PODRAVKA

Podravka Group Business Results for **1-9 2018 period**

Content

Key financial indicators in 1-9 2018

(in HRK millions)	1-9 2017[1]	1-9 2018[1]	Δ	%
Sales revenue	2,983.1	3,078.3	95.2	3.2%
EBITDA[2]	254.4	379.4	125.0	49.1%
Normalised EBITDA[2]	297.2	370.6	73.4	24.7%
Net profit after MI	54.1	185.9	131.9	243.8%
Normalised net profit after MI	102.9	175.3	72.4	70.3%
Net cash flow from operating activities	193.1	146.6	(46.5)	(24.1%)
Cash capital expenditures	158.8	108.5	(50.2)	(31.6%)

(in HRK; market capitalization in HRKm)	31.12.2017	30.09.2018	Δ	%
Net debt / normalised EBITDA	2.1	1.7	(0.4)	(18.2%)
Normalised Earnings per share	23.8	34.2	10.4	43.6%
Last price at the end of period	270.0	349.0	79.0	29.3%
Market capitalization	1,877.1	2,429.1	552.0	29.4%
Return on average equity[3]	5.9%	8.2%		+230 bp
Return on average assets[3]	3.3%	4.9%		+158 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 1-9 2018:

- In 1-9 2018, the Podravka Group continues with record-high business results following a significant organic growth in most business units, of 4.0%,
- Sales revenues recorded a significant growth of HRK 95.2 million, where the substantial contribution came from both business segments,
- An increase in sales of the profitable range together with operating expenses control resulted in a double-digit profitability growth,
- In this, the Podravka Group continued with deleveraging and strategic decrease in cash position,
- Management's focus in the rest of 2018 will be on further organic growth, further decrease in debt, cash flow management and internal efficiency improvement.

[1]1-9 2018 relates to the period January 2018 – September 2018, and 1-9 2017 relates to the period January 2017 – September 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 1-9 2018

Dividend distribution to shareholders of Podravka Inc.

The Podravka Group continued its consistent policy of dividend distribution. Following the decision of the General Assembly held on 12 June 2018, the dividend distribution to shareholders of Podravka Inc. was approved in the amount of HRK 7.00 per share. The dividend was distributed on 12 July 2018, for which HRK 48.7 million were used.

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 4 July 2018, the settlement of Agrokor creditors was voted for by 80.2% of the total claims. The High Commercial Court in Zagreb confirmed the Settlement plan on 26th October 2018, whereby it became effective. As at 30 September 2018, receivables of Podravka Inc. from the Agrokor companies headquartered in Croatia amounted to HRK 53.4 million, of which HRK 15.8 million relates to “border debt”, HRK 0.9 million to “old debt”, while the remaining portion relates to receivables from regular operations.

Improvement in material position and rights of Podravka Group’s employees

On 4 June 2018, the Podravka Group started negotiations on amendments to the Collective Agreement of the Podravka Group for companies headquartered in Croatia. The negotiations were successfully finalised on 10 October 2018 with defining a number of measures that will improve the material position and rights of employees, and create preconditions for even more successful and improved business operations. The measures adopted include the employer's obligation to pay savings of HRH 1,000 in the 3rd pension pillar, proportional to the number of months of the employee’s service. This measure is aimed at motivating employees to continue working in the Podravka Group for a longer period of time.

Overview of sales revenues in 1-9 2018

Sales revenues by segment in 1-9 2018

Sales revenues by segment				
(in HRK millions)	**1-9 2017**	**1-9 2018**	**Δ**	**%**
Food	**2,372.3**	**2,439.0**	**66.7**	**2.8%**
Own brands	*2,181.6*	*2,264.1*	*82.5*	*3.8%*
Other sales	*190.7*	*174.9*	*(15.8)*	*(8.3%)*
Pharmaceuticals	**610.8**	**639.3**	**28.5**	**4.7%**
Own brands	*508.2*	*533.2*	*25.0*	*4.9%*
Other sales	*102.6*	*106.1*	*3.5*	*3.4%*
Podravka Group	**2,983.1**	**3,078.3**	**95.2**	**3.2%**
Own brands	*2,689.8*	*2,797.3*	*107.5*	*4.0%*
Other sales	*293.3*	*281.0*	*(12.3)*	*(4.2%)*

Movements of the Food segment revenues (1-9 2018 compared to 1-9 2017):

- **Own brands** recorded 3.8% higher sales, primarily due to the continued growth in sales of business units Culinary, Baby food, sweets and snacks, Žito and Lagris, as a result of increased selling and marketing activities, innovation and expanded distribution of certain categories. If the FX effect is excluded, it is estimated own brands would record 4.5% higher sales,
- **Other sales** recorded 8.3% lower revenues, primarily as a result of lower sales of trade goods in the Croatian market. If the FX effect is excluded, other sales record an estimated 8.9% sales decrease,
- Consequently, the **Food segment** recorded 2.8% higher sales, while if the FX effect is excluded, it is estimated the sales would be 3.4% higher.

Movements of the Pharmaceuticals segment revenues (1-9 2018 compared to 1-9 2017):

- **Own brands** recorded a 4.9% sales growth, primarily due to the continued trend of the increased demand in the Russian market and the increase in sales in the markets of the Adria and Central Europe regions. If the FX effect is excluded, own brands record an estimated 8.4% increase in sales,
- **Other sales** revenues are 3.4% higher as a result of higher sales of trade goods in the Farmavita company and in Deltis Pharm pharmacies. If the FX effect is excluded, other sales record an estimated 3.6% sales growth,
- Consequently, the **Pharmaceuticals segment** recorded 4.7% higher sales, while if the FX effect is excluded, it is estimated the revenues would be 7.6% higher.

