PODRAVKA

Podravka Group Business Results for **1-12 2017 period**

Content

Key financial indicators in 1-12 2017

(in HRK millions)	2017	2016	Δ	%
Sales revenues	4,111.2	4,185.5	(74.4)	(1.8%)
Adjusted sales revenues	4,112.9	4,065.9	47.0	1.2%
Normalized EBITDA[1]	434.9	471.8	(36.9)	(7.8%)
Normalized net profit after MI	165.6	197.7	(32.1)	(16.2%)
Net cash flow from operating activities	457.6	476.7	(19.1)	(4.0%)
Capital expenditures	206.8	437.1	(230.3)	(52.7%)

(in HRK; market capitalization in HRKm)	31.12.2017	31.12.2016	Δ	%
Net debt / normalized EBITDA	2.1	2.2	(0.1)	(5.3%)
Normalized earnings per share	23.8	28.5	(4.7)	(16.5%)
Last price at the end of period	270.0	377.5	(107.5)	(28.5%)
Market capitalization	1,877.1	2,615.9	(738.8)	(28.2%)
Return on average equity	5.8%	7.1%		-123 bp
Return on average assets	3.3%	4.0%		-66 bp

Key highlights in 1-12 2017:

- Reported sales are not fully comparable due to the disinvestment of the Beverages business at the end of 2016, recorded one-off sales of buffer stock to the Ministry of Economy in February 2016 and identified inconsistencies in the treatment of recording revenue on the market of Russia. On the comparable level, the Podravka Group recorded 1.2% revenue growth due to strong exports of the Pharmaceuticals segment, compensating for the problems with the key customer in the Adria region and the distributor in Western Europe,
- The Group's profitability in 2017 was heavily burdened by an unsustainable business model on new markets opened in 2015, problems with the key customer in the Adria region and the situation with the distributor in Western Europe,
- Consequently, the focus of the new management during 2017 was on the optimisation of the cost side and at the same time on redefining the business model with the aim to create presumptions for a sustainable and profitable business growth. For this purpose, certain business decisions were made that have a negative impact on the result in 2017, but enable creating future value for the company's shareholders.

[1]EBITDA is calculated in a way that EBIT was increased by the depreciation and amortization and impairment of assets.

Significant events in 1-12 2017

Changes in Supervisory Board and Management Board of Podravka Inc.

On 21st February 2017, the General Assembly of Podravka Inc. was held where the decision to recall two members of the Supervisory Board of Podravka Inc. was adopted - Mato Crkvenac and Ivo Družić. At the same General Assembly meeting, the decision on the election of four members of the Supervisory Board of Podravka Inc. was adopted - Marko Kolaković, Slavko Tešija, Luka Burilović and Damir Grbavac. The term of the elected members of Podravka Inc. Supervisory Board started as of 21st February 2017 and lasts until 7th September 2018. On 30th June 2017, the General Assembly of Podravka Inc. was held where the decisions were adopted to recall a member of the Podravka Inc. Supervisory Board Dinko Novoselec and to appoint Ivana Matovina as the Podravka Inc. Supervisory Board member for the period of 4 years.

On 23rd February 2017, the meeting of the Podravka Inc. Supervisory Board was held where the decision on the appointment of the president and members of the Management Board of Podravka Inc. was adopted. Marin Pucar was appointed president of the Management Board of Podravka Inc., Ljiljana Šapina, Iva Brajević and Hrvoje Kolarić were appointed as members of the Management Board. The term of the appointed president and members of the Management Board began as of 24th February 2017 and was determined to last until 31st October 2018, except for the appointed Management Board member Iva Brajević, whose term was determined to expire on 30th April 2017. As of 1st May 2017, Davor Doko was appointed a Podravka Inc. Management Board member, and his term was determined to last until the expiration of the term of the Management Board as a whole. At the Podravka Inc. Supervisory Board meeting held on 18th July 2017, the decisions were adopted that Marko Đerek be appointed from 19th July a member of the Management Board and that the term for the president and members of the Management Board be prolonged until 23rd February 2022.

Exposure of the Podravka Group to the key buyer in the Adria region

As of 10 April 2017, the extraordinary administration over companies in the Agrokor concern headquartered in Croatia was initiated and Podravka pays special attention to monitoring its exposure in operations with these companies. In the extraordinary administration procedure, receivables in the total amount of HRK 97.4 million were reported, of which HRK 60.9 million relates to bills of exchange. 99.3% of the reported receivables were accepted, while the remaining portion relates to receivables that were recorded in Podravka after 9 April 2017, which was subsequently adjusted. As at 31 December 2017, the total exposure of Podravka Inc. to Agrokor companies in the market of Croatia amounts to HRK 93.5 million, of which HRK

60.8 million relates to bills of exchange, HRK 3.2 million relates to the “old debt”, while the remainder relates to receivables from normal operations. Since the settlement procedure is still in progress and at the moment there are no indications of the final outcome, Podravka will include possible provisions for receivables from Agrokor concern companies in the audited statements.

In 2017, the Podravka Group successfully controlled its exposure to Agrokor companies, especially on the Croatian market where additional security measures were agreed with a simultaneous shortening of payment terms. The most significant negative impact on sales and profitability came from the market of Slovenia, where in November 2016 the product range was narrowed and Žito Group bakery products changed shelf positions. In the market of Bosnia and Herzegovina, the Podravka Group intentionally decreased its exposure to Agrokor companies, which resulted in lower sales. In the market of Serbia, due to inability to collect receivables, in the first three quarters of 2017 the Podravka Group often suspended deliveries even for longer time periods, which also resulted in reduced exposure. In the market of Montenegro, a revenue growth was recorded in 2017, coupled with reduced exposure. In total, compared to 9 April 2017, the Podravka Group reduced its exposure to Agrokor companies by HRK 45.1 million, so as at 31 December 2017 receivables amount to HRK 182.1 million.

Redefining business models on the markets of Africa, MENA and China

Analyses performed by Podravka Inc. management determined that operations on the markets of Africa, MENA and China are not sustainable because since 2015 they have continuously departed from business plans on which the business decision to invest in these markets was grounded. Cash expenditure for these markets since the beginning of 2015 is estimated at HRK 150 million, while at the same time revenue of slightly over HRK 20 million was recorded. The estimated total negative result on three HUB’s in 2017 amounts to HRK 27.9 mil. on the EBITDA level, or HRK 51.6 mil. on the net profit level, which negatively impacted Food profitability.

Consequently, management adopted decisions to terminate business operations in Tanzania and China, while in the MENA market a business model with lower expenses was introduced, and the final decision on operations in this region will be made after business results for the first six months of 2018. Following these decisions, at the end of 2017 the cost of impairment of assets for the company in Africa in the amount of HRK 16.3 million, the impairment cost for the company in MENA in the amount of HRK 1.3 million and provision expense for closing the representative office in China of HRK 1.3 million were recorded.

Refinancing borrowings under more favourable terms

In April 2017, the Podravka Group refinanced borrowings of HRK 95.0 million under more favourable commercial terms, while in July 2017 additional HRK 132.5 million of borrowings were refinanced under more favourable commercial terms. In December 2017, more favourable commercial terms were agreed for EUR 37.2 million borrowing used for the construction of the new Belupo factory. In January 2018, borrowings of HRK 105.0 million were refinanced under more favourable commercial terms. Overall, based on three refinanced borrowings and redefined terms for the fourth borrowing, in 2018 savings of HRK 9.3 million on interest expense are expected. Based on current market terms, projected savings until final maturities of the borrowings amount to HRK 25.4 million.

Stricter control of investments in 2017 and plans for 2018

For the purpose of a better cash flow management, a stricter control of investments in 2017 and plans for 2018 was introduced. The investment plan for 2017 amounted to HRK 325.8 million, while only necessary HRK 203.8 million were realised. Total investments planned for 2018 amount of HRK 217.4 million, which ensures using company's resources only for key projects that will result in additional value for shareholders.

Stable dividend policy implementation continues

On 27 April 2017, Podravka Inc. management made a draft decision to distribute dividend in the gross amount of HRK 7.00 per share, continuing to consistently apply the dividend distribution policy even in a challenging business environment. As at 30 June 2017, by the Decision on the use of Podravka Inc.'s profit for 2016, the General Assembly approved the dividend distribution to shareholders of Podravka Inc. in the gross amount of HRK 7.00 per share. The dividend was distributed on 30 August 2017, for which HRK 48.6 million were used.

Commissioning of the new pharmaceuticals factory

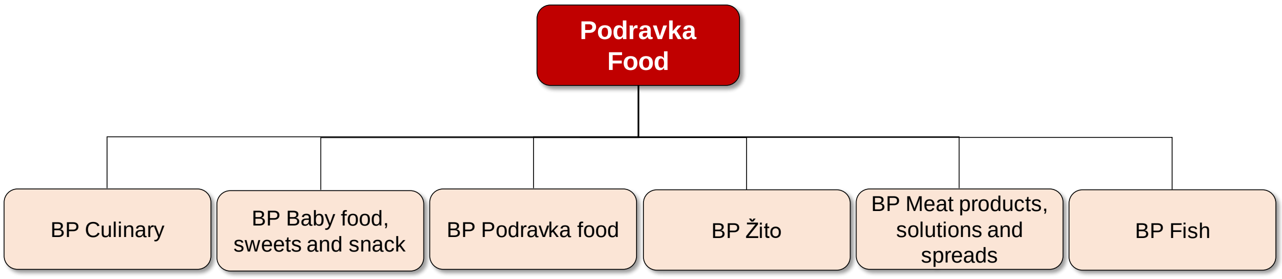
On 16 May 2017 a new Belupo production plant for solid, semi-solid and liquid drugs was opened, representing the extension of the existing production capacities. HRK 535 million were invested in the construction and equipment of one of the most advanced pharmaceutical plants in the region. 45 percent of the investment was financed by own funds, and 55 percent by a loan from Croatian Bank for Reconstruction and Development (HBOR). The new factory employed two hundred persons and production capacities are 150 percent higher than before.

