PODRAVKA

Podravka Group Business Results

for H1 2014 period

CONTENT

Key indicators in the first half of 2014[1]

(in HRK millions)	**H1 2014**	**H1 2013[2]**	**% change**
Sales revenue	1,623.0	1,695.2	(4.3%)
Gross profit	661.8	691.3	(4.3%)
Gross profit margin	40.8%	40.8%	0 bp
EBITDA	169.5	185.6	(8.7%)
EBITDA margin	10.4%	10.9%	-50 bp
Net profit after MI	70.0	80.1	(12.6%)
Net profit margin after MI	4.3%	4.7%	-41 bp
Cash flow from operating activities	49.1	165.1	(70.2%)
Capital expenditures	95.4	34.9	173.3%

(in HRK; market capitalization in HRK millions)	**H1 2014**	**2013**	**% change**
Net debt/EBITDA[3]	2.3	2.1	9.1%
Earnings per share[4]	35.0	36.9	(5.0%)
Last price at the end of period	304.5	254.6	19.6%
Market capitalization	1,650.6	1,379.7	19.6%

[1] All indicators are corrected, excluding one-off items
[2] A reclassification has been made for H1 2013 within particular functional parts of the Profit and Loss Account, whereby the most significant part refers to banking fees that have been, due to their nature, reallocated from General expenses to Financial expenses
[3] Net debt calculated as: non-current borrowings + current borrowings + financial liabilities at fair value through profit and loss - cash and cash equivalents; EBITDA calculated on trailing 12 month basis
[4] Earnings per share calculated on trailing 12 month basis

Significant events in the first half of 2014

Continuation of the restructuring process

Podravka in the first year-half of 2014 continued restructuring its business operations by closing the low-profit segment of the bakery in early April, whilst at the end of last year the company discontinued the low-profit segments of fresh meat and frozen food which we believe will have an impact on the further increase of profitability. In the beverages segment, which is classified as a program Podravka needs to divest, the optimizing of operations has continued, thus resulting in better cost structure and gross margins. In June Podravka together with JM Fundus d.o.o. and Questus Private Equity d.o.o. submitted a non-binding offer for a strategic alliance and capital increase of the company BADEL 1862 d.d.. The basic idea is to establish a new company that would include the existing operations of the company BADEL 1862 d.d. and into which the beverages segment would be transferred. Through the restructuring operations and the realization of production and operating synergies, the new company would have the potential to move into the regional market in the categories of alcoholic and non-alcoholic beverages.

In accordance with the process of restructuring the company, Podravka at the beginning of the year started the redundant labour program which ended as of 31 March 2014. This year the program provided for 218 employees, whilst a total of 377 employees left the company with severance payments, with HRK 51.5 million paid out as severance payments. Savings in the amount of HRK 30.2 million are planned to be achieved in 2014 on the basis of 377 employees less. Active implementation of the redundant labour program started in 2012 and so far this program has been implemented four times. A total of 727 employees have been provided for since the beginning of its active implementation, whilst a total of 1,030 employees had left the company with severance payments in the same period. Podravka has therefore in a socially responsible way solved the issue of redundant labour, and at the same time provided basis for the greening of its expert staff thus creating the conditions for future growth and development of the company.

Strong innovation cycle in food

Podravka had a strong innovation cycle in the first half-year of 2014. In the markets of Croatia and Slovenia the product portfolio of the Culinary Category was expanded with Podravka broth, a

completely new generation of products and in the markets of the region[5] it was expanded with Podravka fritters, also a completely new generation of products.

Additionally, in the Croatian market Podravka has entered into a new category of monospices,

where it had not been present before, whilst in Poland it began distributing bouillons and Vegeta marinades, thus also entering into a new category in this market. In the segment of soups, a new line within cream soups has been introduced in the Croatian market, and in the segment of food mixes new lines of products under the Fant brand have enriched the markets of the region and the USA.

The **Baby Food, Breakfast Foods and Other Foods Category**, expanded the existing portfolio in regional markets with extensions of existing products, but also new product categories, particularly in the segment of baby food and breakfast foods, such as children's biscuits, semolina and impulse products.

The **Sweets, Snack and Beverages Category** expanded the range of powdered desserts in regional markets under the brand Dolcela in the lines of cake mixes, Želin (fruit preservers), baking aids and ice cream desserts and three new flavours of Kviki crackers.

In the **Meat Products Category** new durable and semi-durable products under the brand Danica have been launched in the market of Croatia at reasonable prices. These new, lower priced products, intend to meet the needs of price-sensitive consumers.

In the first half-year of 2014 the **Ethical Drugs Category** expanded its portfolio in the market of Slovenia with Beloderm cream and ointment and with the drugs Monlast and Viner, in the market of Russia with the drug Katena and in the market of Kosovo with the drug-Q-Pin.

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[5] Markets of the region: Albania, Bosnia & Herzegovina, Montenegro, Croatia, Kosovo, Macedonia, Slovenia, Serbia

The Non-Prescription Drug Category has increased its product range in the Croatian market with Silymarin and Lordiar, in the market of Slovakia and the Czech Republic with the product Belobaza, in the market of Bosnia and Herzegovina with the product Neofen suppository and in the market of Russia with the products Belobaza and Aflokrem.

Strength and quality of Podravka products

According to research from Best Buy Award (award for the best price-quality ratio) conducted in Bosnia and Herzegovina, Serbia, Slovenia and Croatia for the period 2013/2014 and 2014/2015 Podravka is the food brand which has won the most first places among all tested countries in the region. No other food brand, neither Croatian, regional or international, managed to take any first place in the so-called Adriatic region (the largest number of consumer votes tested in the markets of former Yugoslavia) in so many different Best Buy Award categories during the latest Best Buy Award research, as the Podravka brand which indicates the company's strong position in the region. The best price-quality ratio is offered to Croatian consumers by Podravka jams, ready-made sauces, flour, soups in a bag, mustard, canned vegetables, fruit syrups, Lino Lada sweet spread, Dolcela baking powder and vanilla sugar, Kviki salty sticks and Vegeta food seasoning. The consumers in Bosnia and Herzegovina decided that the best price-quality ratio is offered by Podravka canned vegetables, fruit in syrup and ready-to-serve canned meals, Vegeta seasoning, Dolcela pudding powder and Eva canned fish. The consumers in Serbia voted for Podravka pickles and chutney as their number one choice, while consumers in Slovenia opted Podravka jams provide the best value for money.

In the market of Slovakia Podravka won the award Slovak Superbrands 2014 for Vegeta that is sold in this market under the name Podravka, thereby confirming its strength and brand awareness. Podravka had already received this award, given by the leading brand experts in Slovakia, in 2006 and in 2013.

Vegeta as the strongest brand in universal food seasonings in the Polish market was awarded with the Laur consumenta of the decade for the period 2004 - 2014. It is the most prestigious award a product can be given in Poland which has placed Vegeta alongside global brands.

Seven of Podravka's products received recognition for superior quality and taste from the International Taste and Quality Institute - Superior Taste Award 2014 in Brussels. The winners are decided by a jury of 120 top chefs, sommeliers and experts coming from 12 famous European culinary associations. The awards went to Podravka lemon and lime tea, plum flavoured tea, Vegeta marinade with garlic, Podravka beef goulash, and three types of stock - chicken, beef and vegetable broth. These results allow the awarded Podravka products to communicate the internationally recognized quality label "Superior Taste Award" on their packaging over the next three years, thus establishing them among high quality food products. Podravka has so far won 34 Superior Taste Awards as a result of continual investments in production, food safety and customer satisfaction.

