



## **PODRAVKA GROUP BUSINESS RESULTS FOR THE PERIOD JANUARY – JUNE 2010**

### **Main business characteristics**

1. The total sales of the Podravka Group in the first six months of 2010 amounted to HRK 1,662.7 million, which represents a 4% drop compared to the same period of last year. Sales of the Strategic business area (SBA) Food and beverages totalled HRK 1,315.8 million, which is a drop of 4% while the sales of the SBA Pharmaceuticals were HRK 346.9 million, representing a drop of 6%.
2. The operating costs/expenses of the Podravka Group are HRK 92.9 million lesser (-6%).
3. The realised net profit of the Podravka Group is HRK 31.2 million, which represents an 80% growth compared to the same period of the year before.
4. The net profit of the Podravka Group without nonrecurrent items amounted to HRK 57.0 million which is a 61% growth compared to the same period last year.

### **Significant events**

1. Erste Factoring d.o.o. called Podravka d.d. on 25 January 2010 to pay as guarantor the liability arising from the Bill of Exchange Finance Contract, concluded between Fima Grupa d.d. (as the Client) and Podravka d.d. (as the Guarantor), in the amount of HRK 102.7 million. Provisions were made in the financial statements of 2009 for the quoted amount. Podravka d.d. has instituted proceedings for collecting the quoted amount from Fima Grupa d.d. and their successors, respectively.
2. Podravka d.d. successfully completed the issue of the second tranche of commercial notes on 8 February 2010 in which Raiffeisenbank Austria d.d. (RBA) was the issue dealer. The total nominal tranche amount is HRK 130 million, yield 9.15%, issue price 91.638% and maturity 364 days. Similarly to the first tranche, the second tranche of Podravka d.d. commercial notes also arouse great interest among many institutional investors, such as the most significant retirement and investment funds and insurance companies. The obtained quotations considerably exceeded the issued amount and the funds collected were used for refinancing the first tranche issued in February 2009. The total value of the Program for Podravka d.d. commercial notes issue is HRK 350 million.

3. The following decisions were brought at the General Assembly of Podravka d.d. held on 25 March 2010 in Koprivnica:

1. Decision to recall the president and the deputy president of the General Assembly of Podravka d.d. – as proposed by both the Management and Supervisory Boards of Podravka d.d. and announced in the call for the General Assembly and
2. Decision to elect the president and the deputy president of the General Assembly of Podravka d.d. – identically as proposed by both the Management and Supervisory Boards of Podravka d.d. and announced in the call for the General Assembly.

Taking into consideration that a Decision on the amendments for the Articles of Incorporation of Podravka d.d. was not brought at the General Assembly, both the Management and Supervisory Boards – as proposers – withdrew their further proposals under item 6 of the Agenda (Decision to recall members of the Supervisory Board of Podravka d.d.) and item 7 (Decision to elect members of the Supervisory Board of Podravka d.d.) as announced in the call for the General Assembly.

4. Podravka d.d. stock entered the *blue chip* index of the Zagreb Stock Exchange CROBEX10 on 29 March 2010. The Index Commission made the first revision of the index on 11 March 2010 based on the trading data for the period from 1 September 2009 till 28 February 2010, which showed that Podravka d.d. stock had met all the requirements necessary for index inclusion. The CROBEX10 index started being announced on 7 September 2009. The base date is 31 July 2009 and the base value is 1,000. CROBEX10 is weighted on the *free float* market capitalisation base, where the individual stock base is limited to 20%. Ten shares from the CROBEX index with the highest *free float* market capitalisation and trading rate are included in the CROBEX10.

5. On 31 May 2010 the Supervisory Board of Podravka d.d. at its 54<sup>th</sup> session made a decision to appoint the President and members of the Management Board of Podravka d.d.  
The actual President of the Management Board, Miroslav Vitković, was again appointed President of the Management Board of Podravka d.d. and Lidija Kljajić, Krunoslav Bešvir, Marin Pucar and Miroslav Repić were appointed members of the Management Board.  
The term of office of the Deputy President of the Management Board of Podravka d.d. expired for Branko Vuljak and at the same time his term of office as member of the company Supervisory Board was reactivated. The term of office of the President and members of the Management Board of Podravka d.d. starts on the day of appointment.

6. Mineral water under Studenac brand was awarded the Superior Taste Award by the International Taste & Quality Institute of Brussels – one of the leading world organisations which test the quality of taste of all product categories from the food and beverage segment. The Superior Taste Award category tests only products currently on shop shelves and only products from companies that hold quality control certificates are eligible for testing. Studenac was granted the highest three star score and placed in the category of exceptional taste and quality. The significance of this award is best illustrated by the fact that by rule less than 10% of the tested products manage to score three stars and over 90% of the maximum marks, respectively.