The Agency for Medicinal Products and Medical Devices of Croatia (HALMED) issued the Production permit to Belupo, confirming that the factory of solid, semi-solid and liquid drugs fulfils all legal requirements related to the premises, equipment, employed staff and documentation, and that all principles of good manufacturing practice are applied. The Production permit covers all Belupo's newly constructed plants, which allows the drugs produced in the new factory to be put on market. In addition to the Production permit, Belupo was also issued a new Good Manufacturing Practice (GMP) Confirmation, representing the assurance that all manufacturing procedures for drugs and/or tested drugs are in line with good manufacturing practice and the Production permit. In other words, all drugs produced on the new production site have the regulator's approval for the distribution on the markets of the European Union.

In new factories, the production process and the technology transfer are implemented in line with the time schedule. The planned objective for 2018 is to produce 17 percent of Belupo's sales from products manufactured in Koprivnica in the new plants. The new factory of solid, semi-solid and liquid drugs will start to operate with fully capacity after the technology transfer is completed, at the end of 2018.

Business units – the basis of the Podravka's new organisation

At the beginning of July 2017, the Podravka Group finalised the process of internal reorganisation of the Food segment by introducing the new organisation.



Podravka's operations are organised in 6 key business units; BU Culinary, BU Podravka food, BU Baby food, sweets and snacks, BU Meat products, meat solutions and savoury spreads, BU Fish and BU Žito. Each business unit is responsible for sales, profitability of the business unit, brand strategy, business development, marketing budget management, product portfolio (structure, complexity, margin), jointly responsible for production materials/cost of goods sold and together with markets jointly responsible for sales. The sectors Corporate marketing and communications and Research and development become excellence centres for support and providing guidance from their fields to business units and they develop and ensure the implementation of corporate standards for marketing and research and development within the business units.

Overview of sales revenues in 1-12 2017

At the end of 2016, Podravka Inc. sold the Beverages business that recorded sales of HRK 82.2 million in 2016. Also, in February 2016, extraordinary delivery of buffer stock to the Ministry of Economy was made in the amount of HRK 12.0 million, related to the migration of population from war-torn areas through the territory of Croatia. During 2017, the identified inconsistencies in the treatment of recording revenue in the Food segment on the Russian market were adjusted, that were largely a result of a different trade marketing activities classification. These developments make full comparability of movements of revenue between the current and the previous year impossible, therefore it was decided to present an adjusted overview of movements of revenue without the effect of the sold Beverages business, one-off revenue from the extraordinary delivery of buffer stock to the Ministry of Economy and with the consistent treatment of recording revenues in both periods. The text below describes the movements of adjusted revenue for the purpose of presenting the movements of the Podravka Group's core business as realistically as possible.

Sales revenues by segments in 1-12 2017

	REPORTED SALES REVENUES				ADJUSTED SALES REVENUES			
(in HRK millions)	2017	2016	Δ	%	2017	2016	Δ	%
Food	**3,243.7**	**3,370.3**	**(126.6)**	**(3.8%)**	**3,245.5**	**3,250.7**	**(5.2)**	**(0.2%)**
Own brands	*2,987.0*	*3,123.6*	*(136.6)*	*(4.4%)*	*2,988.6*	*3,004.1*	*(15.4)*	*(0.5%)*
Other sales	*256.7*	*246.7*	*10.0*	*4.1%*	*256.8*	*246.6*	*10.2*	*4.1%*
Pharmaceuticals	**867.5**	**815.2**	**52.3**	**6.4%**	**867.5**	**815.2**	**52.3**	**6.4%**
Own brands	*728.9*	*681.8*	*47.0*	*6.9%*	*728.9*	*681.8*	*47.0*	*6.9%*
Other sales	*138.6*	*133.4*	*5.2*	*3.9%*	*138.6*	*133.4*	*5.2*	*3.9%*
Podravka Group	**4,111.2**	**4,185.5**	**(74.4)**	**(1.8%)**	**4,112.9**	**4,065.9**	**47.0**	**1.2%**
Own brands	*3,715.8*	*3,805.4*	*(89.6)*	*(2.4%)*	*3,717.5*	*3,685.9*	*31.6*	*0.9%*
Other sales	*395.3*	*380.1*	*15.2*	*4.0%*	*395.4*	*380.0*	*15.4*	*4.1%*

Movements of adjusted revenues of the Food segment (1-12 2017 compared to 1-12 2016):

- **Own brands** recorded 0.5% lower sales, significantly impacted by the dynamics of sales to the new distributor in Western Europe and the absence of sales of a portion of the Žito Group's bakery range to the key customer in the market of Slovenia. In the middle of 2016, Podravka replaced the distributor in Western Europe to whom in the last two months of 2016 total goods were sold in the amount of the realised sales of the first four and a half months of 2017. On the one hand, this reduced the sales to the distributor in the first quarter of 2017 and also formed a high comparative basis. At the end of 2016, unlisting of a certain portion of the Žito Group's bakery range began with the key customer in the market of Slovenia, which significantly impacted the revenue realised in 2017. If the FX effect is excluded, it is estimated own brands would record 0.3% lower sales,

- **Other sales** recorded 4.1% higher sales as a result, among other things, of the trade goods of the Lagris company sales growth. If the FX effect is excluded, other sales record an estimated 4.2% sales growth,

- Consequently, the **Food segment** in 2017 recorded sales slightly below the comparative period, while if the FX effect is excluded, the sales are estimated at the same level as in 2016.

Movements of revenues of the Pharmaceuticals segment (1-12 2017 compared to 1-12 2016):

- **Own brands** recorded a 6.9% sales growth, primarily due to the extension of the product range in the market of Russia. If the FX effect is excluded, own brands record an estimated 4.9% increase in sales,
- **Other sales** revenues are 3.9% higher as a result of the increase in sales of trade goods in Deltis Pharm pharmacies. If the FX effect is excluded, other sales record an estimated 4.5% sales growth,
- Consequently, the **Pharmaceuticals segment** recorded 6.4% higher sales. If the FX effect is excluded, the Pharmaceuticals segment records an estimated 4.8% increase in sales.

Movements of adjusted revenues of the Podravka Group (1-12 2017 compared to 1-12 2016):

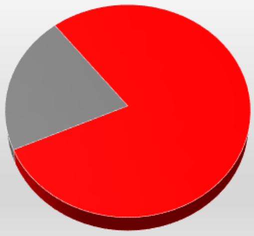
- **Own brands** of the Podravka Group recorded a 0.9% sales growth, while if the FX effect is excluded, it is estimated the sales would be 0.6% higher,
- The revenues from **other sales** are 4.1% higher than in the comparative period. If the effect of foreign exchange differences is excluded, other sales record an increase in sales of estimated 4.3%,
- Consequently, the **Podravka Group** recorded 1.2% higher sales, while if the FX effect is excluded, it is estimated the sales would be 1.0% higher.

Estimated net effect of currency exchange rates on adjusted sales by segment in 1-12 2017:

(in HRK millions)	Own brands	Other sales	Total
Food	(5.5)	(0.1)	(5.6)
Pharmaceuticals	13.6	(0.8)	12.8
Group	8.1	(0.9)	7.2

- The effect of FX differences on sales is the estimate of the revenue amount in 1-12 2017 had the exchange rates remained at the same level as in 1-12 2016,
- The most significant negative effect on revenue is recorded by the Euro (HRK -14.7 million) and the Bosnian mark (HRK -4.0 million), while the most significant positive effect is recorded by the Russian ruble (HRK +23.2 million).

Sales revenues by segment in 2017



Sales revenues by business unit[2] and category in 1-12 2017

	REPORTED SALES REVENUES				ADJUSTED SALES REVENUES			
(in HRK millions)	**2017**	**2016**	**Δ**	**%**	**2017**	**2016**	**Δ**	**%**
BP Culinary	880.4	912.5	(32.1)	(3.5%)	881.1	895.9	(14.8)	(1.7%)
BP Baby food	378.3	467.2	(88.9)	(19.0%)	377.9	385.1	(7.1)	(1.9%)
BP Podravka food	388.7	388.1	0.6	0.1%	390.2	382.0	8.2	2.2%
BP Žito	894.0	901.3	(7.3)	(0.8%)	894.0	901.3	(7.3)	(0.8%)
BP Meat products	270.9	280.6	(9.6)	(3.4%)	270.9	266.1	4.8	1.8%
BP Fish	174.6	173.8	0.8	0.5%	174.6	173.8	0.8	0.5%
Prescription drugs	630.6	586.2	44.4	7.6%	630.6	586.2	44.4	7.6%
Non-prescription pr.	98.3	95.6	2.6	2.7%	98.3	95.6	2.6	2.7%
Other sales	395.3	380.1	15.2	4.0%	395.4	380.0	15.4	4.1%
Podravka Group	**4,111.2**	**4,185.5**	**(74.4)**	**(1.8%)**	**4,112.9**	**4,065.9**	**47.0**	**1.2%**

