



## PODRAVKA GROUP BUSINESS RESULTS FOR THE PERIOD JANUARY - SEPTEMBER 2008

### Main characteristics and events

1. The total sales of the Podravka Group in the first nine months of 2008 amounted 2,689.6 million HRK which represents a 7% growth compared to the same period the year before.
2. The Strategic business area (SBA) Food and beverages achieved a sales growth of 5% while the sales of the SBA Pharmaceuticals increased 15% compared to the same period the year before.
3. The sales of Podravka brands totalled 1,850.2 million HRK which is 192.4 million HRK higher and accounts for a sales growth of 12%. The sales of Podravka brands on the Croatian market achieved a growth of 10% while foreign markets recorded a 13% growth.
4. The gross margin of the Group was 41.1% representing a drop of 50bp.
5. The operating margin recorded a positive shift of 60bp reaching 4.3%.
6. The net profit totalled 51.2 million HRK (+52%) reflecting a net margin increase of 60bp.
7. Total capital investments were realised in the amount of 232.4 million HRK.
8. New members of the Supervisory Board and the Management Board of Podravka d.d. have been appointed.
9. The brands Belupo and Lupocet were awarded the right to use the Superbrands title in Croatia from the independent organisation Superbands, which is a global authority in the field of branding.
10. Podravka's brand Lino was awarded *Trusted Brand 2008* in the category of baby food according to a survey the Reader's Digest magazine conducted in May and June this year.

## 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)**

- B2B, insourcing, private label

### **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

Item no.	SBA	Jan-Sep 2008		Jan-Sep 2007		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1	Food and beverages	2,195.6	81.6	2,095.9	83.0	105
2	Pharmaceuticals	489.0	18.2	424.3	16.8	115
3	Services	5.0	0.2	5.2	0.2	96
<b>Total</b>		<b>2,689.6</b>	<b>100.0</b>	<b>2,525.4</b>	<b>100.0</b>	<b>107</b>

Sales revenue of the Podravka Group totalled 2,689.6 million HRK and are 164.2 million HRK higher compared to the same period the year before.

The sales of the SBA Food and beverages totalled 2,195.6 million HRK which is a 5% growth of sales. The sales growth was generated by the growth on foreign markets (14%), while sales on the Croatian market dropped 3%. The drop of sales of the SBA Food and beverages on the Croatian market could not be prevented even by the extraordinary growth of Podravka brands of 10% due to the expected drop of Commercial goods sales (60%).

The total sales growth of the SBA Food and beverages was primarily contributed by the product groups of Podravka dishes (13%), Meat products and canned fish (15%) and Beverages (22%).

Sales revenue of the SBA Pharmaceuticals totalled 489.0 million HRK which is a growth of 64.7 million HRK (15%). The sales of the SBA Pharmaceuticals on the Croatian market grew by 3% mostly contributed by the growth of both prescription drugs (2%) and non-prescription products (9%). According to the ATK classification<sup>1</sup>, the most significant sales growth on the Croatian market in the prescription drugs product group was realised by drugs for system infection treatment (19%), while in the product group of non-prescription drugs a significant growth was recorded by OTC drugs (11%). The most significant foreign sales growth of the SBA Pharmaceuticals was realised on the market of South-East Europe (110%) generated by the growth of sales on the market of Bosnia and Herzegovina (239%). The increase of sales on the market of Bosnia and Herzegovina results from the sales of Farmavita<sup>2</sup>, but also a considerable organic growth of 20%.

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%.<sup>3</sup>

<sup>1</sup> Anatomical Therapeutic Chemical System of Drug Classification

<sup>2</sup> Belupo gained a majority share in Farmavita at the end of January 2008

<sup>3</sup> The SBA Services shall not be a part of the analysis which follows as in the total sales of the Podravka Group it accounts for just 0.2%.