Other awarded Podravka products – Mild Ajvar, Lino lada, Donut mix, Corn bread mix and Seed bread mix were also granted scores allowing them to communicate the internationally recognised quality label “Superior Taste Award 2010” on their packaging in the next three years, which establishes them a place among high-quality food products.

7. Based on the analysis of the Vegeta brand market potential in the «culinary» segment, it was concluded that the Vegeta brand has extremely great expansion potential in the segment of special food seasonings on the market of Poland. This is the reason underlying the strategic decision to make a move into the category of special food seasonings, which will in the long-term generate sales growth and be a significant step in the further development of the Vegeta brand in Poland and other markets of Central Europe. This project has presented 25 new products under the Vegeta brand to consumers on the market of Poland.
8. Podravka's Vegeta Natur was announced Hit FMCG product of 2010 in Poland in the selection of the prominent merchant magazine, *Życie Handlowe*. Vegeta Natur was assessed the best novelty in shops by directors of leading retail chains who chose products with the highest profit potential. The criteria of the jury for selecting hit consumer products were innovation, product quality, availability in shops, price, packaging and sales support.  
Vegeta Natur is a completely new product in the segment of universal seasonings, inspired by nature and for those who take pleasure in taste and attach importance to a healthy diet.

## Notes

Upon the completion of the restructuring process within the SBA Services the sales of the Podravka Group will be reported according to two Strategic business areas – SBA Food and beverages and SBA Pharmaceuticals starting from the first quarter of the year 2010. In compliance to these changes we report on the sales of the Podravka Group accordingly as follows:

### SBA "Food and beverages"

#### 1. **Business program Food**

- Podravka brands
  - Podravka dishes (Podravka dishes, Fruit and vegetables, Rice and legumes, Mill products, Frozen food)
  - Baby food, sweets and snack
  - Fish and fishery products
- Other

#### 2. **Business program Food seasonings**

- Podravka brands
- Other

#### 3. **Business program Meat**

- Podravka brands
- Other

#### 4. **Business program Beverages**

- Podravka brands
- Other

### SBA "Pharmaceuticals"

Taking into account the fact that the restructuring process within SBA Services has finished, a reclassification of revenue was made and therefore the Group's revenue structure account differs from the one disclosed in the reporting period of the year 2009. Sales under Other have been separately disclosed for each business program within the SBA Food and beverages, which from 2010 together with the sales of commercial goods, private brands, service production and B2B also covers a part of the revenue of the former SBA Services which due to the completion of the restructuring process have been reduced to the lowest possible level.

The sales of 2009 have at the same time been adjusted to the classification in 2010.

## Disclaimer

*This release contains certain forward looking statements with respect to the financial condition, results of operations and business of the Podravka Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.*

## Sales per Strategic Business Areas (SBA)

in millions of HRK						
Item no.	SBA	Jan-Jun 2010		Jan-Jun 2009		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1	Food and beverages	1,315.8	79.1	1,368.5	78.8	96
2	Pharmaceuticals	346.9	20.9	369.1	21.2	94
<b>Total</b>		<b>1,662.7</b>	<b>100.0</b>	<b>1,737.6</b>	<b>100.0</b>	<b>96</b>

Sales revenue of the Podravka Group in the first six months of 2010 amounted to HRK 1,662.7 million, which is 4% less compared to the same period of the year 2009.

The sales of the SBA Food and beverages totalled HRK 1,315.8 million, which represents a sales drop of 4% compared to the same period of the year before. This drop is generated by the drop of sales of the SBA Food and beverages in Croatia (-11%) as the market of Croatia still shows no signs of domestic consumption recovery. The negative trends in retail trade<sup>1</sup> and employment<sup>2</sup>, continued in the second quarter of 2010 contributing to the adverse expectations of consumers with negative effect on domestic consumption. The sales of the SBA Food and beverages on foreign markets grew 2% mostly resulting from the economic recovery and consumption growth in EU countries whose contribution in the total sales of the SBA Food and beverages is 30%, representing at the same time a growth of 7% compared to the same period of last year.

According to market groups, foreign markets which have recorded a growth of sales are the markets of Western Europe, overseas countries and the Orient (19%) with the highest contribution coming from market of Australia (43%), Turkey (829%) and Austria (28%) and Central Europe (10%), with the highest contribution coming from market of Poland (25%) and Czech Republic (7%). Sales drop was recorded on the markets of South-East Europe (-6%) where the impact of the economic crises is still going strong as opposed to the countries of Western and Central Europe.

The SBA Pharmaceuticals achieved sales in the amount of HRK 346.9 million, which represents a sales drop of 6% compared to the same period of the year 2009. The quoted drop results from lower sales on the market of Croatia (-11%) influenced by the drop of sales of prescription drugs (-10%) and OTC products (-18%). At the end of June the new General and Additional List of Drugs of the Croatian Health Insurance Institute (HZZO)<sup>3</sup> came into effect with lower prices for a large number of drugs. As the relevant price reduction had been announced months in advance, drug buyers (suppliers, wholesalers) reduced their stocks while awaiting lower prices. The drop of sales of OTC products results from the crises and weaker buying power, as customers have given up purchasing unnecessary drugs. The SBA Pharmaceuticals achieved a sales growth of 2% on foreign markets generated by a sales growth of prescription drugs (13%). Foreign markets with the highest sales growth are market of Russia (85%), Slovakia (25%), Serbia (20%) and Czech Republic (13%).

