

Podravka Group consolidated business results
for the first half of 2005



Key features

1. Sales of HRK 1.59 billion, representing a 1% increase
 - 1.1. 2% sales growth in the “Foods and Beverages” strategic business area (hereinafter SBA), totalling HRK 1.3 billion
 - 1.2. 3% sales growth on the Croatian market, totalling HRK 851.7 million, with sales growth in the “Foods and Beverages” SBA making the largest contribution (5%)
 - 1.3. 4% growth on the Southeast European market, totalling HRK 349.1 million, with 7% growth on the market of Bosnia-Herzegovina and 21% growth on the Serbian market making the largest contributions
2. Gross margin of 39.3%, an increase of 30 bp compared to the same period last year
3. Net profit of HRK 47.5 million
4. Net margin of 3.0%, a decrease of -36 bp compared to the same period last year
5. The Group’s indebtedness continued to decline, by 8.9% compared to 31 December 2004 and by 13.1% compared to 30 June 2004, with the share of indebtedness in the shareholders’ equity decreasing from 54.8% as of 30 June 2004 to 45.7%
6. Investments amounted to HRK 53.3 million during the reported period
7. It was decided to pay out dividends for the year 2004 in the amount of HRK 5 per share
8. The process of spinning off Koprivničke tiskarnice d.o.o. continued
9. Vegeta received the “Superbrand” award in Russia¹
10. Podravka received Euromoney’s award for excellence, in competition with 336 companies from Central and Eastern Europe
11. Following an audit by the certification company Det Norske Veritas (DNV), Podravka’s Vegeta factory and factory for soups and ready-to-cook meals were declared to be in compliance with all the requirements of the BRC (British Retail Consortium) Global Standard - Food and IFS (International Food Standard). These are currently the only certificates of this kind in Croatia.

¹ In 2004 Vegeta received the “Superbrand” award in Poland, and is, according to a Young & Rubicam survey, among the top three brands with the highest growth potential on the Polish market.

Note

Changes in internal accounting policies had a considerable impact on the Group's financial statements for the first half of 2005 (namely, changes in the manner of recording income from default interest charged to buyers, and changes in the manner of recording subsequently approved rebates), as did changes in the IFRS used in presenting the half-year results.

Applying these modified accounting policies to the parallel period last year (I-VI 2004), the growth index for sales revenues and the profit margin are as follows:

1. Growth in sales revenues of 2%
 - 1.1. 4% sales growth on the Croatian market
 - 1.2. 4% sales growth in the "Foods and Beverages" SBA
2. Gross profit 4% higher
3. Gross margin increase of 67 bp
4. Net margin increase of 25 bp

**PODRAVKA GROUP CONSOLIDATED BUSINESS RESULTS
FOR THE FIRST HALF OF 2005**

The Podravka Group's total revenues for the first half of 2005 amounted to HRK 1.6 billion, that is, at the same level as last year.

In terms of the structure of total revenues, 96.6% represented sales revenues, 2.5% financial revenues, and 0.9% other revenues.

Other revenues have been reclassified in accordance with the IFRS.

HRK millions

Item no.	ELEMENTS	I-VI 2005		I-VI 2004		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Sales	1,589.9	96.6	1,573.3	95.5	101
2.	Financial revenues	41.0	2.5	55.3	3.4	74
3.	Other revenues	14.8	0.9	18.0	1.1	82
	Total revenues	1,645.8	100.0	1,646.6	100.0	100

Sales revenues

In the period from January to June 2005, sales were realised in the amount of HRK 1.59 billion, representing a 1% increase over the same period last year. If we take into consideration the changes in accounting policy, and apply these to sales during the parallel period last year, then the growth in sales would be somewhat larger, i.e. 2%.

Sales by strategic business area ²

Item no.	SBA	I-VI 2005		I-VI 2004		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Foods and Beverages	1,302.4	81.9	1,276.3	81.1	102
2.	Pharmaceuticals	282.4	17.8	291.1	18.5	97
3.	Services	5.1	0.3	5.9	0.4	87
	Total	1,589.9	100.0	1,573.3	100.0	101

² As part of the reorganisation undertaken in September 2004, three strategic business areas were defined: "Foods and Beverages", "Pharmaceuticals" and "Services".