Movements of adjusted revenues by business unit and category (1-12 2017 vs. 1-12 2016):

- The **Culinary business unit** recorded 1.7% lower sales, primarily due to lower sales in Western Europe. Lower sales in Western Europe are related to the sales dynamics to the new distributor to whom in the last two months of 2016 the goods from the Culinary range were sold in the amount of the sales realised in the first five months of 2017. If the FX effect is excluded, it is estimated the business unit would record 2.0% lower sales,

- The **Baby food, sweets and snacks business unit** recorded 1.9% lower sales, mainly as a result of lower sales of the snacks range due to poor acceptance of the redesign launched in mid 2016. If the FX effect is excluded, it is estimated the business unit would record 1.4% lower sales,

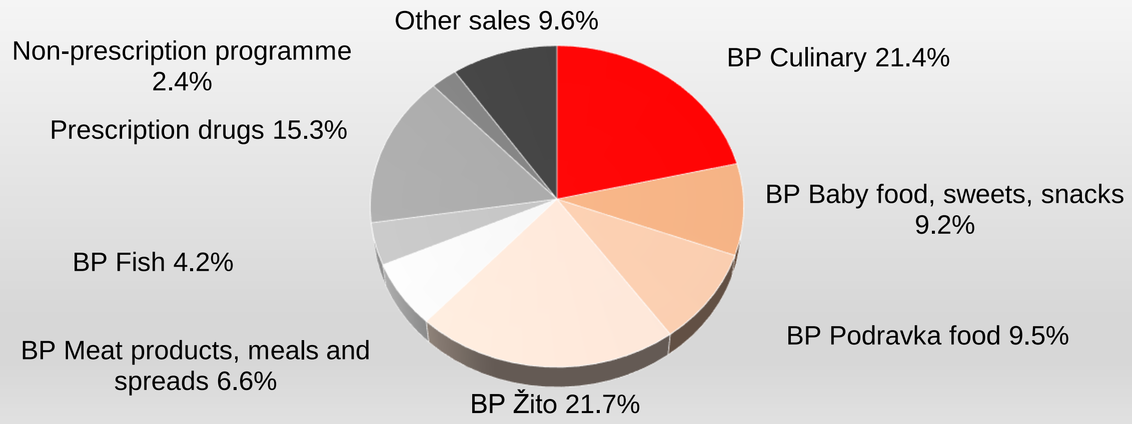
- The **Podravka food business unit** recorded 2.2% higher sales, where the significant revenue growth of the vegetables range in the Croatian market should be noted, due to the expansion of distribution. This annulled lower sales of frozen vegetables in the Russian market due to limited packaging capacities of a Podravka's supplier from Serbia and lower sales of condiments in Western Europe due

[2]New categorisation of the Food segment revenues, explained in the "Additional tables for 1-12 2017" section.

to the dynamics of sales to the new distributor. If the FX effect is excluded, it is estimated the business unit would record 1.8% higher sales,

- A significant increase in sales of the **Žito business unit** was recorded in Western Europe, especially in Italy, Germany and Spain due to the extension of the product range and distribution. This was annulled by the significant absence of sales of a certain bakery range with the key customer in the Slovenian market due to unlisting that began at the end of 2016. If the FX effect is excluded, it is estimated the business unit would record sales at the same level as in the comparative period,
- The **Meat products, meat solutions and savoury spreads business unit** recorded 1.8% higher sales, while if the FX effect is excluded, the sales growth is estimated at 2.1%,
- The **Fish business unit** recorded 0.5% higher sales primarily due to higher sales of own brands in the Croatian market. If the FX effect is excluded, it is estimated the business unit would record 0.8% higher sales,
- The **Prescription drugs category** recorded 7.6% higher sales, with the most significant growth recorded in the market of Russia due to extended product range. If the FX effect is excluded, it is estimated the category would record 5.5% higher sales,
- The sales of the **Non-prescription programme category** grew by 2.7%, as a result of the extension of the product range in the Russian market, and implemented selling and marketing activities in the Croatian market. If the FX effect is excluded, it is estimated the category would record 1.3% higher sales,
- The **Other sales category** recorded 4.1% higher sales, primarily due to the increase in sales of trade goods of the company Lagris and the increase in sales of trade goods in Deltis pharm pharmacies. If the FX effect is excluded, it is estimated the category would record 4.3% higher sales.

Sales revenues by business unit and category in 2017



Sales revenues by region[3] in 1-12 2017

	REPORTED SALES REVENUES				ADJUSTED SALES REVENUES			
(in HRK millions)	**2017**	**2016**	**Δ**	**%**	**2017**	**2016**	**Δ**	**%**
Adria	**2,888.7**	**2,997.5**	**(108.7)**	**(3.6%)**	**2,888.4**	**2,903.8**	**(15.4)**	**(0.5%)**
Food	*2,267.8*	*2,375.8*	*(108.0)*	*(4.5%)*	*2,267.4*	*2,282.1*	*(14.6)*	*(0.6%)*
Pharmaceuticals	*621.0*	*621.7*	*(0.7)*	*(0.1%)*	*621.0*	*621.7*	*(0.7)*	*(0.1%)*
WE and Overseas	**423.0**	**420.6**	**2.4**	**0.6%**	**423.0**	**420.3**	**2.7**	**0.6%**
Food	*420.6*	*418.5*	*2.1*	*0.5%*	*420.6*	*418.2*	*2.3*	*0.6%*
Pharmaceuticals	*2.4*	*2.1*	*0.3*	*15.0%*	*2.4*	*2.1*	*0.3*	*15.0%*
Central Europe	**482.3**	**480.4**	**2.0**	**0.4%**	**482.3**	**480.4**	**2.0**	**0.4%**
Food	*428.5*	*431.3*	*(2.8)*	*(0.7%)*	*428.5*	*431.3*	*(2.8)*	*(0.7%)*
Pharmaceuticals	*53.8*	*49.0*	*4.8*	*9.8%*	*53.8*	*49.0*	*4.8*	*9.8%*
Eastern Europe	**286.9**	**262.1**	**24.8**	**9.4%**	**289.0**	**236.6**	**52.4**	**22.1%**
Food	*108.7*	*128.2*	*(19.6)*	*(15.3%)*	*110.8*	*102.8*	*8.1*	*7.8%*
Pharmaceuticals	*178.2*	*133.8*	*44.3*	*33.1%*	*178.2*	*133.8*	*44.3*	*33.1%*
New markets	**30.3**	**25.0**	**5.3**	**21.0%**	**30.2**	**24.8**	**5.4**	**21.7%**
Food	*18.2*	16.5	*1.7*	*10.3%*	*18.1*	*16.3*	*1.8*	*11.1%*
Pharmaceuticals	*12.1*	8.5	*3.6*	*41.7%*	*12.1*	*8.5*	*3.6*	*41.7%*
Podravka Group	**4,111.2**	**4,185.5**	**(74.4)**	**(1.8%)**	**4,112.9**	**4,065.9**	**47.0**	**1.2%**

Movements of adjusted revenues by region (1-12 2017 compared to 1-12 2016):

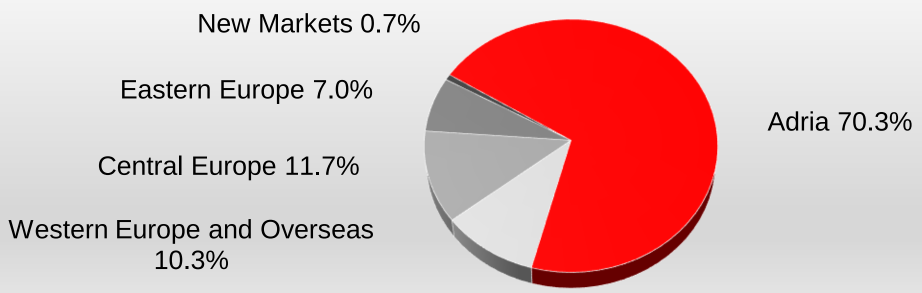
- The **Adria region** recorded 0.5% lower sales, while if the FX effect is excluded, sales are slightly lower than in the comparative period. In the Food segment, the most significant sales growth was recorded by the business unit Podravka food due to expansion of the vegetables range distribution, which mitigated the absence of the Žito business unit revenues. In Slovenia, the Žito business unit recorded significantly lower revenues due to unlisting of a certain bakery range that began at the end of 2016. Revenues of the Pharmaceuticals segment in the Adria region were slightly lower than in the comparative period,
- Revenues of the **Western Europe and Overseas region** were 0.6% higher than in the comparative period, while if the FX effect was excluded, it is estimated the region would record 1.1% higher sales. Here the sales growth of the Žito business unit should be noted, due to the extension of the product range and distribution in the markets of Italy, Germany and Spain and the increase in revenues from trade goods of the Lagris company. This managed to compensate for the sales dynamics to the new distributor in the market of Western Europe to whom in the last two months of 2016 total goods were

[3]New categorisation of regions, explained in the “Additional tables for 1-12 2017” section.

sold in the amount of sales realised in the first four and a half months of 2017. The Pharmaceuticals segment records a mild revenue growth in the market of Germany,

- The **Central Europe region** recorded 0.4% higher sales, while if the FX effect was excluded, it is estimated the region would record 0.3% lower sales. The Food segment recorded higher sales of own brands, which was annulled by lower sales of trade goods of the Lagris company. The Pharmaceuticals segment recorded 9.8% higher sales due to the increase in sales in the markets of Poland and the Czech Republic,
- Revenues of the **Eastern Europe region** grew by 22.1%, while if the FX effect was excluded, it is estimated the region would record 12.3% higher sales. The Food segment recorded a 7.8% sales growth due to selling activities on the Culinary range with the most significant customers and the increase in sales of trade goods of the Lagris company. The Pharmaceuticals segment records a 33.1% sales growth following the extension of the product range,
- The **New markets region** recorded a 21.7% sales growth, while if the FX effect was excluded, the region would record an estimated 22.5% sales growth. The growth in the Food segment is encouraged by the sales growth in the Baby food, sweets and snacks business unit and of trade goods of the Lagris company, while in the Pharmaceuticals segment, sales of the Prescription drugs category grew in the market of Turkey.