## Sales per product groups

in millions of HRK						
Item no.	PRODUCT GROUP	Jan-Sep 2008		Jan-Sep 2007		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
<b>1</b>	<b>Podravka brands</b>	<b>1,850.2</b>	<b>68.8</b>	<b>1,657.8</b>	<b>65.7</b>	<b>112</b>
	Podravka dishes	605.1	22.5	535.7	21.2	113
	Food seasonings	511.5	19.0	480.0	19.0	107
	Meat products and canned fish	308.5	11.5	268.2	10.7	115
	Baby food, sweets and snack	245.9	9.1	227.3	9.0	108
	Beverages	179.2	6.7	146.6	5.8	122
<b>2</b>	<b>Commercial goods</b>	<b>125.5</b>	<b>4.6</b>	<b>258.1</b>	<b>10.2</b>	<b>49</b>
<b>3</b>	<b>Other (Food and beverages)</b>	<b>219.9</b>	<b>8.2</b>	<b>180.0</b>	<b>7.1</b>	<b>122</b>
<b>4</b>	<b>Pharmaceuticals</b>	<b>489.0</b>	<b>18.2</b>	<b>424.3</b>	<b>16.8</b>	<b>115</b>
<b>5</b>	<b>Services</b>	<b>5.0</b>	<b>0.2</b>	<b>5.2</b>	<b>0.2</b>	<b>95</b>
	<b>Total</b>	<b>2,689.6</b>	<b>100.0</b>	<b>2,525.4</b>	<b>100.0</b>	<b>107</b>

In the observed period Podravka brands achieved sales growth of 12% generated by the increase of sales in all product groups within the Podravka brands, while their organic growth recorded a 9% growth.

The Podravka dishes product group achieved sales growth of 13% contributed by both the sales growth of 10% on the Croatian market and 16% on foreign markets. The most significant growth on foreign markets Podravka dishes recorded on the market of Central Europe (23%) mostly contributed by the market of the Czech Republic (25%) based on the growth of Rice and legumes (27%). Together with the market of Central Europe a significant sales growth was recorded on the market of South-East Europe (14%) mostly contributed by the markets of Serbia (24%) and Bosnia and Herzegovina (9%).

The product group Food seasonings achieved sales growth of 7% based on the sales growth on both domestic markets (3%) and foreign markets (8%). The sales growth on foreign markets is contributed by the sales of the brand Warzywko on the market of Poland (200%), Podravka's most significant foreign market in the Food seasonings product group. The total organic sales growth of this group is 4%.

The sales growth of the product group Meat products and canned fish is 15% which is contributed by the sales growth on both the Croatian market (9%) and foreign markets (29%). Together with the growth of the Meat products of 8%, the total growth of this product group results from a strong sales growth of canned fish of 36%. Podravka's canned fish brand – Eva achieved a sales growth of 19% on the Croatian market, while on foreign markets the sales growth reached 44%. The sales growth of Eva canned fish on foreign markets is especially highlighted on the markets of Bosnia and Herzegovina (29%), Serbia (24%), Montenegro (42%) and Slovenia (121%).

The Baby food, sweets and snack product group achieved a sales growth of 8% based on the sales growth on the Croatian market (6%) but also on foreign markets (11%) of which the most important are

the markets of Bosnia and Herzegovina (19%) and Serbia (16%). The highest sales increase within the product group Baby food, sweets and snack was realised by Baby food (11%) and Cereals (32%).

The highest relative growth of 22% was realised in the product group Beverages generated by the sales of the brand Lero. On the Croatian market the product group Beverages achieved sales growth of 22% while on the market of Bosnia and Herzegovina it reached 30% based on strong sales of the Studena Ice tea category.