The "Foods and Beverages" SBA represented 81.9% of Podravka Group sales, "Pharmaceuticals" 17.8%, and "Services" 0.3% .

Sales in the "Foods and Beverages" SBA recorded a 2% increase, while the "Pharmaceuticals" SBA experienced a decrease in sales of 3%. The introduction of a new list of drugs at the beginning of 2005 and the restrictive policies of wholesale pharmacies and the Croatian Institute for Health Insurance (HZZO) had the greatest impact on this decline in sales.

Sales by product group

HRK millions

Item no.	PRODUCT GROUP	I-VI 2005		I-VI 2004		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Vegeta - food complements	310,0	19,5	312,0	19,8	99
2.	Meat and meat products	136,2	8,6	112,5	7,2	121
3.	Children's food, sweets, snacks	128,5	8,1	127,3	8,1	101
4.	Podravka Dishes	111,7	7,0	103,6	6,6	108
5.	Fruit and vegetables	111,2	7,0	110,3	7,0	101
6.	Rice, legumes & other products	85,5	5,4	104,0	6,6	82
7.	Beverages	79,0	5,0	74,1	4,7	107
8.	Other (Foods and Beverages)	55,6	3,5	68,2	4,3	81
9.	Commercial goods	284,7	17,9	264,3	16,8	108
10.	Pharmaceuticals	282,4	17,8	291,1	18,5	97
11.	Services	5,1	0,3	5,9	0,4	87
	Total	1.589,9	100,0	1.573,3	100,0	101

During May and June a new design for Vegeta was launched on all markets, thus giving Vegeta a new, more modern look and moving a step away from the packaging used by counterfeit products. The redesign was accompanied by media campaigns in 18 of the world's countries, which were very well received. It is expected that the new design will have a positive effect on realisation of the Vegeta sales plan.

The greatest growth in sales (21%) was recorded by the meat and meat products group. Besides canned meat products, exports of sausage products and production of beef goulash in Australia (for the American market) and Macedonia were begun during the first half year.

During the reported period, Podravka's meat industry obtained a Halal certificate (for products made in compliance with the dietary standards of people of the Islamic faith).

Podravka Dishes likewise recorded a significant 8% growth, aided by marketing activities on virtually all markets.

Last year's negative trend in beverage sales was halted, with beverages showing 7% sales growth. Several new non-alcoholic drinks were launched: Cool Cola, which is made from plant extracts, contains no caffeine, and is based on "Studena" spring water, and Hippy, a pear-apple drink enriched in vitamin C and containing no preservatives, also based on "Studena" spring water.

Besides these products, a number of frozen foods were launched during the first half-year, among them Podravka's frozen sweets *Dolcela-pita mađarica* and *Dolcela-medena pita* and a new assortment of family ice creams in one-litre tubs (vanilla-strawberry and vanilla-chocolate). Four new kinds of frozen vegetables were also launched, with more vigorous entry to gastronomic points of consumption also being made.

Sales by market

HRK millions

Item no.	MARKET	I-VI 2005		I-VI 2004		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Croatia	851.7	53.6	827.5	52.6	103
2.	Southeast Europe	349.1	22.0	335.7	21.3	104
3.	Central Europe	231.2	14.5	257.7	16.4	90
4.	Western Europe, Transatlantic countries, Far East	94.7	6.0	94.5	6.0	100
5.	Eastern Europe	63.2	4.0	57.9	3.7	109
	Total	1,589.9	100.0	1,573.3	100.0	101

Sales revenues in the amount of HRK 851.7 million were realised on the Croatian market, representing 53.6% of total sales and a 3% increase over the same period last year. The growth generator here was the "Foods and Beverages" SBA, which showed 5% growth.

Among foreign markets, the largest growth was realised on the Eastern European market (9%, with 11% growth on the most important market, Russia) and Southeast Europe (4%, with growth on the two most important markets, Serbia and Bosnia-Herzegovina, representing 21% and 7%, respectively).

Sales on the market comprising Western Europe, the Transatlantic countries and the Far East remained at the previous year's level.