<sup>1</sup> The sales drop in retail amounted 6.1%; Source: Central Bureau of Statistics, Monthly statistics report, no. 6, 2010. (data for the period 1-5.2010)

<sup>2</sup> Total increase of unemployment was 18.9%; Source: Central Bureau of Statistics, Monthly statistics report, no. 6, 2010. (data for the period 1-5.2010)

<sup>3</sup> Croatian Health Insurance Institute



## New products in the second quarter of 2010



**Vegeta universal marinade, Vegeta piquant marinade, Vegeta Mediterranean marinade and Vegeta garlic marinade** are for all those who desire a moderate and compact taste of meat and fish dishes, goulash and vegetable stews. The exquisite combination of oil and vinegar, dehydrated vegetables and spices in these Vegeta marinades guarantee an irresistible taste of all your barbecues, roasts and similar. Products contain no preservatives, flavour enhancers nor aromas.

**Soup with vegetable and semolina dumplings, Soup with meat and semolina dumplings and Soup with liver and semolina dumplings** are new Podravka soups where each bag of soup contains extra quantities of two different kinds of dumplings.



**Lino vanillino flakes** with an irresistible taste of vanilla, containing 7 vitamins and white chocolate. **Lino pillows** are an excellent choice for the start of the day and offer delight in the extraordinary taste coming from a combination of top quality cereal and crunchy cocoa cream filled pillows. **Lino keksolino apple** is an excellent combination of cereal, biscuits and real apple with 9 vitamins and calcium.

**Fant seasoning mix for chilli con carne** is an ideal base for preparing this piquant seasoned dish. **Fant seasoning mix for meat and vegetables in a wok** assists in simple preparation of exotic dishes. **Fant seasoning mix for stewed vegetables Ratatouille** helps prepare vegetable specialties containing a combination of different vegetables and a selection of fine herbs. **Fant seasoning mix for Stroganoff** is an ideal base for preparing the famous Russian dish Stroganoff.



**Green olives, Green pitted olives and Green olives stuffed with pepper paste.** By taking over the SMS brand, loyal customers have been offered a recognisable traditional recipe and quality now refreshed by a new design.

## Special food seasonings under the Vegeta brand on the market of Poland

**Vegeta do ... / Vegeta for ...** is an offer for modern consumers who appreciate perfectly seasoned dishes with a rich and distinguished taste. The line consists of 15 classic food seasoning compositions of the highest quality dehydrated herbs and vegetables carefully selected for the most popular dishes, equally for traditional Polish dishes – among others with minced meat, bigos, tripes, chicken, as well as for world dishes – for Chinese, Mexican and Italian dishes all up to kebab or meat sticks. Thanks to this rich offer of food seasonings from the *Vegeta do... / Vegeta for ...*, our favourite dishes can be quick, simple and easy.

**Vegeta do pikantnego kurczaka / for spicy chicken,**  
**Vegeta do kurczaka / for chicken,** **Vegeta do grilla / for grill,**  
**Vegeta do pikantnego grilla / for grill pikant,** **Vegeta do grillowanych szaszłyków / for shashlik,** **Vegeta do mięsa mielonego / for minced meat,** **Vegeta do bigosu / for bigos,**  
**Vegeta do ryb / for fish,** **Vegeta do flaków / for tripes,** **Vegeta do gulaszu / for goulash,** **Vegeta do wieprzowiny / for pork**  
**Vegeta do kebaba i gyrosa / for gyros/kebab,** **Vegeta do dań włoskich / for Italian dishes,** **Vegeta do dań chińskich / for Chinese dishes** **Vegeta do dań meksykańskich / for Mexican dishes**



**Vegeta Natur do ... / Vegeta Natur for ...** was created inspired by the richness of nature. Each of 10 original food seasonings *Vegeta Natur for...* contains only natural and finely selected ingredients – aromatic herbs, dehydrated vegetables and fresh spices. The products contain no artificial additives, flavour enhancers or preservatives. Food seasonings from the series *Vegeta Natur for ...* offer a range of interesting compositions, equally for warm dishes – mushroom dishes, potato dishes or baked vegetables as well as for cold dishes – for kefir, cottage cheese with cream, tomato and mozzarella and all kinds of different salads.