## Sales per market groups

		in millions of HRK				
Item no.	MARKET GROUP	Jan-Sep 2008		Jan-Sep 2007		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1	Croatia	1,439.0	53.5	1,459.7	57.8	99
2	South-East Europe	573.4	21.3	464.5	18.4	123
3	Central Europe	392.9	14.6	329.1	13.0	119
4	Western Europe, overseas countries and Orient	171.9	6.4	161.2	6.4	107
5	Eastern Europe	112.4	4.2	110.9	4.4	101
<b>Total</b>		<b>2,689.6</b>	<b>100.0</b>	<b>2,525.4</b>	<b>100.0</b>	<b>107</b>

The Croatian market achieved sales in the amount of 1,439.0 million HRK which represents a drop of sales of 1%, but also a drop of the relative share on the domestic market in total Group sales. The drop of sales was accompanied by changes in the sales structure, where the significant drop of Commercial goods sales of 60% was almost fully compensated by the sales growth of both Podravka brands (10%) and the SBA Pharmaceuticals (3%). The SBA Pharmaceuticals achieved 68% of the total sales on the Croatian market thus achieving the business internationalisation rate defined by the strategy.

The foreign markets achieved sales in the amount of 1,250.6 million HRK representing sales growth of 17% which was generated by the growth of all foreign market groups. The highest growth of total sales was realised on the market of South-East Europe (23%) which is mostly contributed by the sales growth on the market of Bosnia and Herzegovina (42%). Apart from the significant increase on the market of South-East Europe, sales on the market of Central Europe also continues to grow (19%), based on the growth on the markets of the Czech Republic (31%) and Poland (18%).

## Structure of operating costs / expenses

in millions of HRK						
Item no.	COSTS / EXPENSES	Jan-Sep 2008		Jan-Sep 2007		Index 2:4
		Amount	%	Amount*	%	
0	1	2	3	4	5	6
1	Cost of goods sold	1,585.3	61.4	1,474.4	60.3	108
2	Selling and distribution expenses	730.1	28.2	704.0	28.8	104
3	General and administrative expenses	267.9	10.4	268.0	10.9	100
<b>Total</b>		<b>2,583.3</b>	<b>100.0</b>	<b>2,446.4</b>	<b>100.0</b>	<b>106</b>

\* change relative to report in 2007 due to costs reclassification

Operating expenses of the Podravka Group totalled 2,583.3 million HRK and recorded a growth of 136.9 million HRK compared to the same period the year before. The increase of Cost of goods sold of 8% determined by a significant increase of incoming prices had the greatest impact on the growth of operating expenses. The Selling and distribution expenses are higher by 26.1 million HRK resulting from an increase of sales (6%), logistics and transport (6%) and marketing expenses (3%).

General and administrative expenses remained at last year's level and reduced their relative share in operating expenses.

## Profitability of the Podravka Group

in millions of HRK			
Podravka Group	Jan-Sep 2008	Jan-Sep 2007	Change (2/3)
1	2	3	4
Sales	2,689.6	2,525.4	7%
Gross profit	1,104.3	1,051.1	5%
EBITDA	232.3	216.1	7%
EBIT	116.9	92.5	26%
Net profit	51.2	33.7	52%
<i>Profit margins (%)</i>			
Gross margin	41.1	41.6	-50bp
EBITDA margin	8.6	8.6	0bp
EBIT margin	4.3	3.7	60bp
Net margin	1.9	1.3	60bp

The gross margin recorded a drop of 50bp due to the increase of incoming prices, but also changes in the sales structure. Operating expenses grew by a lower rate than the sales growth rate which effected the operating margin growth of 60bp. Along with the growing profitability and lower effective tax rates, the net margin recorded a growth of 60bp despite the growth of net financing costs (15%).