A 10% decline in sales was recorded on the Central European market. The Czech market had the greatest impact on this decline in sales, with the largest decrease observed in the categories of rice, legumes and other products. This decrease in sales on the Czech market amounted to 22%, and resulted from the withdrawal of large amounts of goods by buyers during the first four months of 2004, due to expectations that prices would rise upon the Czech Republic's entry into the EU. During May and June 2005 sales of rice, legumes and other products made a visible recovery on the Czech market.

Altogether, foreign markets represented 46.4% of total sales.

Domestic market sales by product group

HRK millions

Item no.	PRODUCT GROUP	I-VI 2005		I-VI 2004		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Meat and meat products	104,5	12,3	83,9	10,1	125
2.	Fruit and vegetables	82,7	9,7	85,8	10,4	96
3.	Children's food, sweets, snacks	76,2	8,9	73,5	8,9	104
4.	Beverages	75,5	8,9	71,5	8,6	106
5.	Vegeta - food complements	65,9	7,7	65,0	7,9	101
6.	Podravka Dishes	43,0	5,0	40,9	4,9	105
7.	Other (Foods and Beverages)	51,3	6,0	63,5	7,7	81
8.	Rice, legumes & other products	0,6	0,1	0,5	0,1	128
9.	Commercial goods	122,9	14,4	106,9	12,9	115
10	Pharmaceuticals	223,9	26,3	230,0	27,8	97
11	Services	5,1	0,6	5,9	0,7	87
	Total	851,7	100,0	827,5	100,0	103

Nearly all product groups showed an increase in sales on the Croatian market. Significant growth was recorded by meat and meat products (25%) and rice, legumes and other products (28%). The growth trend in commercial goods continued (15%), while beverages recorded 6% growth following last year's decrease. Growth was also seen in the children's food, sweets and snacks group (4%), Podravka Dishes (5%) and Vegeta (1%). Sales of fruit and vegetable products (fruits, vegetables, teas, condiments) fell by 4%, while pharmaceutical sales fell by 3%

Structure of costs / expenses

HRK millions

Item no.	COST / EXPENSE	I-VI 2005		I-VI 2004		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Costs of products sold	964.4	60.7	959.1	60.6	101
2.	Sales and distribution costs	318.8	20.1	308.1	19.5	103
3.	Marketing costs	102.5	6.5	89.3	5.6	115
4.	General and admin. costs	162.6	10.2	164.4	10.4	99
5.	Financial expenses	39.9	2.5	62.0	3.9	64
	Total	1,588.2	100.0	1,582.9	100.0	100

Total expenses amounted to HRK 1.59 billion, and were at the same level as last year, while operating expenses, totalling HRK 1.55 billion, were 2% higher than during the same period last year.

In terms of the structure of expenses, costs of products sold represented 60.7%, sales and distribution costs 20.1%, general and administrative costs 10.2%, marketing costs 6.5%, and financial expenses 2.5% of overall expenses.

Profitability of the Podravka Group

A net profit of HRK 47.5 million was achieved during the reported period.

Earnings per share amounted to HRK 8.90.

The return on shareholders' capital was 4.9%, while the return on total assets was 1.4%.

HRK millions

	I-VI 2005	I-VI 2004	difference
Sales revenues	1.589,9	1.573,3	1%
Gross profit	625,5	614,2	2%
EBITDA	175,7	188,7	-7%
EBIT	56,4	70,4	-20%
Net profit	47,5	52,6	-10%
Profit margin in %	I-VI 2005	I-VI 2004	difference
Gross margin	39,3	39,0	30bp
EBITDA margin	11,1	12,0	-94bp
EBIT margin	3,5	4,5	-93bp
Net margin	3,0	3,3	-36bp

The "Foods and Beverages" SBA achieved a gross profit of HRK 461.5 million, while the "Pharmaceuticals" SBA earned a gross profit of HRK 163.8 million.

The gross margin for the "Foods and Beverages" SBA was 35.4%, compared to 35.1% during the same period last year, while the gross margin for the "Pharmaceuticals" SBA was 58.0%, compared to 57.1% last year.

