



PODRAVKA GROUP BUSINESS RESULTS FOR THE PERIOD JANUARY – JUNE 2007

Basic events

1. Podravka brands sales in the first half 2007 is HRK 1,029.9 mn which is 3% increase of organic sales. Equally 3% organic growth was realized in the market of Croatia and abroad, where the most significant sales growth was marked in the markets of Serbia (29%) and Bosnia and Herzegovina (10%).
2. South-East European market marks expected sales drop of commercial goods of 84%, influencing the total sales on that market of 24%. Loss due to commercial goods drop in the market of South-East Europe is partially compensated by 9% growth of Podravka brands.
3. Gross margin is 41.3%, which is 320 bp increase compared to the first half of 2006.
4. EBIT margin is 3.8%, and is retained at the same level as last year's period, in spite of restructuring process.
5. Net margin is 1.4%, and is reduced by 100 bp compared to the first half of 2006.
6. New redesigned packaging of fish cans under the brand Eva receives Cropak, award for packaging in the category of Croatian product series.
7. Polish Agency for Protection of Market Competition approved Podravka's request to purchase brands Warzywko and Perfecta from Kamis company.
8. Purchasing Lero brand Podravka expands the existing portfolio of non-alcoholic beverages to categories of juices, nectars, syrups and other beverages.
9. Podravka, Gastro Group and National Association of Family and Small Hotels signed a cooperation agreement.
10. Podravka share listed in the new regional index of Vienna Stock Exchange – CROX (Croatian Traded Index).

Notes

Due to the focusing on Podravka's strongest brands, complexity management, internal changes in tracking sales of Podravka brands, Eva brand purchase and due to recent purchase of brands Warzywko, Perfecta and Lero, there have been some changes in the reporting to the public as well.

From the first quarter 2007 onwards we will be reporting on the following groups of products.

SBA "Food and beverages"

1. Podravka brands

- a. Food seasonings
- b. Podravka dishes – includes the following product groups from the previous classification: Podravka dishes, Fruit and vegetables, Rice and legumes, Other products and Mill products
- c. Baby food, sweets and snack
- d. Meat product and canned fish – includes meat and meat products from the previous classification and newly purchased brand EVA – canned fish
- e. Beverages

2. Commercial goods

3. Other

SBA "Pharmaceuticals"

SBA "Services"

In compliance to this reclassification, compared are the sales for the first half 2006 and first half 2007.

Sales revenues per Strategic Business Areas

in millions of HRK

Item no.	SBA	Jan-Jun 2007		Jan-Jun 2006 adjusted		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Food & beverages	1,300.5	82.1	1,382.9	82.6	94
2.	Pharmaceuticals	279.5	17.7	286.5	17.1	98
3.	Services	3.7	0.2	4.9	0.3	75
Total		1,583.7	100.0	1,674.3	100.0	95

Podravka Group sales in the first half 2007 is HRK 1,583.7 mn which is 5% sales drop. SBA Food and beverages in Croatian market marks 3% sales increase, while on foreign markets, due to discontinued distribution of Nestlé products expected sales drop is 14%, and on the overall level results in 6% sales drop of SBA Food and beverages. Commercial goods mark 43% sales drop, in foreign markets 83%, and 1% in Croatian market. Organic sales growth was 3%, both in foreign and domestic markets. On the overall level SBA Pharmaceuticals realizes 2% sales drop, mostly contributed by 5% sales drop in Croatian market, and 8% drop on foreign markets. Sales drop of SBA Pharmaceuticals was caused by already explained pressure to medicines found on the basic and additional list of medicines by the Croatian Institute for Health Insurance and their prices, but it is important to emphasize 35% sales growth of OTC products in the market of Croatia and 89% percent in foreign markets, which is total sales increase of OTC products by 40%.

Sales per product groups

in millions of HRK

Item no.	PRODUCT GROUP	Jan-Jun 2007		Jan-Jun 2006		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Podravka brands	1,029.9	65.0	998.6	59.6	103
	Food seasonings	313.0	19.8	311.1	18.6	101
	Podravka dishes	307.7	19.4	300.7	18.0	102
	Meat program and canned fish	190.8	12.0	179.3	10.7	106
	Baby food,sweets and snack	142.6	9.0	135.3	8.1	105
	Beverages	75.8	4.8	72.2	4.3	105
2.	Commercial goods*	154.7	9.8	272.1	16.2	57
3.	Other (Food and beverages)	115.9	7.3	112.2	6.7	103
4.	Pharmaceuticals	279.5	17.7	286.5	17.1	98
5.	Services	3.7	0.2	4.9	0.3	75
Total		1,583.7	100.0	1,674.3	100.0	95

* third partie's goods

All product groups within Podravka brands realize sales growth compared to the same period last year. The highest sales growth was realized in the group Meat program and canned fish, mostly contributed by growth abroad, especially in the markets of South-East Europe (32%) which is the result of reviving the Eva brand in the market where that brand used to be dominant.