Podravka has for the first time won the award for best packaging on the Croatian market CROPAK OF THE YEAR 2014 for creamy, rich soups. Packaging is the basic and most durable means of communication, which at the point of sale has a major role in attracting consumers to purchase. The award-winning design is the result of the work of a large team of Podravka's top experts.

<u>Halal certificates</u>

Four Podravka factories have received Halal certificates from the Centre for Halal Quality Certification - Vegeta and Soups Factory, Baby Food Factory, Fruit Factory and Kalnik Factory. The certificates certify that the products in these factories are produced according to Halal requirements and standards and are suitable for consumption to people of Muslim faith. The company has moved forward to the markets where Halal certification is a prerequisite for products to be sold. The fact that 70 percent of the Muslim community around the world live and feed in accordance with Halal standards so that the global Halal market is a population of 1.6 billion Muslims in the world indicates the very scope of underlying potential.

<u>Euromoney award for business leadership</u>

Podravka has been acknowledged as "Best Managed Company in CEE" in the opinion poll of the prominent magazine Euromoney. Podravka's leadership has been rated with very high marks out of 50 companies whose business was analyzed on the grounds of extensive data by a special expert team under Euromoney sponsorship. This year Podravka has made the greatest progress among all companies in Central and Eastern Europe and was ranked in the very top of the best-managed companies in Croatia. The survey involved analysts from leading international banks and institutions who nominated best-run companies taking into account the business strategy, corporate governance system, the availability of senior management, transparency, value for shareholders, informativeness and efficiency of web pages, etc.

Acquisition of PIK Vrbovec d.d. canned meat program and brands

On 7 April 2014 contracts were signed on the transfer of trademarks, recipes and equipment and on acquiring the business of production and sales of canned meat pates and canned meat products between the companies Podravka Inc. and PIK Vrbovec d.d. These contracts have enabled Podravka Inc. to take over the canned meat program and brands of PIK Vrbovec d.d. for further production and sales in all markets. This acquisition has significantly increased Podravka's market share, thus taking a solid second place in the segment of meat pate, and with a good position for expansion into regional markets. This strategic acquisition has strengthened one of the most profitable categories in the segment of meat and meat products, all in accordance with the present focus, strategic portfolio optimization and recent capital investments in this category. Increasing the production by controlling the supply chain has opened the potential for achieving cost synergies. The potential for synergy also exists through the increased use of the existing operational potentials of Podravka.

Significant events after the balance sheet date

Refinancing of loan liabilities

In early July Podravka, the European Bank for Reconstruction and Development and three commercial banks (Erste Group Bank AG, Raiffeisen Bank International AG and UniCredit Bank Austria AG) signed a contract on syndicated loan in the amount of EUR 73.4 million. With this contract Podravka will refinance its existing loan liabilities with significantly lower interest rates and prolonged maturity. The European Bank for Reconstruction and Development, as the arranger of this syndication, will participate with EUR 30.0 million of own funds, whilst EUR 43.4 million will be provided from the other banks in the syndication - Erste Group Bank AG, Raiffeisen Bank International AG and UniCredit Bank Austria AG. In previous years, Podravka has made significant improvements at both operating and financial levels which were recognized by the European Bank for Reconstruction and Development and syndicated banks who have confirmed their trust in the stability and business operations of Podravka by signing this contract. With this arrangement Podravka continues its restructuring process with the aim of further regional and international growth and development. The said amount will be used to restructure the company's balance sheet and a saving of EUR 7.5 million is expected on interest costs in the period up to the end of 2015. The loan term is five years, where 75 percent of the loan is amortizing with equal quarterly payments of the principal, starting from 16 November 2014. The remaining EUR 17.6 million is due in the final installment. Significantly reduced costs of financing will make investment opportunities more attractive and thus contribute to Podravka's future growth.

Profitability

SBA F&D	REPORTED RESULT			CORRECTED RESULT[6]		
(in HRK millions)	**H1 2014**	**H1 2013**	**% change**	**H1 2014**	**H1 2013**	**% change**
Sales revenue	1,248.9	1,293.8	(3.5%)	1,248.9	1,293.8	(3.5%)
Gross profit	468.6	469.4	(0.2%)	468.7	469.4	(0.2%)
EBITDA	71.8	70.2	2.3%	116.6	105.2	10.8%
EBIT	23.7	17.0	39.9%	67.4	52.0	29.7%
Net profit after MI	5.0	7.5	(33.2%)	48.7	42.5	14.5%
Gross margin	37.5%	36.3%	+124 bp	37.7%	36.3%	+124 bp
EBITDA margin	5.8%	5.4%	+32 bp	9.3%	8.1%	+120 bp
EBIT margin	1.9%	1.3%	+59 bp	5.4%	4.0%	+138 bp
Net profit margin after MI	0.4%	0.6%	-18 bp	3.9%	3.3%	+61 bp

Profitability of the **Strategic Business Area Food and Drinks** grew at the EBITDA and EBIT level in the first half-year of 2014 despite the decline of sales revenue. The gross margin grew by 124 bp which has resulted from a significant reduction of Cost of goods sold of HRK 44.1 million with a noticeable reduction of Labour costs and favourable trends of raw material prices. Along with the Costs of goods sold, Selling, logistics and distribution costs have also significantly been reduced due to lower Labour costs and lower reservations for trade account receivables, whilst Marketing expenses have risen. Finally, total Operating expenses have been reduced by HRK 47.1 million which influenced the growth of the EBITDA and EBIT compared to the first half-year of 2013 and also contributed to the growth of both the EBITDA and EBIT margins, accordingly. In comparison to the first half-year of 2013 interest costs are 4.6% lower but due to lower financial income, lesser net positive financial exchange rate differences and higher tax liabilities, the net profit after minority interest is lesser and amounts to HRK 5.0 million.

If the results achieved in the first half-year of 2014 are observed **without one-off items**, the **Strategic Business Area Food and Drinks** has recorded higher absolute amounts at all levels of profitability, as well as higher profit margins compared to the reported results. In comparison with the corrected period in the first half-year of 2013, the gross profit in absolute amount is a little lower, but at all other levels a growth of profitability in absolute amount and a growth of profit margins at all levels have been achieved.

[6] Excluding one-off items

One-off items of the Strategic Business Area Food and Drinks

One-off items at the level of the SBA Food and Drinks amounted to HRK -43.7 million in the first half-year of 2014, as follows:

- HRK -1.8 million refers to the cost of inventory write-offs in Bosnia and Herzegovina as a result of floods. The item is included in the Costs of goods sold, it is a non-cash item and reduces the reported result;
- HRK -49.1 million refers to severance payments related to the redundant labour program. The item is included in General and administrative expenses, it is a cash item and reduces the reported result;
- HRK 1.7 million refers to income from the release of reservations related to programs under restructuring. The item is included in Cost of goods sold, it is a non-cash item and increases the reported result;
- HRK 4.4 million refers to income from leasing returns. The item is included in Other income, it is a non-cash item and increases the reported result;
- HRK 1.1 million refers to the income released from reservations for asset value adjustments related to programs under restructuring. The item is included in Other expenses; it is a non-cash item and increases the reported result.

In the first half-year of 2013 one-off items at the level of the SBA Food and Drinks amounted to HRK -35.0 million, as follows:

- HRK -35.0 million refers to severance payments related to the redundant labour program. The item is included in General and administrative expenses; it is a cash item and reduces the reported result.

