PODRAVKA

Podravka Group Business Results for **1-6 2018 period**

Content

Key financial indicators in H1 2018

(in HRK millions)	H1 2017[1]	H1 2018[1]	Δ	%
Sales revenue	1,951.2	2,035.1	83.9	4.3%
Normalised EBITDA[2]	172.9	245.7	72.8	42.1%
Normalised net profit after MI	57.7	122.8	65.1	112.7%
Net cash flow from operating activities	136.7	99.0	(37.7)	(27.6%)
Cash capital expenditures	122.9	67.4	(55.5)	(45.2%)
(in HRK; market capitalization in HRKm)	**31.12.2017**	**30.06.2018**	**Δ**	**%**
Net debt / normalised EBITDA	2.1	1.7	(0.4)	(19.2%)
Normalised Earnings per share	23.8	33.2	9.3	39.2%
Last price at the end of period	270.0	322.0	52.0	19.3%
Market capitalization	1,877.1	2,240.1	362.9	19.3%
Return on average equity[3]	5.9%	8.0%		+210 bp
Return on average assets[3]	3.3%	4.7%		+140 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.

Key highlights in H1 2018:

- The Podravka Group continues with the trend of business growth: in the first half of 2018 the highest half-year operating profit in the last 17 years was recorded, and it should be noted that this is the result of the organic growth without extraordinary impacts,
- Sales revenues recorded a significant growth of HRK 83.9 million, primarily in the Food segment, due to stronger selling and marketing activities and expanded distribution of certain categories,
- An increase in sales of the profitable range together with operating expenses control resulted in a double-digit profitability growth on all operating levels,
- Management's focus in 2018 will be on further organic growth, further decrease in debt, cash flow management and internal efficiency improvement.

[1] H1 2018 relates to the period January 2018 - June 2018, and H1 2017 relates to the period January 2017 - June 2017,
[2]EBITDA is calculated in a way that EBIT was increased by the depreciation and amortisation and value adjustments,
[3]Normalised.

Significant events in H1 2018

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. As at 10 April 2017, receivables of Podravka Inc. from the Agrokor companies in the Croatian market amounted to HRK 136.7 million. In the extraordinary administration procedure, Podravka reported receivables in the total amount of HRK 97.4 million, of which HRK 60.9 million is for bills of exchange related to goods sold (the Podravka Group had no financial exposure to the Agrokor concern in terms of loans given, etc.). The extraordinary administration accepted 99.3% of the reported receivables, while the remaining portion relates to receivables that were recorded in Podravka after 9 April 2017. The Podravka Group estimated the recoverability of the reported receivables and impaired receivables in the amount of HRK 44.1 million, which was booked in 2017. As at 30 June 2018, receivables of Podravka Inc. from the Agrokor companies headquartered in Croatia amounted to HRK 47.7 million, of which HRK 15.8 million relates to “border debt”, HRK 1.0 million to “old debt”, while the remaining portion relates to receivables from regular operations.

Continued implementation of stable dividend policy

The Management Board of Podravka Inc. proposed to the General Assembly the dividend distribution in the gross amount of HRK 7.00 per share, which was adopted by the General Assembly as at 12 June 2018, thus continuing to consistently implement the dividend distribution policy.

Overview of sales revenues in H1 2018

Sales revenues by segment in H1 2018

Sales revenues by segment				
(in HRK millions)	**H1 2017**	**H1 2018**	**Δ**	**%**
Food	**1,544.4**	**1,602.2**	**57.9**	**3.7%**
Own brands	*1,426.6*	*1,495.5*	*68.8*	*4.8%*
Other sales	*117.7*	*106.8*	*(11.0)*	*(9.3%)*
Pharmaceuticals	**406.8**	**432.8**	**26.0**	**6.4%**
Own brands	*339.8*	*364.0*	*24.1*	*7.1%*
Other sales	*66.9*	*68.8*	*1.9*	*2.8%*
Podravka Group	**1,951.2**	**2,035.1**	**83.9**	**4.3%**
Own brands	*1,766.5*	*1,859.4*	*93.0*	*5.3%*
Other sales	*184.7*	*175.6*	*(9.1)*	*(4.9%)*

Movements of the Food segment revenues (H1 2018 compared to H1 2017):

- **Own brands** recorded 4.8% higher sales, primarily due to the growth in sales of business units Žito and Lagris, Culinary and Baby food, sweets and snacks, as a result of increased selling and marketing activities and expanded distribution of certain categories. If the FX effect is excluded, it is estimated own brands would record 5.7% higher sales,
- **Other sales** recorded 9.3% lower revenues, primarily as a result of the decrease in sales of the Lagris company trade goods. If the FX effect is excluded, other sales record an estimated 10.0% decrease in sales,
- Consequently, the **Food segment** recorded 3.7% higher sales, while if the FX effect is excluded, it is estimated the sales would be 4.5% higher.

Movements of the Pharmaceuticals segment revenues (H1 2018 compared to H1 2017):

- **Own brands** recorded a 7.1% sales growth, primarily due to the increase in sales in the Russian market and the expanded distribution in the Central European markets. If the FX effect is excluded, own brands record an estimated 11.4% increase in sales,
- **Other sales** revenues are 2.8% higher as a result of higher sales in Deltis Pharm pharmacies. If the FX effect is excluded, other sales record an estimated 3.1% sales growth,
- Consequently, the **Pharmaceuticals segment** recorded 6.4% higher sales, while if the FX effect is excluded, it is estimated the revenues would be 10.1% higher.

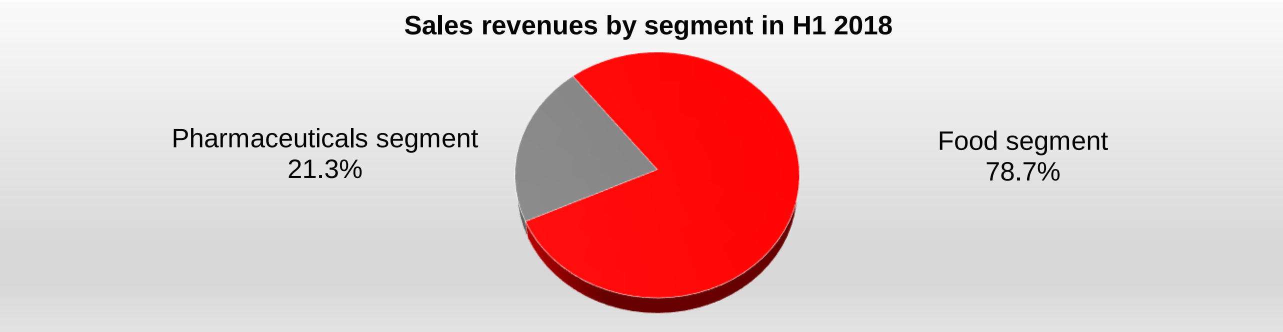
Movements of the Podravka Group revenues (H1 2018 compared to H1 2017):

- **Own brands** of the Podravka Group recorded a 5.3% sales growth, while if the FX effect is excluded, it is estimated the sales of own brands would be 6.8% higher,
- The revenues from **other sales** are 4.9% lower, while if the effect of foreign exchange differences is excluded, other sales record a decrease in revenues of estimated 5.2%,
- Consequently, the **Podravka Group** recorded 4.3% higher sales, while if the FX effect is excluded, it is estimated the sales would be 5.6% higher.