Sales growth of 5% was realized in the group Baby food, sweets and snack, continuing the growth trend of that product group. Last year new products were launched under the brand Čokolino - Čokolino Crunch and Čokolino Maxi, entering the cereals category. This year with additional new products, marketing concept of the Čokolino brand was also changed, differentiating itself from the Lino brand, baby food intended for newborns and children of kindergarten age.

Growth achieved is the result of a systematic approach to brand development, and thus sales of Čokolino cereals grew 9%, and Čokolino spreads 18%.

As announced, Podravka started to strengthen its market position in the category of nonalcoholic beverages. Purchasing Lero brand, i.e. expanding the product range to categories of juices, nectars, syrups and other beverages packaged in modern and technologically advanced packaging, Podravka will strengthen its market positions. In the observed period beverages grew 5%.

The most significant markets for product group Podravka dishes are the markets of Croatia and South-East Europe. Both markets realize sales growth of Podravka dishes, 3% Croatian market and 4% the market of South-East Europe.

Food seasoning sales realizes 1% growth, mostly contributed by 3% sales growth in Central Europe. The most significant foreign market for food seasoning, Polish market, marks 8% sales growth. The importance of this market for product group Food seasonings also speaks the fact that in the second quarter of 2007 Podravka purchased the brands Warzywko and Perfecta. Besides increasing capacities at Vegeta factory in Poland, this business move will additionally strengthen the leader position in the market of universal food seasonings by offering the brand that is in medium price segment.

Podravka products launched in the second quarter 2007



Sales per Podravka Group Markets

in millions of HRK						
Item no.	MARKETS	Jan- Jun 2007		Jan-Jun 2006		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Croatia	888.3	56.1	881.1	52.6	101
2.	South-East Europe	296.6	18.7	388.4	23.2	76
3.	Central Europe	216.5	13.7	224.7	13.4	96
4.	Westrn Europe, overseas and Orient	106.3	6.7	108.3	6.5	98
5.	Eastern Europe	76.0	4.8	71.8	4.3	106
Total		1,583.7	100.0	1,674.3	100.0	95

Croatian market comprises 56% of the total sales of Podravka group and marks 1% growth in the first half of 2007. SBA Food and beverages marks 3% sales growth, with 3% organic growth and 1% drop of commercial goods.

Foreign markets mark 3% organic growth in SBA Food and beverages and 8% sales growth in SBA Pharmaceuticals. Due to the expected sales drop of commercial goods on foreign markets of 83%, in total, foreign markets mark 12% sales drop.

Of foreign markets, the highest sales growth was realized in the market of Eastern Europe (6%), mostly contributed by 30% sales growth of SBA Pharmaceuticals. Sales growth generator of pharmaceutical products is the market of Russia, mostly in dermatics and cardiovascular group of medicines.

Structure of operating costs

in millions of HRK						
Item no.	COST/ EXPENSE	Jan-Jun 2007		Jan-Jun 2006		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Cost of goods sold	930.2	60.7	1,035.8	63.4	90
2.	Selling and distribution costs	437.2	28.5	418.4*	25.6	105
3.	General and administrative expenses	165.6	10.8	179.8*	11.0	92
Total		1,533.0	100.0	1,634.0	100.0	94

* change relative to report in 2006 due to reclassification costs

Operative costs drop amounting to HRK 101 mn, i.e. their relative drop of 6% brings changes into shares of individual costs in total operative costs of the Group, where the most significantly reduced were the costs of products sold, by 10%, and the result is a synergy of the centralized purchasing process and complexity management and a more significant reduction of the share of commercial goods in total sales of the Group. Sales in distribution costs growth of 5% is the result of new marketing concepts, from development to the launch of new product, which presupposes also more significant marketing investments. General and administrative expenses mark 8% drop and are the result of a more efficient allocation of available resources and savings deriving from it, but due to restructuring process which is continued throughout the second half of the year, these costs are expected to grow relative to previous year.