SBA Pharmaceuticals	REPORTED RESULT			CORRECTED RESULT[7]		
(in HRK millions)	**H1 2014**	**H1 2013**	**% change**	**H1 2014**	**H1 2013**	**% change**
Sales revenue	374.1	401.4	(6.8%)	374.1	401.4	(6.8%)
Gross profit	193.1	221.9	(13.0%)	193.1	221.9	(13.0%)
EBITDA	50.5	74.2	(31.9%)	53.0	80.4	(34.1%)
EBIT	29.8	51.7	(42.4%)	32.3	57.9	(44.3%)
Net profit after MI	18.9	31.4	(39.8%)	21.3	37.6	(43.2%)
Gross margin	51.6%	55.3%	-365 bp	51.6%	55.3%	-365 bp
EBITDA margin	13.5%	18.5%	-498 bp	14.2%	20.0%	-587 bp
EBIT margin	8.0%	12.9%	-492 bp	8.6%	14.4%	-581 bp
Net profit margin after MI	5.1%	7.8%	-277 bp	5.7%	9.4%	-366 bp

The most significant influence on the profitability of the **Strategic Business Area Pharmaceuticals** in the first half-year of 2014 results from the decline of sales revenue in the amount of HRK 27.3 million. As the Cost of goods sold was at the same time slightly higher a drop of both gross profit and gross margin occurred. The total Operating expenses are lower by HRK 4.9 million as a result of the reduction of Marketing expenses and Labour costs within General and administrative expenses which has somewhat mitigated the drop at EBITDA and EBIT levels. Interest costs were 39.1% lower in the first half-year of 2014, whilst the profit tax was 57.5% lower mitigating the drop of net profit after minority interest in the amount of HRK 18.9 million, whilst the net profit margin after minority interest is 5.1%.

If observed **without one-off items**, the **Strategic Business Area Pharmaceuticals** recorded higher profitability in the absolute amount and higher profit margins in the first half-year of 2014 compared to the reported result.

One-off items of the Strategic Business Area Pharmaceuticals

One-off items at the level of SBA Pharmaceuticals amounted to HRK -2.4 million in the first half-year of 2014, as follows:

- HRK -2.4 million refers to severance payments related to the redundant labour program. The item is included in the General and administrative expenses, it is a cash item and reduces the reported result.

[7] Excluding one-off items

One-off items at the level of the SBA Pharmaceuticals amounted to HRK -6.2 million in the first half-year of 2013, as follows:

- HRK -6.2 million refers to severance payments related to the redundant labour program. The item is included in the General and administrative expenses, it is a cash item and reduces the reported result.

Podravka Group	**REPORTED RESULT**			**CORECTED RESULT**[8]		
(in HRK millions)	**H1 2014**	**H1 2013**	**% change**	**H1 2014**	**H1 2013**	**% change**
Sales revenue	1,623.0	1,695.2	(4.3%)	1,623.0	1,695.2	(4.3%)
Gross profit	661.7	691.3	(4.3%)	661.8	691.3	(4.3%)
EBITDA	122.4	144.4	(15.3%)	169.5	185.6	(8.7%)
EBIT	53.5	68.7	(22.0%)	99.6	109.9	(9.3%)
Net profit after MI	23.9	38.9	(38.5%)	70.0	80.1	(12.6%)
Gross margin	40.8%	40.8%	0 bp	40.8%	40.8%	0 bp
EBITDA margin	7.5%	8.5%	-98 bp	10.4%	10.9%	-50 bp
EBIT margin	3.3%	4.1%	-75 bp	6.1%	6.5%	-34 bp
Net profit margin after MI	1.5%	2.3%	-82 bp	4.3%	4.7%	-41 bp

Finally, the profitability of the Strategic Business Area Food and Drinks grew at EBITDA and EBIT level, but due to lower profitability of the Strategic Business Area Pharmaceuticals, the EBITDA and EBIT at **Group** level have dropped. The most significant influence on this result comes from the decline of sales revenue, reflecting impact on all levels of profitability. However, the company has managed to mitigate the effect of lower sales revenue on profit margins through the process of restructuring and cost optimisation. The Cost of goods sold has dropped due to lower Labour costs and favourable trends of key raw material prices maintaining the gross margin level of the Group at 40.8%. Selling, logistics and distribution costs have also recorded a significant drop so that the total Operating expenses are HRK 52.0 million lower compared to the same period of the prior year. The EBITDA at Group level is therefore HRK 122.4 million, whilst the EBIT is HRK 53.5 million. Interest costs have been reduced by 14.2%, whilst at the same time lower financial income and lower positive net financial exchange rate differences have been recorded. Tax liabilities have been reduced due to potentially higher options for utilising tax losses from previous periods. Consequently, the reported net profit after minority interest is HRK 23.9 million.

[8] Excluding one-off items

Due to the fact that **one-off items** have positive impact on the corrected result, all corrected profit levels in the first half-year of 2014 have recorded higher absolute amounts in relation to the reported ones.

Sales revenue per Strategic Business Area

(in HRK millions)	H1 2014	H1 2013	% change	Δ change
SBA Food and Drinks	**1,248.9**	**1,293.8**	**(3.5%)**	**(44.9)**
Organic sales	1,105.6	1,139.6	(3.0%)	(34.0)
Other sales	143.4	154.2	(7.0%)	(10.9)
SBA Pharmaceuticals	**374.1**	**401.4**	**(6.8%)**	**(27.3)**
Organic sales	299.9	322.0	(6.9%)	(22.1)
Other sales	74.2	79.4	(6.6%)	(5.2)
Podravka Group	**1,623.0**	**1,695.2**	**(4.3%)**	**(72.2)**
Organic sales	1,405.5	1,461.6	(3.8%)	(56.1)
Other sales	217.6	233.6	(6.9%)	(16.1)

The sales revenue of the **Podravka Group** was 4.3% lower in the first half-year of 2014 compared to the first half-year of the prior year, whilst at the organic level[9] the drop is somewhat less and is 3.8%. The **Strategic Business Area Food and Drinks** achieved 3.5% lower sales revenue whilst at the organic level it is 3.0% less. The sales revenue of the **Strategic Business Area Pharmaceuticals** was 6.8% less with the organic level 6.9% lower compared to the same period of the year before.

If the sales revenue is observed **without the programs under restructuring**, which Podravka is planning to discontinue or has already discontinued (beverages, bakery, frozen program and fresh meat), then the **Podravka Group** has achieved 2.2% lower sales revenue, whilst at the organic level it is 2.4% lower. The **Strategic Business Area Food and Drinks** observed **without the programs under restructuring** recorded a drop of sales revenue in the amount of 0.6%, whilst the organic drop of sales revenue is 1.1%. The **Strategic Business Area Pharmaceuticals** has no programs in the process of restructuring.