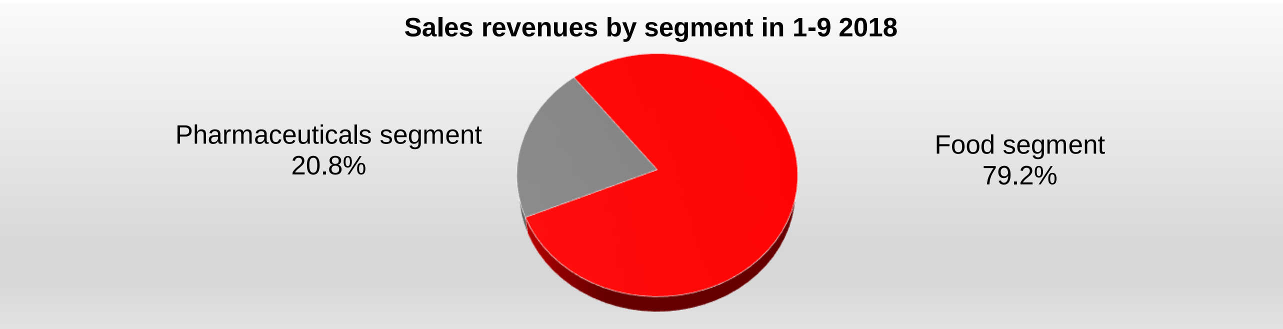
Movements of the Podravka Group revenues (1-9 2018 compared to 1-9 2017):

- **Own brands** of the Podravka Group recorded a 4.0% sales growth, while if the FX effect is excluded, it is estimated the sales of own brands would be 5.2% higher,
- The revenues from **other sales** are 4.2% lower, while if the effect of foreign exchange differences is excluded, other sales record a decrease in revenues of estimated 4.5%,
- Consequently, the **Podravka Group** recorded 3.2% higher sales, while if the FX effect is excluded, it is estimated the sales would be 4.3% higher.

Estimated net effect of currency exchange rates on sales by segment in 1-9 2018:

(in HRK millions)	**Own brands**	**Other sales**	**Total**
Food	(15.4)	1.1	(14.3)
Pharmaceuticals	(17.7)	(0.2)	(18.0)
Group	(33.2)	0.9	(32.3)

- The effect of FX differences on sales is the estimate of the revenue amount in 1-9 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 -24.8 million) and the Euro (HRK -4.3 million), while the most significant positive effect is recorded by the Czech Koruna (HRK +3.6 million) and the Serbian dinar (HRK +2.5 million).



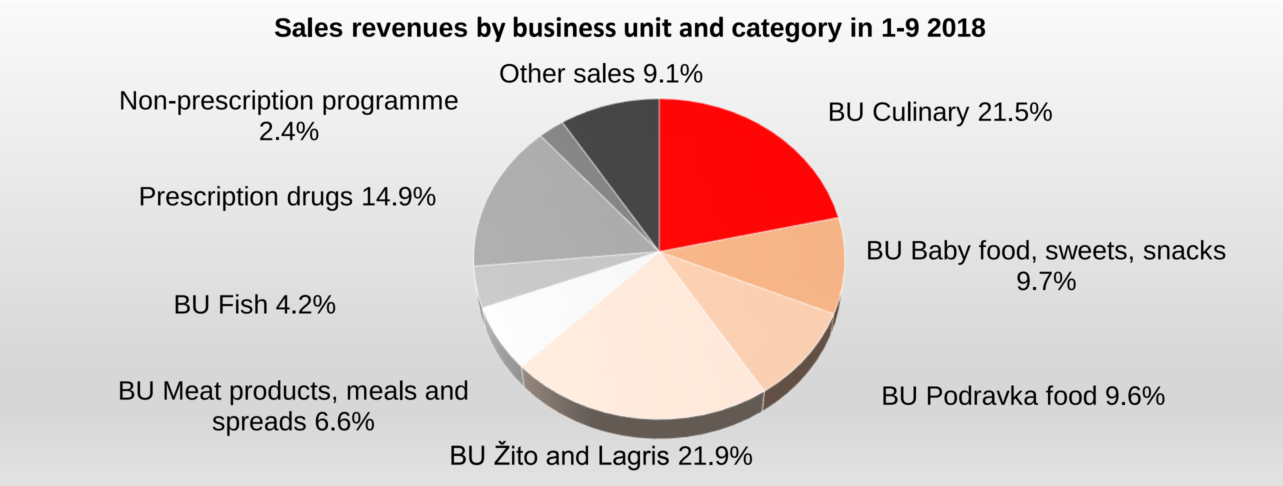
Sales revenues by business unit and category in 1-9 2018

Sales revenues by business unit and category				
(in HRK millions)	1-9 2017	1-9 2018	Δ	%
BU Culinary	644.6	663.3	18.7	2.9%
BU Baby food, sweets and snacks	275.0	299.0	24.0	8.7%
BU Podravka food	293.2	294.9	1.8	0.6%
BU Žito and Lagris	635.5	674.4	38.9	6.1%
BU Meat products	206.7	203.7	(3.1)	(1.5%)
BU Fish	126.6	128.8	2.2	1.7%
Prescription drugs	435.9	459.5	23.6	5.4%
Non-prescription programme	72.3	73.7	1.4	1.9%
Other sales	293.3	281.0	(12.3)	(4.2%)
Podravka Group	**2,983.1**	**3,078.3**	**95.2**	**3.2%**

Movements of revenues by business unit and category (1-9 2018 compared to 1-9 2017):

- The **Culinary business unit** recorded 2.9% 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 4.4% higher sales,
- The **Baby food, sweets and snacks business unit** recorded 8.7% higher sales, primarily as a consequence of stronger marketing activities in categories Creamy spreads, Baby food and Snacks in the market of Croatia. The Creamy spreads category continues the growth trend 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 8.9% higher sales,
- The **Podravka Food business unit** recorded 0.6% higher sales mainly due to selling and marketing activities and expanded distribution of the range from the Condiments, Tomato and Flour categories. If the FX effect is excluded, it is estimated the business unit would record 1.6% higher sales,
- The **Žito and Lagris business unit** records 6.1% higher sales, mainly due to the continued growth in the Bakery and mill products category in the market of Slovenia and markets of Western Europe, as a result of stronger selling activities and expanded distribution. If the FX effect is excluded, it is estimated the business unit would record 6.3% higher sales,
- The **Meat products, meat solutions and savoury spreads business unit** recorded 1.5% lower sales, primarily due to the changed dynamics of selling and marketing activities in the market of Croatia and due to the change of distributor in the DACH region. If the FX effect is excluded, the business unit would record 1.0% lower sales,

- The **Fish business unit** recorded 1.7% higher sales primarily due to stronger selling and marketing 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 5.4% higher sales, with the most significant growth in the market of Russia due to the continued trend of higher demand, and in the markets of the Adria and Central Europe regions. If the FX effect is excluded, it is estimated the category would record 9.1% higher sales,
- The sales of the **Non-prescription programme category** are 1.9% higher, primarily as a result of the sales growth in the OTC drugs subcategory in the market of Bosnia and Herzegovina and increased focus on the non-prescription programme. If the FX effect is excluded, it is estimated the category would record 4.2% higher sales,
- The **Other sales category** recorded 4.2% lower sales, primarily as a result of the decrease in sales of trade goods in the Food segment on the Croatian market. If the FX effect is excluded, it is estimated the category would record 4.5% lower sales.