Sales revenues by region in 2017



Profitability in 1-12 2017

Profitability of the Food segment in 1-12 2017

The focus of the new management during 2017 was on the optimition of the cost side of the Food segment and at the same time on redefining the business model with the aim to create presumptions for a sustainable and profitable business growth. The optimization of the cost side was successfully implemented through a number of internal activities and measures, but also through external refinancing of borrowings under more favourable terms. In order to create presumptions for a sustainable and profitable business growth, it was necessary to make certain business decisions that in 2017 negatively impact the result, but also enable creating future value for the company's shareholders. The decisions relate to significant impairments of assets, in the total amount of HRK 44.9 million, where it should be noted that these are non-cash items. The most significant costs related to impairments of assets relate to the impairment of brands Warzyvko and Perfecta in the amount of HRK 17.9 million, impairment of assets in HUB's in Africa and MENI in the amount of HRK 17.6 million and impairment of inventories of frozen vegetables in Serbia in the amount of HRK 10.7 million. An additional one-off item that burdened the profitability of the Food segment in 2017 is the cost of severance payments in the amount of HRK 31.3 million (HRK 11.7 million in 2016). All one-off items and their calculation are presented in the "Additional tables for 1-12 2017" section, while the text below describes movements of the normalised result in order to present the development of the Food segment core business without the effect of one-off items. Sales revenues for the purpose of profitability normalisation were retained at the reported levels.

Profitability of the Food segment					Normalized			
(in HRK millions)	**2017**	**2016**	**Δ**	**%**	**2017**	**2016**	**Δ**	**%**
Sales revenue	3,243.7	3,370.3	(126.6)	(3.8%)	3,243.7	3,370.3	(126.6)	(3.8%)
Gross profit	1,039.3	1,107.0	(67.7)	(6.1%)	1,057.9	1,107.0	(49.1)	(4.4%)
EBITDA*	243.3	317.1	(73.9)	(23.3%)	277.5	314.4	(36.9)	(11.7%)
EBIT	52.4	158.2	(105.8)	(66.9%)	134.4	164.6	(30.2)	(18.3%)
Net profit after MI	6.5	111.3	(104.7)	(94.1%)	83.0	121.3	(38.3)	(31.6%)
Gross margin	32.0%	32.8%		-80 bp	32.6%	32.8%		-23 bp
EBITDA margin	7.5%	9.4%		-191 bp	8.6%	9.3%		-77 bp
EBIT margin	1.6%	4.7%		-308 bp	4.1%	4.9%		-74 bp
Net margin after MI	0.2%	3.3%		-310 bp	2.6%	3.6%		-104 bp

*EBITDA is calculated in a way that EBIT was increased by the depreciation and amortization and impairment of assets.

Normalised profitability of the Food segment (1-12 2017 compared to 1-12 2016):

- In 2017, the Food segment recorded 4.4% lower **gross profit** than in the comparative period due to lower revenues, but also due to changes in their structure, as explained in the "Overview of sales revenues in 1-12 2017" section. At the same time, cost of goods sold decreased by 3.4%, which eventually resulted in a gross margin of 32.6%,
- In 2017, **operating profit (EBIT)** is 18.3% lower than in the comparative period. Almost half of the decrease in operating profit arises from lower profitability of the Žito Group, primarily due to the situation with the key customer in the Slovenian market. An additional negative impact on operating profit, in addition to the factors mentioned above, came from higher expenses of exercised share options (HRK 12.5 million in 2017; HRK 7.0 million in 2016) and unfavourable movements of foreign exchange differences on trade receivables and trade payables (HRK 5.2 million FX losses in 2017; HRK 3.1 million FX gains in 2016),
- In 2017, under the impact of the previously mentioned factors, **net profit after minority interests** is 31.6% lower compared to 2016. An additional negative effect on net profit came from the increase in net finance costs due to unfavourable movements of FX differences on borrowings (HRK 10.6 million FX losses in 2017; HRK 8.6 million FX gains in 2016), which was partly mitigated by lower interest expense.

Profitability of the Pharmaceuticals segment in 1-12 2017

In the middle of 2017, the new Belupo pharmaceuticals factory was completed, the biggest greenfield investment in the company's history, while the production permit, after meeting all the regulatory requirements, was obtained at the end of 2017. As the factory was operational during the entire 2017, fixed factory expenses significantly impacted the segment's profitability (HRK 25.4 million of fixed expenses in 2017; HRK 2.4 million in 2016), while at the same time, due to the time frame of obtaining all regulatory permits, there was no contribution on the income side. Thus, in 2017 an unrealistic profitability level was formed, so it was decided to present the profitability of the Pharmaceuticals segment without the effect of the new factory in order to enable a comparative analysis with 2016. Among other one-off items, we should mention costs of severance payments (HRK 8.6 million in 2017; HRK 0.8 million in 2016). All one-off items and their calculation are presented in the "Additional tables for 1-12 2017" section, while the text below describes movements of the normalised result in order to present the development of the Pharmaceuticals segment core business as realistically as possible.

Profitability of the Pharmaceuticals segment					**Normalized**			
(in HRK millions)	**2017**	**2016**	**Δ**	**%**	**2017**	**2016**	**Δ**	**%**
Sales revenue	867.5	815.2	52.2	6.4%	867.5	815.2	52.2	6.4%
Gross profit	444.8	428.1	16.6	3.9%	470.1	430.5	39.6	9.2%
EBITDA*	130.8	154.2	(23.4)	(15.2%)	157.4	157.3	0.1	0.0%
EBIT	82.8	110.7	(27.9)	(25.2%)	116.7	115.8	1.0	0.9%
Net profit after MI	47.9	71.1	(23.3)	(32.7%)	82.6	76.3	6.2	8.1%
Gross margin	51.3%	52.5%		-125 bp	54.2%	52.8%		+139 bp
EBITDA margin	15.1%	18.9%		-383 bp	18.1%	19.3%		-115 bp
EBIT margin	9.5%	13.6%		-404 bp	13.5%	14.2%		-74 bp
Net margin after MI	5.5%	8.7%		-321 bp	9.5%	9.4%		+15 bp

*EBITDA is calculated in a way that EBIT was increased by the depreciation and amortization and impairment of assets.

Normalised profitability of the Pharmaceuticals segment (1-12 2017 compared to 1-12 2016):

- In 2017, the Pharmaceuticals segment recorded an increase in **gross profit** of 9.2%, while gross margin is 54.2%. The recorded gross profit, in addition to the increase in revenue, was impacted by the increase in cost of goods sold of 3.3% in line with the sales structure,
- In 2017, **operating profit (EBIT)** is 0.9% higher than in the comparative period. The recorded operating profit was, in addition to the mentioned above, affected by higher marketing expenses due to higher investments in the Russian market and extremely unfavourable FX movements on trade receivables and trade payables (HRK 7.3 million FX losses in 2017; HRK 15.4 million FX gains in 2016). Share option expenses were slightly below the comparative period (HRK 0.2 million in 2017; HRK 1.0 million in 2016),
- In 2017, under the impact of the previously mentioned factors, **net profit after minority interests** is 8.1% higher compared to 2016. An additional positive effect on net profit came from higher finance

income and favourable movements of foreign exchange differences on borrowings (HRK 0.3 million FX gains in 2017; HRK 2.6 million FX losses in 2016).

Profitability of the Podravka Group in 1-12 2017

Profitability of the Podravka Group in the observed period is impacted by a number of decisions that negatively impact profitability in 2017, but are a necessary precondition for a sustainable and profitable business growth. Redefining the Food business model, the redundancy labour programme, the construction of the new Belupo factory – all these business decisions initially incur costs, but at the same time enable creating future value for shareholders. All one-off items and their calculation are presented in the "Additional tables for 1-12 2017" section, while the text below describes the movements of the normalised result in order to present the development of the Podravka Group core business as realistically as possible. Sales revenues for the purpose of profitability normalisation were retained at the reported levels.

Profitability of the Podravka Group					Normalized			
(in HRK millions)	2017	2016	Δ	%	2017	2016	Δ	%
Sales revenue	4,111.2	4,185.5	(74.4)	(1.8%)	4,111.2	4,185.5	(74.4)	(1.8%)
Gross profit	1,484.1	1,535.2	(51.1)	(3.3%)	1,528.1	1,537.6	(9.5)	(0.6%)
EBITDA*	374.1	471.3	(97.2)	(20.6%)	434.9	471.8	(36.9)	(7.8%)
EBIT	135.2	268.9	(133.7)	(49.7%)	251.1	280.3	(29.2)	(10.4%)
Net profit after MI	54.4	182.4	(128.0)	(70.2%)	165.6	197.7	(32.1)	(16.2%)
Gross margin	36.1%	36.7%		-58 bp	37.2%	36.7%		+43 bp
EBITDA margin	9.1%	11.3%		-216 bp	10.6%	11.3%		-69 bp
EBIT margin	3.3%	6.4%		-314 bp	6.1%	6.7%		-59 bp
Net margin after MI	1.3%	4.4%		-303 bp	4.0%	4.7%		-70 bp

*EBITDA is calculated in a way that EBIT was increased by the depreciation and amortization and impairment of assets.

