



PODRAVKA GROUP BUSINESS RESULTS FOR THE PERIOD JANUARY - JUNE 2008

Main characteristics and events

1. The total sales of the Podravka Group in the first half of 2008 amounted to HRK 1,708.9 million which represents a growth of 8%.
2. The Strategic Business Area (SBA) Food and beverages recorded a sales growth of 7% while the SBA Pharmaceuticals recorded a sales growth of 12% compared to the same period last year.
3. The sales of Podravka brands amounted to HRK 1,177.3 million which represents a 15% growth generated by a strong growth of Podravka brands on both Croatian (15%) and foreign markets (14%).
4. The gross margin of the Podravka Group recorded a growth of 40bp.
5. The total value of capital investments in the observed period amounted to HRK 71.2 million.
6. Belupo took over the leading position in the sales of OTC painkiller drugs on the market of Croatia with the drugs Neofen and Lupocet.
7. The brands Čokolino, Podravka and Vegeta gained the Superbrands status on the market of Bosnia and Herzegovina.
8. Cooperation of Podravka and Ledo on the co-branding project of Čokolino ice-cream.
9. Podravka chopped tomato received the award "Perls of FMCG market 2008" in Poland, confirming its status of the best sold new product in the category "Fruit and vegetables".
10. The International Taste & Quality Institute from Bruxelles awarded Podravka Beef Goulash the Superior Taste Award for taste excellence.

Notes

Sales from the first quarter of 2007 have been reported through the following groups of products:

SBA "Food and beverages"

1. Podravka brands

- Food seasonings
- Podravka dishes – includes the following products groups from the previous classification: Podravka dishes, Fruit and vegetables, Rice and legumes and Mill products
- Baby food, sweets and snack
- Meat products and canned fish – includes Meat and meat products and Canned fish
- Beverages

2. Commercial goods (third party's goods)

3. Other (Food and beverages)

SBA "Pharmaceuticals"

SBA "Services"

Due to the new classification of products in 2008 within the Podravka brand products group, the disclosed sales of 2007 differs from the one disclosed in the reporting period of 2007. The new classification has included a part of the meat programme (canned ready-to-serve dishes and meat sauces) into the Podravka dishes products group while the termination of the contract on licensed production of the product brand Deit caused the transfer of this category from the Beverages group into Commercial goods.

In compliance to this reclassification, compared are the sales for the years 2008 and 2007.

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						
No.	SBA	Jan-Jun 2008		Jan-Jun 2007		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1	Food and beverages	1,393.0	81.5	1,300.5	82.1	107
2	Pharmaceuticals	312.9	18.3	279.5	17.7	112
3	Services	3.0	0.2	3.7	0.2	82
Total		1,708.9	100.0	1,583.7	100.0	108

Sales revenue of the Podravka Group totalled HRK 1,708.9 million and are 8% higher compared to the same period in the year 2007.

The sales of the SBA Food and beverages amounted to HRK 1,393.0 million which represents an increase of 7%. This sales growth has been achieved by a growth on foreign markets (15%), while sales on the Croatian market remained at last year's level so a structural change occurred in favour of Podravka brands. The sales growth of the SBA Food and beverages was mostly contributed by the product groups of Podravka dishes (16%), Beverages (40%) and Meat products and canned fish (19%).

The SBA Pharmaceuticals recorded sales revenue in the amount of HRK 312.9 million which represents a 12% growth compared to the same period in 2007. The sales of SBA Pharmaceuticals grew 4% on the markets of Croatia mostly contributed by the increase of prescription drugs (3%) and non-prescription products (6%). The most significant sales in the group of prescription drugs according to the ATC classification¹ was achieved by cardiovascular drugs, while in the group of non-prescription products the most significant growth was recorded by OTC drugs. Continued sales growth of Neofen and Lupocet resulted in Belupo taking over the leading position in the sales of OTC painkiller drugs on the market of Croatia. The SBA Pharmaceuticals recorded the most significant foreign increase on the market of South-East Europe (67%) on the grounds of sales growth on the market of Bosnia and Herzegovina (150%). The growth of the market of Bosnia and Herzegovina is partly generated by the organic growth of 16% and sales from Farmavita² which Belupo began recording in the second quarter of 2008.

The SBA Services achieved sales revenue of HRK 3.0 million in the observed period and in the total sales of the Podravka Group accounts for just 0.2%.

