets	(1)	9

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

Pharma profitability positively impacted by favourable sales structure

Pharmaceuticals segment	REPORTED				NORMALIZED ¹			
(in HRKm)	2016	2017	Δ	%	2016	2017	Δ	%
Sales revenue	815	867	52	6.4%	815	867	52	6.4%
Gross profit	428	445	17	3.9%	431	470	40	9.2%
EBITDA	154	131	(23)	(15.2%)	157	157	0	0.0%
EBIT	111	83	(28)	(25.2%)	116	117	1	0.9%
Net profit after MI	71	48	(23)	(32.7%)	76	83	6	8.1%
Gross margin	52.5%	51.3%		-125 bp	52.8%	54.2%		+139 bp
EBITDA margin	18.9%	15.1%		-383 bp	19.3%	18.1%		-115 bp
EBIT margin	13.6%	9.5%		-404 bp	14.2%	13.5%		-74 bp
Net profit margin after MI	8.7%	5.5%		-321 bp	9.4%	9.5%		+15 bp

Pharmaceuticals segment profitability in 2017:

- **Normalized gross profit** → impacted by increase in revenues, but also by favourable changes in sales structure,
- **Normalized EBIT** → additionally impacted by higher marketing expenses due to higher investments in the Russian market and extremely unfavourable movements of FX differences from trade receivables and payables (HRK 7.3m losses in 2017; HRK 15.4m gains in 2016). Share option expenses were slightly below the comparative period (HRK 0.2m in 2017; HRK 1.0m in 2016),
- **Normalized net profit after MI** → additionally impacted by higher financial income and positive movement of FX differences on borrowings (HRK 0.3m gains in 2017; HRK 2.6m losses in 2016).

One-off impacts in HRKm	2016	2017
New pharmaceuticals factory expenses	(2)	(25)
Severance payments	(1)	(9)
Value adjustments	(2)	-
ESOP ² financial expenses	(1)	(1)
Deferred tax assets	0	-

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

Group profitability movement under the influence of Food segment profitability

Podravka Group	REPORTED				NORMALIZED ¹			
(in HRK _m)	2016	2017	Δ	%	2016	2017	Δ	%
Sales revenue	4,186	4,111	(74)	(1.8%)	4,186	4,111	(75)	(1.8%)
Gross profit	1,535	1,484	(51)	(3.3%)	1,538	1,528	(10)	(0.6%)
EBITDA	471	374	(97)	(20.6%)	472	435	(37)	(7.8%)
EBIT	269	135	(134)	(49.7%)	280	251	(29)	(10.4%)
Net profit after MI	182	54	(128)	(70.2%)	198	166	(32)	(16.2%)
Gross margin	36.7%	36.1%		-58 bp	36.7%	37.2%		+43 bp
EBITDA margin	11.3%	9.1%		-216 bp	11.3%	10.6%		-69 bp
EBIT margin	6.4%	3.3%		-314 bp	6.7%	6.1%		-59 bp
Net profit margin after MI	4.4%	1.3%		-303 bp	4.7%	4.0%		-70 bp













Group profitability in 2017:

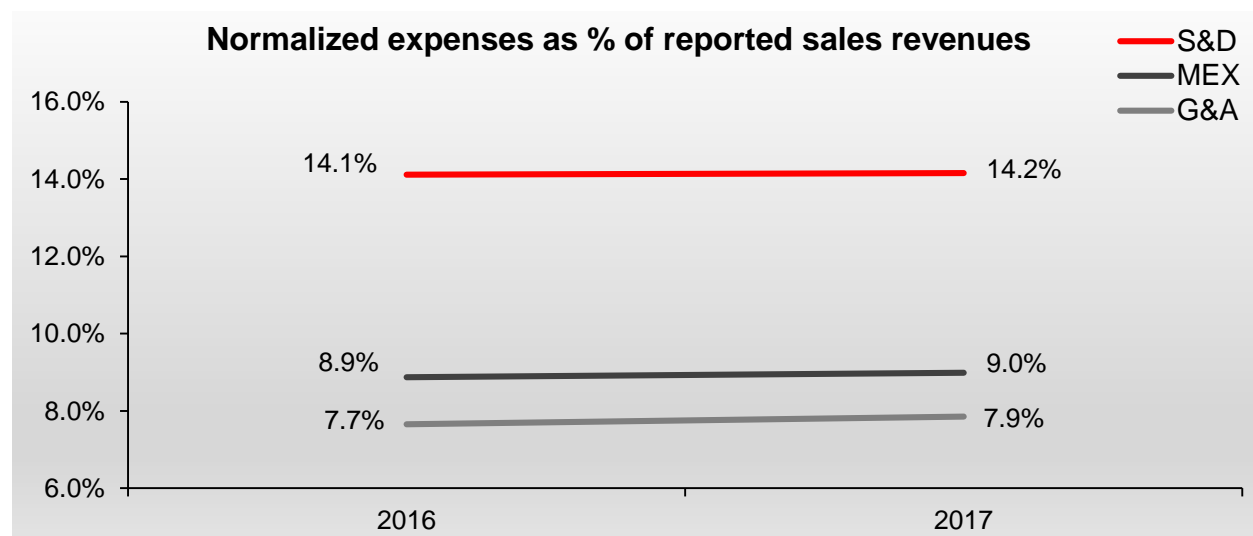
- **Normalized gross profit** → Pharmaceuticals segment gross profit growth to the high extent compensated for the lower gross profit of the food segment,
- **Normalized EBIT** → additionally impacted by lower profitability of the Žito Group, higher expenses of exercised share options (HRK 12.8m in 2017; HRK 8.0m in 2016), unfavourable movements of FX differences from trade receivables and payables (HRK 12.5m losses in 2017; HRK 18.5m gains in 2016),
- **Normalized net profit after MI** → additionally impacted by unfavourable movements of FX differences on borrowings (HRK 10.3m losses in 2017; HRK 6.0m gains in 2016) which was partly mitigated by lower interest expense.

One-off impacts in HRK _m	2016	2017
Value adjustments	(11)	(45)
Severance payments	(12)	(40)
New pharmaceuticals factory expenses	(2)	(25)
Other expenses/(revenues) above EBIT	14	(6)
ESOP ² financial expenses	(3)	(4)
Deferred tax assets	(1)	9

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

Successful cost side optimization in 2017

Operating expenses 17 vs. 16 % change	REPORTED	NORMALIZED ¹
Cost of goods sold (COGS)	(0.9%) 	(2.4%) 
General and administrative expenses (G&A)	10.8% 	0.7% 
Sales and distribution costs (S&D)	(0.9%) 	(1.5%) 
Marketing expenses (MEX)	(0.5%) 	(0.5%) 
Other expenses / revenues, net	n/a 	n/a 
Total	1.5% 	(1.2%) 



¹Normalized for one-off impacts.

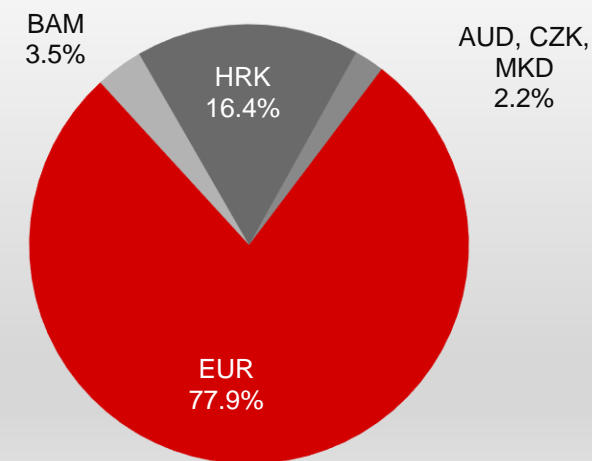
Key highlights of normalized operating expenses in 2017:

- **Cost of goods sold (COGS):**
 - Lower 2.4% primarily as a result of lower sales in the Food segment,
- **General and administrative expenses (G&A):**
 - Higher 0.7% than in the comparative period primarily due to the higher costs of exercised share options (HRK 12.8m in 2017; HRK 8.0m in 2016),
- **Sales and distribution expenses (S&D):**
 - Lower 1.5% due to, among other, disinvestment of the Beverages business that was incurring significant distribution costs,
- **Marketing expenses (MEX):**
 - Lower 0.5% as a result of fewer marketing activities in the Food segment, while the Pharmaceuticals segment recorded an increase in marketing expenses, primarily in the Russian market,
- **Other expenses / revenues, net:**
 - Item includes FX differences from trade receivables and trade payables that were HRK 12.5m negative in 2017, while in 2016 they were HRK 18.5m positive. In 2017, other expenses/revenues item amounted to negative HRK 2.5m, while in the comparative period it amounted to positive HRK 25.4m.