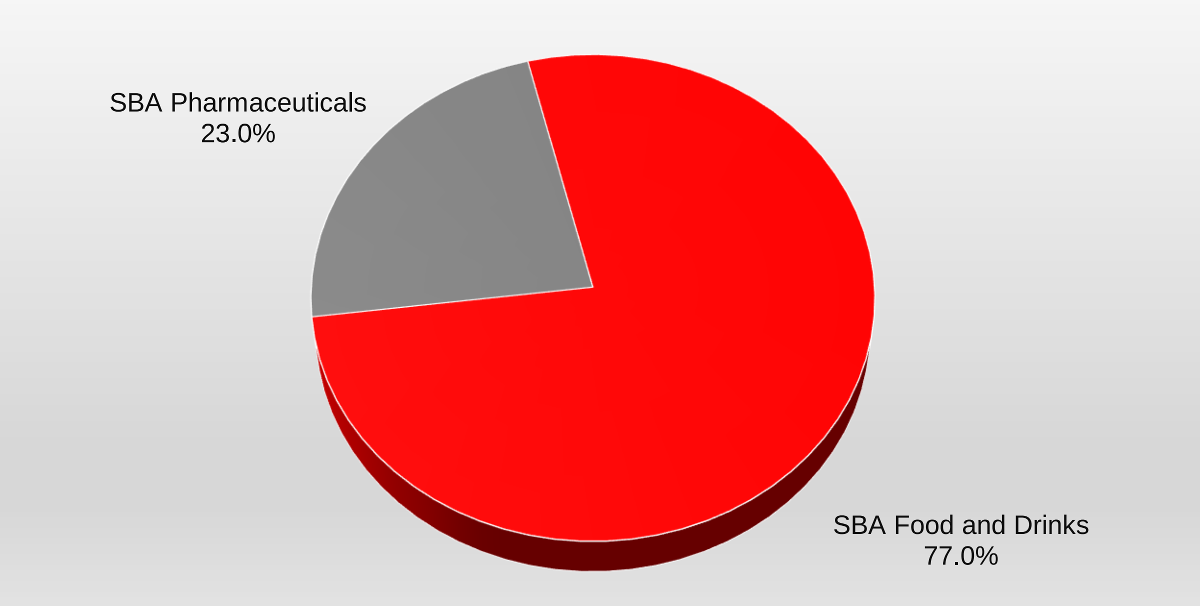
Foreign exchange rate differences had an additional effect on the decline of sales revenue, primarily referring to the Russian ruble, the Czech crown and the Australian dollar. If the sales revenue is observed **without the programs under restructuring and without exchange rate differences**, the Podravka Group achieved 1.1% lower sales revenue, whilst at the organic level it is 1.4% lower. **The Strategic Business Area Food and Drinks without the programs**

[9] Realization without private brands, service production and merchandise

under restructuring and without foreign exchange rate differences realized sales revenues slightly above the level of the first year-half of 2013, whilst at the organic level sales revenue is 0.4% lower. The **Strategic Business Area Pharmaceuticals**, which has no programs under restructuring, **without the effect of exchange rate differences** has realized a sales drop of 4.7%, with an equal decline at the organic level.

Finally, the biggest impact on sales revenue in the first year-half of 2014 resulted from the following: (i) programs under restructuring whose sales revenue at Group level are by HRK 37.2 million less compared to the first year-half of 2013, (ii) exchange rate differences with a net effect of HRK -16.8 million[10] at Group level, (iii) the challenging economic situation both on the domestic market and in the region that has put pressure on business operations, particularly in terms of selling prices, (iv) a reduction of prices for prescription drugs on the market of Croatia by the Croatian Institute for Health Insurance and (v) the decision of the Management of Belupo to reduce exposure on the Russian market due to the depreciation of the Russian ruble and consequently to reduce distributor inventories.

Sales revenue structure per Strategic Business Area ih H1 2014



[10] Lost sales revenue, if foreign exchange rates in H1 2014 stayed at the level of H1 2013, sales revenue would be HRK 16.8 million higher at the Group level

Sales revenue per Category

(in HRK millions)	H1 2014	H1 2013	% change	Δ change
SBA Food and Drinks	**1,248.9**	**1,293.8**	**(3.5%)**	**(44.9)**
Culinary	**429.6**	**443.1**	**(3.1%)**	**(13.5)**
Food seasonings and bouillons	302.4	312.8	(3.3%)	(10.3)
Podravka dishes and food mixes	127.1	130.3	(2.5%)	(3.2)
Sweets, snacks and beverages	**124.6**	**135.5**	**(8.1%)**	**(10.9)**
Beverages	55.5	71.2	(22.0%)	(15.6)
Sweets and snacks	69.0	64.3	7.3%	4.7
Baby food, breakfast foods and other food	**423.0**	**432.3**	**(2.1%)**	**(9.2)**
Baby food and breakfast foods	149.6	152.7	(2.0%)	(3.1)
Other food	273.4	279.5	(2.2%)	(6.1)
Meat products	**128.4**	**128.7**	**(0.3%)**	**(0.3)**
Other sales	**143.4**	**154.2**	**(7.0%)**	**(10.9)**
SBA Pharmaceuticals	**374.1**	**401.4**	**(6.8%)**	**(27.3)**
Ethical drugs	258.2	282.5	(8.6%)	(24.4)
Non-prescription programme	41.8	39.5	5.7%	2.3
Other sales	74.2	79.4	(6.6%)	(5.2)
Podravka Group	**1,623.0**	**1,695.2**	**(4.3%)**	**(72.2)**

The **Culinary Category** achieved sales revenue in the amount of HRK 429.6 million in the first year-half of 2014 as a result of lower sales revenue from universal food seasonings which has been mitigated by a double-digit growth of the sales revenue of both bouillons and food mixes. If observed per country, the markets of Western Europe and Central Europe have recorded a growth of sales revenue, whilst a decline was recorded in the markets of Croatia and Eastern Europe. The decline in the Croatian market results from a drop of the entire category of universal food seasonings of 2.5%[11] as well as from the challenging economic situation characterised by the deflation of consumer prices of 2.3%[12] and a high unemployment rate reaching 19,6%[13] that continue to put pressure on consumer prices. The market of Eastern Europe is primarily influenced by the Russian market due to lower sales revenue from universal food seasonings. However, the double-digit growth rate of the sales of soups in the market of Russia, which is a continuation of positive trends and the expansion of distribution into two of the largest trade chains in Russia, needs to be highlighted. The market of Western Europe achieved growth as a result of double-digit increase of the sales revenue of universal food seasonings in the market of Germany. The market of Central Europe has recorded growth in Poland from the increased sales revenue of universal food seasonings and in the markets of

[11] In accordance with results of the Agency AC Nielsen for the period December 2013 - May 2014
[12] H1 2014 period compared to H1 2013 period; Croatian Bureau of Statistics
[13] The registered unemployment rate in May 2014 is 19,6%; Croatian Bureau of Statistics

Hungary and Poland the product range has been expanded with bouillons, which had not been distributed in the same period of the year before.

The **Sweets, Snack and Beverages Category** recorded 8.1% lower sales revenue due to a drop of revenue from the sales of Beverages which is a program under restructuring, whilst Sweets and Snack have achieved a 7.3% growth rate with the highest contribution attributed to powdered desserts that had realized a double-digit growth. If observed per market, the most significant influence comes from the market of Croatia on which the majority of sales revenue from this category is recorded and on which the highest sales revenue decline of beverages is recorded, consequently effecting the entire category. This drop on the market of Croatia has been mitigated by the growth of sales revenue from the sales of Sweets and Snack where powdered desserts have recorded a double-digit growth. Apart from the Croatian market, powdered desserts have realized double-digit growth in the markets of both Bosnia and Herzegovina and Slovenia. The Category has recorded a growth of 4.5% **if observed without programs under restructuring (beverages)**.