¹ Anatomical Therapeutic Chemical System of Drug Classification

² Belupo gained a majority share in Farmavit at the end of January 2008.

New products in the second quarter of 2008



Studena GO! Is intended for all who lead an active sports life. Its pleasant pear and apple based flavour is enriched with functional ingredients – herbal extracts of guarana, mate tea and mint, dietetic fibre and B vitamins.

Studena DEFENSE is intended for those who want to strengthen and protect their body in a simply way. It has a distinctive natural flavour of red orange and contains active green tea (EGCG) substance, vitamin C, zinc and selenium which build up your immunity.

Studena SHINE is for those who care about their looks. It has a gentle and mild, natural blackberry flavour, with herbal extracts of elder flower and aloe vera, with dietetic fibre, zinc and B vitamins.

Ice Tea – pomegranate – wild cherry is an uncarbonated, refreshing, non-alcoholic beverage made from herbal extracts of tea and pomegranate and wild cherry flavour, based on natural spring water Studena. The concentrated pomegranate fruit juice and mixture of fruit concentrates (wild cherry, lemon and elder), tea extract and natural aroma of pomegranate and wild cherry give a full and rich taste.

Ice Tea – red orange is an uncarbonated, refreshing, nonalcoholic, beverage made from tea extract and with the flavour of red orange. Spring water Studena, concentrated orange juice, tea extract, natural red orange aroma and herbal concentrates give a refreshing and distinctive taste.

Cream of mushroom soup is an extremely thick, cream soup with intensive flavour of boletes and button mushrooms complemented with fine pieces of mushrooms and spring onion and a carefully selected composition of spices that give the soup its characteristic taste.

Tomato cream soup is a thick, creamy soup with a natural, fresh aroma and colour and intensive taste coming from a high content of first-class tomatoes. Enriched with pieces of spring onion which give a special appearance and freshness, completing its characteristic flavour with a carefully selected composition of spices.

Cream broccoli soup is a mild, creamy and thick soup from broccoli and a fine blend of selected spices that provide a full flavour. The soup is supplemented with broccoli tips that give an extremely delicious taste, attractive and appealing look.

Cream of asparagus soup is a thick, light coloured, creamy soup rich with white asparagus. The fine blend of flavour and ingredients are supplemented with tips and rings of green asparagus rounding the taste with curry.

Cream of button mushroom soup has a specific, mild, rounded flavour and aroma of button mushrooms with a carefully selected blend of spices and rich pieces of button mushrooms and spring onion.

Ice Plus gel is specially formulated gel with menthol and eugenol and has an instant cooling and lasting effect. Ice Plus gel helps relieve pain, relax muscles and stimulate circulation.

Sales per product groups

Item no.	PRODUCT GROUP	in millions of HRK				
		Jan-Jun 2008		Jan-Jun 2007		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1	Podravka brands	1,177.3	68.9	1,026.1	64.8	115
	Podravka dishes	394.6	23.1	341.4	21.5	116
	Food seasonings	338.0	19.8	313.0	19.8	108
	Meat products and canned fish	185.2	10.8	156.0	9.9	119
	Baby food, sweets and snack	157.4	9.2	142.9	9.0	110
	Beverages	102.1	6.0	72.8	4.6	140
2	Commercial goods	67.5	3.9	160.5	10.1	42
3	Other (Food and beverages)	148.2	8.7	113.9	7.2	130
4	Pharmaceuticals	312.9	18.3	279.5	17.7	112
5	Services	3.0	0.2	3.7	0.2	82
	Total	1,708.9	100.0	1,583.7	100.0	108

The positive sales trend of all product groups of Podravka brands continued in the second quarter reflecting a sales increase of Podravka brands in the amount of HRK 151.2 million. Podravka brands achieved sales in the amount of HRK 1,177.3 million which is a 15% growth, while organic sales recorded a 10% growth in the observed period.

The Podravka dishes product group achieved a 16% growth contributed mainly by the 15% sales growth on the market of Croatia and 17% on foreign markets. The most significant sales growth of Podravka dishes of 16% was recorded on the market of South-East Europe with the largest contribution from the markets of Serbia (31%) and Bosnia and Herzegovina (9%). Together with the market of South-East Europe, a strong sales growth was also recorded on the market of Central Europe (24%) mainly on the grounds of the increase of Rice and legumes (29%) on the Czech market.