Profitability of the Podravka Group

in millions of HRK			
Podravka Group	Jan-Jun 2007	Jan-Jun 2006	Change (2/3)
1	2	3	4
Sales	1,583.7	1,674.3	-5%
Gross profit	653.5	638.5	2%
EBITDA	143.9	169.6	-15%
EBIT	60.5	62.8	-4%
Net profit	22.2	40.6	-45%
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Profit margins %			
Gross margin	41.3	38.1	320 bp
EBITDA margin	9.1	10.1	- 100bp
EBIT margin	3.8	3.8	0 bp
Net margin	1.4	2.4	-100 bp

Change in the sales structure of the Group in the favour of Podravka brands and the reduction of the share of commercial goods influenced the improvement of gross margin by 320 bp and is now 41.3%. With a more favourable structure of operating costs EBIT margin was retained at last year's level, while the net margin dropped by 100 bp influenced by financing costs growth, i.e. interest expenditures for credits, significantly reduced revenues due to exchange rate differences on credits and growth of effective interest rate on profit by 1600 bp.

Profitability per Strategic Business Areas

in millions of HRK

SBA	Food and beverages			Pharmaceuticals		
	Jan-Jun 2007	Jan-Jun 2006	Change (2/3)	Jan-Jun 2007	Jan-Jun 2006	Change (5/6)
1	2	3	4	5	6	7
Sales	1,300.5	1,382.9*	-6%	279.5	286.5*	-2%
Gross profit	484.0	480.5*	1%	169.5	157.4	8%
EBITDA	72.1	106.8	-33%	71.8	62.8	14%
EBIT	6.7	21.9	-69%	53.7	40.9	31%
Net profit	-13.7	12.7	-208%	35.9	27.9	28%
Profit margins %						
Gross margin	37.2	34.7	250 bp	60.6	54.9	570 bp
EBITDA margin	5.5	7.7	-220 bp	25.7	21.9	380 bp
EBIT margin	0.5	1.6	-110 bp	19.2	14.3	490 bp
Net margin	-1.1	0.9	-200 bp	12.8	9.7	310 bp

* in SBA Food and beverages there has been a change in the overview of sales revenues, together with the gross margin, related to the report in 2006 due to reclassification of sales per strategic business areas

The complexity management process includes optimization of product portfolio of SBA Food and beverages in the way that the effect of the process is visible through profitability, i.e. increase of gross margin by 250 bp. In other levels of profitability of SBA Food and beverages positive effects of production processes advancements, centralized purchasing and complexity management cease due to restructuring process, which has significantly disrupted the operative margin in the observed period of this and previous year. Net margin of SBA Food and beverages is additionally encumbered by financing costs, the consequence of preparation of acquisition cycle which is underway. After realized savings on the level of costs of products sold in SBA Food and beverages, further savings and increased efficiency, within sales and distribution costs (which partially need to be reduced) it is possible and necessary to continue the reallocation in the favour of marketing costs and general and administrative costs. A series of processes were started which will in the upcoming period more actively be used for improving efficiency in those segments.

In the observed period SBA Pharmaceuticals realizes HRK 279.5 mn sales, which is 18% of the Group sales. In spite of 2% sales drop, all levels of profitability have been improved and are a reflection of a more significant growth of OTC products within the sales structure and more significant savings on the level of costs of products sold. Total sales growth of OTC products, both on domestic and foreign markets, is 40% compared to the sales in the first half of 2006, and it is reflected on increased sales share from 10% to 13% in the sales structure of SBA Pharmaceuticals. Gross margin was increased by 570 bp and is 60.6%, and next to reduced general and administrative expenses in the observed period, operative margin was also increased by 490 bp and is 19.2%.

CONSOLIDATED INCOME STATEMENT

(in thousands of HRK)

	Jan-Jun 2007	Jan-Jun 2006
Sales	1,583,708	1,674,268
Cost of goods sold	<u>(930,237)</u>	<u>(1,035,755)</u>
Gross profit	653,471	638,513
Other gains /(losses) - net	3,403	16,540
General and administrative expenses	(165,550)	(179,828)
Selling and distribution costs	(437,217)	(418,384)
Other revenues	7,246	6,631
Other expenses	<u>(886)</u>	<u>(675)</u>
Operating profit	60,467	62,797
Finance income	748	7,912
Finance costs	<u>(26,783)</u>	<u>(21,983)</u>
Net financial expense	(26,035)	(14,072)
Profit before tax	<u>34,432</u>	<u>48,726</u>
Income tax expense	<u>(12,282)</u>	<u>(8,138)</u>
Net profit	<u>22,150</u>	<u>40,588</u>