Sales revenues by region in 1-9 2018

Sales revenues by region				
(in HRK millions)	**1-9 2017**	**1-9 2018**	**Δ**	**%**
Adria	**2,117.1**	**2,165.7**	**48.7**	**2.3%**
Food	1,664.7	1,707.7	43.0	2.6%
Pharmaceuticals	452.4	458.1	5.7	1.2%
WE and Overseas	**311.8**	**320.3**	**8.5**	**2.7%**
Food	309.9	319.5	9.6	3.1%
Pharmaceuticals	2.0	0.8	(1.1)	(57.5%)
Central Europe	**341.2**	**365.9**	**24.7**	**7.2%**
Food	301.7	321.4	19.7	6.5%
Pharmaceuticals	39.5	44.5	5.0	12.8%
Eastern Europe	**188.5**	**205.6**	**17.1**	**9.0%**
Food	80.9	78.6	(2.3)	(2.8%)
Pharmaceuticals	107.6	127.0	19.3	18.0%
New markets	**24.4**	**20.7**	**(3.7)**	**(15.2%)**
Food	15.2	11.8	(3.3)	(21.9%)
Pharmaceuticals	9.3	8.9	(0.4)	(4.2%)
Podravka Group	**2,983.1**	**3,078.3**	**95.2**	**3.2%**

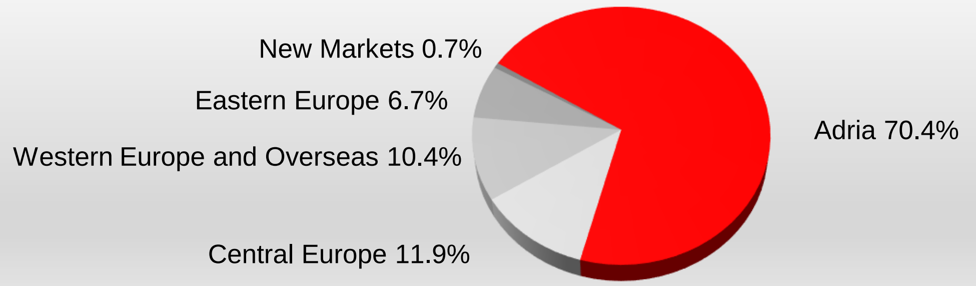
Movements of revenues by region (1-9 2018 compared to 1-9 2017):

- The **Adria region** recorded 2.3% higher sales, while if the FX effect is excluded, it is estimated the region would record 2.5% higher sales. In the Food segment, all business units record sales growth, primarily as the result of selling and marketing activities and launching of new and innovated products, leading to the stable organic revenue growth and increased profitability. Revenues of the Pharmaceuticals segment were 1.2% higher than in the comparative period, as a consequence of organic growth and increase in other sales,
- Revenues of the **Western Europe and Overseas region** grew by 2.7%, while if the FX effect was excluded, it is estimated the region would record 4.6% higher sales. The most significant positive effect on the Food segment came from the Žito and Lagris business unit due to continuous expansion of the product range and distribution in the markets of Italy, Germany and Spain. This compensated for a mild decrease in the Pharmaceuticals segment revenues, resulting from a changed dynamics of annual deliveries,
- The **Central Europe region** recorded 7.2% higher sales, while if the FX effect was excluded, it is estimated the region would record 6.7% higher sales. The most significant impact on the Food segment came from the Culinary and Žito and Lagris business units, following stronger selling and

marketing activities. The Pharmaceuticals segment recorded a 12.8% sales growth, primarily due to the increased demand and launching of new products in the markets of Poland, the Czech Republic and Slovakia,

- Revenues of the **Eastern Europe region** grew by 9.0%, while if the FX effect was excluded, it is estimated the region would record 22.2% higher sales. In the Food segment, the increase in sales of the Culinary business unit did not fully compensate for lower sales of the Podravka Food business unit, while in the Pharmaceuticals segment, an increased demand for the Prescription drugs category led to a revenue growth of 18.0%,
- The **New markets region** recorded a 15.2% sales decrease, while if the FX effect was excluded, the region would record an estimated 14.8% sales decrease. The most significant impact on the sales decrease in the region came from lower sales of the Lagris company trade goods in the Asian market.

Sales revenues by region in 1-9 2018



Profitability in 1-9 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 net profit normalisation is not adjusted for all possible tax aspects that would arise from the normalisation.

Profitability of the Food segment in 1-9 2018

Profitability of the Food segment					Normalized			
(in HRK millions)	**1-9 2017**	**1-9 2018**	**Δ**	**%**	**1-9 2017**	**1-9 2018**	**Δ**	**%**
Sales revenue	2,372.3	2,439.0	66.7	2.8%	2,372.3	2,439.0	66.7	2.8%
Gross profit	757.4	827.7	70.2	9.3%	757.9	828.5	70.6	9.3%
EBITDA*	170.0	280.8	110.8	65.1%	195.2	272.0	76.8	39.3%
EBIT	60.1	181.9	121.8	202.5%	85.3	173.1	87.8	103.0%
Net profit after MI	20.8	144.5	123.7	594.6%	48.1	133.4	85.3	177.5%
Gross margin	31.9%	33.9%		+201 bp	31.9%	34.0%		+202 bp
EBITDA margin	7.2%	11.5%		+435 bp	8.2%	11.2%		+292 bp
EBIT margin	2.5%	7.5%		+492 bp	3.6%	7.1%		+350 bp
Net margin after MI	0.9%	5.9%		+505 bp	2.0%	5.5%		+344 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 (1-9 2018 compared to 1-9 2017):