The sales growth of the Food seasonings product group of 8% was achieved by the growth of sales on the domestic market (5%) and foreign markets (9%). The sales growth on foreign markets was contributed by the sales of the brand Warzywko on the market of Poland, where an extra sales stimulus was triggered through the marketing campaign "Warzywko – the largest amount of vegetables in your kitchen". The highest growth within this product group was achieved in Poland (25%), where organic sales recorded a 3% growth. The total organic sales growth of the Food seasonings product groups is 4%.

The product group Meat products and canned fish achieved a sales growth of 19% due to the sales growth on the market of Croatia (11%) and foreign markets (37%). The total growth of this product group results from a strong sales growth of canned fish of 44% but also the meat programme with 9%. Podravka's canned fish brand – Eva, achieved sales growth of 28% on the market of Croatia, while on foreign markets it reached 53%. The increase of sales on foreign markets results from the revival of the Eva brand on the markets of South-East Europe where in the sardine category it is among the leading brands in terms of brand awareness, consumption and popularity. The sales growth of canned fish on the market of South-East Europe (44%) is based on the sales growth on the markets of Slovenia (165%) and Bosnia and Herzegovina (38%).

The Baby food, sweets and snack product group achieved sales growth of 10% due to the market of Croatia, but also foreign markets with an equal relative sales growth of 10%. The highest sales growth within the Baby food, sweets and snack group was achieved by Baby food (13%) and Cereals (38%). Together with the market of Croatia, a significant growth was recorded by this product group on the markets of Bosnia and Herzegovina (13%) and Serbia (16%).

The highest relative growth of 40% was achieved in the Beverages product group generated by the sales of the Lero brand. On the Croatian market, the Beverages product group recorded a sales growth of 40%, while the market of Bosnia and Herzegovina had a growth of 44% based on the growth of Studena Ice tea.

Sales per market groups

in millions of HRK

Item no.	MARKET GROUP	Jan-Jun 2008		Jan-Jun 2007		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1	Croatia	893.8	52.3	888.3	56.1	101
2	South-East Europe	352.9	20.6	296.6	18.7	119
3	Central Europe	267.6	15.7	216.5	13.7	124
4	Western Europe, overseas countries and Orient	116.3	6.8	106.3	6.7	109
5	Eastern Europe	78.3	4.6	76.0	4.8	103
Total		1,708.9	100.0	1,583.7	100.0	108

In the observed period, 52% of the total sales revenue of the Podravka group was achieved on the market of Croatia. Sales on the market of Croatia totalled HRK 893.8 million which is a sales growth of 1%. A change in the structure of sales of the SBA Food and beverages had influence on the level of sales so that the sales growth of Podravka brands (15%) compensated the drop of sales of Commercial goods of 67%. Most of the sales of the SBA Pharmaceuticals (70%) was realised on the market of Croatia, which achieved a sales growth of 4% in the observed period. Following the established strategy guidelines of the SBA Pharmaceuticals, Belupo entered the pharmacy business so that as a supplier they could screen the market and improve sales planning compared to other drug suppliers.

Sales in the amount of HRK 815.1 million was achieved on foreign markets which represents a growth of 17% generated by the growth of all market groups. The highest increase of total sales was achieved on the market of South-East Europe (19%) mostly contributed by the growth of sales of the SBA Food and beverages of 12%. Sales of the SBA Food and beverages on foreign markets recorded a 15% growth on the grounds of the Podravka brands sales growth of 14%. The highest increase of Podravka brands was recorded on the markets of South-East Europe (15%) and Central Europe (20%). Together with the sales growth of 67% on the market of South-East Europe, the SBA Pharmaceuticals recorded a 13% sales growth on the market of Central Europe, while the market of Eastern Europe experienced a slight 1% drop.

Structure of operating costs / expenses

in millions of HRK

Item no.	COSTS / EXPENSES	Jan-Jun 2008		Jan-Jun 2007		Index 2:4
		Amount	%	Amount*	%	
0	1	2	3	4	5	6
1	Cost of goods sold	996.9	60.3	928.9	60.6	107
2	Selling and distribution expenses	492.8	29.8	438.7	28.6	112
3	General and administrative expenses	163.7	9.9	165.4	10.8	99
Total		1,653.4	100.0	1,533.0	100.0	108

* change relative to report in 2007 due to costs reclassification

The operating costs of the Podravka Group increased by HRK 120.4 million compared to the same period last year under the influence of the growth of Cost of goods sold and Selling and distribution expenses. A higher level of purchasing prices of production inputs and the price of oil, energy and municipal service fees reflected on the increase of Cost of goods sold of 7%, while in the growing Selling and distribution expenses marketing costs had the highest increase rate (17%). More efficient investments in the marketing of more profitable product groups enabled higher sales growth rates and market share growth to be realised. General and administrative expenses recorded a drop of 1% compared to the previous year and, as planned, reduced their relative share in operating costs.