CONSOLIDATED BALANCE SHEET

(in thousands of HRK)

	30 Jun 2007	31 Dec 2006
ASSETS		
Non-current assets		
Property, plant and equipment	1,633,460	1,633,454
Intangible assets	166,404	87,225
Deferred tax assets	24,392	24,137
Available-for-sale financial assets	0	1,394
Trade and other receivables	<u>56,060</u>	<u>11,243</u>
	1,880,316	1,757,453
Current assets		
Inventories	592,448	564,485
Trade and other receivables	1,352,382	1,241,505
Financial assets at fair value through profit or loss	0	3,046
Cash and cash equivalents	<u>66,892</u>	<u>126,118</u>
	2,011,722	1,935,154
Non-current assets held for sale	<u>8,467</u>	<u>7,898</u>
	2,020,189	1,943,052
Total assets	<u>3,900,505</u>	<u>3,700,505</u>
EQUITY AND LIABILITIES		
Non-current liabilities		
Long-term debt	480,128	525,335
Provisions	<u>21,939</u>	<u>22,007</u>
	502,067	547,342
Current liabilities		
Trade and other payables	906,244	920,346
Short-term borrowings	729,721	456,860
Provisions	<u>6,207</u>	<u>29,277</u>
	1,642,172	1,406,483
Total liabilities	<u>2,144,239</u>	<u>1,953,825</u>
Shareholders' equity		
Share capital	1,414,679	1,427,329
Reserves	154,724	148,503
Retained earnings	<u>186,863</u>	<u>170,848</u>
	1,756,266	1,746,680
Total equity and liabilities	<u>3,900,505</u>	<u>3,700,505</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of HRK)

	31 Dec 2006	Increase	Decrease	30 Jun 2007
Subscribed capital	1,626,001			1,626,001
Premium on shares issued	-191,961		12,650	-204,611
Reserves	139,097	5,722		144,819
Own shares	-6,711			-6,711
Retained profit or transferred loss*	110,487	60,361	6,135	164,713
Profit or loss in the current period*	60,361	22,149	60,361	22,149
Dividends				0
Revaluation reserves	9,406	1,206	706	9,906
a) revaluation of facilities real estate and equipment	706		706	0
b) investment revaluation				0
c) other revaluations	8,700	1,206		9,906
Correction of basic errors				0
Exchange rate differences due to investments into foreign subject				0
Change of accounting policies				0
Capital and reserves total	1,746,680	89,438	79,852	1,756,266

CONSOLIDATED CASH FLOW

(in thousands of HRK)

	Jan-Jun 2007	Jan-Jun 2006
Net cash from operating activities	-112,512	-255,061
Profit/loss after tax	22,149	40,588
Depreciation	83,393	106,785
Increase/decrease in the value of stocks	-27,963	-5,091
Increase/decrease in trade receivables	-100,479	-116,861
Increase/decrease in other current receivables	5,048	-305,134
Increase/decrease in prepayments and accrued income	-22,793	-48,910
Increase/decrease in trade creditors	-13,458	56,535
Increase/decrease in long-term provisions	-68	-1,189
Increase/decrease in accruals and deferred income	-5,365	-14,898
Increase/decrease in receivables from subscribed, unpaid capital and loss above the amount of capital		
Increase/decrease in long-term receivables	-44,817	601
Increase/decrease in current financial assets	9,824	37,862
Increase/decrease in other long-term liabilities	-17,983	-5,349
Increase/decrease in other items		
Net cash flow from investing activities	-161,805	-51,995
Purchase of fixed tangible and intangible assets	-168,730	-58,186
Acquisition of subsidiaries		
Acquisition of minority interest		
Increase/decrease in long-term financial assets	1,139	2,587
Revenue from the sales of tangible and intangible assets	6,339	2,024
Dividends paid	-366	-247
Increase/decrease in other items	-187	1,827
Net cash flow from financial activities	215,091	339,602
Increase in capital by the new issue of shares		
Increase/decrease in long-term liabilities – loans and credits	-45,207	38,951
Increase/decrease in other long-term liabilities		
Increase/decrease in current liabilities – loans and credits	272,861	281,202
Increase/decrease in other items	-12,563	19,449
Net increase/decrease in cash and cash equivalents	-59,226	32,546
Cash and cash equivalents at the beginning of the period	126,118	126,234
Cash and cash equivalents at year end	66,892	158,780

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