Normalised profitability of the Podravka Group (1-12 2017 compared to 1-12 2016):

- In 2017, the Podravka Group recorded 0.6% lower **gross profit** than in the comparative period, with a gross margin of 37.2%, where the Pharmaceuticals segment almost fully compensated for the lower gross profit of the Food segment,
- In 2017, **operating profit (EBIT)** is 10.4% lower compared to 2016. Almost half of the decrease in operating profit arises from lower profitability of the Žito Group, primarily due to the situation with the key customer in the Slovenian market. An additional negative impact on operating profit, in addition to the previously mentioned factors, came from higher expenses of exercised share options (HRK 12.8 million in 2017; HRK 8.0 million in 2016) and unfavourable FX movements on trade receivables and trade payables (HRK 12.5 million FX losses in 2017; HRK 18.5 million FX gains in 2016),

- In 2017, under the impact of the previously mentioned factors, **net profit after minority interests** is 16.2% lower than in the comparative period. An additional negative effect on net profit came from the increase in net finance costs due to unfavourable movements of FX differences on borrowings (HRK 10.3 mil. FX losses in 2017; HRK 6.0 mil. FX gains in 2016), partly mitigated by lower interest expense following the refinancing under more favourable commercial terms.

Key characteristics of the income statement in 1-12 2017

Other income and expenses, net

In 2017, other income and expenses amounted to negative HRK 25.1 million, while in the comparative period they amounted to positive HRK 28.8 million. In 2017, foreign exchange differences from trade receivables and trade payables amounted to negative HRK 12.5 million, while in the comparative period they amounted to positive HRK 18.5 million. In 2017, impairment costs amounted to HRK 44.9 million, while in 2016 they amounted to HRK 11.0 million. Also, in 2016 HRK 6.6 million of income from leaseback was recorded, which is absent in 2017.

Value adjustments	**2017**			**2016**		
(in HRK millions)	**Group**	**Food**	**Pharma**	**Group**	**Food**	**Pharma**
Value adjustments	**44.9**	**44.9**	**-**	**11.0**	**9.1**	**1.9**
+Warzyvko & Perfecta brands	17.9	17.9	-	-	-	-
+inventories in Serbia	10.7	10.7	-	-	-	-
+assets in MENA	1.3	1.3	-	-	-	-
+assets in Africa	16.3	16.3	-	-	-	-
+Studenac assets	-	-	-	9.3	9.3	-
+other one-off adjustments	(1.3)	(1.3)	-	1.7	(0.2)	1.9

Cost of goods sold

Cost of goods sold in the observed period is 0.9% lower compared to 2016, while at the normalised level it is 2.4% lower, as a result of lower sales in the Food segment.

General and administrative expenses

In 2017, general and administrative expenses were 10.8% higher than in the comparative period, primarily due to significantly higher costs of termination benefits. At the normalised level, general and administrative expenses are 0.7% higher due to, among other things, higher costs of exercised share options.

Selling and distribution costs

Selling and distribution costs in the observed period are 0.9% lower compared to 2016 due to, among other things, disinvestment of the Beverages business that was incurring significant distribution costs. At the normalised level, selling and distribution costs are 1.5% lower.

Marketing expenses

In 2017, marketing expenses are 0.5% lower 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.

Net finance costs

In the observed period, net finance costs grew by 34.2% since foreign exchange differences on borrowings in 2017 amount to negative HRK 10.3 million, while in the comparative period they amounted to positive HRK 6.0 million. At the same time, interest expense is 15.6% lower due to refinancing of borrowings under more favourable commercial terms.

Income tax

In 2017, income tax of the Podravka Group was 31.6% lower than in the comparative period as a result of, among other things, lower sales in the Food segment. At the normalised level, income tax was 13.3% lower.

Key characteristics of the balance sheet as at 31 December 2017

Intangible assets

HRK 27.7 million lower compared to 31 December 2016, primarily due to impairment of Warzywko and Perfecta brands.

Property, plant and equipment

Property, plant and equipment of the Podravka Group are HRK 13.6 million higher compared to 31 December 2016, which is related to the construction of the new Belupo factory.

Inventories

Compared to 31 December 2016, inventories of the Podravka Group are HRK 32.2 million higher, as a result of increased plans for the production of own products and trade goods.

Trade and other receivables

Trade and other receivables of the Podravka Group are HRK 185.7 million lower than as at 31 December 2016 due to lower receivables for recourse bills of exchange and lower sales in the Food segment, and better collection in the Pharmaceuticals segment in the domestic and foreign markets.

Cash and cash equivalents

Cash and cash equivalents of the Podravka Group at the end of the observed period are HRK 24.5 million higher compared to 31 December 2016, as explained in the "Key characteristics of the cash flow statement in 1-12 2017" section.

Long-term and short-term borrowings

As at 31 December 2017, long-term and short-term borrowings of the Podravka Group are HRK 105.6 million lower than as at 31 December 2016, due to repayment of a part of borrowings. In 2017, the Podravka Group refinanced two borrowings and redefined terms for the third borrowing under more favourable commercial terms.

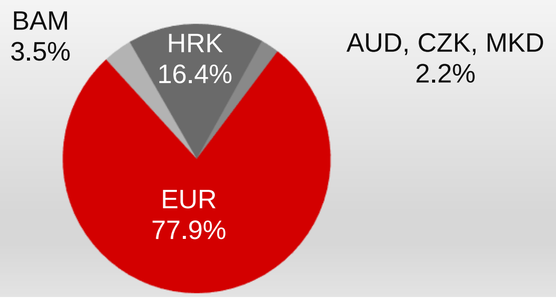
Trade and other payables

Trade and other payables of the Podravka Group are 10.6% lower compared to 31 December 2016 due to the settlement of a portion of trade payables for the construction of the new pharmaceuticals factory and following the repurchase of recourse bills of exchange from a factoring company.

Indebtedness

As at 31 December 2017, the total debt of the Podravka Group related to borrowings and other interest-bearing financial liabilities was HRK 1,271,146 thousand, of which HRK 915,210 thousand relates to long-term borrowings, HRK 354,305 thousand to short-term borrowings, and HRK 1,631 thousand to swap and forward contract liabilities. The **average weighted cost of debt** on all the stated liabilities as at 31 December 2017 was 2.0%.

Currency structure of debt as at 31 December 2017



Analysing the debt currency structure, the highest exposure, of 77.9% was toward the Euro, while 16.4% of the debt was in the domestic currency. 3.5% of the debt was in the Bosnia and Herzegovina mark, while the remainder of 2.2% relates to the Australian dollar (AUD), Czech koruna (CZK) and Macedonian denar (MKD).

*(in HRK thousands)**	2017	2016	Δ	%
Net debt	909,064	1,041,740	(132,676)	(12.7%)
Interest expense	26,871	31,476	(4,606)	(14.6%)
Net debt / normalized EBITDA	2.1	2.2	(0.1)	(5.3%)
Normalized EBIT / Interest expense	9.3	8.9	0.4	4.9%
Equity to total asset ratio	57.4%	55.4%		+207 bp

***Note:** all indicators are calculated in a way that income statement items are calculated at the level of the last 12 months, while balance sheet items are taken at the period end.

The decrease in net debt as at 31 December 2017 compared to 31 December 2016 is primarily a result of repayment of a portion of borrowings in the amount of HRK 108.2 million. The decrease in net debt led to a slightly lower net debt to normalised EBITDA ratio, while lower interest expense positively impacted the interest coverage ratio.

Key characteristics of the cash flow statement in 1-12 2017

(in HRK millions)	2017	2016	Δ
Net cash flow from operating activities	457.6	476.7	(19.1)
Net cash flow from investing activities	(191.0)	(358.9)	167.9
Net cash flow from financing activities	(242.1)	(72.1)	(170.0)
Net increase / (decrease) of cash and cash equivalents	24.5	45.7	(21.3)

Net cash flow from operating activities

In 1-12 2017, net cash flow from operating activities is HRK 19.1 million lower than in the comparative period, primarily as a result of the lower level of operating activities. Movements of working capital had a positive impact on cash flow from operating activities, as well as lower interest paid.

Net cash flow from investing activities

Net cash flow from investing activities in the period under consideration amounted to negative HRK 191.0 million. This is primarily the result of capital expenditure amounting to HRK 206.8 million. The most significant **capital expenditure** in 1-12 2017 was related to:

- New Belupo factory for solid, semi-solid and liquid drugs – continuation of activities from 2016. The realisation of this strategic investment will increase the existing production capacities, which will meet the increasing market needs and ensure competitiveness and market position of Belupo,
- Investment in equipment and machinery for further development of fish business due to increased production capacities and competitiveness of the product range,

- Investment in a boiler room on biomass which will ensure significant energy efficiency,
- New line for pastry packaging. The investment relates to the replacement of the existing line, which will ensure the production continuity and create the precondition for extending the product range of salty pastry and biscuits packaging.

In 2018, **capital expenditure is expected** to be at a level of HRK 217.4 million, in 2019 at a level of HRK 250 - 300 million and in the 2020-2022 period at a level of approximately HRK 200 million.