### Profitability per Strategic Business Area

SPP	in millions of HRK					
	Food & beverages			Pharmaceuticals		
	Jan-Sep 2008	Jan-Sep 2007	Change (2/3)	Jan-Sep 2008	Jan-Sep 2007	Change (5/6)
1	2	3	4	5	6	7
Sales	2,195.6	2,095.9	5%	489.0	424.3	15%
Gross profit	822.4	795.3	3%	281.9	255.8	10%
EBITDA	135.6	122.2	11%	96.7	93.9	3%
EBIT	45.8	24.5	87%	71.1	68.1	4%
Net profit	5.1	-9.4	154%	46.1	43.1	7%
<i>Profit margins (%)</i>						
Gross margin	37.5	37.9	-40bp	57.6	60.3	-270bp
EBITDA margin	6.2	5.8	40bp	19.8	22.1	-230bp
EBIT margin	2.1	1.2	90bp	14.5	16.0	-150bp
Net margin	0.2	-0.4	60bp	9.4	10.2	-80bp

In the observed period the gross margin of the SBA Food and beverages recorded a drop of 40bp. There was a lack of gross margin growth due to increased prices of food ingredients, energy and municipal services, where this increase was higher than the sales growth rate. The sales structure also had impact on the gross margin level in which the product group Other (Food and beverages), characterised by lower profitability, recorded a growth of 22%. The advancement of business processes and lower restructuring costs had a positive influence on the operating margin which grew by 90bp. Higher net financing costs (20%) alleviated the profitability growth so that the net margin recorded a growth of 60bp.

The drop of profitability of the SBA Pharmaceuticals was mostly influenced by Farmavita through the sales structure based on drug distribution. The gross margin of SBA Pharmaceuticals recorded a drop of 270bp under the influence of lower profitability of Farmavita and the pharmacy business. The growth rate of Selling and distribution expenses and General and administrative expenses was lower than the sales growth rate which alleviated the drop of profitability so that the operating margin recorded a drop of just 150bp. Selling and distribution expenses increased by 14% due to the increase of marketing expenses, while General and administrative expenses increased 8% on the grounds of higher investments in research and development. Positive exchange rate differences on loans with a lower effective tax rate additionally alleviated the drop of net margin.

## CONSOLIDATED INCOME STATEMENT

(in thousands of HRK)

	Jan-Sep 2008	Jan-Sep 2007
Sales	2,689,575	2,525,416
Cost of goods sold	(1,585,323)	(1,474,331)
<b>Gross profit</b>	<b>1,104,252</b>	<b>1,051,085</b>
Investment revenue	17,201	10,740
Other gains, net	(3,403)	3,883
General and administrative expenses	(267,898)	(268,014)
Selling and distribution expenses	(730,096)	(704,026)
Other expenses	(3,135)	(1,143)
<b>Profit from operations</b>	<b>116,921</b>	<b>92,525</b>
Net finance costs	(47,275)	(41,152)
<b>Profit before tax</b>	<b>69,646</b>	<b>51,373</b>
Income tax	(17,474)	(17,681)
<b>Profit after income tax</b>	<b>52,172</b>	<b>33,692</b>
Minority interest	(957)	0
<b>Net profit</b>	<b>51,215</b>	<b>33,692</b>



## CONSOLIDATED BALANCE SHEET

(in thousands of HRK)

	30 September 2008	30 September 2007
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1,675,189	1,669,321
Goodwill	88,545	29,137
Intangible assets	218,355	199,419
Financial assets available for sale	158	0
Deferred tax assets	36,511	35,491
Other financial assets	63,661	60,917
<b>Total non-current assets</b>	<b>2,082,419</b>	<b>1,994,285</b>
<b>Current assets</b>		
Inventories	656,297	594,522
Trade and other receivables	1,378,159	1,153,886
Financial assets at fair value in income statement	32,902	11,632
Cash and cash equivalents	76,689	112,549
<b>Total current assets</b>	<b>2,144,047</b>	<b>1,872,589</b>
<b>TOTAL ASSETS</b>	<b>4,226,466</b>	<b>3,866,874</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Shareholders' equity</b>		
Share capital	1,610,622	1,628,467
Reserves	105,687	138,641
Retained earnings	269,058	177,864
	<b>1,985,367</b>	<b>1,944,972</b>
<b>Non-current liabilities</b>		
Long-term debt	628,997	467,498
Provisions	24,775	25,412
	<b>653,772</b>	<b>492,910</b>
<b>Current liabilities</b>		
Trade and other payables	802,198	779,776
Short-term borrowings	777,918	649,216
	<b>1,580,116</b>	<b>1,428,992</b>
<b>Total liabilities</b>	<b>2,233,888</b>	<b>1,921,902</b>
Minority interest	7,211	0
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>4,226,466</b>	<b>3,866,874</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of HRK)