The **Baby Food, Breakfast Foods and Other Food Category** achieved HRK 423.0 million sales revenue in the first half-year of 2014. This primarily results from the lower sales revenue of programs under restructuring (bakery and frozen food) which has been mitigated by a double-digit growth of sales revenue from fish products under the brand Eva and cereal for children. If observed per market, growth of sales revenue has been recorded in the markets of Serbia and Bosnia and Herzegovina by the brand Eva and in the market of Poland by tomato based products, whilst the most significant decline of sales revenue comes from the Croatian market due to the fact that the programs under restructuring are most widely represented there. **If observed without the programs under restructuring (bakery, frozen food)** the delivered sales revenue is 0.9% lower.

The sales revenue of the **Meat Products Category** in the first half-year of 2014 is at the same level as in the first half-year of 2013. Sausage products delivered a double-digit growth rate of sales revenue, whilst programs under restructuring (fresh meat) had negative impact. If observed per market, the most significant growth of sales revenue was realized in the Croatian market as a result of a double-digit growth rate of sales revenue from sausage products, whilst the most significant decline was recorded in the market of the USA, mostly as a result of different dynamics of delivery to the distributor, but changes in these dynamics are expected by the year end. The Category has achieved a 1.8% growth of sales revenue **if observed without programs under restructuring (fresh meat).**

Other Sales in the Strategic Business Area Food and Drinks recorded HRK 143.4 million of sales revenue influenced by lower service production and lower sales of private brands. Other

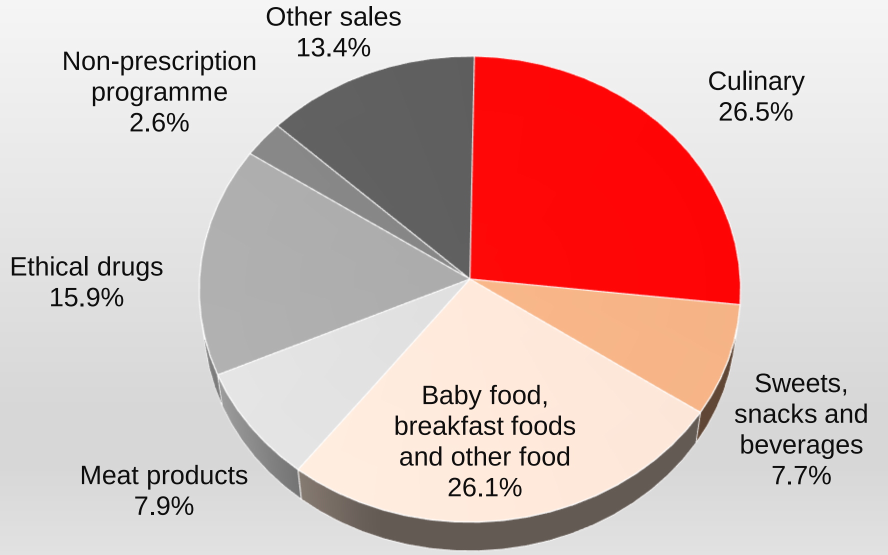
Sales have recorded a 3.0% growth of sales revenue excluding programs under restructuring (discontinuation of distribution of frozen food merchandise).

The **Ethical Drugs Category** recorded an 8.6% drop of sales revenue in the first half-year of 2014 as a result of lower sales revenue in the markets of both Russia and Croatia. The exchange rate differences caused by the weakening of the Russian ruble and the decision of the Management of Belupo to reduce exposure in the market due to currency depreciation and thus reduce distributor inventories had negative effect in the Russian market. Consequently, distributor inventories were reduced from 150 days to 98 days and receivables by 32% in the first half-year of 2014. It should be noted that despite of a reduction of distributor inventories, these distributors continue to record sales revenue growth in the Russian market; hence the financial disclosure of sales revenue in the first half-year of 2014 is 9% higher than in the first half-year of 2013. Sales revenue in the Croatian market has been negatively influenced by the reduction of prescription drug prices by the Croatian Institute of Health Insurance. However, the company has achieved a significant increase of 19% in the volume of sales of ethical drugs. The realized decline of sales revenue of the Ethical Drugs Category has been mitigated by its growth in the markets of both Bosnia and Herzegovina and Poland.

The **Non-Prescription Drugs Category** achieved a sales revenue growth of 5.7%, primarily due to the sales growth of the non-prescription program in the markets of Russia, Croatia and Serbia.

Other Sales in the Strategic Business Area Pharmaceuticals recorded a 6.6% decline of sales revenue primarily due to the decrease of merchandise in the market of Croatia as a result of reduction of prescription drug prices by the Croatian Institute of Health Insurance.

Sales revenue structure per categories in H1 2014



Sales revenue per market

(in HRK millions)	H1 2014	H1 2013	% change	Δ change
Croatia	**664.7**	**736.4**	**(9.7%)**	**(71.7)**
South-East Europe	**454.7**	**437.3**	**4.0%**	**17.4**
Bosnia and Herzegovina	212.4	194.1	9.4%	18.3
Macedonia	39.3	37.8	4.0%	1.5
Slovenia	89.4	89.4	0.0%	0.0
Serbia	64.1	61.3	4.5%	2.8
Other countries	49.5	54.7	(9.5%)	(5.2)
Central Europe	**247.5**	**241.7**	**2.4%**	**5.8**
Czech Republic	80.0	87.3	(8.3%)	(7.3)
Hungary	25.2	24.1	4.6%	1.1
Poland	99.5	85.2	16.8%	14.3
Slovakia	42.7	45.1	(5.3%)	(2.4)
Western Europe	**96.9**	**87.2**	**11.1%**	**9.7**
Austria	26.1	23.8	9.5%	2.3
Germany	39.2	34.1	14.9%	5.1
Other countries	31.6	29.2	8.1%	2.4
Eastern Europe	**95.1**	**118.4**	**(19.7%)**	**(23.3)**
Russia	69.3	94.9	(27.0%)	(25.6)
Other countries	25.9	23.5	9.8%	2.3
Overseas Countries and New Markets	**64.1**	**74.2**	**(13.6%)**	**(10.1)**
Australia	30.4	36.7	(17.1%)	(6.3)
USA	18.9	22.5	(16.3%)	(3.7)
Other countries	14.8	15.0	(1.1%)	(0.2)
Podravka Group	**1,623.0**	**1,695.2**	**(4.3%)**	**(72.2)**

The **Podravka Group** achieved 41.0% of sales revenue in the market of Croatia in the first half-year of 2014, whilst this share was 43.4% in the same period of the prior year. The share of sales revenue from foreign markets in the first half-year of 2014 was 59.0%, whilst in the same period last year it was 56.6%. Changes in the structure of sales revenue per market caused lower sales revenue in the market of Croatia in the first half-year of 2014, whilst at the same time sales revenue from foreign markets remained at the same level of the first half-year of 2013.

The **Croatian market** realized 9.7% lower sales revenue compared to the same period of the prior year. The most significant influence came from the category of Sweets, Snack and Beverages and the Baby Food, Breakfast Foods and Other Food Category where sales revenues were lower due to the fact that these categories contain programs under restructuring which produce their highest sales rates in this very market. The market of Croatia has recorded a decline of sales revenue in the amount of 5.5% (organic drop of sales revenue is 3.8%) **if observed without programs under restructuring** as a result of the following: (i) decline of sales revenue of the Culinary Category with a drop of the entire category of universal food seasonings by 2.5%[14], (ii) challenging economic situation with a deflation of 2.3%[15] and a high registered unemployment rate of 19.6%[16] that has put pressure on business operations and (iii) a decline of sales revenue from the Ethical Drugs Category due to a reduction of prescription drug prices by the Croatian Institute of Health Insurance.

