



PODRAVKA GROUP BUSINESS RESULTS FOR THE PERIOD JANUARY – MARCH 2008

Main characteristics and events in the first quarter 2008

1. The total sales of the Podravka Group in the first quarter amounted to HRK 784.1 million which represents a growth of 9%.
2. The Strategic Business Area (SBA) Food and Beverages recorded sales growth of 9%, while SBA Pharmaceuticals recorded sales growth of 10%.
3. The sales of Podravka brands amounted to HRK 551.7 million which represents a 17% growth generated by a strong growth of Podravka brands on both Croatian (20%) and foreign markets (14%).
4. The gross margin of the Podravka Group recorded a growth of 30 bp.
5. The operating margin of the Podravka Group recorded a growth of 10bp.
6. The total value of capital investments in the observed period amounted to HRK 31.0 million.
7. The semi-industrial development lab started functioning which will enable prompt and better implementation of scientific ideas, development concepts and customer requirements into new technological processes and innovative products.
8. A Strategic Cooperation Agreement between Belupo and the company Farmavita from Bosnia and Herzegovina was concluded.
9. A new and visually refreshed Studena bottle was launched.

Notes

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

SBA "Food and beverages"

1. Podravka brands

- a. Food seasonings
- b. Podravka dishes – includes the following products groups from the previous classification: Podravka dishes, Fruit and vegetables, Rice and legumes and Mill products
- c. Baby food, sweets and snack
- d. Meat products and canned fish – includes Meat and meat products and Canned fish
- e. 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 revenues per Strategic Business Areas (SBA)

		in millions of HRK				
Item no.	SBA	Jan-Mar 2008		Jan-Mar 2007		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1	Food and beverages	648.9	82.7	593.0	82.7	109
2	Pharmaceuticals	133.8	17.1	121.7	17.0	110
3	Services	1.4	0.2	1.9	0.3	74
Total		784.1	100.0	716.6	100.0	109

Sales revenue of the Podravka Group amounted to HRK 784.1 million and are 9% higher compared to the same period in the year 2007.

The sales of the SBA Food and beverages amounted to HRK 648.9 million, which is 83% of the Group's sales and compared to the year 2007 shows a sales increase of 9%. Strong sales growth of Podravka brands of HRK 79.9 million reflected on the sales growth of SBA Food and beverages on both the Croatian (5%) and foreign (13%) markets. The sales growth in the product groups: Podravka dishes (16%), Meat programme and canned fish (18%) and Beverages (68%) mostly contributed to the sales growth of SBA Food and beverages on the Croatian market. The sales of SBA Food and beverages on foreign markets amounted to HRK 348.8 million which is generated by the sales growth of the product group Food seasonings (10%), Podravka dishes (13%) and the Meat product and canned fish (41%).

The SBA Pharmaceuticals recorded sales in the amount of HRK 133.8 million representing a growth of 10% compared to the same period in 2007. The sales of SBA Pharmaceuticals on the market of Croatia recorded a 7% growth due to both increase of prescribed drugs (4%) and OTC (over-the-counter) products (20%). The most significant sales among prescribed drugs according to the ATC classification¹ was achieved by digestive and metabolism drugs, while dietetic products recorded significant growth among OTC products. The SBA Pharmaceuticals recorded sales in the amount of HRK 33.0 million on foreign markets which is a growth of 19%. Sales growth on foreign markets is generated by an 18% increase of prescribed drugs sales and 27% of OTC products sales. The highest sales growth on foreign markets was achieved on the market of Bosnia and Herzegovina (75%) and according to the ATC classification drugs effecting the nervous system had the largest sales growth on foreign markets (96%).

The SBA Services reported sales of HRK 1.4 million within the observed period, accounting for a small 0.2% in the total sales of the Group.

¹ Anatomical Therapeutic Chemical System of Drug Classification

Sales revenues per product groups

in millions of HRK						
Item no.	PRODUCT GROUP	Jan-Mar 2008		Jan-Mar 2007		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1	Podravka brands	551.7	70.3	471.8	65.8	117
	Podravka dishes	190.7	24.3	166.4	23.2	115
	Food seasonings	165.1	21.1	149.8	20.9	110
	Meat products and canned fish	83.4	10.6	66.8	9.3	125
	Baby food, sweets and snack	73.9	9.4	65.6	9.2	113
	Beverages	38.6	4.9	23.2	3.2	167
2	Commercial goods	27.6	3.5	72.4	10.1	38
3	Other (Food and beverages)	69.6	8.9	48.8	6.8	143
4	Pharmaceuticals	133.8	17.1	121.7	17.0	110
5	Services	1.4	0.2	1.9	0.3	74
	Total	784.1	100.0	716.6	100.0	109

All product groups within the Podravka brands achieved sales growth compared to the same period last year, resulting in a total growth of Podravka brands of 17%. Organic sales of Podravka brands recorded a 12% increase.