**Vegeta Natur do ziołowego kurczaka / for chicken with herbs,** **Vegeta Natur do złocistego kurczaka / for golden chicken,** **Vegeta Natur do grilla / for grill,** **Vegeta Natur do grillowanych warzyw / for grilled vegetables,** **Vegeta Natur do dań z ziemniaków / for potato dishes,** **Vegeta Natur do tostów i zapiekanek / for toasts,** **Vegeta Natur do salatek / for salads,** **Vegeta Natur do kefiru i twarogu / for cottage cheese,** **Vegeta Natur do mozzarelli i pomidorów / for tomato and mozzarella,** **Vegeta Natur do dań z grzybów / for mushrooms**



## Sales revenues per product groups

Item no.	PRODUCT GROUP	in millions of HRK				
		Jan-Jun 2010		Jan-Jun 2009		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
<b>1</b>	<b>BP FOOD</b>	<b>697.2</b>	<b>41.9</b>	<b>741.3</b>	<b>42.7</b>	<b>94</b>
	Podravka brands	558.8	33.6	590.0	34.0	95
	- Podravka dishes	325.1	19.6	353.4	20.4	92
	- Baby food, sweets and snack	170.0	10.2	168.6	9.7	101
	- Fish and fishery products	63.7	3.8	68.0	3.9	94
	Other	138.4	8.3	151.3	8.7	91
<b>2</b>	<b>BP FOOD SEASONINGS</b>	<b>346.9</b>	<b>20.9</b>	<b>336.8</b>	<b>19.4</b>	<b>103</b>
	Podravka brands	337.9	20.3	329.1	18.9	103
	Other	9.0	0.6	7.7	0.5	117
<b>3</b>	<b>BP MEAT PRODUCTS</b>	<b>176.4</b>	<b>10.6</b>	<b>173.0</b>	<b>10.0</b>	<b>102</b>
	Podravka brands	155.9	9.4	159.6	9.2	98
	Other	20.5	1.2	13.4	0.8	153
<b>4</b>	<b>BP BEVERAGES</b>	<b>95.3</b>	<b>5.7</b>	<b>117.4</b>	<b>6.7</b>	<b>81</b>
	Podravka brands	91.6	5.5	106.3	6.1	86
	Other	3.7	0.2	11.1	0.6	33
<b>5</b>	<b>Pharmaceuticals</b>	<b>346.9</b>	<b>20.9</b>	<b>369.1</b>	<b>21.2</b>	<b>94</b>
	<b>Total</b>	<b>1,662.7</b>	<b>100.0</b>	<b>1,737.6</b>	<b>100.0</b>	<b>96</b>

Sales of the BP Food were 6% lower compared to the same period of the year 2009. The quoted drop results from a lower level of sales of this Business program in Croatia, while sales of the BP Food on foreign markets maintained last year's level. The product group Podravka dishes, with a sales drop of 8%, mostly contributed to the drop of this Business program. The sales of the product group Baby food, sweets and snack grew 1% with the highest contribution from the markets of Slovenia (10%) and Bosnia and Herzegovina (4%). The sales drop of the product group Fish and fishery products of 6% was mostly influenced by a lower level of sales of the relevant product group on the markets of South-East Europe (-10%) and Croatia (-7%).

The sales growth of the BP Food seasonings (3%) was achieved as a result of sales growth on foreign markets (7%), while on the market of Croatia sales dropped 12%. The highest absolute increase within this Business program was recorded by the market of Central Europe where in the first year half of 2010 sales grew 13%. In Central Europe, a considerable growth was recorded on the market of Poland (24%) which partly results from the recovery of the Polish zloty compared to Croatian kuna exchange rate (10%<sup>4</sup>). A significant increase was recorded on the markets of Western Europe, overseas countries and the Orient (16%) with the highest contribution coming from the markets of Australia (43%) and Turkey (706%).

Sales of the BP Meat products increased by 2% compared to the same period of the year 2009, based on the sales growth on the market of Western Europe, overseas countries and the Orient (47%). The growth of this Business program on the quoted market is based on the sales growth of canned ready-made meals and liver paté.

<sup>4</sup> calculated on the average exchange rate base for the observed period



In the first six months of 2010 the BP Beverages recorded 19% lower sales compared to the same period of the year 2009. The greatest impact on the sales fall comes from the Croatian market (-19%), where apart from the drop of organic sales (-14%) a lower sales of private brands was also recorded (-79%). A lower level of sales was also achieved abroad (-17%) under the influence of the fall of commercial goods sales on the market of Slovenia (-23%) and the fall of sales of Ice tea on the market of Bosnia and Herzegovina (-27%). The product groups of Beverage powders and Syrups recorded a sales growth in the observed period but could not cushion the drop of organic sales of the BP Beverages.