- The Food segment recorded 9.3% higher normalised **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 1-9 2018" section,
- **Operating profit (EBIT)** is HRK 87.8 million higher on the normalised level, primarily as a result of the increase in sales of profitable categories. An additional positive impact, among other, came from the absence of share option expenses that amounted to HRK 10.1 million in 1-9 2017 and lower selling and distribution costs. The lower selling and distribution costs were impacted by: i) the changed business model in the MENA markets, ii) terminated business activities in the market of Tanzania, iii) lower depreciation and amortisation, and iv) lower provisions for trade receivables,
- Under the impact of the previously mentioned factors, **net profit after minority interests** is HRK 85.3 million higher at the normalised level. An additional positive effect came from lower interest expense

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

Profitability of the Pharmaceuticals segment in 1-9 2018

Note: 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. This was followed by the process of technology transfer from the old factory to the new one, which is expected to be finalised by the end of 2018. Due to the time frame of obtaining all regulatory permits and the technology transfer process, a portion of newly arisen fixed expenses is not covered by the sale of products from the new factory nor it is absorbed in the cost of inventories of finished products, but is included in the expense for the period. Thus, an unrealistic profitability level was formed, so in 2017 the results normalisation included these costs for the purpose of providing consistent comparison with 2016. For 2018, management decided that normalisation will not include these expenses; however, for the purpose of enabling a comparable analysis of the normalised result with 2017, the text presents what the result would have been had these expenses been included in normalisation in 2018. In the 1-9 2018 period, these expenses amount to HRK 16.4 million (of which HRK 9.1 million relates to depreciation and amortisation), while in the 1-9 2017 period these expenses amount to HRK 15.2 million (of which HRK 3.4 million relates to depreciation and amortisation).

Profitability of the Pharmaceuticals segment					Normalized			
(in HRK millions)	1-9 2017	1-9 2018	Δ	%	1-9 2017	1-9 2018	Δ	%
Sales revenue	610.8	639.3	28.5	4.7%	610.8	639.3	28.5	4.7%
Gross profit	304.2	316.5	12.3	4.0%	319.4	316.5	(2.9)	(0.9%)
EBITDA*	84.3	98.6	14.2	16.9%	102.0	98.6	(3.4)	(3.3%)
EBIT	50.4	56.9	6.5	12.9%	71.5	56.9	(14.6)	(20.4%)
Net profit after MI	33.3	41.5	8.2	24.6%	54.9	41.9	(12.9)	(23.6%)
Gross margin	49.8%	49.5%		-29 bp	52.3%	49.5%		-278 bp
EBITDA margin	13.8%	15.4%		+161 bp	16.7%	15.4%		-128 bp
EBIT margin	8.3%	8.9%		+65 bp	11.7%	8.9%		-280 bp
Net margin after MI	5.5%	6.5%		+104 bp	9.0%	6.6%		-242 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 (1-9 2018 compared to 1-9 2017):

- The Pharmaceuticals segment recorded 0.9% lower normalised **gross profit**, while the gross profit without a portion of new factory costs in both periods would be 4.2% higher 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 1-9 2018" section,

- **Operating profit (EBIT)** is HRK 14.6 million lower on the normalised level, while without a portion of new factory costs in both periods it would be HRK 1.8 million higher. In addition to the effects above the EBIT level, an additional impact came from, among other, higher marketing expenses,
- Under the impact of the previously mentioned factors, **net profit after minority interests** is HRK 12.9 million lower on the normalised level, while without a portion of new factory costs in both periods it would be HRK 3.4 million higher. An additional positive effect came from lower finance costs and lower minority interests, which compensated for higher tax expenses.

Profitability of the Podravka Group in 1-9 2018

Profitability of the Podravka Group					Normalized			
(in HRK millions)	**1-9 2017**	**1-9 2018**	**Δ**	**%**	**1-9 2017**	**1-9 2018**	**Δ**	**%**
Sales revenue	2,983.1	3,078.3	95.2	3.2%	2,983.1	3,078.3	95.2	3.2%
Gross profit	1,061.7	1,144.2	82.5	7.8%	1,076.9	1,144.2	67.3	6.3%
EBITDA*	254.4	379.4	125.0	49.1%	297.2	370.6	73.4	24.7%
EBIT	110.5	238.8	128.2	116.0%	156.8	230.0	73.2	46.7%
Net profit after MI	54.1	185.9	131.9	243.8%	102.9	175.3	72.4	70.3%
Gross margin	35.6%	37.2%		+158 bp	36.1%	37.2%		+107 bp
EBITDA margin	8.5%	12.3%		+380 bp	10.0%	12.0%		+208 bp
EBIT margin	3.7%	7.8%		+405 bp	5.3%	7.5%		+222 bp
Net margin after MI	1.8%	6.0%		+423 bp	3.5%	5.7%		+225 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 (1-9 2018 compared to 1-9 2017):

- The Podravka Group recorded 6.3% higher normalised **gross profit**, while the gross profit without a portion of new factory costs in both periods would be 7.8% higher 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 1-9 2018" section,
- **Operating profit (EBIT)** is HRK 73.2 million higher on the normalised level, while without a portion of new factory costs in both periods it would be HRK 89.6 million higher. In addition to the effects above the EBIT level, an additional impact came, among other, from: i) the absence of share option expenses that amounted to HRK 10.8 million in 1-9 2017, ii) lower selling and distribution costs, and iii) higher marketing expenses,
- **Net profit after minority interests** is HRK 72.4 million higher on the normalised level, while without a portion of new factory costs in both periods it would be HRK 88.8 million higher. An additional impact, in addition to the mentioned above, came from lower finance costs and lower minority interests, which compensated for the higher tax expenses.

Key characteristics of the income statement in 1-9 2018

Other income and expenses, net

In 1-9 2018, other income and expenses amounted to HRK +5.1 million, while in the comparative period they amounted to HRK -4.5 million. In 1-9 2018, this line item includes HRK 12.0 million of other income from the sale of a portion of non-operating assets of Mirna d.d. This line item also includes foreign exchange differences from trade receivables and trade payables that amounted to HRK -13.4 million in 1-9 2018, while in the comparative period they amounted to HRK -11.1 million.