Estimated net effect of currency exchange rates on sales by segment in H1 2018:

(in HRK millions)	**Own brands**	**Other sales**	**Total**
Food	(12.1)	0.8	(11.3)
Pharmaceuticals	(14.7)	(0.2)	(14.8)
Group	(26.8)	0.6	(26.2)

- The effect of FX differences on sales is the estimate of the revenue amount in H1 2018 had the exchange rates remained at the same levels as in the comparative period,
- The most significant negative effect on revenue is recorded by the Russian ruble (HRK -20.2 million) and the Euro (HRK -4.0 million), while the most significant positive effect is recorded by the Czech Koruna (HRK +3.1 million) and the Serbian dinar (HRK +2.2 million).



Sales revenues by business unit and category in H1 2018

Sales revenues by business unit and category				
(in HRK millions)	**H1 2017**	**H1 2018**	**Δ**	**%**
BU Culinary	421.8	440.3	18.5	4.4%
BU Baby food, sweets and snacks	178.9	191.5	12.5	7.0%
BU Podravka food	187.7	195.5	7.9	4.2%
BU Žito and Lagris	426.4	453.9	27.6	6.5%
BU Meat products	124.7	125.3	0.6	0.5%
BU Fish	87.2	88.9	1.7	1.9%
Prescription drugs	289.1	312.1	23.0	7.9%
Non-prescription programme	50.7	51.9	1.2	2.4%
Other sales	184.7	175.6	(9.1)	(4.9%)
Podravka Group	**1,951.2**	**2,035.1**	**83.9**	**4.3%**

Movements of revenues by business unit and category (H1 2018 compared to H1 2017):

- The **Culinary business unit** recorded 4.4% higher sales, primarily in the categories Seasonings and Soups, due to intensive promotional activities resulting in sales growth in most regions. If the FX effect is excluded, it is estimated the business unit would record 6.2% higher sales,
- The **Baby food, sweets and snacks business unit** recorded 7.0% higher sales, primarily as a consequence of stronger selling and marketing activities in categories Creamy spreads and Baby food in the market of Croatia. The Creamy spreads category records a significant increase in sales as a result of well-received new and innovated products of the Lino Lada brand. If the FX effect is excluded, it is estimated the business unit would record 7.3% higher sales,
- The **Podravka Food business unit** recorded 4.2% higher sales mainly due to stronger selling and marketing activities and expanded distribution of the range from categories Condiments, Flour and Tomato, primarily in the markets of Croatia and Poland. If the FX effect is excluded, it is estimated the business unit would record 5.5% higher sales,
- The **Žito and Lagris business unit** records 6.5% higher sales, mainly due to the increased sales in the Bakery and mill products and the Core food categories. The sales increase is also supported by the continuous growth of the Bakery and mill products category in the Western Europe region markets and, among other things, the stabilization of sales to the key customer in the market of Slovenia. If the FX effect is excluded, it is estimated the business unit would record 6.7% higher sales,
- The **Meat products, meat solutions and savoury spreads business unit** recorded 0.5% higher sales, primarily due to the growth in the Ready-to-eat meals category as a result of stronger selling and marketing activities in the market of Croatia and expansion of the product range in the market of Slovenia, while if the FX effect is excluded, the sales growth is estimated at 1.2%,

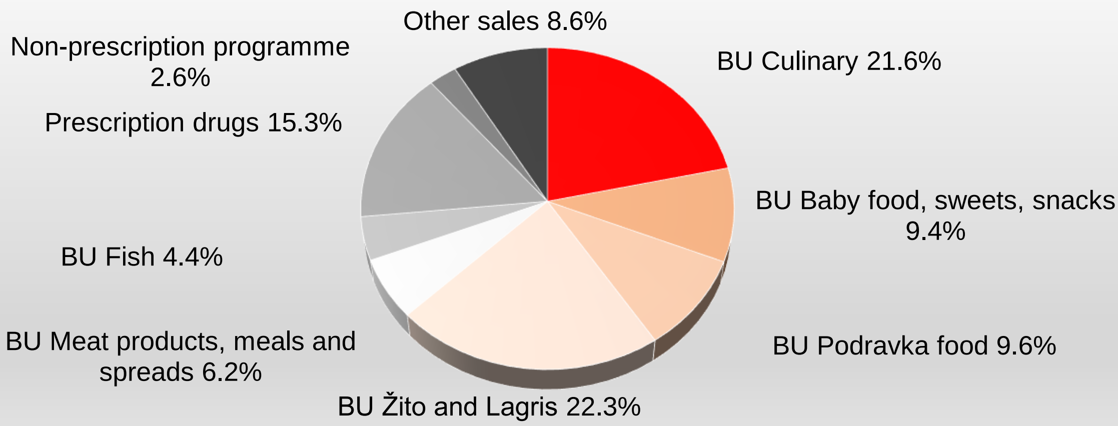
➢ The **Fish business unit** recorded 1.9% higher sales primarily due to selling activities in the Adria region markets. If the FX effect is excluded, it is estimated the business unit would record 1.6% higher sales,

➢ The **Prescription drugs category** recorded 7.9% higher sales, with the most significant growth in the market of Russia due to higher demand, and in the Central Europe region markets as a result of positive market response to new products. If the FX effect is excluded, it is estimated the category would record 12.5% higher sales,

➢ The sales of the **Non-prescription programme category** are 2.4% higher, primarily as a result of the sales growth in the OTC drugs subcategory on the markets of the Adria region. If the FX effect is excluded, it is estimated the category would record 5.2% higher sales,

➢ The **Other sales category** recorded 4.9% lower sales, primarily as a result of the decrease in sales of the company Lagris trade goods and the decrease in sales of trade goods in the Pharmaceuticals segment. The Pharmaceuticals segment made a strategic decision to focus on a more profitable part of the trade goods range in the market of Bosnia and Herzegovina, resulting in lower sales, but higher profitability. If the FX effect is excluded, it is estimated the category would record 5.2% lower sales.