Profitability of the Podravka Group

in millions of HRK

Podravka Group	Jan-Jun 2008	Jan-Jun 2007	Change (2/3)
1	2	3	4
Sales	1,708.9	1,583.7	8%
Gross profit	712.1	654.8	9%
EBITDA	141.6	143.9	-2%
EBIT	65.6	60.5	9%
Net profit	22.9	22.2	3%
<i>Profit margins (%)</i>			
Gross margin	41.7	41.3	40bp
EBITDA margin	8.3	9.1	-80bp
EBIT margin	3.8	3.8	0bp
Net margin	1.3	1.4	-10bp

The gross margin of the Podravka Group increased by 40bp in the observed period as a result of a more favourable, respectively, more profitable sales structure. The sales growth of the Podravka Group in the observed period was achieved through the sales of products with an average gross margin of 46%. The sales growth was accompanied with the growth of operating costs and the achieved operating margin remained at last year's level. The net margin dropped by 10bp due to the growth of financing costs (19%) of acquisitions realised in the previous periods.

Profitability per Strategic Business Area

SBA	Food and beverages			Pharmaceuticals		
	Jan-Jun 2008	Jan-Jun 2007	Change (2/3)	Jan-Jun 2008	Jan-Jun 2007	Change (5/6)
1	2	3	4	5	6	7
Sales	1,393.0	1,300.5	7%	312.9	279.5	12%
Gross profit	526.5	485.4	8%	185.6	169.5	10%
EBITDA	73.6	72.1	2%	68.0	71.8	-5%
EBIT	14.4	6.7	114%	51.3	53.7	-5%
Net profit	-12.1	-13.7	12%	35.0	35.9	-2%
<i>Profit margins (%)</i>						
Gross margin	37.8	37.3	50bp	59.3	60.6	-130bp
EBITDA margin	5.3	5.5	-20bp	21.7	25.7	-400bp
EBIT margin	1.0	0.5	50bp	16.4	19.2	-280bp
Net margin	-0.9	-1.1	20bp	11.2	12.8	-160bp

The sales growth of the SBA Food and beverages of 7% is generated by the growth of sales of Podravka brands which contributed to the increase of gross margin of 50bp despite a significant price increase of incoming raw material. The sales growth is partly conditioned by the increase of prices which in average rose 2%. The growth of marketing costs (18%) had the highest impact on the growth of Selling and distribution expenses (11%), while General and administrative expenses at the same time dropped 5%. A higher growth of sales compared to the increase of operating costs reflected on the increase of the operating margin by 50bp. Despite the growth of financing costs (30%), the net margin recorded an increase of 20bp.

The purchase of the majority share of Farmavita, whose large portion of sales is based on drug distribution, has increased the sales of the SBA Pharmaceuticals, yet at the same time reduced its gross margin by 130bp. Belupo, by purchasing that share, is following its strategy based on strengthening its market position in the region and the possibility of opening new markets. In a short period of time, joint cooperation should increase the number of registered drugs and improve the supply of Belupo drugs on the market of Bosnia and Herzegovina. The operating margin dropped by 280bp with the growth of General and administrative expenses but also with the growth of Selling and distribution expenses. The increase of Selling and distribution expenses results from the increase of marketing costs (15%) due to stronger investment in advertising non-prescription products.