### Sales revenues of the Podravka Group per market <sup>5</sup>

Item no.	MARKETS	in millions of HRK				
		Jan-Jun 2010		Jan-Jun 2009		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1	Croatia	792.1	47.6	886.8	51.0	89
2	South-East Europe	387.8	23.3	427.2	24.6	91
3	Central Europe	248.6	15.0	224.1	12.9	111
4	Western Europe, overseas countries and the Orient	142.8	8.6	120.3	6.9	119
5	Eastern Europe	91.4	5.5	79.2	4.6	115
<b>Total</b>		<b>1,662.7</b>	<b>100.0</b>	<b>1,737.6</b>	<b>100.0</b>	<b>96</b>

The market of Croatia realised sales in the amount of HRK 792.1 million, which represents 47,6% of the total sales of the Podravka Group. Sales in the first six months of the current year recorded a fall of 11% compared to the same period of the year 2009, generated by a lower level of sales of both the SBA Food and beverages (-11%) and the SBA Pharmaceuticals (-11%). The continuation of negative trends in domestic economy has lead to an increased tendency to save and spend less with impact on the sales level on the market of Croatia.

Sales on foreign markets in the observed period amounted to HRK 870.6 million, which represents 52,4% of the total sales of the Podravka Group and indicates an increase of the relative share of foreign markets sales in the total sales structure. In comparison with the same period of the year 2009, total sales on foreign markets recorded a growth of 2% and sales growth was achieved on all foreign markets except South-East Europe. The highest absolute sales growth was achieved on the market of Central Europe (11%), which is mostly contributed by the sales growth on the markets of the Czech Republic (7%) and Poland (27%), where at the same time a growth of the exchange rate of the Polish zloty compared to Croatian kuna was noticed (10%). A significant sales increase was also realised on the markets of Western Europe, overseas countries and the Orient (19%) with the highest contribution coming from the markets of Australia (43%), Turkey (338%) and Austria (28%), while a sales growth on the markets of East-Europe (15%) was

<sup>5</sup> South-East Europe – Albania, Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, Slovenia, Serbia  
Central Europe – Czech Republic, Hungary, Poland, Slovakia  
Western Europe, overseas countries and the Orient – Austria, Australia, Benelux, France, Canada, Germany, USA, Scandinavia, Switzerland, Turkey, Great Britain and other overseas countries and Western European countries  
Eastern Europe – Baltic countries, Romania, Russia, the Ukraine, Bulgaria, and other Eastern European countries

generated by a higher level of sales on the market of Russia (18%). The market of South-East Europe recorded a sales drop of 9% generated by the fall of sales on the markets of both Bosnia and Herzegovina (-13%) and Serbia (-13%), accordingly.

## Structure of operating costs / expenses

Item no.	COSTS / EXPENSES	Jan-Jun 2010		Jan-Jun 2009*		Index
		Amount	%	Amount	%	2:4
0	1	2	3	4	5	6
1	Costs of goods sold	973.8	62.5	1,031.0	62.5	94
2	Selling and distribution costs	262.4	16.9	274.4	16.6	96
3	Marketing expenses	203.0	13.0	198.6	12.0	102
4	General and administrative expenses	118.6	7.6	146.7	8.9	81
<b>Total</b>		<b>1,557.8</b>	<b>100.0</b>	<b>1,650.7</b>	<b>100.0</b>	<b>94</b>

\* reclassification of costs/expenses

The operating costs / expenses of the Podravka Group in the first six months of 2010 totalled HRK 1,557.8 million, which represents a 6% reduction of costs / expenses (HRK 92.9 million) compared to the same period of last year.

The reduction of cost of goods sold of 6% (HRK 57.2 million) correlates with the drop of sales revenue. The costs of manufacturing material (-7%) and labour costs (-4%) recorded the largest reduction within the cost of goods sold, while energy costs recorded an increase (9%). Taking into account the new reduced price of gas for large consumers<sup>6</sup> it is realistic to expect that the energy costs increase will be eased till the end of the year.

Selling and distribution costs amounted to HRK 262.4 million, which is a 4% drop (HRK 12.0 million). Along with lower sales force costs, selling costs recorded a fall of 4% as well as logistics and distribution costs (-4%) due to the drop of storage costs (-6%).

Marketing expenses reached HRK 203.0 million and recorded a growth of 2% (HRK 4.4 million) mostly resulted from marketing campaign related to the project of 25 new special food seasonings represented on the Polish market.

Better organisation and control of administrative function expenses together with a more rational use of consulting services produced a decrease of 19% (HRK 28.1 million) of general and administrative expenses compared to the same period of last year. A further drop of the share of general and administrative expenses in the total operating costs / expenses is expected in the forthcoming period with the establishment of a new organisational structure.