Sales revenues by business unit and category in H1 2018



Sales revenues by region in H1 2018

Sales revenues by region				
(in HRK millions)	**H1 2017**	**H1 2018**	**Δ**	**%**
Adria	**1,361.4**	**1,408.3**	**47.0**	**3.4%**
Food	*1,066.1*	*1,107.6*	*41.5*	*3.9%*
Pharmaceuticals	*295.3*	*300.8*	*5.5*	*1.9%*
WE and Overseas	**212.9**	**215.4**	**2.5**	**1.2%**
Food	*212.1*	*214.8*	*2.8*	*1.3%*
Pharmaceuticals	*0.9*	*0.6*	*(0.3)*	*(33.1%)*
Central Europe	**225.2**	**247.7**	**22.5**	**10.0%**
Food	*198.2*	*216.2*	*18.0*	*9.1%*
Pharmaceuticals	*27.0*	*31.5*	*4.5*	*16.7%*
Eastern Europe	**134.2**	**147.2**	**13.0**	**9.7%**
Food	*56.8*	*54.0*	*(2.8)*	*(5.0%)*
Pharmaceuticals	*77.4*	*93.2*	*15.8*	*20.4%*
New markets	**17.4**	**16.4**	**(1.0)**	**(5.7%)**
Food	*11.3*	*9.7*	*(1.6)*	*(13.8%)*
Pharmaceuticals	*6.2*	*6.7*	*0.6*	*8.9%*
Podravka Group	**1,951.2**	**2,035.1**	**83.9**	**4.3%**

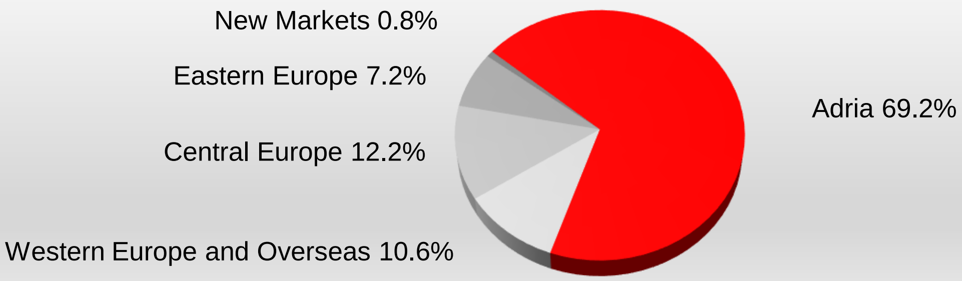
Movements of revenues by region (H1 2018 compared to H1 2017):

- The **Adria region** recorded 3.4% higher sales, while if the FX effect is excluded, it is estimated the region would record 3.7% higher sales. In the Food segment, all business units record sales growth, primarily as the result of selling and marketing activities, acceptance of new and innovated products and the stabilization of sales to the key buyer in the market of Slovenia. Revenues of the Pharmaceuticals segment were 1.9% higher than in the comparative period, with all categories recording sales growth,
- Revenues of the **Western Europe and Overseas region** grew by 1.2%, while if the FX effect was excluded, it is estimated the region would record 3.6% higher sales. The sales growth is the result of continuous expansion of the product range and distribution of the Žito and Lagris business unit in the markets of Italy, Germany and Spain and Condiments in the German market. This compensated for a mild decrease of HRK 0.3 million in Pharmaceuticals segment revenues compared to the comparative period,
- The **Central Europe region** recorded 10.0% higher sales, while if the FX effect was excluded, it is estimated the region would record 8.7% higher sales. The most significant positive impact on the Food segment came from the Žito and Lagris business unit and from the Culinary business unit following

stronger selling and marketing activities. The Pharmaceuticals segment recorded a 16.7% sales growth, primarily due to the acceptance of new products in the markets of Poland, the Czech Republic and Slovakia,

- Revenues of the **Eastern Europe region** grew by 9.7%, while if the FX effect was excluded, it is estimated the region would record 24.7% higher sales. In the Food segment, sales decrease is primarily a consequence of the decrease in sales of the Podravka Food business unit; however, the decrease was fully compensated by the increase in the Pharmaceuticals segment revenues of 20.4%, following the increased demand for the Prescription drugs category,
- The **New markets region** recorded a 5.7% sales decrease, while if the FX effect was excluded, the region would record an estimated 5.0% sales decrease. The most significant impact on the sales decrease came from lower sales of the Lagris company trade goods.

Sales revenues by region in H1 2018



Profitability in H1 2018

Note: for transparency purposes, in addition to the reported operating results, the Podravka Group also presents normalised operating results, without the effect of items treated by management as one-off items. For the purpose of providing as realistic image of the core business development as possible, the Podravka Group describes movements of the normalised result, while the analysis of one-off items is provided in the "Additional tables" section. The result normalisation is not adjusted for possible tax aspects that would arise from the normalisation.

Profitability of the Food segment in H1 2018

Profitability of the Food segment					Normalized			
(in HRK millions)	H1 2017	H1 2018	Δ	%	H1 2017	H1 2018	Δ	%
Sales revenue	1,544.4	1,602.2	57.9	3.7%	1,544.4	1,602.2	57.9	3.7%
Gross profit	485.3	541.0	55.8	11.5%	485.3	541.0	55.8	11.5%
EBITDA*	84.2	171.7	87.5	103.9%	105.2	173.9	68.6	65.2%
EBIT	9.3	105.5	96.2	1033.8%	30.3	107.6	77.3	255.4%
Net profit after MI	(5.0)	84.5	89.5	n/a	16.0	86.6	70.7	442.0%
Gross margin	31.4%	33.8%		+235 bp	31.4%	33.8%		+235 bp
EBITDA margin	5.5%	10.7%		+526 bp	6.8%	10.9%		+404 bp
EBIT margin	0.6%	6.6%		+598 bp	2.0%	6.7%		+476 bp
Net margin after MI	(0.3%)	5.3%		+560 bp	1.0%	5.4%		+437 bp

*EBITDA is calculated in a way that EBIT was increased by the depreciation and amortization and value adjustments.