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

<i>(in HRKm)¹</i>	2016	2017	% change
Net debt	1,041	909	(12.7%)
Interest expense	31	26	(14.6%)
Net debt / normalized EBITDA	2.2	2.1	(5.3%)
Normalized EBIT / interest expense	8.9	9.3	4.9%
Equity to total assets ratio	55.4%	57.4%	+207 bp

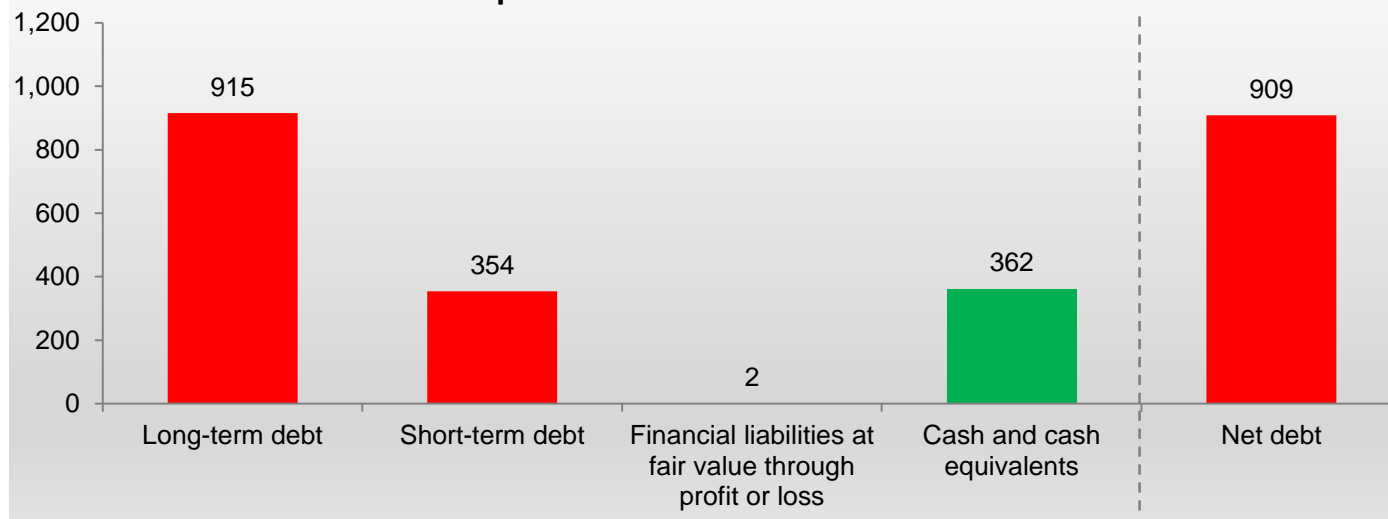
Currency structure of debt as at 31 December 2017



Key highlights:




- Net debt decrease → repayment of a part of borrowings,
- Lower interest expenses → repayment of a part of borrowings,
- Net debt/normalized EBITDA drop due to lower net debt,
- **Weighted average cost of debt:**
 - As at 31 December 2017 → 2.0%,
 - As at 31 December 2013 → 4.3%.