Net cash flow from financing activities

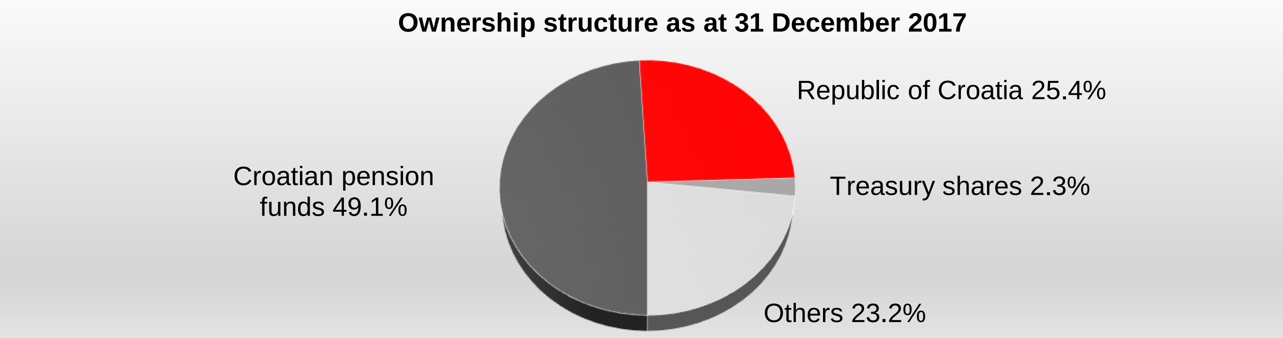
In 1-12 2017, net cash flow from financing activities amounted to negative HRK 242.1 million, since repaid borrowings were HRK 199.6 million higher than borrowings received and due to the dividend distribution in the amount of HRK 48.6 million. Borrowings received were used for refinancing of due liabilities under more favourable terms.

Share in 1-12 2017

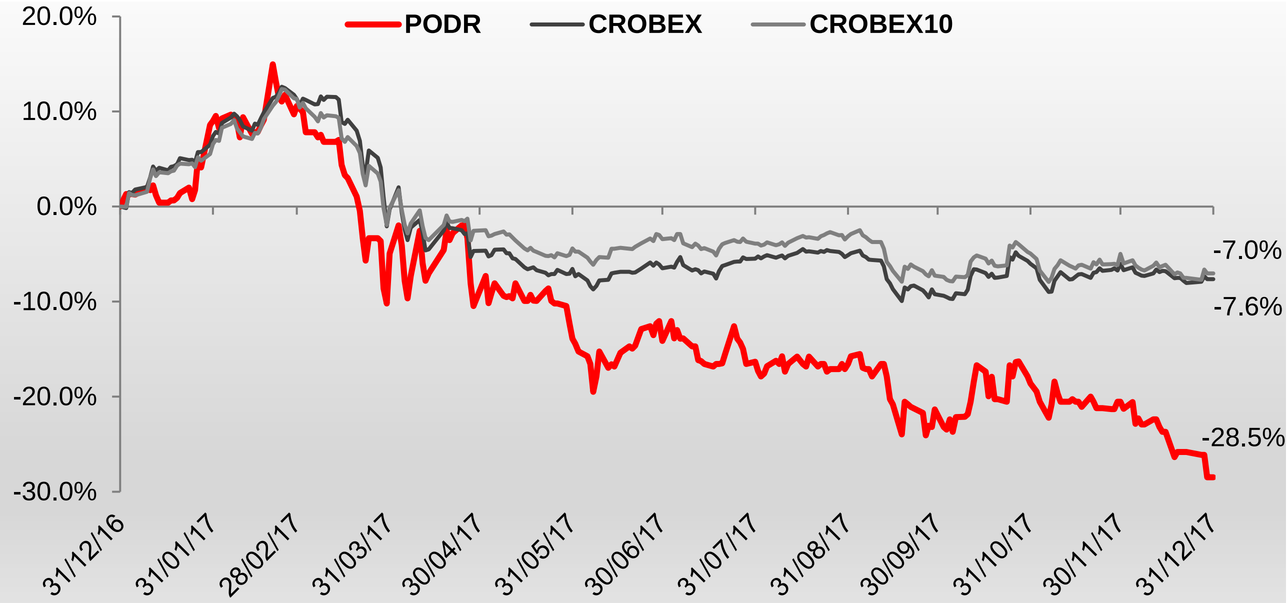
List of top 10 shareholders as at 31 December 2017

No.	Shareholder	Number of shares	% of ownership
1.	PBZ Croatia Osiguranje mandatory pension fund, category B	925,602	13.0%
2.	AZ mandatory pension fund, category B	902,874	12.7%
3.	RSC - Croatian Pension Insurance Institute	727,703	10.2%
4.	Erste Plavi mandatory pension fund, category B	665,166	9.3%
5.	Raiffeisen mandatory pension fund, category B	625,298	8.8%
6.	Kapitalni fond d.d.	406,842	5.7%
7.	RSC - Republic of Croatia	387,257	5.4%
8.	Republic of Croatia	286,588	4.0%
9.	Podravka d.d. - treasury account	162,559	2.3%
10.	AZ Profit voluntary pension fund	113,728	1.6%
	Other shareholders	1,916,386	26.9%
	Total	**7,120,003**	**100.0%**

The company has a stable ownership structure where the most significant share is held by domestic pension funds and the Republic of Croatia. As at 31 December 2017, domestic pension funds (mandatory and voluntary) hold a total of 49.1% of the company ownership. The Republic of Croatia holds 19.7% of the company ownership and through Kapitalni fond d.d. additional 5.7% of ownership as at 31 December 2017. The company has 2.3% of treasury shares. The company's shares have been listed on the Official Market of the Zagreb Stock Exchange since 7 December 1998, under the PODR ticker symbol.



Share price movement in 1-12 2017



(closing price in HRK; closing points)	31 December 2017	31 December 2016	%
PODR-R-A	270.0	377.5	(28.5%)
CROBEX	1,842.9	1,994.8	(7.6%)
CROBEX10	1,076.9	1,158.2	(7.0%)

In 2017, the price of Podravka's share decreased by 28.5%, while domestic stock indices Crobex and Crobex10 dropped by 7.6% and 7.0%, respectively.

Performance in the Croatian capital market in 1-12 2017

(in HRK; in units)[4]	2017	2016	%
Average daily price	352.2	348.7	1.0%
Average daily number of transactions	16	11	43.5%
Average daily volume	1,128	1,112	1.4%
Average daily turnover	397,344.8	387,819.0	2.5%

In 2017, the average weighted daily price of the Podravka's share was 1.0% higher than in the comparative period. At the same time, the average daily number of transactions, volume and turnover increased.

Valuation

*(in HRK millions; earnings per share in HRK)**	2017	2016	%
Last price	270.0	377.5	(28.5%)
Weighted average number of shares	6,952,372	6,929,648	0,3%
Market capitalization	1,877.1	2,615.9	(28.2%)
EV[5]	2,822.9	3,706.9	(23.8%)
Normalized earnings per share	23.8	28.5	(16.5%)
EV / Sales revenue	0.7	0.9	(22.5%)
EV / normalized EBITDA	6.5	7.9	(17.4%)
EV / normalized EBIT	11.2	13.2	(15.0%)
Last price/Earnings per share ratio	11.3	13.2	(14.3%)

***Note:** all indicators are calculated in a way that income statement items are calculated at the level of the last 12 months, while balance sheet items are taken at the period end.

[4]Average daily price calculated as the weighted average of average daily prices in the period, where the weight is daily volume. Other indicators calculated as the average of average daily transactions/volume/turnover.
[5]Enterprise value: Market Capitalization + Net debt + Minority interests.

Additional tables for 1-12 2017

New business programmes and regions

At the beginning of July 2017, the Podravka Group finalised the process of internal reorganisation of the Food segment by introducing the new organisation by business programmes. With respect to the markets, a new division into regions was made, so now the sales are monitored in five regions instead of former four. For better understanding of the business programmes and regions, their detailed analysis is provided below.

Business programmes:

- **BP Culinary**: Seasonings, Monospices, Soups, ready-to-cook meals and bouillons, Food mixes, Private labels, Service production,
- **BP Baby food, sweets and snacks**: Lino world, Sweets, Snacks, Drinks, Private labels, Service production,
- **BP Podravka food**: Condiments, Tomato, Sauces, Fruit, Vegetables, Podravka Flour, Private labels, Service production,
- **BP Žito**: Core food, Bakery and mill products, Tea, Confectionery, Cereals for adults, Private labels, Service production,
- **BP Meat products, meat solutions and savoury spreads:** Canned meat, Sausages, Other meat, Food solution, Private labels, Service production,
- **BP Fish**: Fish products, Private labels, Service production.

Regions:

- **Adria**: Croatia, Slovenia, Bosnia and Herzegovina, Macedonia, Serbia, Montenegro, Kosovo, Albania, Greece,
- **Western Europe and Overseas**: Germany, Austria, Switzerland, Italy, Scandinavia, other markets of Western Europe, the USA, Canada, Australia, New Zealand, Fiji,
- **Central Europe**: Poland, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria,
- **Eastern Europe:** Russia, Ukraine, Kazakhstan, Baltic, other markets of Eastern Europe,
- **New Markets**: MENA, Africa, Asia.