Normalised profitability of the Food segment (H1 2018 compared to H1 2017):

- The Food segment recorded 11.5% higher **gross profit** due to higher sales revenues, but also due to the positive impact of the sales structure itself, as explained in the "Overview of sales revenues in H1 2018" section. At the same time, cost of goods sold increased by 0.2%, which resulted in a gross margin of 33.8%,
- **Operating profit (EBIT)** is HRK 77.3 million higher, primarily as a consequence of the increase in sales of profitable categories. An additional positive impact on operating profit came from: i) the absence of share option expenses that amounted to HRK 9.3 million in H1 2017, ii) lower selling costs as a result, among other, of the changed business model in the MENA markets, terminated business activities in the market of Tanzania and lower amortisation and iii) absence of provisions for trade receivables,
- Under the impact of the previously mentioned factors, **net profit after minority interests** is HRK 70.7 million higher. An additional positive effect on net profit came from lower interest expense following the

refinancing of borrowings under more favourable commercial terms and positive effects of foreign exchange differences on borrowings, partly compensating for higher tax expenses.

Profitability of the Pharmaceuticals segment in H1 2018

Profitability of the Pharmaceuticals segment					Normalized			
(in HRK millions)	**H1 2017**	**H1 2018**	**Δ**	**%**	**H1 2017**	**H1 2018**	**Δ**	**%**
Sales revenue	406.8	432.8	26.0	6.4%	406.8	432.8	26.0	6.4%
Gross profit	208.4	219.6	11.2	5.4%	214.7	219.6	4.9	2.3%
EBITDA*	55.7	71.8	16.1	28.8%	67.7	71.8	4.1	6.1%
EBIT	35.5	43.7	8.2	23.2%	47.4	43.7	(3.7)	(7.8%)
Net profit after MI	29.8	36.1	6.4	21.3%	41.7	36.2	(5.6)	(13.4%)
Gross margin	51.2%	50.7%		-50 bp	52.8%	50.7%		-205 bp
EBITDA margin	13.7%	16.6%		+289 bp	16.6%	16.6%		-5 bp
EBIT margin	8.7%	10.1%		+138 bp	11.7%	10.1%		-156 bp
Net margin after MI	7.3%	8.3%		+103 bp	10.3%	8.4%		-191 bp

*EBITDA is calculated in a way that EBIT was increased by the depreciation and amortization and value adjustments.

Normalised profitability of the Pharmaceuticals segment (H1 2018 compared to H1 2017):

- The Pharmaceuticals segment recorded an increase in **gross profit** of 2.3% due to the sales revenues growth, but also due to the positive impact of the sales structure itself, as explained in the "Overview of sales revenues in H1 2018" section. Cost of goods sold grew by 11.0%, which resulted in a gross margin of 50.7%. The realised gross profit was also impacted by higher depreciation costs related to the new Belupo factory. The depreciation for the new factory is calculated from July 2017 and in H1 2018 it amounts to HRK 6.2 million,
- **Operating profit (EBIT)** is HRK 3.7 million lower mainly due to higher depreciation costs related to the new factory and revenues recorded in H1 2017 from the collection of trade receivables, for which provisions were made in 2016,
- Under the impact of the previously mentioned factors, **net profit after minority interests** is HRK 5.6 million lower. An additional negative effect came from lower net finance income and higher tax liability.

Profitability of the Podravka Group in H1 2018

Profitability of the Podravka Group					Normalized			
(in HRK millions)	**H1 2017**	**H1 2018**	**Δ**	**%**	**H1 2017**	**H1 2018**	**Δ**	**%**
Sales revenue	1,951.2	2,035.1	83.9	4.3%	1,951.2	2,035.1	83.9	4.3%
Gross profit	693.7	760.6	67.0	9.7%	700.0	760.6	60.6	8.7%
EBITDA*	140.0	243.5	103.6	74.0%	172.9	245.7	72.8	42.1%
EBIT	44.8	149.2	104.4	233.2%	77.7	151.3	73.6	94.7%
Net profit after MI	24.8	120.7	95.9	386.7%	57.7	122.8	65.1	112.7%
Gross margin	35.6%	37.4%		+182 bp	35.9%	37.4%		+150 bp
EBITDA margin	7.2%	12.0%		+479 bp	8.9%	12.1%		+321 bp
EBIT margin	2.3%	7.3%		+504 bp	4.0%	7.4%		+345 bp
Net margin after MI	1.3%	5.9%		+466 bp	3.0%	6.0%		+308 bp

*EBITDA is calculated in a way that EBIT was increased by the depreciation and amortization and value adjustments.

Normalised profitability of the Podravka Group (H1 2018 compared to H1 2017):

- The Podravka Group recorded 8.7% higher **gross profit**, with the increase in gross profit coming from both business segments. Cost of goods sold grew by 1.9%, which resulted in a gross margin of 37.4%,
- **Operating profit (EBIT)** is HRK 73.6 million higher, which is the result of the Food segment operating profit growth, while the Pharmaceuticals segment had a negative effect on the growth in Group's operating profit, primarily due to higher depreciation costs related to the new factory,
- **Net profit after minority interests** is HRK 65.1 million higher as a result of the increase in net profit after minority interests of the Food segment, while the Pharmaceuticals segment had a negative effect on the growth in Group's net profit after minority interests, primarily due to higher depreciation costs related to the new factory.

Key characteristics of the income statement in H1 2018

Other income and expenses, net

In H1 2018, other income and expenses amounted to negative HRK 4.5 million, while in the comparative period they amounted to negative HRK 7.4 million. This line item includes foreign exchange differences from trade receivables and trade payables that amounted to negative HRK 11.9 million in H1 2018, while in the comparative period they amounted to negative HRK 11.3 million.

Cost of goods sold

Cost of goods sold in the observed period is 1.3% higher compared to H1 2017, as a consequence of higher sales in both business segments. At the normalised level, cost of goods sold is 1.9% higher. Recorded cost of goods sold is also impacted by higher depreciation costs related to the new Belupo factory, which are calculated from July 2017 and amount to HRK 6.2 million in H1 2018.

General and administrative expenses

In H1 2018, general and administrative expenses were 18.5% lower than in the comparative period, primarily as a result of the absence of share option expenses that amounted to HRK 10.0 million in H1 2017, and lower costs of termination benefits (HRK 2.1 million in H1 2018; HRK 26.6 million in H1 2017). At the normalised level, general and administrative expenses are 5.9% lower.