CONSOLIDATED INCOME STATEMENT

(in thousands of HRK)

	Jan-Jun 2008	Jan-Jun 2007
Sales	1,708,949	1,583,708
Cost of goods sold	(996,866)	(928,905)
Gross profit	712,083	654,803
Investment revenue	11,253	7,240
Other gains, net	164	3,406
General and administrative expenses	(163,717)	(165,357)
Selling and distribution expenses	(492,796)	(438,740)
Other expenses	(1,361)	(886)
Profit from operations	65,626	60,466
Finance costs	(31,086)	(26,035)
Profit before tax	34,539	34,431
Income tax	(11,016)	(12,282)
Profit after income tax	23,523	22,149
Minority interest	(616)	0
Net profit	22,907	22,149

CONSOLIDATED BALANCE SHEET

(in thousands of HRK)

	30 June 2008	31 December 2007
ASSETS		
Non-current assets		
Property, plant and equipment	1,698,904	1,669,321
Goodwill	88,545	29,137
Intangible assets	199,382	199,419
Financial assets available for sale	161	0
Deferred tax assets	37,560	35,491
Other financial assets	58,251	60,917
Total non-current assets	<u>2,082,803</u>	<u>1,994,285</u>
Current assets		
Inventories	655,053	594,522
Trade and other receivables	1,283,170	1,153,886
Financial assets at fair value in income statement	13,563	6,163
Cash and cash equivalents	74,276	112,549
Non-current assets held for sale	5,737	5,469
Total current assets	<u>2,031,799</u>	<u>1,872,589</u>
TOTAL ASSETS	<u>4,114,602</u>	<u>3,866,874</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	1,610,863	1,628,467
Reserves	108,459	138,641
Retained earnings	240,616	177,864
	<u>1,959,938</u>	<u>1,944,972</u>
Non-current liabilities		
Long-term debt	496,622	467,498
Provisions	24,824	25,412
	<u>521,446</u>	<u>492,910</u>
Current liabilities		
Trade and other payables	879,242	779,776
Short-term borrowings	746,627	649,216
	<u>1,625,869</u>	<u>1,428,992</u>
Total liabilities	<u>2,147,315</u>	<u>1,921,902</u>
Minority interest	7,349	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>4,114,602</u>	<u>3,866,874</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of HRK)

	Share capital	Reserves	Retained earnings	Total
Balance at 1 January 2008	1,628,467	138,641	177,864	1,944,972
Exchange differences		9,663		9,663
Net profit for the period			22,907	22,907
Purchase of treasury shares	(13,146)			(13,146)
Sale of treasury shares	6,869			6,869
Options exercised	(5,089)			(5,089)
Fair value of share options	(6,238)			(6,238)
Transfer from other and legal reserves		(39,845)	39,845	0
Balance at 30 June 2008	1,610,863	108,459	240,616	1,959,938

CONSOLIDATED CASH FLOW STATEMENT

(in thousands of HRK)

	Jan-Jun 2008	Jan-Jun 2007
Net profit	22,907	22,149
Income tax	11,016	12,282
Depreciation	75,988	83,393
Gains on sale of non-current assets	(798)	(3,260)
Value adjustment of current assets	3,841	60
Value adjustment of capital gain	(11,327)	(12,650)
Decrease in provisions	(588)	(68)
Interest income	(12,810)	(11,516)
Interest expense	33,740	26,784
Effect of changes in foreign exchange rates	1,356	(565)
Minority interest	7,349	0
Other items not affecting cash	(2,817)	(1,441)
Changes in working capital		
(Increase) / decrease in inventories	(37,943)	(26,746)
Increase in trade receivables	(136,977)	(101,756)
Decrease in other current assets	130,392	282
Increase / (decrease) in trade payables	(2,364)	(13,458)
Increase / (decrease) in other liabilities	50,210	(26,370)
Income taxes paid	(16,858)	(496)
Interest paid	(41,971)	(35,371)
Net cash from operating activities	72,346	(88,747)
Net cash flow from investing activities		
Purchase of equity interest	(25,037)	0
Sale of equity interest	0	1,394
Payments for property, plant, equipment and intangible assets	(70,703)	(169,028)
Sale of tangible and intangible assets	1,181	9,293
Sale of available-for-sale assets	0	2,605
Purchase of trading securities	(7,400)	0
Other investing activities	(73,779)	(44,792)
Net cash used in investing activities	(175,738)	(200,528)
Net cash flows from financing activities		
Purchase of treasury shares	(13,146)	0
Sale of treasury shares	6,869	0
Proceeds from long-term borrowings	43,687	2,437
Repayment of long-term borrowings	(46,405)	(142,932)
Proceeds from short-term borrowings	412,153	578,354
Repayment of short-term borrowings	(338,038)	(207,810)
Net cash from financing activities	65,120	230,049
Net decrease in cash and cash equivalents	(38,272)	(59,226)
Cash and cash equivalents at beginning of year	112,549	126,118
Cash and cash equivalents at the end of year	74,277	66,892

Always with a heart



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