The **Market of South-East Europe** has achieved an increase of sales revenue of 4.0% under the influence of sales revenue growth from the Baby Food, Breakfast Foods and Other Foods Category with the brand Eva in the markets of both Bosnia and Herzegovina and Serbia as well as a growth of sales revenue from the sales of merchandise in the market of Bosnia and Herzegovina. The market of Macedonia has achieved growth of sales revenue mainly due to higher sales revenues in the segments of universal food seasonings and soups.

The **Market of Central Europe** achieved a growth of sales revenue in the amount of 2.4% primarily due to the growth of sales revenue from the Culinary Category with the segment of bouillons that had not been distributed in the prior year in the markets of Poland and Hungary and the growth of sales revenue from the Ethical Drugs Category with significant growth in the market of Poland.

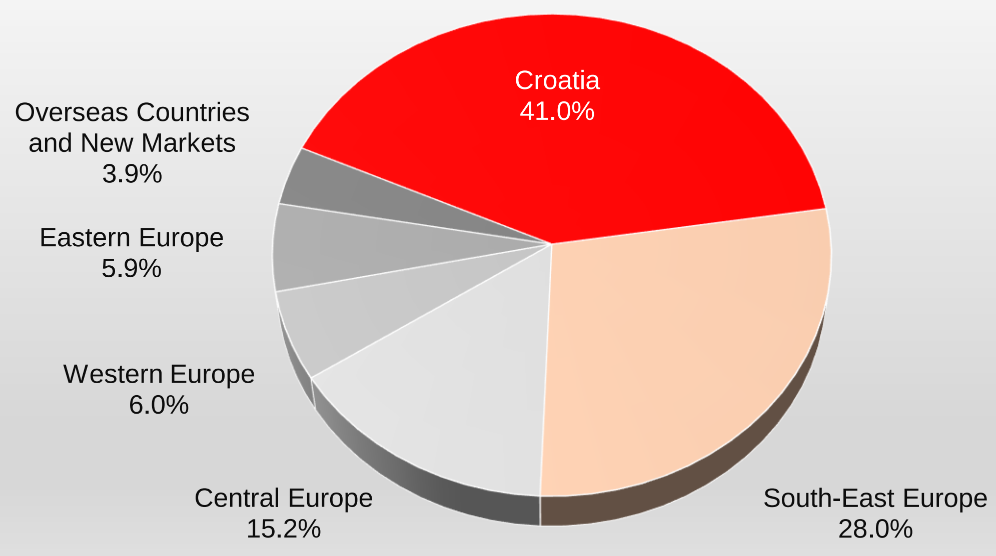
The **Market of Western Europe** has recorded a growth of sales revenue in the amount of 11.1% influenced by the Culinary Category with universal food seasonings delivering a double-digit growth rate in the market of Germany but also in the majority of Western Europe countries.

The **Market of Eastern Europe** has suffered a drop of sales revenue of 19.7% primarily influenced by the market of Russia. Lower sales revenue has been realised in the Culinary Category due to lower sales revenue in the segment of universal food seasonings which has been mitigated by a double-digit growth rate of sales revenue from the segment of soups thus continuing the positive trend and expansion of distribution into two of the largest trade chains in Russia. Lower sales revenue in Russia has also been achieved by the Ethical Drugs Category as previously explained in the section "Sales revenue per Category". If the depreciation of the Russian rubble is excluded, the Market of Eastern Europe has realized 12.5% lower sales revenue and the Russian market 18.0% lower sales revenue.

[14] In accordance with results of the Agency AC Nielsen for the period December 2013 - May 2014
[15] H1 2014 period compared to H1 2013 period; Croatian Bureau of Statistics
[16] The registered unemployment rate in May 2014 is 19,6%; Croatian Bureau of Statistics

Overseas Countries and New Markets have realized 13.6% lower sales revenue mainly due to lower sales revenue from the Culinary Category in the markets of Australia and the USA and lower sales revenue from spreads in the Baby Food, Breakfast Foods and Other Foods Category in the market of Australia. Changes in the distribution model in Australia and the USA, a process that at one point had caused changes in distribution dynamics, had impact on this result. An additional influence came from exchange rate differences of the Australian and American dollar respectively, with negative impact on the reported sales revenues. If the influence of the exchange rate is to be eliminated, sales revenue from Overseas Countries and New Markets would be 6.2% lower.

Sales revenue structure per market in H1 2014



Key features of the Profit and Loss Account

Other income

Other income has grown mainly as a result of HRK 4.4 million income on the grounds of leasing returns.

Cost of goods sold

Cost of goods sold has been reduced by 4.3% due to favourable trends of key raw material prices and reduction of labour costs.

General and administrative expenses

General and administrative expenses have in the observed period increased by HRK 3.2 million, inter alia, due to higher severance payments in the first half-year of 2014.

Selling and distribution costs

Selling and distribution costs have dropped significantly by 7.9% due to a reduction of labour costs and lower reservations for trade receivables.

Marketing expenses

Marketing expenses have recorded growth due to strong marketing activities accompanying the segments of Baby food and Breakfast foods in the markets of South-East Europe and Central Europe.

Other expenses

Other expenses mainly comprise of net realized exchange rate differences of both trade receivables and payables. The net realized exchange rate differences in the first half- year of 2014 remain at the same level as in the first half-year of 2013.

Net financial expenses

Net financial expenses increased in the first half-year of 2014 primarily due to lower positive exchange rate differences on loans and lower financial income compared to the same period last year. Financial expenses relating to interest on loan liabilities in the reporting period decreased by HRK 4.3 million as a result of the refinancing of loan liabilities.

Income tax

Income tax was significantly lower in the observed period due to the potentially greater options for utilising tax losses from previous periods.

Key features of the Balance Sheet

Intangible assets

Intangible assets at the end of the period increased by 17.8% compared to the year-end of 2013, mainly due to the acquisition of the canned meat program and brands of PIK Vrbovec d.d. for further production and sales in all markets where certain intangible assets such as trademarks, recipes, etc. had been acquired.

Inventories

Inventories at the end of the first year-half of 2014 were higher by 6.8% compared to the year-end of 2013 due to taking over of inventories of the canned meat program and brands of PIK Vrbovec d.d. and seasonal effects of increased production of certain types of products before the summer period.

Trade account receivables and other receivables

Trade account receivables and other receivables have been reduced by 2.9%, inter alia, due to improved procedures for the collection of receivables, whose purpose is to ensure the collection of receivables within agreed terms and reduce exposure to risk categories of customers. As additional collateral, Podravka in the first half-year of 2014 signed an agreement on the insurance of receivables.

Assets available for disposal

Assets available for disposal are classified fixed assets of the companies Ital-Ice d.o.o. and Lero d.o.o. for which formal merger to the parent company is expected during the third quarter of 2014, the equipment from the bakery that was closed during the second quarter of 2014 and fixed assets of the company Studenac Lipik (Beverages segment under restructuring).

Long-term loans and borrowings

Loans and borrowings included in long-term liabilities rose by 38.4% due to long-term indebtedness of HRK 95 million in the first half-year of 2014 for the purpose of covering severance payments as part of the redundancy programme and acquiring the canned meat program and brands from PIK Vrbovec d.o.o. for further production and sales in all markets. In addition, at the year-end of 2013 Podravka concluded a long-term loan in the amount of HRK 200 million, in order to refinance existing liabilities. Funds from this facility were used in the first half-year of 2014 thereby influencing the increase of long-term indebtedness as of 30 June 2013.