Selling and distribution costs

In the observed period, selling and distribution costs are 3.0% lower compared to H1 2017 due to: i) lower selling costs as a result of the changed business model in the MENA markets and terminated business activities in the market of Tanzania, ii) lower amortisation costs where in H1 2017 we had HRK 3.3 million of distribution rights amortisation costs, that are not present in H1 2018 and iii) the absence of provisions for trade receivables in the Food segment.

Marketing expenses

In H1 2018, marketing expenses are 4.3% higher than in the comparative period, mainly as a result of more marketing activities in the Food segment.

Net finance costs

In the observed period, net finance costs amounted to positive HRK 3.8 million, while in the comparative period they amounted to negative HRK 3.3 million. The reason for positive movements in net finance costs in H1 2018 was HRK 12.8 million of foreign exchange gains on borrowings, which in H1 2017 amounted to positive HRK 7.5 million. At the same time, interest expense is 26.1% lower due to refinancing of borrowings under more favourable commercial terms.

Income tax

In H1 2018, income tax of the Podravka Group was higher than in the comparative period, primarily as a result of higher profit before tax realised in the Food segment.

Key characteristics of the balance sheet as at 30 June 2018

Property, plant and equipment

Compared to 31 December 2017, property, plant and equipment of the Podravka Group are HRK 51.5 million lower, which is partly related to the depreciation of assets, but also to the reclassification of the Podravka Afrika company's assets to assets held for sale.

Inventories

Inventories of the Podravka Group are HRK 3.9 million higher compared to 31 December 2017, while they are HRK 29.1 million higher compared to 30 June 2017. The increase in inventories was impacted, among other, by higher inventories of raw materials and supplies in the Pharmaceuticals segment in line with the planned production dynamics in 2018, and the increase in inventories of finished products in the new Belupo factory.

Trade and other receivables

Trade and other receivables of the Podravka Group are HRK 1.2 million lower compared to 31 December 2017, while they are HRK 106.9 million lower compared to 30 June 2017. The significant decrease in trade and other receivables compared to 30 June 2017 is a result of significant impairments at the end of 2017 related to receivables from the Agrokor companies in the amount of HRK 44.1 million, and better collection of receivables in the Pharmaceuticals segment.

Cash and cash equivalents

Cash and cash equivalents of the Podravka Group at the end of the observed period are HRK 151.0 million lower compared to 31 December 2017, as explained in the "Key characteristics of the cash flow statement in H1 2018" section.

Long-term and short-term borrowings

As at 30 June 2018, long-term and short-term borrowings of the Podravka Group are HRK 201.6 million lower than as at 31 December 2017, as the result of repayment of a portion of borrowings.

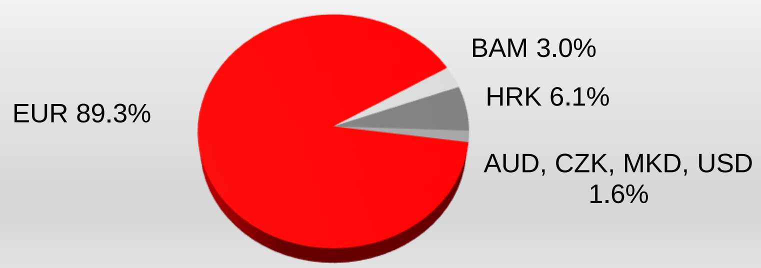
Trade and other payables

Trade and other payables of the Podravka Group are HRK 53.0 million lower compared to 31 December 2017, while they are HRK 36.2 million higher compared to 30 June 2017. The increase in trade and other payables compared to 30 June 2017 was impacted by the increase in other payables, as a result of the approved dividend payable that was booked in June this year, while in 2017 it was booked in July.

Indebtedness

As at 30 June 2018, the total debt of the Podravka Group related to borrowings and other interest-bearing financial liabilities amounted to HRK 1,069.0 million, of which HRK 760.8 million relates to long-term borrowings, HRK 307.1 million to short-term borrowings, and HRK 1.1 million to swap and forward contract liabilities. The **average weighted cost of debt** on all the stated liabilities as at 30 June 2018 was 1.7%.

Currency structure of debt as at 30 June 2018



Analysing the debt currency structure, the highest exposure, of 89.3%, was toward the Euro, while 6.1% of the debt was in the domestic currency. 3.0% of the debt was in the Bosnia and Herzegovina mark, while the remainder of 1.6% relates to the Australian dollar (AUD), the Czech koruna (CZK), the Macedonian denar (MKD) and the US dollar (USD).

*(in HRK millions)**	2017	H1 2018	Δ	%
Net debt	909.1	857.9	(51.2)	(5.6%)
Interest expense	26.9	23.4	(3.5)	(13.0%)
Net debt / normalised EBITDA	2.1	1.7	(0.4)	(19.2%)
Normalised EBIT / Interest expense	9.3	13.9	4.5	48.7%
Equity to total assets ratio	57.2%	60.9%		+364 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 30 June 2018 compared to 31 December 2017 is primarily the result of the repayment of a portion of borrowings in the amount of HRK 202.4 million. The increase in normalised EBITDA led to a lower net debt to normalised EBITDA ratio, while the increase in normalised EBIT impacted the increase in the interest coverage ratio.

Key characteristics of the cash flow statement in H1 2018

(in HRK millions)	H1 2017	H1 2018	Δ
Net cash flow from operating activities	136.7	99.0	(37.7)
Net cash flow from investing activities	(119.7)	(65.0)	54.7
Net cash flow from financing activities	(68.8)	(185.0)	(116.2)
Net increase / (decrease) of cash and cash equivalents	**(51.8)**	**(151.0)**	**(99.2)**

Net cash flow from operating activities

In H1 2018, net cash flow from operating activities is HRK 37.7 million lower than in the comparative period, primarily as a result of different dynamics of movements in working capital.

Net cash flow from investing activities

Net cash flow from investing activities in the period under consideration amounted to negative HRK 65.0 million. This is primarily the result of capital expenditure amounting to HRK 67.4 million. The most significant **capital expenditure** in H1 2018 was related to:

- Investment in modernisation of equipment in the Kalnik factory, for the purpose of improving production efficiency and profitability,
- Investment in modernisation of equipment in factories Mirna, Povrće Umag, Vegeta and Lagris, and
- Investment in modernisation of agricultural production (irrigation system, agricultural machinery).

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 H1 2018, net cash flow from financing activities amounted to negative HRK 185.0 million, primarily as a result of repaid borrowings in the amount of HRK 202.4 million, which is in line with the Group's focus on reducing debt.