Cost of goods sold

Cost of goods sold in the observed period is 0.7% higher compared to 1-9 2017, as a consequence of higher sales in both business segments and the sales structure itself. At the normalised level, cost of goods sold is 1.4% higher, while without a portion of new factory costs in both periods, it would be 0.6% higher.

General and administrative expenses

In 1-9 2018, general and administrative expenses were 18.7% lower than in the comparative period, primarily as a result of lower costs of termination benefits (HRK 0.5 million in 1-9 2018; HRK 29.5 million in 1-9 2017) and the absence of share option expenses that amounted to HRK 10.8 million in 1-9 2017. At the normalised level, general and administrative expenses are 8.6% lower due to, among other, lower staff costs and lower expenses of taxes and contributions not related to results.

Selling and distribution costs

In the observed period, selling and distribution costs are 1.1% lower compared to 1-9 2017 primarily due to lower selling costs and lower amortisation costs. Lower selling costs are a result of, among other, changed business model in the MENA markets and terminated business activities in the market of Tanzania. Lower amortisation costs are a result of HRK 3.3 million of distribution rights amortisation costs in 1-9 2017, that are not present in 1-9 2018.

Marketing expenses

In 1-9 2018, marketing expenses are 7.8% higher than in the comparative period, mainly as a result of more marketing activities in both business segments.

Net finance costs

In the observed period, net finance costs amounted to HRK -7.0 million, while in the comparative period they amounted to HRK -29.5 million. Foreign exchange differences on borrowings in 1-9 2018 amounted to HRK +9.1 million, while in 1-9 2017 they amounted to HRK -5.2 million. At the same time, interest expense is 30.7% lower due to refinancing of borrowings under more favourable commercial terms.

Income tax

In 1-9 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. The sale of a portion of non-operating assets of Mirna d.d. in the observed period resulted in releasing deferred tax liability and utilising deferred tax losses.

Key characteristics of the balance sheet as at 30 September 2018

Property, plant and equipment

Compared to 31 December 2017, property, plant and equipment of the Podravka Group are HRK 52.7 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 100.6 million higher compared to 31 December 2017, while they are HRK 51.3 million higher compared to 30 September 2017. The increase in inventories compared to 30 September 2017 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 8.1 million lower compared to 31 December 2017, while they are HRK 99.3 million lower compared to 30 September 2017. The significant decrease in trade and other receivables compared to 30 September 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 216.1 million lower compared to 31 December 2017, as explained in the "Key characteristics of the cash flow statement in 1-9 2018" section.

Long-term and short-term borrowings

As at 30 September 2018, long-term and short-term borrowings of the Podravka Group are HRK 255.1 million lower than as at 31 December 2017, as the result of repayment of a portion of borrowings.

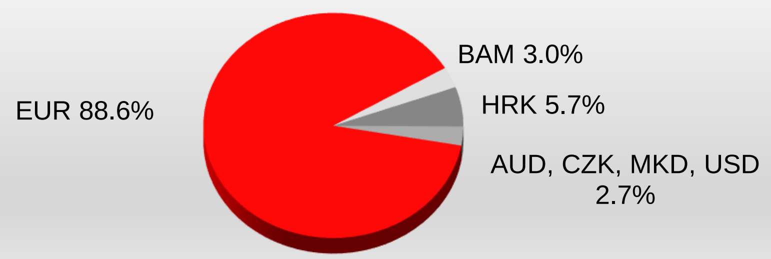
Trade and other payables

Trade and other payables of the Podravka Group are HRK 84.6 million lower compared to 31 December 2017, while they are HRK 8.5 million lower compared to 30 September 2017.

Indebtedness

As at 30 September 2018, the total debt of the Podravka Group related to borrowings and other interest-bearing financial liabilities amounted to HRK 1,015.1 million, of which HRK 694.6 million relates to long-term borrowings, HRK 319.8 million to short-term borrowings, and HRK 0.7 million to swap and forward contract liabilities. The **average weighted cost of debt** on all the stated liabilities as at 30 September 2018 was 1.7%.

Currency structure of debt as at 30 September 2018



Analysing the debt currency structure, the highest exposure, of 88.6%, was toward the Euro, while 5.7% of the debt was in the domestic currency. 3.0% of the debt was in the Bosnia and Herzegovina mark, while the remainder of 2.7% relates to the Australian dollar (AUD), the Czech koruna (CZK), the Macedonian denar (MKD) and the US dollar (USD).

(in HRK millions)*	**2017**	**1-9 2018**	**Δ**	**%**
Net debt	909.1	869.1	(40.0)	(4.4%)
Interest expense	26.9	20.5	(6.4)	(23.8%)
Net debt / normalised EBITDA	2.1	1.7	(0.4)	(18.2%)
Normalised EBIT / Interest expense	9.3	15.8	6.5	69.5%
Equity to total assets ratio	57.2%	62.5%		+522 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 September 2018 compared to 31 December 2017 is primarily the result of the repayment of a portion of borrowings. The increase in normalised EBITDA coupled with the decrease in net debt led to a lower net debt to normalised EBITDA ratio. The increase in normalised EBIT coupled with lower interest expense impacted the increase in the interest coverage ratio.

Key characteristics of the cash flow statement in 1-9 2018

(in HRK millions)	1-9 2017	1-9 2018	Δ
Net cash flow from operating activities	193.1	146.6	(46.5)
Net cash flow from investing activities	(170.6)	(69.0)	101.6
Net cash flow from financing activities	(181.5)	(293.8)	(112.3)
Net increase / (decrease) of cash and cash equivalents	**(159.0)**	**(216.1)**	**(57.1)**

Net cash flow from operating activities

In 1-9 2018, net cash flow from operating activities is HRK 46.5 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 69.0 million. This is primarily the result of capital expenditure amounting to HRK 108.5 million, which was partly neutralised by the sale of a portion of non-operating assets of Mirna d.d. The most significant **capital expenditure** in 1-9 2018 was related to:

- Investment in modernisation of equipment in the Kalnik factory, for the purpose of improving production efficiency and business 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 150.0 million, in 2019 at a level of HRK 200 - 250 million and in the 2020-2022 period at a level of approximately HRK 200 million.

Net cash flow from financing activities

In 1-9 2018, net cash flow from financing activities amounted to negative HRK 293.8 million, primarily as a result of repaid borrowings in the amount of HRK 315.9 million, which is in line with the Group's focus on reducing debt.