Short-term loans and borrowings

Loans and borrowings included in current liabilities decreased by 31.6% compared to the year-end of 2013 due to the refinancing of loan liabilities by which a part of the short-term loan liabilities were transferred into long-term loan liabilities and due to regular loan repayments.

Indebtedness

As of 30 June 2014 the total indebtedness of the Group's loans and other interest-bearing financial liabilities is HRK 1,130,926 thousand, of which HRK 792,901 thousand relates to long-term borrowings and loans, HRK 335,423 thousand to short-term borrowings and loans, and HRK 2,602 thousand to liabilities from swap contracts. The weighted average cost of debt by all the liabilities as of 30 June 2014 amounts to 4.1%. The currency composition of debt shows that 46.4% of the debt is in EUR, 43.1% of the debt in HRK, 7.4% in convertible marks, and the remaining 3.1% in the Czech crown, Macedonian denar and the Australian dollar, respectively.

(in HRK thousands)[17]	**H1 2014**[18]	**2013**	**% change**
Net debt[19]	930,301	886,533	4.9%
Interest expense	54,304	58,616	(7.4%)
Net debt/EBITDA	2.3	2.1	9.1%
EBITDA/Interest expense	7.5	7.2	3.8%
Equity to total assets ratio	48.7%	48.9%	-25 bp

Net debt as of 30 June 2014 was 4.9% higher compared to the year-end of 2013 due to an increase in financial debt of HRK 64.9 million, whilst the amount of money and cash equivalents increased by HRK 21.2 million. Interest expenses on the basis of the last 12 months decreased by 7.4% as a result of refinancing. The ratio of net debt to the corrected EBITDA based on the past 12 months is 2.3, which is an increase compared to the year-end due to the increase in

[17] All indicators are corrected, excluding one-off items
[18] For H1 2014 period EBITDA and interest expense calculated on the trailing 12 months basis and balance sheet items on 30.06.2014
[19] Calculated as: non-current borrowings + current borrowings + financial liabilities at fair value through profit and loss – cash and cash equivalents; EBITDA calculated on trailing 12 month basis

net debt and lower corrected EBITDA. The ratio of corrected EBITDA and interest costs increased due to lower interest costs, whilst the ratio of equity to total assets is 25 bp lower due to higher growth of total assets than equity.

Key features of the Cash Flow Statement

Cash flow from operating activities

In the first half-year of 2014 the net cash flow from operating activities amounted to HRK 49.1 million, which is 70.2% less than in the first half-year of 2013.

The working capital recorded an increase in inventories due to the taking over of inventories from the canned meat program and brands of PIK Vrbovec d.d. and the seasonal effects of increased production of certain types of products before the summer period. Short-term receivables are reduced, among other, due to better procedures for the collection of receivables. In the same period of last year, receivables decreased by HRK 110.6 million, which is primarily in connection with the government's decision to rehabilitate the hospital system and reduce obligations of the Croatian Institute of Health Insurance to 60 days. At the same time there was a significant reduction in liabilities in the first half-year of 2013 due to adjustments with the terms of payment to suppliers.

Interest paid in the observed period was reduced due to the refinancing of loan liabilities at favourable commercial terms.

Cash flow from investing activities

The net cash flow from investing activities at the end of the first year-half of 2014 totalled a negative HRK 91.7 million primarily due to capital expenditures in the amount of HRK 95.4 million. The most significant capital expenditures in the first half-year of 2014 relate to the following:

- the purchase of the brand, know-how and equipment of the company PIK Vrbovec d.o.o. which will enable the production and sale of pate under the brand Piketa and Classic;
- replacement of the existing production line with a new line of larger capacity and the purchase of machinery for the process of packing cans at the company Danica d.o.o. thereby increasing production capacity and further automation of production and thus creating preconditions for the growth of production, sales and profitability;
- increase of storage capacity of the company Farmavita d.o.o. and

- expansion of existing production lines for baby food and purchasing a machine to automate the process of filling cream spreads.

The average capital expenditure in the period from the year 2010 to 2013 amounted to about HRK 95 million per year, which is the level of capital expenditure of the Group when there are no major projects. In the coming period, it is expected that capital expenditures are higher, primarily due to the construction of the factory for solid and semi-solid drugs. Accordingly, capital expenditures in the year 2014 should range at the level of HRK 200-250 million, in the year 2015 at HRK 400-450 million, and in the year 2016 at HRK 200-300 million after which they should be stabilized at a level of about HRK 130 million.

Cash flow from financing activities

In the first half-year of 2014 obtained loans were used for operating activities and refinancing of existing loan liabilities, which generated HRK 63.8 million of net cash flow from financing activities. The most significant loans relate to the following: (i) HRK 95 million loan for the purpose of severance payments as part of the redundancy programme and to acquire the canned meat program and brands of PIK Vrbovec d.d. for further production and sales in all markets, (ii) HRK 200 million loan based on a credit facility concluded at the year-end of 2013, and (iii) HRK 95 million loan as part of a short-term "bridge" loan.

At the same time the most significant repayments are HRK 95 million for returning a short-term "bridge" loan and HRK 141 million for the existing loan liabilities that have been refinanced. The remaining amount of the payments relate to regular repayments of loan liabilities of companies within the Group.

Share in the first half of 2014

Ownership structure on 30.06.2014

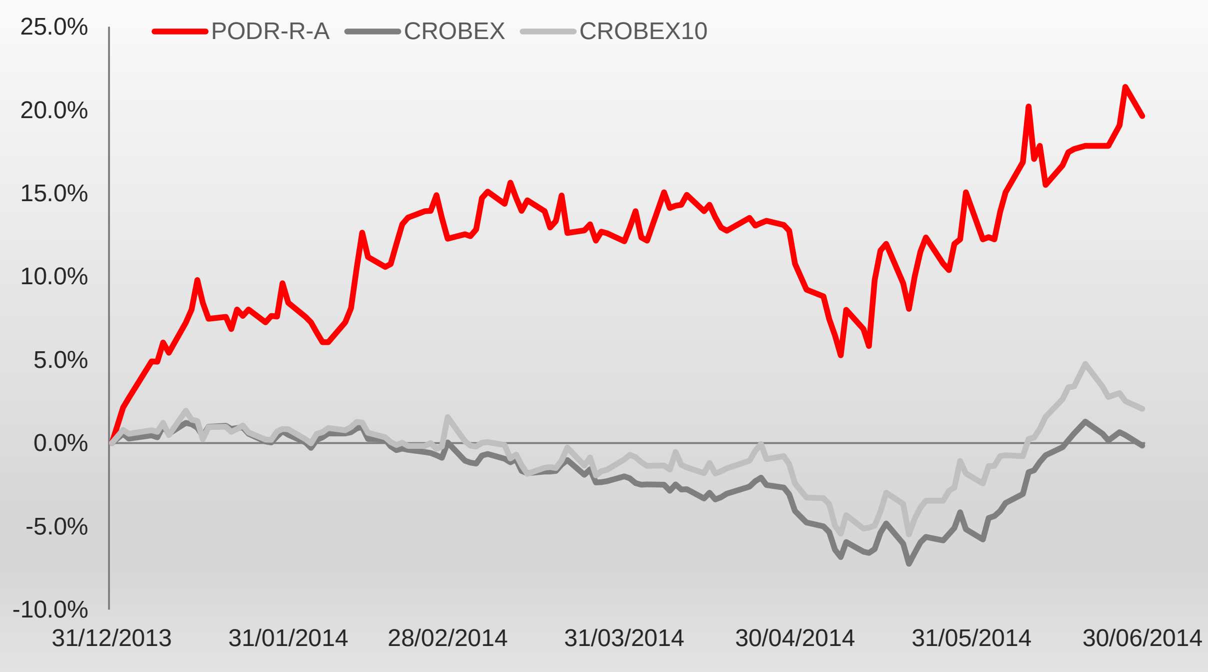
No.	Shareholder	Number of shares	% of ownership
1	DUUDI[20] – Croatian Health insurance association	575,598	10.6%
2	DUUDI – Republic of Croatia	536,259	9.9%
3	Erste Plavi mandatory pension fund	514,863	9.5%
4	AZ mandatory pension fund	488,106	9.0%
5	PBZ Croatia Osiguranje mandatory pension fund	477,957	8.8%
6	Unicredit Bank Austria AG – custody account	432,530	8.0%
7	Kapitalni fond d.d.[21]	321,804	5.9%
8	Raiffeisen mandatory pension fund	203,266	3.8%
9	Podravka d.d. – treasury account	177,511	3.3%
10	Zagrebačka banka d.d. – custody account	66,416	1.2%
	Other shareholders	1,625,693	30.0%
	Total	**5,420,003**	**100.0%**