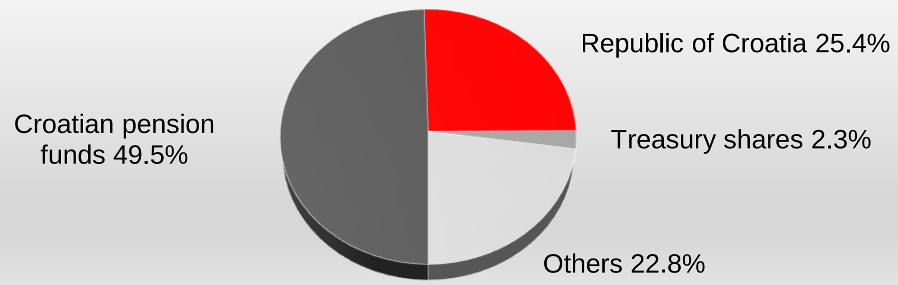
Share in H1 2018

List of major shareholders as at 30 June 2018

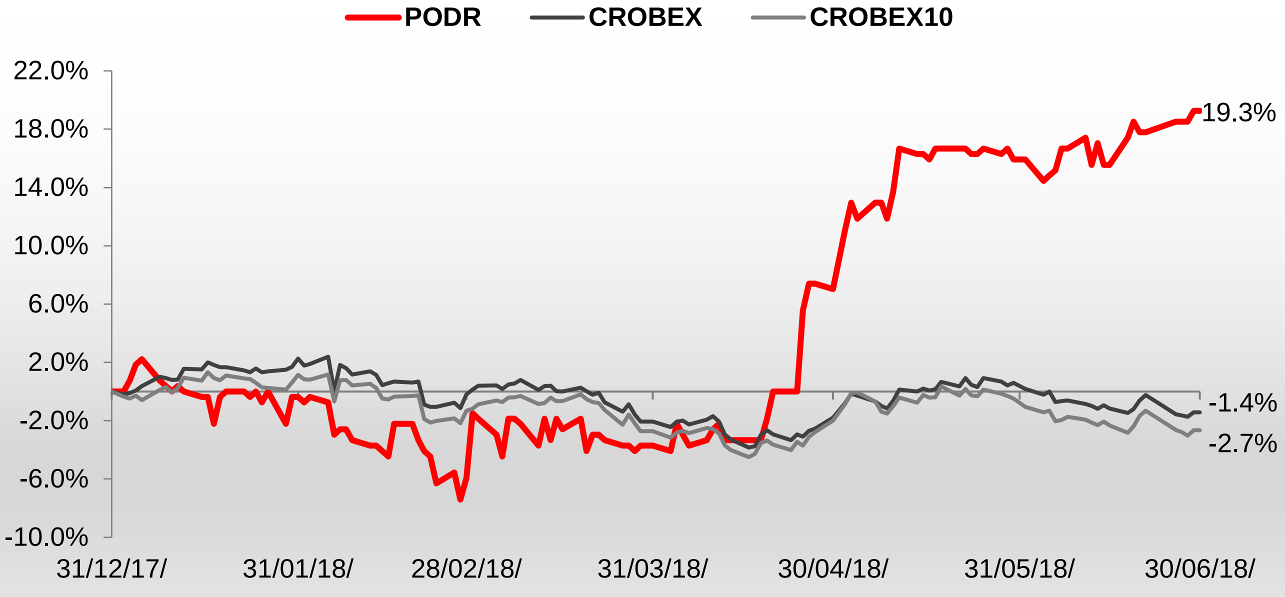
No.	Shareholder	Number of shares	% of ownership
1	Republic of Croatia	1,808,390	25.4%
2	PBZ Croatia Osiguranje mandatory pension fund, category B	959,136	13.5%
3	AZ mandatory pension fund, category B	902,874	12.7%
4	Erste Plavi mandatory pension fund, category B	665,166	9.3%
5	Raiffeisen mandatory pension fund, category B	625,298	8.8%
6	Podravka d.d. - treasury account	162,559	2.3%
	Other shareholders	1,996,580	28.0%
	Total	**7,120,003**	**100.0%**

Podravka Inc. has a stable ownership structure where the most significant share is held by domestic pension funds and the Republic of Croatia. As at 30 June 2018, domestic pension funds (mandatory and voluntary) hold a total of 49.5% shares, and the Republic of Croatia 25.4%. Podravka Inc. has 2.3% of treasury shares. Podravka Inc.'s shares have been listed on the Official Market of the Zagreb Stock Exchange since 7 December 1998, under the PODR ticker symbol.

Ownership structure as at 30 June 2018



Share price movement in H1 2018



(closing price in HRK; closing points)	31 December 2017	30 June 2018	%
PODR	270.0	322.0	19.3%
CROBEX	1,842.9	1,816.5	(1.4%)
CROBEX10	1,076.9	1,048.2	(2.7%)

In H1 2018, the price of Podravka's share grew by 19.3%, while domestic stock indices Crobex and Crobex10 dropped by 1.4% and 2.7%, respectively.

Performance in the Croatian capital market in H1 2018

(in HRK; in units) [4]	H1 2017	H1 2018	%
Weighted average daily price	370.0	281.8	(23.8%)
Average daily number of transactions	23	13	(44.9%)
Average daily volume	1,661	1,493	(10.1%)
Average daily turnover	614,678.8	420,770.2	(31.5%)

In H1 2018, the average weighted daily price of the Podravka's share was 23.8% lower than in the comparative period. At the same time, the average daily number of transactions, volume and turnover decreased.

[4]Weighted 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.

Valuation

*(in HRK millions; last price and earnings per share in HRK)**	**2017**	**H1 2018**	**%**
Last price	270.0	322.0	19.3%
Weighted average number of shares	6,952,372	6,956,718	0,1%
Market capitalization	1,877.1	2,240.1	19.3%
EV[5]	2,822.9	3,136.1	1.1%
Normalized earnings per share	23.8	33.2	39.2%
EV / Sales revenue	0.7	0.7	8.9%
EV / normalized EBITDA	6.5	6.2	(4.8%)
EV / normalized EBIT	11.2	9.7	(14.1%)
Last price / Earnings per share ratio	11.3	9.7	(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.

[5]Enterprise value: Market Capitalization + Net debt + Minority interests.