Consolidated normalized Profit and Loss Statement in 1-12 2017

(in HRK thousands)	2017	% of sales revenues	2016	% of sales revenues	% change
Sales revenue	4,111,170	100.0%	4,185,521	100.0%	(1.8%)
Cost of goods sold	(2,583,118)	(62.8%)	(2,647,946)	(63.3%)	(2.4%)
Gross profit	**1,528,053**	**37.2%**	**1,537,574**	**36.7%**	**(0.6%)**
General and administrative expenses	(322,862)	(7.9%)	(320,515)	(7.7%)	0.7%
Selling and distribution costs	(581,892)	(14.2%)	(590,677)	(14.1%)	(1.5%)
Marketing expenses	(369,638)	(9.0%)	(371,457)	(8.9%)	(0.5%)
Other (expenses) / income, net	(2,527)	(0.1%)	25,412	0.6%	(109.9%)
Operating profit	**251,134**	**6.1%**	**280,336**	**6.7%**	**(10.4%)**
Financial income	5,091	0.1%	5,079	0.1%	0.2%
Other financial expenses	(4,376)	(0.1%)	(6,659)	(0.2%)	(34.3%)
Interest expenses	(26,871)	(0.7%)	(31,476)	(0.8%)	(14.6%)
Net foreign exchange differences on borrowings	(10,265)	(0.2%)	5,986	0.1%	(271.5%)
Net finance costs	**(36,420)**	**(0.9%)**	**(27,071)**	**(0.6%)**	**34.5%**
Profit before tax	**214,714**	**5.2%**	**253,264**	**6.1%**	**(15.2%)**
Current income tax	(24,459)	(0.6%)	(11,370)	(0.3%)	115.1%
Deferred tax	(19,089)	(0.5%)	(38,854)	(0.9%)	(50.9%)
Income tax	**(43,548)**	**(1.1%)**	**(50,224)**	**(1.2%)**	**(13.3%)**
Net profit for the year	**171,166**	**4.2%**	**203,040**	**4.9%**	**(15.7%)**
Net profit / (loss) attributable to:					
Equity holders of the parent	**165,585**	**4.0%**	**197,686**	**4.7%**	**(16.2%)**
Non-controlling interests	(5,581)	(0.1%)	(5,354)	(0.1%)	4.2%

Overview of profit and loss normalization in 1-12 2017*

Reported and normalized profitability	**2017**			**2016**		
(in HRK millions)	**Group**	**Food**	**Pharma**	**Group**	**Food**	**Pharma**
Reported gross profit	**1,484.1**	**1,039.3**	**444.8**	**1,535.2**	**1,107.0**	**428.1**
+amortization included in COGS	2.6	2.6	-	-	-	-
+value adjustments	16.0	16.0	-	-	-	-
+new Belupo factory expenses (+amortization)	25.4	-	25.4	2.4	-	2.4
Normalized gross profit	**1,528.1**	**1,057.9**	**470.1**	**1,537.6**	**1,107.0**	**430.5**
Reported EBITDA	**374.1**	**243.3**	**130.8**	**471.3**	**317.1**	**154.2**
+expense related to China closing	1.3	1.3	-	-	-	-
+severance payments	39.9	31.3	8.6	12.4	11.7	0.8
+revenues from Studenac sales	-	-	-	(7.8)	(7.8)	-
+revenues from reverse leasing Umag	-	-	-	(6.6)	(6.6)	-
+new Belupo factory expenses (-amortization)	18.0	-	18.0	2.4	-	2.4
+other one-off items	1.6	1.6	-	-	-	-
Normalized EBITDA	**434.9**	**277.5**	**157.4**	**471.8**	**314.4**	**157.3**
Reported EBIT	**135.2**	**52.4**	**82.8**	**268.9**	**158.2**	**110.7**
+expense related to China closing	1.3	1.3	-	-	-	-
+severance payments	39.9	31.3	8.6	12.4	11.7	0.8
+revenues from Studenac sales	-	-	-	(7.8)	(7.8)	-
+revenues from reverse leasing Umag	-	-	-	(6.6)	(6.6)	-
+value adjustments	44.9	44.9	-	11.0	9.1	1.9
+amortization	2.9	2.9	-	0.0	-	-
+new Belupo factory expenses (+amortization)	25.4	-	25.4	2.4	-	2.4
+other one-off items	1.6	1.6	-	-	-	-
Normalized EBIT	**251.1**	**134.4**	**116.7**	**280.3**	**164.6**	**115.8**
Reported net profit	**54.4**	**6.5**	**47.9**	**182.4**	**111.3**	**71.1**
+expense related to China closing	1.3	1.3	-	-	-	-
+severance payments	39.9	31.3	8.6	12.4	11.7	0.8
+revenues from Studenac sales	-	-	-	(7.8)	(7.8)	-
+revenues from reverse leasing Umag	-	-	-	(6.6)	(6.6)	-
+value adjustments	44.9	44.9	-	11.0	9.1	1.9
+amortization	2.9	2.9	-	-	-	-
+ESOP programme expenses	3.8	3.1	0.7	2.9	2.4	0.5
+new Belupo factory expenses (+amortization)	25.4	-	25.4	2.4	-	2.4
+other one-off items	1.6	1.6	-	-	-	-
+deferred tax assets/liabilities	(8.5)	(8.5)	-	1.0	1.3	(0.3)
Normalized net profit	**165.6**	**83.0**	**82.6**	**197.7**	**121.3**	**76.3**

***Note:** normalization of results doesn't include potential tax impacts that would arise from the normalization process.

Consolidated financial statements in 1-12 2017

Consolidated Profit and Loss Statement in 1-12 2017

(in HRK thousands)	**2017**	**% of sales revenues**	**2016**	**% of sales revenues**	**% change**
Sales revenue	4,111,170	100.0%	4,185,521	100.0%	(1.8%)
Cost of goods sold	(2,627,059)	(63.9%)	(2,650,349)	(63.3%)	(0.9%)
Gross profit	**1,484,111**	**36.1%**	**1,535,172**	**36.7%**	**(3.3%)**
General and administrative expenses	(368,873)	(9.0%)	(332,956)	(8.0%)	10.8%
Selling and distribution costs	(585,299)	(14.2%)	(590,677)	(14.1%)	(0.9%)
Marketing expenses	(369,638)	(9.0%)	(371,457)	(8.9%)	(0.5%)
Other (expenses) / income, net	(25,126)	(0.6%)	28,813	0.7%	(187.2%)
Operating profit	**135,175**	**3.3%**	**268,894**	**6.4%**	**(49.7%)**
Financial income	5,091	0.1%	5,079	0.1%	0.2%
Other financial expenses	(8,140)	(0.2%)	(9,520)	(0.2%)	(14.5%)
Interest expenses	(26,871)	(0.7%)	(31,476)	(0.8%)	(14.6%)
Net foreign exchange differences on borrowings	(10,265)	(0.2%)	5,986	0.1%	(271.5%)
Net finance costs	**(40,184)**	**(1.0%)**	**(29,932)**	**(0.7%)**	**34.2%**
Profit before tax	**94,990**	**2.3%**	**238,962**	**5.7%**	**(60.2%)**
Current income tax	(24,459)	(0.6%)	(11,370)	(0.3%)	115.1%
Deferred tax	(10,543)	(0.3%)	(39,838)	(1.0%)	(73.5%)
Income tax	**(35,002)**	**(0.9%)**	**(51,208)**	**(1.2%)**	**(31.6%)**
Net profit for the year	**59,988**	**1.5%**	**187,754**	**4.5%**	**(68.0%)**
Net profit / (loss) attributable to:					
Equity holders of the parent	**54,407**	**1.3%**	**182,400**	**4.4%**	**(70.2%)**
Non-controlling interests	(5,581)	(0.1%)	(5,354)	(0.1%)	4.2%

***Note:** during 2017 certain business areas in Žito company changed their functional area. To enable like-for-like cost comparison, 2016 expenses were reclassified according to changes in 2017.

Consolidated Balance Sheet as at 31 December 2017

(in HRK thousands)	31 Dec 2017	% share	31 Dec 2016	% share	% change
ASSETS					
Non-current assets					
Goodwill	27,402	0.5%	26,024	0.5%	5.3%
Intangible assets	240,235	4.7%	267,984	5.1%	(10.4%)
Property, plant and equipment	2,317,992	45.4%	2,304,442	43.6%	0.6%
Deferred tax assets	171,250	3.4%	185,769	3.5%	(7.8%)
Non-current financial assets	9,746	0.2%	17,028	0.3%	(42.8%)
Total non-current assets	**2,766,624**	**54.2%**	**2,801,247**	**53.0%**	**(1.2%)**
Current assets					
Inventories	805,805	15.8%	773,595	14.6%	4.2%
Trade and other receivables	991,587	19.4%	1,177,321	22.3%	(15.8%)
Financial assets at fair value through profit and loss	511	0.0%	751	0.0%	(32.0%)
Income tax receivable	1,569	0.0%	10,738	0.2%	(85.4%)
Cash and cash equivalents	362,082	7.1%	337,611	6.4%	7.2%
Non-current assets held for sale	178,161	3.5%	184,465	3.5%	(3.4%)
Total current assets	**2,339,715**	**45.8%**	**2,484,481**	**47.0%**	**(5.8%)**
Total assets	**5,106,340**	**100.0%**	**5,285,728**	**100.0%**	**(3.4%)**