<sup>6</sup> From 1 July 2010 the price of gas for large consumers in Koprivnica (that consume over a million square metres of gas per year), shall be reduced depending on total production by 6-10% respectively, from 2.66 HRK to 2.42-2.48 HRK for a square metre according to the new pricelist of GKP Komunalac d.o.o.;

Source: <http://193.58.252.6/pdf/2010%5C06%5C30%5C15A15.PDF>

## Profitability of the Podravka Group

in millions of HRK						
Podravka Group	REPORTED RESULTS		CORRECTED RESULTS **		change (2/3)	change (4/5)
	Jan-Jun 2010	Jun-Jun 2009*	Jan-Jun 2010**	Jan-Jun 2009**		
1	2	3	4	5	6	7
Sales revenue	1,662.7	1,737.6	1,662.7	1,737.6	-4%	-4%
Gross profit	688.9	706.6 *	688.9	706.6 *	-3%	-3%
EBITDA	152.4	154.8	178.3	173.0	-2%	3%
EBIT	74.7	73.9	100.6	92.1	1%	9%
Net profit	31.2	17.3	57.0	35.5	80%	61%
<i>Profit margins (%)</i>						
Gross margin	41.4	40.7	41.4	40.7	70bp	70bp
EBITDA margin	9.2	8.9	10.7	10.0	30bp	70bp
EBIT margin	4.5	4.3	6.0	5.3	20bp	70bp
Net margin	1.9	1.0	3.4	2.0	90bp	140bp

\* adjusted

\*\* without nonrecurrent items

The gross margin of the Podravka group in the first six months of 2010 increased 70bp compared to the same period of the year before due to changes in the sales structure of Strategic business areas.

Despite nonrecurrent items in the amount of HRK 25.9 million, which refer to bond value adjustments in the amount of HRK 24.1 million (financial liabilities at a fair value through profit or loss) and value adjustments / sales of shares in investment funds in the amount of HRK 1.8 million, positive moves in the profitability of the Podravka Group have been noted.

The operating profit has increased in the comparative account of the first six months of 2009 by nonrecurrent items in the amount of HRK 18.2 million, referring to bond value adjustments (HRK 13.2 million), value adjustments / sales of shares in investment funds (HRK 3.3 million) and severance payments (HRK 1.7 million) which were not present in the year 2010.

The corrected operating profit of the Group in the first six months of 2010 for the above quoted nonrecurrent items amounts HRK 100.6 million, which represents a growth of operating profit by 9% (HRK 8.5 million) and an increase of the operating margin by 70bp compared to the results of business operations in the first six months of 2009 disclosed in a comparable manner.

The corrected net profit of the first six months of 2010 amounts to HRK 57.0 million, which represents a growth of 61% (HRK 21.5 million) compared to the net profit of the first six months of 2009 disclosed in a comparable manner. Higher net profits result from lower finance costs (-30%) which were primarily contributed by income from exchange rate differences on loans, but also lower costs from interest on loans (-15%).

## Profitability of SBA Food & Beverages

in millions of HRK						
SBA Food & Beverages	REPORTED RESULTS		CORRECTED RESULTS **		change (2/3)	change (4/5)
	Jan-Jun 2010	Jan-Jun 2009	Jan-Jun 2010	Jan-Jun 2009		
1	2	3	4	5	6	7
Sales revenue	1,315.8	1,368.5 *	1,315.8	1,368.5 *	-4%	-4%
Gross profit	500.2	517.0 *	500.2	517.0 *	-3%	-3%
EBITDA	87.3	90.8	113.1	109.0	-4%	4%
EBIT	31.1	32.5	57.0	50.8	-4%	12%
Net profit	7.1	-4.1	33.0	14.1	273%	134%
<i>Profit margins (%)</i>						
Gross margin	38.0	37.8	38.0	37.8	20bp	20bp
EBITDA margin	6.6	6.6	8.6	8.0	0bp	60bp
EBIT margin	2.4	2.4	4.3	3.7	0bp	60bp
Net margin	0.5	-0.3	2.5	1.0	80bp	150bp

\* adjusted

\*\* without nonrecurrent items

Despite the drop of sales of the SBA Food and beverages (-4%), the gross margin recorded a 20bp growth in the first six months of 2010, resulting from a more favourable sales structure where the share of sales of higher profitable products increased. Compared to the same period of the year before, operating costs / expenses recorded a fall of 5% and in the operating costs / expenses structure a drop of all costs / expenses was recorded with the exception of marketing costs. The costs of goods sold are 4% lesser mostly due to a reduction of costs of manufacturing material (-6%) and labour costs (-5%). An increase of energy costs (14%) was noticed within the structure of costs of goods sold but taking into account the new, reduced price of gas for large consumers it is realistic to expect that the energy costs increase will be eased till the end of the year.

Within the structure of other operating costs / expenses, both selling and distribution costs (-6%) and general and administrative expenses (-22%) recorded a drop, while marketing expenses grew (4%)

Bond value adjustments and value adjustments / sales of shares in investment funds burdened the SBA Food and beverages operations in their full amount. Together with the drop of operating costs / expenses (-5%) and result corrections in the amount of nonrecurrent items, the corrected operating profit recorded a 12% growth (HRK 6.2 million) compared to the first six months of 2009 accounts displayed in a comparable manner. The operating margin recorded a 60bp growth.