Additional tables for H1 2018

Overview of the Profit and Loss Statement normalization in H1 2018*

Reported and normalized profitability	**H1 2017**			**H1 2018**		
(in HRK millions)	**Group**	**Food**	**Pharma**	**Group**	**Food**	**Pharma**
Reported gross profit	**693.7**	**485.3**	**208.4**	**760.6**	**541.0**	**219.6**
+new pharmaceuticals factory expenses with amortization	6.3	-	6.3	-	-	-
Normalized gross profit	**700.0**	**485.3**	**214.7**	**760.6**	**541.0**	**219.6**
Reported EBITDA	**140.0**	**84.2**	**55.7**	**243.5**	**171.7**	**71.8**
+severance payments	26.6	21.0	5.6	2.1	2.1	0.0
+new pharmaceuticals factory expenses without amortization	6.3	-	6.3	-	-	-
Normalized EBITDA	**172.9**	**105.2**	**67.7**	**245.7**	**173.9**	**71.8**
Reported EBIT	**44.8**	**9.3**	**35.5**	**149.2**	**105.5**	**43.7**
+severance payments	26.6	21.0	5.6	2.1	2.1	0.0
+new pharmaceuticals factory expenses with amortization	6.3	-	6.3	-	-	-
Normalized EBIT	**77.7**	**30.3**	**47.4**	**151.3**	**107.6**	**43.7**
Reported net profit after minorities	**24.8**	**(5.0)**	**29.8**	**120.7**	**84.5**	**36.1**
+severance payments	26.6	21.0	5.6	2.1	2.1	0.0
+new pharmaceuticals factory expenses with amortization	6.3	-	6.3	-	-	-
Normalized net profit after minorities	**57.7**	**16.0**	**41.7**	**122.8**	**86.6**	**36.2**

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

Consolidated financial statements in H1 2018

Consolidated Profit and Loss Statement in H1 2018

(in HRK thousands)	H1 2017	% of sales revenues	H1 2018	% of sales revenues	%
Sales revenue	1,951,164	100.0%	2,035,063	100.0%	4.3%
Cost of goods sold	(1,257,481)	(64.4%)	(1,274,429)	(62.6%)	1.3%
Gross profit	**693,682**	**35.6%**	**760,635**	**37.4%**	**9.7%**
General and administrative expenses	(181,079)	(9.3%)	(147,508)	(7.2%)	(18.5%)
Selling and distribution costs	(286,622)	(14.7%)	(278,018)	(13.7%)	(3.0%)
Marketing expenses	(173,851)	(8.9%)	(181,410)	(8.9%)	4.3%
Other (expenses) / income, net	(7,352)	(0.4%)	(4,498)	(0.2%)	38.8%
Operating profit	**44,779**	**2.3%**	**149,200**	**7.3%**	**233.2%**
Financial income	3,423	0.2%	1,366	0.1%	60.1%
Other financial expenses	(830)	(0.0%)	(365)	(0.0%)	(56.1%)
Interest expenses	(13,407)	(0.7%)	(9,911)	(0.5%)	(26.1%)
Net foreign exchange differences on borrowings	7,478	0.4%	12,756	0.6%	70.6%
Net finance costs	**(3,335)**	**(0.2%)**	**3,846**	**0.2%**	**(215.3%)**
Profit before tax	**41,444**	**2.1%**	**153,046**	**7.5%**	**269.3%**
Current income tax	(8,179)	(0.4%)	(10,970)	(0.5%)	34.1%
Deferred tax	(3,972)	(0.2%)	(19,647)	(1.0%)	394.7%
Income tax	**(12,151)**	**(0.6%)**	**(30,617)**	**(1.5%)**	**152.0%**
Net profit for the year	**29,294**	**1.5%**	**122,429**	**6.0%**	**317.9%**
Net profit / (loss) attributable to:					
Equity holders of the parent	**24,796**	**1.3%**	**120,672**	**5.9%**	**386.7%**
Non-controlling interests	(4,498)	(0.2%)	(1,757)	(0.1%)	(60.9%)

Consolidated Balance Sheet as at 30 June 2018

((in HRK thousands)	31 Dec. 2017	% share	30 Jun. 2018	% share	% change
ASSETS					
Non-current assets					
Goodwill	27,402	0.5%	27,402	0.6%	0.0%
Intangible assets	240,235	4.7%	237,139	4.9%	(1.3%)
Property, plant and equipment	2,317,992	45.8%	2,266,451	46.7%	(2.2%)
Deferred tax assets	170,386	3.4%	148,835	3.1%	(12.6%)
Non-current financial assets	9,746	0.2%	9,244	0.2%	(5.2%)
Total non-current assets	**2,765,760**	**54.6%**	**2,689,071**	**55.4%**	**(2.8%)**
Current assets					
Inventories	805,805	15.9%	809,681	16.7%	0.5%
Trade and other receivables	947,493	18.7%	946,342	19.5%	(0.1%)
Financial assets at fair value through profit and loss	511	0.0%	1,035	0.0%	102.5%
Income tax receivable	1,569	0.0%	3,625	0.1%	131.0%
Cash and cash equivalents	362,082	7.2%	211,101	4.3%	(41.7%)
Non-current assets held for sale	178,161	3.5%	192,055	4.0%	7.8%
Total current assets	**2,295,621**	**45.4%**	**2,163,839**	**44.6%**	**(5.7%)**
Total assets	**5,061,382**	**100.0%**	**4,852,909**	**100.0%**	**(4.1%)**

(in HRK thousands)	31 Dec. 2017	% share	30 Jun. 2018	% share	% change
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	1,689,947	33.4%	1,689,825	34.8%	(0.0%)
Reserves	766,862	15.2%	794,522	16.4%	3.6%
Retained earnings / (accumulated losses)	403,303	8.0%	431,564	8.9%	7.0%
Attributable to equity holders of the parent	**2,860,112**	**56.5%**	**2,915,912**	**60.1%**	**2.0%**
Non-controlling interests	36,671	0.7%	38,118	0.8%	3.9%
Total shareholders' equity	**2,896,783**	**57.2%**	**2,954,030**	**60.9%**	**2.0%**
Non-current liabilities					
Borrowings	915,210	18.1%	760,841	15.7%	(16.9%)
Provisions	74,122	1.5%	73,392	1.5%	(1.0%)
Other non - current liabilities	22,465	0.4%	21,203	0.4%	(5.6%)
Deferred tax liability	46,692	0.9%	44,556	0.9%	(4.6%)
Total non-current liabilities	**1,058,489**	**20.9%**	**899,992**	**18.5%**	**(15.0%)**
Current liabilities					
Trade and other payables	719,791	14.2%	666,792	13.7%	(7.4%)
Income tax payable	5,433	0.1%	6,122	0.1%	12.7%
Financial liabilities at fair value through profit and loss	1,631	0.0%	1,063	0.0%	(34.8%)
Borrowings	354,304	7.0%	307,068	6.3%	(13.3%)
Provisions	24,951	0.5%	17,842	0.4%	(28.5%)
Total current liabilities	**1,106,110**	**21.9%**	**998,887**	**20.6%**	**(9.7%)**
Total liabilities	**2,164,599**	**42.8%**	**1,898,879**	**39.1%**	**(12.3%)**
Total equity and liabilities	**5,061,382**	**100.0%**	**4,852,909**	**100.0%**	**(4.1%)**