	Share capital	Reserves	Retained earnings	Total
<b>Balance at 1 January 2008</b>	<b>1,628,467</b>	<b>138,641</b>	<b>177,864</b>	<b>1,944,972</b>
Restatement of opening balance			3,944	3,944
Exchange differences		3,081		3,081
Net profit for the period			51,215	51,215
Purchase of treasury shares	(13,892)			(13,892)
Sale of treasury shares	10,857			10,857
Options exercised	(9,406)			(9,406)
Fair value of share options	(5,404)			(5,404)
Transfer from other and legal reserves		(36,035)	36,035	0
<b>Balance at 30 September 2008</b>	<b>1,610,622</b>	<b>105,687</b>	<b>269,058</b>	<b>1,985,367</b>

## CONSOLIDATED CASH FLOW STATEMENT

(in thousands of HRK)

	Jan-Sep 2008	Jan-Sep 2007
<b>Net profit</b>	<b>51,215</b>	<b>33,691</b>
Income tax	17,473	17,681
Depreciation	115,408	123,535
Gains on sale of non-current assets	(3,732)	(4,949)
Value adjustment of trade receivables and credits	11,385	6,655
Value adjustment of inventories	(1,383)	(3,764)
Value adjustment of capital gain	(14,810)	(12,650)
Decrease in provisions	(637)	(694)
Interest income	(11,897)	(6,050)
Interest expense	56,223	42,147
Effect of changes in foreign exchange rates	(13,306)	(3,244)
Minority interest	7,211	0
Other items not affecting cash	1,522	4,527
<b>Changes in working capital</b>		
(Increase) / decrease in inventories	(39,324)	(36,676)
Increase in trade receivables	(106,191)	(47,034)
Decrease in other current assets	30,595	99,162
Increase / (decrease) in trade payables	(48,469)	(38,308)
Increase / (decrease) in other liabilities	62,254	(11,122)
Income taxes paid	(22,450)	(29,308)
Interest paid	(59,743)	(46,720)
<b>Net cash from operating activities</b>	<b>31,344</b>	<b>86,879</b>
<b>Net cash flow from investing activities</b>		
Purchase of subsidiaries, net money outflow	(71,669)	0
Sale of equity interest	0	1,394
Purchase of tangible and intangible assets	(120,076)	(206,027)
Sale of tangible and intangible assets	14,159	9,190
Sale of available-for-sale assets	0	2,605
Purchase of trading securities	(21,200)	(3,000)
Other investing activities	(112,318)	(41,381)
<b>Net cash used in investing activities</b>	<b>(311,104)</b>	<b>(237,219)</b>
<b>Net cash flows from financing activities</b>		
Purchase of treasury shares	(13,892)	(10,849)
Sale of treasury shares	10,857	0
Proceeds from long-term borrowings	216,157	9,015
Repayment of long-term borrowings	(71,420)	(168,629)
Proceeds from short-term borrowings	789,330	716,577
Repayment of short-term borrowings	(687,131)	(440,196)
<b>Net cash from financing activities</b>	<b>243,901</b>	<b>105,918</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(35,859)</b>	<b>(44,422)</b>
Cash and cash equivalents at beginning of year	112,549	126,118
Cash and cash equivalents at the end of year	76,690	81,696

Always with a heart



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