Lower finance costs (-36%) result from lower income from interest on loans and income from exchange rate differences on loans, which together with lower effective income tax expenses had a positive effect on the growth of the corrected net profit (134%). The corrected net margin recorded a positive shift of 150bp.



## Profitability of SBA Pharmaceuticals

in millions of HRK

SBA Pharmaceuticals	REPORTED RESULTS			change (2/3)
	Jan-Jun 2010	Jan-Jun 2009		
1	2	3		4
Sales revenue	346.9	369.2 *		-6%
Gross profit	188.7	189.6		0%
EBITDA	65.2	64.0		2%
EBIT	43.6	41.4		5%
Net profit	24.0	21.4		12%
<i>Profit margins (%)</i>				
Gross margin	54.4	51.3		310bp
EBITDA margin	18.8	17.3		150bp
EBIT margin	12.6	11.2		140bp
Net margin	6.9	5.8		110bp

\* *adjusted*

A drop of prescription drug orders from drug buyers (suppliers, wholesalers) awaiting new prices on the List of Drugs of the Croatian Health Insurance Institute (HZZO) and a drop of sales of OTC products due to the weaker buying power of consumers on the domestic market had impact on the sales drop of the SBA Pharmaceuticals (-6%). The cost of goods sold (-12%) dropped together with the drop of sales, but at the same time due to a more favourable sales structure and raw material prices the gross margin recorded a growth of 310bp. Within the structure of operating costs / expenses a fall was recorded by both general and administrative expenses (-12%) and marketing expenses (-1%) while only selling and distribution costs recorded an increase (2%). The drop of operating costs / expenses (-8%) reflected on the growth of both the operating profit by 5% (HRK 2.2 million) and the operating margin by 140bp, accordingly.

The growth of the net profit by 12% (HRK 2.6 million) was positively influenced by lower finance costs (-16%) as a result of lower costs from interest on loans and income from exchange rate differences on loans, while the net margin recorded a growth of 110bp compared to the same period of the previous year.

## ***Main guidelines of the 2010 Business Plan***

The Management Board of Podravka d.d. has brought and the Supervisory Board accepted the Business Plan for the year 2010. The Business Plan anticipates further costs and expense rationalisation, primarily administrative expenses, which should provide for profitability growth. The planned operating margin shall range around 6% contributing to the SBA Food and Beverages profitability growth but also a recovery of profit margins of the SBA Pharmaceuticals under the influence of the consolidation of Farmavita d.o.o. and its sales structure, respectively. The growth of sales revenue is planned at a 2% level. During the year 2010 special attention shall be given to reducing indebtedness so that by the year end of 2010 indebtedness is planned to drop by at least HRK 100 million.

### **Note:**

In compliance with the realised sales revenue within the first six months of 2010, a new sales revenue estimate for 2010 will be prepared as well as a new estimate of operating costs / expenses with the aim to detect areas for new savings. The objective is to achieve a correlation of revenues and expenditures in order to reach the planned profitability.

Taking into consideration the maturity of bonds in May 2011 and for the purpose of finding the most favourable solution for debt restructure, negotiations have started with Podravka Group creditors. Debt restructure would ensure better credit terms for the medium-term period and maintain financial stability as well as business operations stability and liquidity in case of continued expansion on strategic markets and in strategic categories.

## CONSOLIDATED STATEMENT OF INCOME

(in thousands of HRK)

	Jan - Jun 2010	Jan - Jun 2009
Sales	1,662,738	1,737,645
Cost of goods sold	(973,839)	(1,031,034)
<b>Gross profit</b>	<b>688,899</b>	<b>706,611</b>
Investment revenue	7,771	7,797
Other losses, net	(36,575)	(17,689)
General and administrative expenses	(118,637)	(146,730)
Selling and distribution costs	(262,374)	(274,350)
Marketing expenses	(202,997)	(198,553)
Other expenses	(1,381)	(3,207)
<b>Profit from operations</b>	<b>74,706</b>	<b>73,879</b>
Finance costs	(34,887)	(49,804)
<b>Profit before tax</b>	<b>39,819</b>	<b>24,075</b>
Income tax expenses	(8,332)	(6,588)
<b>Net profit</b>	<b>31,487</b>	<b>17,487</b>
<b>Profit for the period attributable:</b>		
To the equity holders of the parent	31,158	17,309
Non-controlling interests	329	178

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of HRK)