Net debt components in HRKm as at 31 December 2017



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

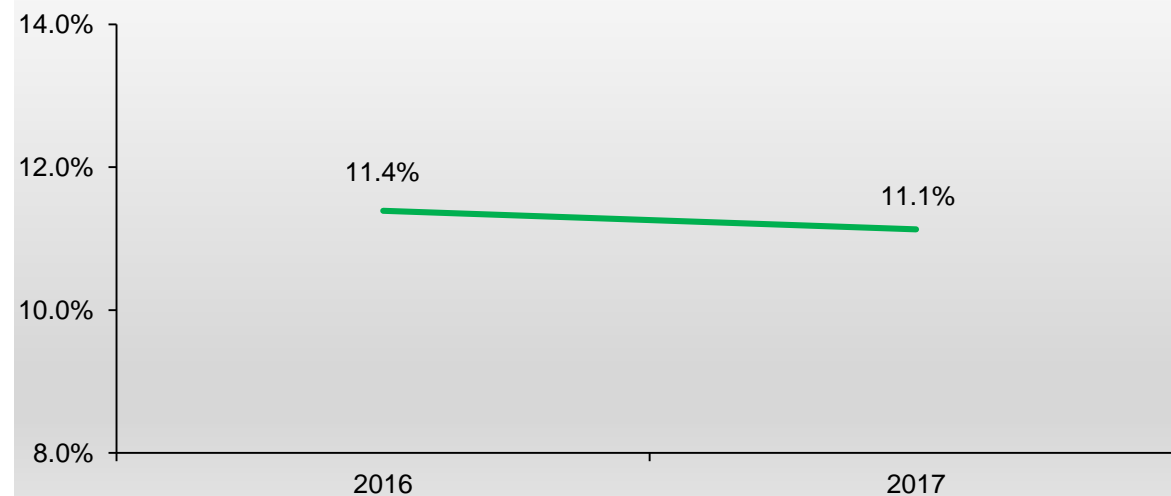
Stable level of net cash from operating activities

Working capital movement in BS	31 December 2017 / 31 December 2016		Impact
Inventories		4.2%	<ul style="list-style-type: none"> Increased plans for the production of own products and trade goods led to higher level of inventories.
Trade and other receivables		(15.8%)	<ul style="list-style-type: none"> Lower receivables for recourse bills of exchange, lower sales in Food segment, better collection in the Pharmaceuticals segment in the domestic and foreign markets.
Trade and other payables		(10.6%)	<ul style="list-style-type: none"> Settlement of a portion of trade payables for the construction of the new pharmaceuticals factory and the repurchase of recourse bills of exchange from a factoring company. Recourse bills of exchange on 31 December 2016 were booked under other payables position.

(in HRKm)	2016	2017	Δ
Net cash from operating activities	477	458	(19)
Net cash from investing activities	(359)	(191)	168
Net cash from financing activities	(72)	(242)	(170)
Net change of cash and cash equivalents	46	25	(21)

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

Net cash flow from operating activities as % of sales



One-off items in 2017 and 2016

One-off items	2016			2017			Δ		
(in HRKm)	Group	Food	Pharma	Group	Food	Pharma	Group	Food	Pharma
+expense related to China closing	-	-	-	1	1	-	1	1.3	-
+severance payments expenses	13	12	1	40	31	9	27	19	8
+(revenues) from Beverages sales	(8)	(8)	-	-	-	-	8	8	-
+(revenues) from reverse leasing Umag	(7)	(7)	-	-	-	-	7	7	-
+value adjustments expenses/(revenues)	11	9	2	45	45	-	34	36	(2)
+Warzyvko & Perfecta brands	-	-	-	18	18	-	18	18	-
+inventories in Serbia	-	-	-	11	11	-	14	14	-
+assets in MENA	-	-	-	1	1	-	1	1	-
+assets in Africa	-	-	-	16	16	-	16	16	-
+Beverages assets	9	9	-	-	-	-	(9)	(9)	-
+other one-off value adjustments	2	(0)	2	(1)	(1)	-	(3)	(1)	(2)
+amortization expenses	-	-	-	3	3	-	3	3	-
+ESOP programme expenses	3	2	1	4	3	1	1	1	0
+new Belupo factory expenses (+amortization)	2	-	2	25	-	25	23	-	23
+other one-off expenses	-	-	-	2	2	-	2	2	-
+deferred tax (assets)/liabilities	1	1	(0)	(9)	(9)	-	(10)	(10)	0

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Always with a heart!

LSEG, CIS & CEE Conference, London, 20th April 2018