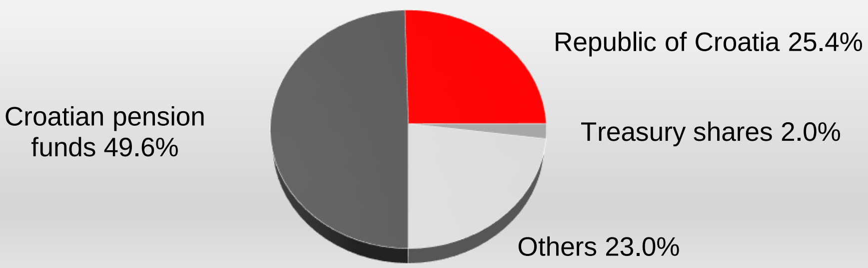
Share in 1-9 2018

List of major shareholders as at 30 September 2018

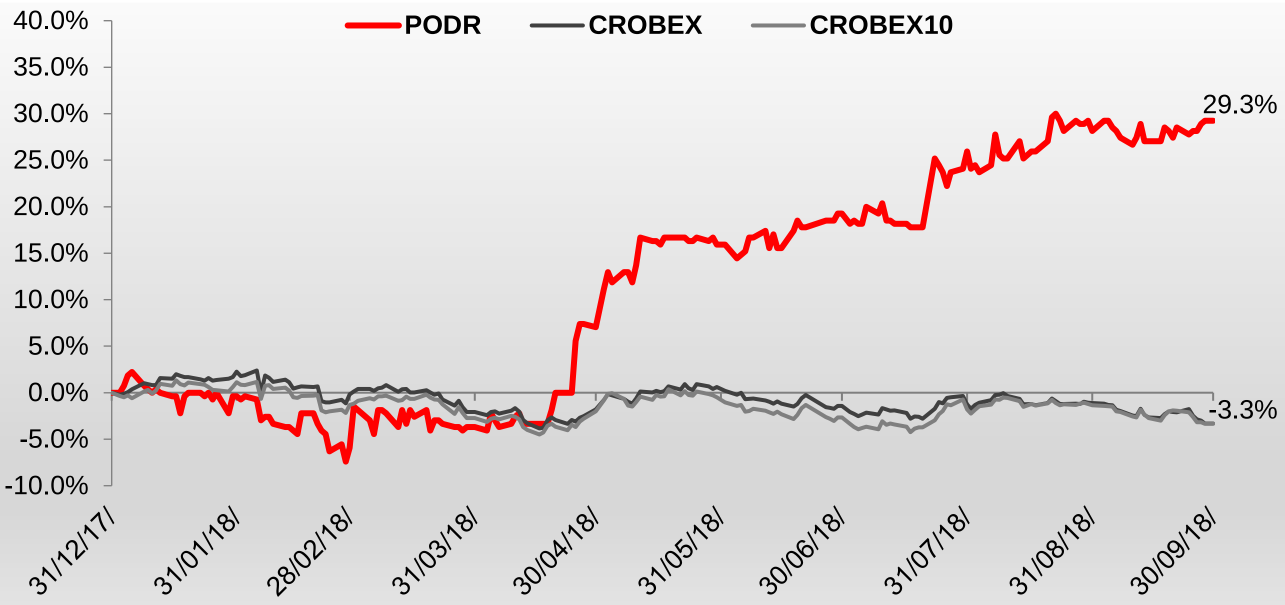
No.	Shareholder	Number of shares	% of ownership
1	Republic of Croatia	1,808,390	25.4%
2	PBZ Croatia Osiguranje mandatory pension fund, category B	966,611	13.6%
3	AZ mandatory pension fund, category B	902,874	12.7%
4	Erste Plavi mandatory pension fund, category B	671,817	9.4%
5	Raiffeisen mandatory pension fund, category B	625,298	8.8%
6	Podravka d.d. - treasury account	145,775	2.0%
	Other shareholders	1,999,238	28.1%
	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 September 2018, domestic pension funds (mandatory and voluntary) hold a total of 49.6% shares, and the Republic of Croatia 25.4%. Podravka Inc. has 2.0% 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 September 2018



Share price movement in 1-9 2018



(closing price in HRK; closing points)	**31 December 2017**	**30 September 2018**	**%**
PODR	270.0	349.0	29.3%
CROBEX	1,842.9	1,782.2	(3.3%)
CROBEX10	1,076.9	1,040.9	(3.3%)

In 1-9 2018, the price of Podravka's share grew by 29.3%, while domestic stock indices Crobex and Crobex10 both dropped by 3.3%.

Performance in the Croatian capital market in 1-9 2018

(in HRK; in units) [4]	**1-9 2017**	**1-9 2018**	**%**
Weighted average daily price	362.4	297.9	(17.8%)
Average daily number of transactions	18	11	(34.8%)
Average daily volume	1,249	1,378	10.4%
Average daily turnover	452,527.8	410,631.4	(9.3%)

In 1-9 2018, the average weighted daily price of the Podravka's share was 17.8% lower than in the comparative period. At the same time, the average daily number of transactions and daily turnover decreased, while the average daily volume increased.

[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	1-9 2018	%
Last price	270.0	349.0	29.3%
Weighted average number of shares	6,952,372	6,960,248	0,1%
Market capitalization	1,877.1	2,429.1	29.4%
EV[5]	2,822.9	3,338.7	18.3%
Normalized earnings per share	23.8	34.2	43.6%
EV / Sales revenue	0.7	0.8	15.6%
EV / normalized EBITDA	6.5	6.6	1.3%
EV / normalized EBIT	11.2	10.3	(8.4%)
Last price / Earnings per share ratio	11.3	10.2	(10.0%)