	30 June 2010	31 December 2009
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1,671,045	1,711,646
Goodwill	42,877	42,877
Intangible assets	305,545	311,609
Deferred tax assets	52,838	53,589
Other financial assets	11,092	11,573
<b>Total non-current assets</b>	<b>2,083,397</b>	<b>2,131,294</b>
<b>Current assets</b>		
Inventories	661,906	646,839
Trade and other receivables	1,119,282	1,186,974
Financial assets at fair value through profit or loss	9,094	22,321
Cash and cash equivalents	189,753	145,269
	1,980,035	2,001,403
Non-current assets held for sale	3,740	4,004
<b>Total current assets</b>	<b>1,983,775</b>	<b>2,005,407</b>
<b>TOTAL ASSETS</b>	<b>4,067,172</b>	<b>4,136,701</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>		
Share capital	1,583,691	1,583,691
Reserves	106,456	109,825
Accumulated loss	(64,754)	(95,849)
<b>Attributable to the equity holders of the parent</b>	<b>1,625,393</b>	<b>1,597,667</b>
Non-controlling interests	34,500	34,361
<b>Total shareholders' equity</b>	<b>1,659,893</b>	<b>1,632,028</b>
<b>Non-current liabilities</b>		
Financial liabilities at fair value through profit or loss	-	336,300
Long-term debt	431,597	452,916
Provisions	28,440	29,226
Deferred tax liability	7,249	7,616
<b>Total non-current liabilities</b>	<b>467,286</b>	<b>826,058</b>
<b>Current liabilities</b>		
Financial liabilities at fair value through profit or loss	360,750	-
Trade and other payables	757,015	849,077
Short-term borrowings	803,675	805,050
Provisions	18,553	24,488
<b>Total current liabilities</b>	<b>1,939,993</b>	<b>1,678,615</b>
<b>Total liabilities</b>	<b>2,407,279</b>	<b>2,504,673</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4,067,172</b>	<b>4,136,701</b>



# **CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

*(in thousands of HRK)*

	Share capital	Reserves	Accumulated loss / Retained earnings	Total	Non-controlling interest	Total
<b>Balance at 31 December 2009</b>	1,583,691	109,825	(95,849)	1,597,667	34,361	1,632,028
Net profit for the year	-	-	31,158	31,158	-	31,158
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	31,158	31,158	-	31,158
Exchange differences	-	(3,369)	-	(3,369)	139	(3,230)
Purchase of treasury shares	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-
Options exercised	-	-	-	-	-	-
Fair value of share options	-	-	-	-	-	-
Transfer from other and legal reserves	-	-	(63)	(63)	-	(63)
<b>Balance at 30 June 2010</b>	<b>1,583,691</b>	<b>106,456</b>	<b>(64,754)</b>	<b>1,625,393</b>	<b>34,500</b>	<b>1,659,893</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of HRK)

	Jan - Jun 2010	Jan - Jun 2009
<b>Net profit</b>	<b>31,158</b>	<b>17,309</b>
Income tax	8,332	6,588
Depreciation and amortization	77,728	80,914
Losses on disposal of non-current assets	215	(906)
Value adjustment of non-current assets	(2,681)	-
Value adjustment of current assets	13,759	8,793
Value adjustment of investments	1,726	3,335
Value adjustment of liabilities at fair value through profit or loss	24,128	13,178
Decrease in long-term provisions	(1,153)	575
Interest received	(6,540)	(6,280)
Interest paid	48,151	54,896
Effect of changes in foreign exchange rates	(10,967)	(8,931)
Non-controlling interest	329	221
Other items not affecting cash	368	(9,245)
<b>Changes in working capital</b>		
Increase in inventories	(20,078)	(43,152)
Decrease in trade receivables	44,085	59,982
Decrease in other current assets	13,919	121,954
Increase / (decrease) in trade payables	3,327	(74,244)
(Decrease) / increase in other liabilities	(88,592)	36,183
<b>Net cash from operations</b>	<b>137,214</b>	<b>261,170</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(in thousands of HRK)

### Cash flows from operating activities

Cash from operations	137,214	261,170
Income taxes paid	(12,795)	(9,896)
Interest paid	(60,715)	(72,751)
<b>Net cash from operating activities</b>	<b>63,704</b>	<b>178,523</b>

### Cash flows from investing activities

Payments made for property, plant and equipment, and intangible assets	(39,248)	(53,236)
Sale of tangible and intangible assets	6,177	2,583
Long-term loans given and deposits given	(298)	-
Repayment of long-term loans given and deposits given	460	355
Purchase of trading securities	-	(5,198)
Sale of trading securities	11,500	-
Short-term loans and deposits given	(178)	(40,018)
Collected interest	6,540	-
<b>Net cash used in investing activities</b>	<b>(15,047)</b>	<b>(95,514)</b>

### Net cash flows from financing activities

Purchase of treasury shares	-	(6,390)
Proceeds from long-term borrowings	1,389	16,212
Repayment of long-term borrowings	(56,352)	(41,462)
Proceeds from short-term borrowings	401,696	494,602
Repayment of short-term borrowings	(350,906)	(617,773)
<b>Net cash used in financing activities</b>	<b>(4,173)</b>	<b>(154,811)</b>

<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>44,484</b>	<b>(71,802)</b>
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Cash and cash equivalents at beginning of the period	145,269	270,609
Cash and cash equivalents at the end of the period	189,753	198,807

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