The Podravka dishes product group achieved a sales growth of 15% mostly contributed by a 16% increase on the Croatian market and 13% on foreign markets. The greatest sales growth of 19%, Podravka dishes recorded on the market of South-East Europe to which the highest contribution came from the markets of Serbia (34%) and Bosnia and Herzegovina (14%).

The Food seasonings product group achieved a sales growth of 10% from growth on both domestic (11%) and foreign (10%) markets. Sales growth on foreign markets with an organic growth of 3% was contributed by the sales of the Warzywko brand. The highest sales growth was achieved on the markets of Poland (27%) and Croatia (11%), respectively, on the most significant food seasoning markets.

The Meat products and canned fish products group achieved a 25% sales growth generated by the growth of sales on the markets of Croatia (17%) and South-East Europe (32%). Along with the Meat product growth of 12%, the total growth of this group is also based on a strong sales growth of canned fish of 54%. Podravka's canned fish brand – Eva accounted for a 53% growth on the Croatian market while 41% was achieved on the market of South-East Europe based on the growth on the markets of Bosnia and Herzegovina (29%) and Serbia (26%).

The products group Baby food, sweets and snack achieved a 13% sales growth generated by sales growth on both the market of Croatia (14%) and on foreign markets (11%). The largest increase within the group Baby food, sweets and snack was recorded by Baby food (11%) and Čokolino cereal (86%). Besides the market of Croatia, this product group achieved significant growth on the markets of Serbia (20%) and Bosnia and Herzegovina (20%).

The highest relative growth of 67% was achieved in the group Beverages mostly generated by the sales of the Lero brand. The product group Beverages achieved a sales growth of 68% on the market of

Croatia, while the sales on the market of Bosnia and Herzegovina increased by 58% due to the good reception of flavours from the Studena Ice tea category.

New products launched in the first quarter of 2008



Provita crunchy muesli with milk chocolate

Oat flakes with delicious milk chocolate offer an irresistible chocolate delight and supply of energy and nutrients.

Provita crunchy muesli with strawberry and yoghurt

Crunchy oat flakes contain valuable nutrients and are a natural source of dietetic fibre, and combined with strawberries provide an unforgettable morning delight with a mild fruit flavour.

Provita crunchy muesli with berries

Fresh berries are a natural source of vitamins, minerals and antioxidants, essential ingredients of any healthy diet. A meal of crunchy oat flakes with berries will mark each morning with irresistible rich tastes.

Provita crunchy muesli with white and dark chocolate

Crunchy oat flakes with cocoa prepared following a special recipe for true chocolate lovers. 40% of cocoa powder, rolls of white and dark chocolate will make each morning a unique chocolate experience.

Lino biscuits

Lino biscuits enriched with 5 vitamins (B1, B2, B6, C, niacin) – for proper child growth and development, calcium – for strong bones and healthy teeth and iron – supports red blood cells and oxygen supply. Ergonomic design adapted to fit a child's hand.

Lino instant chamomile tea

Mild tea fit for a fragile baby's organism, prevents convulsions and soothes stomach and intestine aches. Pleasant and calming instant Lino chamomile tea contains no refined sugar, no gluten and is simple to prepare.

Lino instant fennel tea

Lino instant fennel tea is a mildly sweetened tea, with a very pleasant taste and characteristic aroma. It soothes and eases flatulence and helps open the appetite. Lino fennel tea contains no refined sugar, no gluten and is simple to prepare.

Lino instant fruit tea

Lino instant fruit tea has a pleasant and natural taste and contains arania, cranberry, rosehip, chamomile and mint. A fine selection of medicinal plants gives this tea a specific flavour and aroma. An everyday refreshment and for better hydration. Lino fruit tea contains no refined sugar, no gluten and is simple to prepare.

Sales revenues per markets

		in millions of HRK				
Item no.	MARKETS	Jan-Mar 2008		Jan-Mar 2007		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1	Croatia	402.2	51.3	381.3	53.2	106
2	South-East Europe	160.5	20.5	140.4	19.6	114
3	Central Europe	132.2	16.9	109.0	15.2	121
4	Western Europe, overseas countries and Orient	55.0	7.0	52.6	7.3	105
5	Eastern Europe	34.1	4.3	33.4	4.7	102
Total		784.1	100.0	716.6	100.0	109

The market of Croatia achieved sales of HRK 402.2 million which covers 51% of total sales of the Podravka Group and a sales increase of 6% compared to the year 2007. Sales growth of the SBA Food and beverages of 5% is generated by the strong growth of Podravka brands (20%), with a two-digit growth rate of all product groups. The expiry of the distribution agreement for Nestlé products caused a drop of Commercial goods sales on the Croatian market in the amount of HRK 44.8 million which has been fully compensated by the growth of Podravka brands. A further drop of Commercial goods sales on the domestic market can be expected in the future. The SBA Pharmaceuticals achieved 75% sales on the Croatian market and in the observed period achieved a 7% sales growth. A significant growth of prescribed drugs sales was achieved by the group of digestive and metabolism drugs (51%), while dietetic products doubled their growth in the group of OTC products.