***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 1-9 2018

Overview of the Profit and Loss Statement normalization in 1-9 2018*

Reported and normalized profitability	1-9 2017			1-9 2018		
(in HRK millions)	Food	Pharma	Group	Food	Pharma	Group
Reported gross profit	**757.4**	**304.2**	**1,061.7**	**827.7**	**316.5**	**1,144.2**
+new Belupo factory expenses + D&A	-	15.2	15.2	-	-	-
Normalised gross profit	**757.4**	**319.4**	**1,076.9**	**827.7**	**316.5**	**1,144.2**
Reported EBITDA	**170.0**	**84.3**	**254.4**	**280.8**	**98.6**	**379.4**
+severance payments	24.3	5.8	30.2	3.2	0.0	3.2
+new Belupo factory expenses - D&A	-	11.8	11.8	-	-	-
+SAP implementation cost for Žito	0.8	-	0.8	-	-	-
+sale of Mirna d.d. non-operational assets	-	-	-	(12.0)	-	(12.0)
Normalised EBITDA	**195.2**	**102.0**	**297.2**	**272.0**	**98.6**	**370.6**
Reported EBIT	**60.1**	**50.4**	**110.5**	**181.9**	**56.9**	**238.8**
+severance payments	24.3	5.8	30.2	3.2	0.0	3.2
+new Belupo factory expenses + D&A	-	15.2	15.2	-	-	-
+SAP implementation cost for Žito	0.8	-	0.8	-	-	-
+sale of Mirna d.d. non-operational assets	-	-	-	(12.0)	-	(12.0)
Normalised EBIT	**85.3**	**71.5**	**156.8**	**173.1**	**56.9**	**230.0**
Reported net profit after MI	**20.8**	**33.3**	**54.1**	**144.5**	**41.5**	**185.9**
+normalization above EBITDA level	25.1	17.7	42.8	(8.8)	0.0	(8.8)
+one-off D&A	-	3.4	3.4	-	-	-
+ESOP programme expenses	2.1	0.5	2.6	1.6	0.4	2.1
+tax assets/liabilities	-	-	-	(3.9)	-	(3.9)
Normalised net profit after MI	**48.1**	**54.9**	**102.9**	**133.4**	**41.9**	**175.3**

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

Consolidated financial statements in 1-9 2018

Consolidated Profit and Loss Statement in 1-9 2018

(in HRK thousands)	1-9 2017	% of sales revenues	1-9 2018	% of sales revenues	%
Sales revenue	2,983,117	100.0%	3,078,302	100.0%	3.2%
Cost of goods sold	(1,921,462)	(64.4%)	(1,934,119)	(62.8%)	0.7%
Gross profit	**1,061,654**	**35.6%**	**1,144,182**	**37.2%**	**7.8%**
General and administrative exp.	(271,452)	(9.1%)	(220,787)	(7.2%)	(18.7%)
Selling and distribution costs	(427,372)	(14.3%)	(422,571)	(13.7%)	(1.1%)
Marketing expenses	(247,777)	(8.3%)	(267,139)	(8.7%)	7.8%
Other (expenses) / income, net	(4,510)	(0.2%)	5,103	0.2%	(213.2%)
Operating profit	**110,543**	**3.7%**	**238,789**	**7.8%**	**116.0%**
Financial income	3,389	0.1%	1,230	0.0%	63.7%
Other financial expenses	(6,859)	(0.2%)	(2,923)	(0.1%)	(57.4%)
Interest expenses	(20,842)	(0.7%)	(14,443)	(0.5%)	(30.7%)
Net foreign exchange differences on borrowings	(5,153)	(0.2%)	9,101	0.3%	276.6%
Net finance costs	**(29,465)**	**(1.0%)**	**(7,034)**	**(0.2%)**	**(76.1%)**
Profit before tax	**81,078**	**2.7%**	**231,755**	**7.5%**	**185.8%**
Current income tax	(18,999)	(0.6%)	(24,579)	(0.8%)	29.4%
Deferred tax	(2,712)	(0.1%)	(17,237)	(0.6%)	535.7%
Income tax	**(21,710)**	**(0.7%)**	**(41,816)**	**(1.4%)**	**92.6%**
Net profit for the year	**59,368**	**2.0%**	**189,939**	**6.2%**	**219.9%**
Net profit / (loss) attributable to:					
Equity holders of the parent	**54,092**	**1.8%**	**185,945**	**6.0%**	**243.8%**
Non-controlling interests	(5,277)	(0.2%)	(3,993)	(0.1%)	(24.3%)

Consolidated Balance Sheet as at 30 September 2018

((in HRK thousands)	31 Dec 2017	% share	30 Sep 2018	% share	% change
ASSETS					
Non-current assets					
Goodwill	27,402	0.5%	27,402	0.6%	0.0%
Intangible assets	240,235	4.7%	235,622	4.9%	(1.9%)
Property, plant and equipment	2,317,992	45.8%	2,265,243	46.7%	(2.3%)
Deferred tax assets	170,386	3.4%	146,195	3.0%	(14.2%)
Non-current financial assets	9,746	0.2%	8,676	0.2%	(11.0%)
Total non-current assets	**2,765,760**	**54.6%**	**2,683,138**	**55.3%**	**(3.0%)**
Current assets					
Inventories	805,805	15.9%	906,436	18.7%	12.5%
Trade and other receivables	947,493	18.7%	939,397	19.4%	(0.9%)
Financial assets at fair value through profit and loss	511	0.0%	280	0.0%	(45.2%)
Income tax receivable	1,569	0.0%	4,897	0.1%	212.1%
Cash and cash equivalents	362,082	7.2%	145,978	3.0%	(59.7%)
Non-current assets held for sale	178,161	3.5%	167,945	3.5%	(5.7%)
Total current assets	**2,295,621**	**45.4%**	**2,164,933**	**44.7%**	**(5.7%)**
Total assets	**5,061,382**	**100.0%**	**4,848,071**	**100.0%**	**(4.2%)**