(in HRK thousands)	31 Dec 2017	% share	31 Dec 2016	% share	% change
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	1,689,947	33.1%	1,681,261	31.8%	0.5%
Reserves	766,861	15.0%	612,643	11.6%	25.2%
Retained earnings / (accumulated losses)	439,460	8.6%	583,272	11.0%	(24.7%)
Attributable to equity holders of the parent	**2,896,268**	**56.7%**	**2,877,176**	**54.4%**	**0.7%**
Non-controlling interests	36,671	0.7%	49,218	0.9%	(25.5%)
Total shareholders' equity	**2,932,940**	**57.4%**	**2,926,394**	**55.4%**	**0.2%**
Non-current liabilities					
Borrowings	915,210	17.9%	998,535	18.9%	(8.3%)
Provisions	74,122	1.5%	70,675	1.3%	4.9%
Other non - current liabilities	22,464	0.4%	21,179	0.4%	6.1%
Deferred tax liability	46,692	0.9%	50,764	1.0%	(8.0%)
Total non-current liabilities	**1,058,488**	**20.7%**	**1,141,153**	**21.6%**	**(7.2%)**
Current liabilities					
Trade and other payables	719,791	14.1%	805,269	15.2%	(10.6%)
Income tax payable	14,234	0.3%	5,260	0.1%	170.6%
Financial liabilities at fair value through profit and loss	1,631	0.0%	4,197	0.1%	(61.1%)
Borrowings	354,305	6.9%	376,618	7.1%	(5.9%)
Provisions	24,951	0.5%	26,836	0.5%	(7.0%)
Total current liabilities	**1,114,912**	**21.8%**	**1,218,181**	**23.0%**	**(8.5%)**
Total liabilities	**2,173,400**	**42.6%**	**2,359,334**	**44.6%**	**(7.9%)**
Total equity and liabilities	**5,106,340**	**100.0%**	**5,285,728**	**100.0%**	**(3.4%)**

Consolidated Cash Flow Statement in 1-12 2017

(in HRK thousands)	**2017**	**2016**	**%**
Profit / (loss) for the year	59,988	187,753	(68.0%)
Income tax	35,002	51,209	(31.6%)
Depreciation and amortization	194,046	191,430	1.4%
(Profit) / loss on impairment of assets	22,619	1,867	1111.5%
(Profit) / loss on assets held for sale	(503)	9,299	(105.4%)
Reversal of the impairment of assets held for sale	0	(222)	(100.0%)
Remeasurement of financial instruments at fair value	(1,653)	1,465	(212.8%)
Capital reserve ESOP	3,764	(216)	(1842.6%)
Share based payment transactions	12,791	7,995	60.0%
(Profit) / Loss from the sale of shares	0	(18)	(100.0%)
(Profit) / loss on disposal of property, plant, equipment and intangibles	1,228	(6,188)	(119.8%)
(Profit) / loss on disposal of assets held for sale	(23)	(729)	(96.8%)
Impairment of trade receivables	776	2,746	(71.7%)
(Decrease) / increase in provisions	1,562	(5,920)	(126.4%)
Interest income	(5,091)	(5,079)	0.2%
Revenue from termination of obligations	0	(1,704)	100.0%
Interest expense	31,247	36,918	(15.4%)
Effect of changes in foreign exchange rates	10,914	(7,038)	(255.1%)
Changes in working capital:			
(Increase) / decrease in inventories	(32,210)	15,134	(312.8%)
(Increase) / decrease in receivables	186,572	(856)	(21895.8%)
Increase / (decrease) in payables	(18,083)	37,115	(148.7%)
Cash generated from operating activities	**502,946**	**514,961**	**(2.3%)**
Income tax paid	(11,727)	(2,126)	451.6%
Interest paid	(33,586)	(36,097)	(7.0%)
Net cash from operating activities	**457,633**	**476,738**	**(4.0%)**
Cash flow from investing activities			
Purchase of equity securities	0	(884)	(100.0%)
Sale of assets held for sale	595	64,700	(100.0%)
Purchase of property, plant, equipment and intangibles	(206,795)	(437,112)	(52.7%)
Sale of marketable securities	7,187	672	969.5%
Proceeds from sale of property, plant, equipment and intangibles	3,498	8,155	(57.1%)
Loans receivables	(35)	(619)	(94.3%)
Repayment of loans receivable	97	1,391	(93.0%)
Proceeds from other investments	(672)	(274)	145.3%
Interest received	5,091	5,079	0.2%
Net cash from investing activities	**(191,034)**	**(358,892)**	**(46.8%)**
Cash flow from financing activities			
Dividend payout	(48,642)	(48,480)	0.3%
Acquisition of subsidiary, net of cash acquired	(863)	(8,827)	(90.2%)
Purchase of treasury shares	0	(12,977)	(100.0%)
Sale of treasury shares	6,945	3,308	110.0%
Proceeds from borrowings	198,921	853,619	(76.7%)
Repayment of borrowings	(398,489)	(858,754)	(53.6%)
Net cash from financing activities	**(242,128)**	**(72,111)**	**235.8%**
Net (decrease) / increase of cash and cash equivalents	**24,471**	**45,734**	**(46.5%)**
Cash and cash equivalents at beginning of the year	337,611	291,877	15.7%
Cash and cash equivalents at the end of year	**362,082**	**337,611**	7.2%

Consolidated Statement of Changes in Equity in 1-12 2017

(in HRK thousands)	Share capital	Reserve for treasury	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Retained earnings/ (Accumulated	Total	Non-controlling interests	Total
As at 31 December 2015	**1,685,955**	**147,604**	**30,931**	**189,738**	**47,007**	**134,560**	**514,250**	**2,750,045**	**67,712**	**2,817,757**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	182,399	182,399	5,354	187,753
Effect from sale of subsidiary	-	-	-	-	-	-	(40)	(40)	-	(40)
Foreign exchange differences	-	-	-	-	-	(8,946)	-	(8,946)	(207)	(9,153)
Profit or loss from reevaluation of financial assets available for sale	-	-	-	-	-	347	-	347	-	347
Actuarial losses (net of deferred tax)	-	-	-	-	-	(1,583)	-	(1,583)	-	(1,583)
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(10,182)**	**(40)**	**(10,222)**	**(207)**	**(10,429)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(10,182)**	**182,359**	**172,177**	**5,147**	**177,324**
Transactions with owners recognised directly in equity										
Allocation from retained earnings	-	-	11,006	-	8,548	45,303	(64,857)	-	-	-
Purchase of treasury shares	(12,977)	-	-	-	-	-	-	(12,977)	-	(12,977)
Exercise of options	504	-	-	-	-	-	-	504	-	504
Fair value of share-based payment transactions	7,779	-	-	-	-	-	-	7,779	-	7,779
Dividends paid	-	-	-	-	-	-	(48,480)	(48,480)	-	(48,480)
Additional acquisition of minority interests	-	-	-	-	-	8,128	-	8,128	(23,641)	(15,513)
Total transactions with owners recognised directly in equity	**(4,694)**	**-**	**11,006**	**-**	**8,548**	**53,431**	**(113,337)**	**(45,046)**	**(23,641)**	**(68,687)**
As at 31 December 2016	**1,681,261**	**147,604**	**41,937**	**189,738**	**55,555**	**177,809**	**583,272**	**2,877,176**	**49,218**	**2,926,394**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	54,407	54,407	5,581	59,989
Foreign exchange differences	-	-	-	-	-	3,755	-	3,755	(430)	3,325
Profit or loss from reevaluation of financial assets available for sale	-	-	-	-	-	827	-	827	-	827
Actuarial losses (net of deferred tax)	-	-	-	-	-	(999)	-	(999)	-	(999)
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**3,582**	**-**	**3,582**	**(430)**	**3,152**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**3,582**	**54,407**	**57,990**	**5,151**	**63,141**
Transactions with owners recognised directly in equity										
Dividends paid to minority owner							-	-	(15,776)	(15,776)
Capital premium ESOP	429							429	-	429
Allocation from retained earnings	-	-	8,966	-	3,015	137,596	(149,577)	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Exercise of options	(6,448)	-	-	-	-	-	-	(6,448)	-	(6,448)
Fair value of share-based payment transactions	14,704	-	-	-	-	-	-	14,704	-	14,704
Dividend payout	-	-	-	-	-	-	(48,642)	(48,642)	-	(48,642)
Additional acquisition of minority interests	-	-	-	-	-	1,059	-	1,059	(1,922)	(863)
Total transactions with owners recognised directly in equity	**8,685**	**-**	**8,966**	**-**	**3,015**	**138,655**	**(198,219)**	**(38,898)**	**(17,698)**	**(56,596)**
As at 31 December 2017	**1,689,946**	**147,604**	**50,903**	**189,738**	**58,570**	**320,046**	**439,460**	**2,896,268**	**36,671**	**2,932,940**

Notes to the financial statements

The accounting policy in 2017 did not change.

President of the Management Board:

Marin Pucar

Statement of liability

Koprivnica, 28 February 2018

STATEMENT FROM EXECUTIVES RESPONSIBLE FOR PREPARING FINANCIAL STATEMENTS

Consolidated financial statements of Podravka Group for the period 1 - 12 2017 have been prepared in compliance with the Accounting Act of the Republic of Croatia and International Financial Reporting Standards (IFRS) and provide an overall and true presentation of assets, liabilities, profit and loss, financial position and business operations of Podravka Group and all subsidiary companies involved in the consolidation.

Consolidated financial statements of Podravka Group for the period 1 - 12 2017 were approved by the Management Board on 28 February 2017.

Corporate Accounting and Taxes Director:
Julijana Artner Kukec

Artner

Board Member:
Davor Doko

Contact

Podravka d.d.

Ante Starčevića 32, 48 000 Koprivnica, Croatia

www.podravka.hr

Investor Relations

e-mail: ir@podravka.hr

Tel: +385 48 65 16 65