CONSOLIDATED BALANCE SHEET FOR THE PERIOD ENDING 30 JUNE 2005

(HRK 1,000s)

ASSETS	30.06.2005	31.12.2004
Receivables for subscribed unpaid capital		
Non-current assets	1.857.827	1.914.352
Intangible assets	100.455	122.450
Tangible assets	1.700.810	1.734.512
Financial assets	46.742	46.756
Receivables	9.820	10.634
Current assets	1.542.557	1.512.505
Inventories	593.722	568.924
Trade receivables	799.395	762.848
Other receivables	46.215	54.292
Financial assets	8.031	10.301
Cash at bank and cash in hand	95.194	116.140
Prepaid expenses and outstanding revenues	6.188	10.842
Net capital loss		
TOTAL ASSETS	3.406.572	3.437.699

LIABILITIES	30.06.2005	31.12.2004
Capital and reserves	1.922.602	1.900.587
Subscribed capital	1.626.001	1.626.001
Reserves	249.142	190.349
Current year profit/loss	47.459	84.237
Minority interests		
Long-term provisions for risks and costs	11.869	11.985
Non-current liabilities	611.341	684.496
Current liabilities	833.370	829.715
Trade payables	452.510	457.983
Current financial liabilities	260.647	279.794
Other current liabilities	120.213	91.938
Deferred payment of costs and revenues in future periods	27.390	10.916
TOTAL LIABILITIES	3.406.572	3.437.699
Off-balance sheet		

CONSOLIDATED INCOME STATEMENT

(HRK 1,000s)

	01.01.-30.06.2005	01.01.-30.06.2004
Revenues	1.643.053	1.627.384
Domestic sales revenues	851.704	827.465
Foreign sales revenues	738.231	745.829
Other revenues	53.118	54.090
Financial revenues	41.049	55.325
Positive exchange differences	38.501	48.122
Interest and other financial revenues	2.548	7.203
Extraordinary revenues		
TOTAL REVENUES	1.684.102	1.682.709
Changes in inventories of finished products and work in progress	-7.176	-13.575
Expenses	1.593.846	1.570.525
Material costs and costs of goods sold	973.579	957.088
Personnel costs	348.154	338.722
Depreciation	119.351	118.303
Value adjustment and provisions	26.134	25.111
Other operating costs	126.628	131.301
Financial expenses	39.872	62.012
Negative exchange differences	17.751	26.144
Interest and other financial expenses	22.121	35.868
Extraordinary expenses		
TOTAL EXPENSES	1.626.542	1.618.962
Profit or loss before tax	57.560	63.747
Profit tax	10.101	11.297
Profit or loss after tax	47.459	52.450
Minority interests		-144
Group net profit or loss	47.459	52.594

CONSOLIDATED CASH FLOW STATEMENT

(HRK 1,000s)

	30.06.2005	30.06.2004
Net cash	160.440	140.917
Profit / loss after tax	47.459	52.594
Depreciation	119.351	118.303
Changes in inventory values	-24.798	-15.512
Changes in trade receivables	-36.547	-23.846
Changes in other short-term receivables	8.077	11.342
Changes in prepaid expenses and outstanding	4.654	-6.153
Changes in short-term trade payables	-5.473	-119
Changes in long-term provisions	-116	
Changes in deferred payment of expenses and	16.474	5.668
Changes in receivables for subscribed unpaid capital		
Changes in long-term receivables	814	1.391
Changes in current financial assets	2.270	4.457
Changes in other non-current liabilities	28.275	-7.208
Changes in other items		
Net cash	-63.707	-41.111
Purchase of non-current tangible and intangible assets	-69.230	-55.175
Acquisition of subsidiaries		
Acquisition of minority interests		-144
Changes in non-current financial assets	14	8.191
Income from sale of tangible and intangible assets	3.585	2.261
Dividends paid	-67	
Changes in other items	1.991	3.756
Net cash	-117.679	-121.808
Capital increase via issue of new shares		2.880
Changes in long-term loans and credits	-73.155	214.965
Changes in other non-current liabilities		
Changes in short-term loans and credits	-19.147	-339.501
Changes in other items	-25.377	-152
Net	-20.946	-22.002
Cash and cash equivalents at start of period	116.140	139.603
Cash and cash equivalents at end of period	95.194	117.601