(in HRK thousands)	31 Dec 2017	% share	30 Sep 2018	% share	% change
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	1,689,947	33.4%	1,691,490	34.9%	0.1%
Reserves	766,862	15.2%	798,792	16.5%	4.2%
Retained earnings / (accumulated losses)	403,303	8.0%	496,837	10.2%	23.2%
Attributable to equity holders of the parent	**2,860,112**	**56.5%**	**2,987,120**	**61,6%**	**4.4%**
Non-controlling interests	36,671	0.7%	40,518	0.8%	10.5%
Total shareholders' equity	**2,896,783**	**57.2%**	**3,027,638**	**62.5%**	**4.5%**
Non-current liabilities					
Borrowings	915,210	18.1%	694,600	14.3%	(24.1%)
Provisions	74,122	1.5%	72,828	1.5%	(1.7%)
Other non - current liabilities	22,465	0.4%	20,586	0.4%	(8.4%)
Deferred tax liability	46,692	0.9%	39,642	0.8%	(15.1%)
Total non-current liabilities	**1,058,489**	**20.9%**	**827,656**	**17.1%**	**(21.8%)**
Current liabilities					
Trade and other payables	719,791	14.2%	635,154	13.1%	(11.8%)
Income tax payable	5,433	0.1%	16,827	0.3%	209.7%
Financial liabilities at fair value through profit and loss	1,631	0.0%	707	0.0%	(56.7%)
Borrowings	354,304	7.0%	319,771	6.6%	(9.7%)
Provisions	24,951	0.5%	20,318	0.4%	(18.6%)
Total current liabilities	**1,106,110**	**21.9%**	**992,777**	**20.5%**	**(10.2%)**
Total liabilities	**2,164,599**	**42.8%**	**1,820,433**	**37.5%**	**(15.9%)**
Total equity and liabilities	**5,061,382**	**100.0%**	**4,848,071**	**100.0%**	**(4.2%)**

Consolidated Cash Flow Statement in 1-9 2018

(in HRK thousands)	1-9 2017	1-9 2018	%
Profit / (loss) for the year	59,369	189,938	219.9%
Income tax	21,710	41,816	92.6%
Depreciation and amortization	143,837	140,605	(2.2%)
(Profit) / loss on impairment of assets	0	(88)	(100.0%)
Subsidiary liquidation	0	(2,211)	(100.0%)
Remeasurement of financial instruments at fair value	(1,257)	(692)	44.9%
Capital reserve ESOP	2,637	(4,961)	(288.1%)
Share based payment transactions	10,800	5,632	(47.9%)
(Profit) / Loss on disposal of property, plant, equipment and intangibles	25	1,351	n/a
(Profit) / Loss on disposal of assets held for sale	(23)	(11,822)	n/a
(Profit) / Loss from the sale of shares	0	(121)	(100.0%)
Impairment of trade receivables	627	1,146	82.8%
Capital equity adjustments for own shares ESOP	(516)	872	269.0%
(Decrease) / Increase in provisions	(55)	(5,926)	n/a
Interest income	(3,389)	(507)	85.0%
Income from sale of rights	0	(750)	(100.0%)
Interest expense	25,028	15.259	(39.0%)
Effect of changes in foreign exchange rates	7,978	(14,557)	(282.5%)
Changes in working capital:			
(Increase) / decrease in inventories	(81,544)	(100,631)	(23.4%)
(Increase) / decrease in trade receivables	138,506	8,129	(94.1%)
Increase / (decrease) in trade payables	(96,131)	(83,787)	12.8%
Cash generated from operating activities	**227,601**	**178,695**	**(21.5%)**
Income tax paid	(9,341)	(16,277)	(74.2%)
Interest paid	(25,182)	(15,803)	37.2%
Net cash from operating activities	**193,078**	**146,616**	**(24.1%)**
Cash flow from investing activities			
Lower investment in related and unrelated companies	0	200	100.0%
Purchase of property, plant, equipment and intangibles	(158,757)	(108,517)	31.6%
Sale of marketable securities	150,005	0	(100.0%)
Proceeds from sale of property, plant, equipment and intangibles	2,685	38,385	n/a
Proceeds from sale of rights	0	238	100.0%
Loans given	(35)	(37)	(4.3%)
Repayment of loans receivable	97	124	28.0%
Proceeds from other investments	(167,976)	121	100.1%
Collected interest	3,389	507	(85.0%)
Dividend received	0	16	100.0%
Net cash from investing activities	**(170,592)**	**(68,962)**	**59.6%**
Cash flow from financing activities			
Dividend payout	(48,642)	(48,718)	(0.2%)
Acquisition of subsidiaries	(863)	0	100.0%
Sale of treasury shares	6,945	0	(100.0%)
Proceeds from borrowings	145,489	70,899	(51.3%)
Repayment of borrowings	(284,386)	(315,939)	(11.1%)
Net cash from financing activities	**(181,457)**	**(293,758)**	**(61.9%)**
Net (decrease) / increase of cash and cash equivalents	**(158,971)**	**(216,104)**	**(35.9%)**
Cash and cash equivalents at beginning of the year	337,611	362,082	7.2%
Cash and cash equivalents at the end of year	**178,640**	**145,978**	**(18.3%)**

Consolidated Statement of Changes in Equity in 1-9 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 revaluation 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	-	-	-	-	-	-	185,945	185,945	3,993	189,938
Foreign exchange differences	-	-	-	-	-	(11,499)	-	(11,499)	(146)	(11,645)
Other comprehensive income	-	-	-	-	-	(11,499)	-	(11,499)	(146)	(11,645)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(11,499)**	**185,945**	**174,447**	**3,847**	**178,294**
Transactions with owners recognised directly in equity										
Allocation from retained earnings	-	-	7,542	-	3,220	32,947	(43,709)	-	-	-
Related company liquidation	-	-	-	-	-	(280)	-	(280)	-	(280)
Exercise of options	5,632	-	-	-	-	-	-	5,632	-	5,632
Fair value of share-based payment transactions	(4,089)	-	-	-	-	-	-	(4,089)	-	(4,089)
Dividends paid	-	-	-	-	-	-	(48,702)	(48,702)	-	(48,702)
Total transactions with owners recognised directly in equity	**1,543**	**-**	**7,542**	**-**	**3,220**	**32,667**	**(92,411)**	**(47,439)**	**-**	**(47,439)**
As at 30 September 2018	**1,691,490**	**147,604**	**58,445**	**189,738**	**61,790**	**341,216**	**496,837**	**2,987,120**	**40,518**	**3,027,638**

Notes to the financial statements

The accounting policy in 1-9 2018 did not change.

President of the Management Board:

Marin Pucar

Statement of liability

Koprivnica, 29 October 2018

STATEMENT FROM EXECUTIVES RESPONSIBLE FOR PREPARING FINANCIAL STATEMENTS

Consolidated financial statements of Podravka Group for the period 1 - 9 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 - 9 2018 were approved by the Management Board of PODRAVKA d.d. on 29 October 2018.

Corporate Accounting and Taxes Director:
Julijana Artner Kukec

Board Member:
Davor Doko

Contact

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