Foreign markets achieved sales in the amount of HRK 381.9 million which is a 14% increase. The SBA Food and beverages recorded sales growth of 13% influenced by the growth of Podravka brands (14%). The highest growth of Podravka brands on foreign markets was achieved on the markets of South-East Europe (18%) and Central Europe (17%). The highest total sales growth was achieved on the market of Central Europe mostly contributed by the sales growth of SBA Food and beverages of 22%. The most significant foreign sales growth of SBA Pharmaceuticals was achieved on the market of Bosnia and Herzegovina (75%), primarily due to the sales of drugs from the cardiovascular and nervous system groups.

Structure of operating costs / expenses

in millions of HRK						
Item no.	COSTS / EXPENSES	Jan-Mar 2008		Jan-Mar 2007		Index 2:4
		Amount	%	Amount*	%	
0	1	2	3	4	5	6
1	Cost of goods sold	458.9	61.0	421.1	60.9	109
2	Selling and distribution expenses	216.2	28.7	193.4	27.9	112
3	General and administrative expenses	77.2	10.3	77.4	11.2	100
Total		752.3	100.0	691.9	100.0	109

* change relative to report in 2007 due to costs reclassification

The operating expenses of the Podravka Group within the observed period increased by 9% under the influence of Cost of goods sold and Selling and distribution expenses increase.

The increase of Cost of goods sold of 9% results from the price increase of food ingredients, oil, energy and utility services.

The increase of Selling and distribution expenses of 12% mostly results from higher marketing investments that compared to the year before grew by 22%. Return on investment in marketing activities is reflected in achieved organic growth (12%) and in the future periods Marketing costs are expected to grow and increase their share in the structure of Selling and distribution expenses.

General and administrative expenses recorded no change compared to the previous year and reduced their relative share in the increasing operating expenses.

Profitability of the Podravka Group

in millions of HRK			
Podravka Group	Jan-Mar 2008	Jan-Mar 2007	change (2/3)
1	2	3	4
Sales revenue	784.1	716.6	9%
Gross profit	325.2	295.5	10%
EBITDA	71.2	76.4	-7%
EBIT	34.1	30.5	12%
Net profit	15.8	15.0	6%
<i>Profit margins (%)</i>			
Gross margin	41.5	41.2	30bp
EBITDA margin	9.1	10.7	-160bp
EBIT margin	4.4	4.3	10bp
Net margin	2.0	2.1	-10bp

The gross margin of the Podravka Group rose for 30 bp despite the growth of Cost of goods sold which results from a more profitable sales structure of the Group. The growth of Cost of goods sold and Selling and distribution expenses did not disturb the EBIT margin level, while the net margin was reduced by 10bp.

Profitability per Strategic Business Area

in millions of HRK

SPP	Food and beverages			Pharmaceuticals		
	Jan-Mar 2008	Jan-Mar 2007	change (2/3)	Jan-Mar 2008	Jan-Mar 2007	change (5/6)
1	2	3	4	5	6	7
Sales revenue	648.9	593.0	9%	133.8	121.7	10%
Gross profit	245.4	225.3	9%	79.7	70.1	14%
EBITDA	49.2	54.7	-10%	22.0	21.7	1%
EBIT	20.3	18.8	8%	13.9	11.7	18%
Net profit	7.4	8.1	-8%	8.4	6.9	22%
<i>Profit margins (%)</i>						
Gross margin	37.8	38.0	-20bp	59.6	57.6	200bp
EBITDA margin	7.6	9.2	-160bp	16.5	17.9	-140bp
EBIT margin	3.1	3.2	-10bp	10.4	9.6	80bp
Net margin	1.1	1.4	-30bp	6.3	5.6	70bp

The high inflation of incoming prices (growth of food ingredients, oil and energy prices), with an average annual price growth of Podravka products less than 2%, had impact on the growth of Cost of goods sold and the resulting drop of gross margin of SBA Food and beverages by 20bp. Due to the growth of Cost of goods sold and Selling and distribution expenses the operating margin of SBA Food and beverages dropped by 10bp. The drop of net margin of 30bp results from the increase of financing costs (18%).