Consolidated Cash Flow Statement in H1 2018

(in HRK thousands)	H1 2017	H1 2018	%
Profit / (loss) for the year	**29,294**	**122,429**	**317.9%**
Income tax	12,151	30,617	152.0%
Depreciation and amortization	95,183	94,331	(0.9%)
(Profit) / loss on impairment of assets	0	12	100.0%
Subsidiary liquidation	0	(2,211)	(100.0%)
Remeasurement of financial instruments at fair value	(1,524)	(1,092)	28.3%
Share based payment transactions	9,983	(122)	(101.2%)
(Profit) / Loss on disposal of property, plant, equipment and intangibles	(504)	364	172.2%
(Profit) / Loss on disposal of assets held for sale	(23)	80	447.8%
Impairment of trade receivables	(1,177)	441	137.5%
(Decrease) / Increase in provisions	(3,267)	(7,839)	(139.9%)
Interest income	(3,423)	(1,366)	60.1%
Income from sale of rights	0	(750)	(100.0%)
Interest expense	14,238	10,276	(27.8%)
Effect of changes in foreign exchange rates	(13,273)	(20,270)	(52.7%)
Changes in working capital:			
(Increase) / decrease in inventories	(7,028)	(3,876)	44.8%
(Increase) / decrease in trade receivables	126,088	1,222	(99.0%)
Increase / (decrease) in trade payables	(97,993)	(100,289)	(2.3%)
Cash generated from operating activities	**158,726**	**121,957**	**(23.2%)**
Income tax paid	(7,263)	(12,157)	(67.4%)
Interest paid	(14,771)	(10,802)	26.9%
Net cash from operating activities	**136,692**	**98,998**	**(27.6%)**
Cash flow from investing activities			
Purchase of property, plant, equipment and intangibles	(122,881)	(67,384)	45.2%
Proceeds from sale of property, plant, equipment and intangibles	1,681	758	(54.9%)
Proceeds from sale of rights	0	238	100.0%
Loans given	0	(37)	(100.0%)
Repayment of loans receivable	46	106	130.4%
Proceeds from other investments	(1,971)	0	100.0%
Collected interest	3,423	1,366	(60.1%)
Net cash from investing activities	**(119,702)**	**(64,953)**	**45.7%**
Cash flow from financing activities			
Acquisition of subsidiaries, net of gained money	(863)	0	100.0%
Sale of treasury shares	6,945	0	(100.0%)
Proceeds from borrowings	88,046	17,382	(80.3%)
Repayment of borrowings	(162,942)	(202,408)	(24.2%)
Net cash from financing activities	**(68,813)**	**(185,026)**	**(168.9%)**
Net (decrease) / increase of cash and cash equivalents	**(51,823)**	**(150,981)**	**(191.3%)**
Cash and cash equivalents at beginning of the year	337,611	362,082	7.2%
Cash and cash equivalents at the end of year	**285,788**	**211,101**	(26.1%)

Consolidated Statement of Changes in Equity in H1 2018

(in HRK thousands)	Share capital	Reserve for treasury shares	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Retained earnings/ Accumulated loss	Total	Non-controlling interests	Total
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**	**2,817,757**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	18,250	18,250	5,581	23,831
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	-	-	-	-	-	3,583	-	3,583	(430)	3,153
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**3,583**	**18,250**	**21,833**	**5,151**	**26,984**
Transactions with owners recognised directly in equity										
Dividends paid to the minority shareholder	-	-	-	-	-	-	-	-	(15,776)	(15,776)
Allocation from retained earnings	-	-	8,966	-	3,015	137,596	(149,577)	-	-	-
Exercise of options	(3,269)	-	-	-	-	-	-	(3,269)	-	(3,269)
Fair value of share-based payment transactions	11,955	-	-	-	-	-	-	11,955	-	11,955
Dividends paid	-	-	-	-	-	-	(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	**8,686**	**-**	**8,966**	**-**	**3,015**	**138,655**	**(198,219)**	**(38,897)**	**(17,698)**	**(56,595)**
As at 31 December 2017	**1,689,947**	**147,604**	**50,903**	**189,738**	**58,570**	**320,047**	**403,303**	**2,860,112**	**36,671**	**2,896,783**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	120,672	120,672	1,757	122,429
Foreign exchange differences	-	-	-	-	-	(15,768)	-	(15,768)	(310)	(16,078)
Other comprehensive income	-	-	-	-	-	**(15,768)**	**-**	**(15,768)**	**(310)**	**(16,078)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(15,768)**	**120,672**	**104,904**	**1,447**	**106,351**
Allocation from retained earnings										
Transactions with owners recognised directly in equity	-	-	7,542	-	3,220	32,946	(43,708)	-	-	-
Fair value of share-based payment transactions	(122)	-	-	-	-	-	-	(122)	-	(122)
Liquidation of subsidiaries	-	-	-	-	-	(280)	-	(280)	-	(280)
Dividends paid	-	-	-	-	-	-	(48,702)	(48,702)	-	(48,702)
Total transactions with owners recognised directly in equity	**(122)**	**-**	**7,542**	**-**	**3,220**	**32,666**	**(92,410)**	**(49,104)**	**-**	**(49,104)**
As at 30 June 2018	**1,689,825**	**147,604**	**58,445**	**189,738**	**61,790**	**336,945**	**431,565**	**2,915,912**	**38,118**	**2,954,030**

Notes to the financial statements

The accounting policy in H1 2018 did not change.

Predsjednik Uprave:

Marin Pucar

Statement of liability

Koprivnica, 23 July 2018

STATEMENT FROM EXECUTIVES RESPONSIBLE FOR PREPARING FINANCIAL STATEMENTS

Consolidated financial statements of Podravka Group for the period 1 - 6 2018 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 - 6 2018 were approved by the Management Board of PODRAVKA d.d. on 23 July 2018.

Corporate Accounting and Taxes Director:
Julijana Artner Kukec

Artner

Board Member:
Davor Doko

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