The Cost of goods sold of the SBA Pharmaceuticals grew as a result of the growth of production, but the gross margin recorded a growth of 200bp as a result of structural changes in sales, respectively, a slight sales growth of the highly profitable OTC products. The sales growth of OTC products results from greater investments in marketing activities (10%) and sales and distribution. Due to efficient allocation of increasing operating costs (9%) the EBIT margin of the SBA Pharmaceuticals recorded a growth of 80bp, while the net margin grew by 70bp.

CONSOLIDATED INCOME STATEMENT

(in thousands of HRK)

	<u>Jan-Mar 2008</u>	<u>Jan-Mar 2007</u>
Sales	784,118	716,588
Cost of goods sold	(458,944)	(421,116)
Gross profit	<u>325,174</u>	<u>295,472</u>
Investment revenue	4,675	3,900
Other gains, net	(1,928)	2,255
General and administrative expenses	(77,171)	(77,353)
Selling and distribution expenses	(216,215)	(193,419)
Other expenses	(407)	(337)
Profit from operations	<u>34,129</u>	<u>30,516</u>
Finance costs	(13,791)	(13,691)
Profit before tax	<u>20,338</u>	<u>16,826</u>
Income tax	(4,508)	(1,860)
Net profit	15,831	14,965

CONSOLIDATED BALANCE SHEET

(in thousands of HRK)

	31 Mar 2008	31 Dec 2007
ASSETS		
Non(current assets)		
Property, plant and equipment	1,665,407	1,669,321
Intangible assets	199,300	199,419
Goodwill	29,137	29,137
Deferred tax assets	35,598	35,491
Other financial assets	56,707	60,917
Financial assets available for sale	0	0
	1,986,149	1,994,285
Current assets		
Inventories	625,816	594,522
Trade and other receivables	1,151,122	1,153,886
Financial assets at fair value in income statement	9,163	6,163
Cash and cash equivalents	66,969	112,549
	1,853,070	1,867,120
Non-current assets held for sale	5,316	5,469
Total current assets	1,858,386	1,872,589
TOTAL ASSETS	3,844,535	3,866,874
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	1,610,240	1,628,467
Reserves	139,299	138,641
Retained earnings	193,695	177,864
	1,943,234	1,944,972
Non-current liabilities		
Long-term debt	455,428	467,498
Provisions	25,365	25,412
	480,793	492,910
Current liabilities		
Trade and other payables	719,504	779,776
Short-term borrowings	701,004	649,216
Provisions		17,401
	1,420,508	1,428,992
Total liabilities	1,901,301	1,921,902
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3,844,535	3,866,874

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of HRK)

	<u>Share capital</u>	<u>Reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at 31 December 2007	1,628,467	138,641	177,864	1,944,972
Restatement of opening balance	-	-	-	-
Exchange differences (net gains recognised directly in equity)	-	658	-	658
Net profit for the period	-	-	15,831	15,831
Total recognised income for period		658	15,831	16,489
Purchase of treasury shares	(12,955)	-	-	(12,955)
Sale of treasury shares	3,379	-	-	3,379
Options exercised	(2,803)	-	-	(2,803)
Reconciliation	(5,848)	-	-	(5,848)
Balance at 31 March 2008	1,610,240	139,299	193,695	1,943,234

CONSOLIDATED CASH FLOW STATEMENT

(in thousands of HRK)

	Jan-Mar 2008	Jan- Mar 2007
Net profit	15,832	14,965
Depreciation	37,099	45,924
Change in inventories	(31,294)	(67,802)
Change in trade receivables	(20,044)	(5,613)
Change in trade payables	(78,174)	(10,397)
Change in working capital (other)	68,588	(5,444)
Net cash flows from operating activities	(7,993)	(28,367)
Purchase / sale of tangible and intangible assets	(40,863)	(45,641)
Change in long(term receivables	4,103	(44,696)
Change in assets available for sale	(2,847)	2,744
Dividends paid	(286)	(79)
Increase / decrease in other items	0	0
Net cash flows from investing activities	(39,893)	(87,672)
Change in long(term liabilities	(30,871)	(41,496)
Change in current liabilities	51,788	111,743
Change in reserves and retained earnings	(9,695)	0
Purchase / sale of treasury shares	(9,576)	0
Reserves - exchange differences	660	(47)
Net cash flows from financial activities	2,306	70,200
Change in cash and cash equivalents	(45,580)	(45,839)
Cash and cash equivalents:		
At the beginning of the year	112,549	126,118
At the end of the period	66,969	80,279

Always with a heart



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