The company has a stable ownership structure with the most significant share in the ownership of the Republic of Croatia and institutional investors. The Republic of Croatia through the State Office for State Property Management has 20.5% ownership of the company and through the Capital Fund Inc. an additional 5.9%. There are four Croatian mandatory pension funds in the ownership structure that together own 31.1% of the company. The company owns 3.3% of its own shares. The company's shares have been listed on the Official Market of the Zagreb Stock Exchange since 7 December 1998 and are marked with the ticker PODR-R-A.

[20] The State Office for State Property Management

[21] The Investment Fund of the Croatian Pension Investment Company whose sole member is the Croatian Institute for Pension Insurance

Share price movement



(closing price in HRK; closing points)	**30.06.2014**	**31.12.2013**	**% change**
PODR-R-A	304.5	254.6	19.6%
CROBEX	1,791.5	1,794.3	(0.2%)
CROBEX10	1,015.4	994.9	2.1%

In the first year-half of 2014 the Podravka share grew by 19.6% and thus outperforming equity indices CROBEX and CROBEX10 which in the same period had a decrease of 0.2% and an increase of 2.1%, individually.

Performance on the Croatian capital market

(in HRK; in units)[22]	**H1 2014**	**H1 2013**	**% change**
Average price	284.2	263.9	7.7%
Average number of transactions	15	11	33.6%
Average volume	1,688	803	110.3%
Average turnover	480,254.6	217,866.6	120.4%

In the first half-year of 2014 the average daily number of transactions in shares of the company increased by one third compared to the same period of last year, whilst at the same time the average number of shares traded in these transactions doubled. As there has also been a rise in the average price of 7.7%, the average stock turnover of the company has more than doubled in the observed period and recorded a growth of 120.4%.

Valuation

(in HRK millions; earnings per share in HRK)[23]	**H1 2014**	**2013**	**% change**
Last price	304.5	254.6	19.6%
Market capitalization	1,650.6	1,379.7	19.6%
EV[24]	2,616.1	2,300.2	13.7%
Earnings per share	35.0	36.9	(5.0%)
EV/Sales revenue	0.7	0.6	16.0%
EV/EBITDA	6.4	5.4	18.2%
EV/EBIT	9.9	8.4	18.1%
Price/earnings ratio	8.7	6.9	26.0%

Consequently, the growth of the Podravka share price also increased the market capitalization that as of 30 June 2014 amounted to HRK 1.7 billion. The EV due to the growth of market capitalization and net debt increased by 13.7% compared to the year-end of 2013, which has reflected on the growth of multiples. Earnings per share were 5.0% less at the end of the first half-year of 2014 compared to the year-end of 2013 due to lower net profit after minority interests. With lower earnings per share and by the growth of price per share, the price/earnings ratio also rose.

[22] Calculated as average of average daily prices/transactions/volumes/turnovers, except for last price
[23] Profit and loss figures corrected, excluding one-off items; for H1 2014 period calculated on trailing 12 months basis
[24] Enterprise Value; Calculated as: Market capitalization + Net debt + Minority interest

Consolidated Profit and loss statement of Podravka Group

(in HRK thousands)	**H1 2014**	**H1 2013**	**% change**
Sales revenue	1,623,030	1,695,246	(4.3%)
Cost of goods sold	(961,282)	(1,003,953)	(4.3%)
Gross profit	**661,748**	**691,293**	**(4.3%)**
Other income	8,776	3,668	139.3%
General and administrative expenses	(173,728)	(170,561)	1.9%
Selling and distribution costs	(220,330)	(239,290)	(7.9%)
Marketing expenses	(211,340)	(206,781)	2.2%
Other expenses	(11,583)	(9,645)	20.1%
Operating profit	**53,543**	**68,684**	**(22.0%)**
Financial income	990	4,792	(79.3%)
Financial expenses	(26,023)	(30,335)	(14.2%)
Net foreign exchange differences on borrowings	4,967	9,306	(46.6%)
Net finance costs	**(20,065)**	**(16,238)**	**23.6%**
Profit before tax	**33,478**	**52,446**	**(36.2%)**
Current income tax	13,502	13,395	0.8%
Deferred tax	(5,243)	(316)	1559.3%
Income tax	**8,259**	**13,079**	**(36.9%)**
Net profit for the year	**25,219**	**39,367**	**(35.9%)**
Net profit / (loss) attributable to:			
Equity holders of the parent	**23,914**	**38,896**	**(38.5%)**
Non-controlling interests	1,305	471	177.1%

Consolidated statement of financial position of Podravka Group

(in HRK thousands)	**30.6.2014**	**31.12.2013**	**% change**
ASSETS			
Non-current assets			
Goodwill	25,881	25,881	0.0%
Intangible assets	257,388	218,438	17.8%
Property, plant and equipment	1,208,020	1,218,264	(0.8%)
Deferred tax assets	54,502	49,573	9.9%
Non-current financial assets	6,762	5,607	20.6%
Total non-current assets	**1,552,553**	**1,517,763**	**2.3%**
Current assets			
Inventories	611,395	572,616	6.8%
Trade and other receivables	997,034	1,026,635	(2.9%)
Income tax receivable	6,933	6,329	9.5%
Cash and cash equivalents	200,625	179,461	11.8%
Non-current assets held for sale	155,625	155,354	0.2%
Total current assets	**1,971,612**	**1,940,395**	**1.6%**
Total assets	**3,524,165**	**3,458,158**	**1.9%**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	1,062,328	1,062,328	0.0%
Reserves	254,958	249,321	2.3%
Retained earnings / (Accumulated losses)	362,452	345,701	4.8%
Attributable to equity holders of the parent	**1,679,738**	**1,657,350**	**1.4%**
Non-controlling interests	35,156	34,040	3.3%
Total shareholders' equity	**1,714,894**	**1,691,390**	**1.4%**
Non-current liabilities			
Borrowings	792,901	572,872	38.4%
Provisions	47,908	49,279	(2.8%)
Deferred tax liability	5,355	5,577	(4.0%)
Total non-current liabilities	**846,164**	**627,728**	**34.8%**
Current liabilities			
Trade and other payables	611,694	620,781	(1.5%)
Income tax payable	8,574	2,849	200.9%
Financial liabilities at fair value through profit and loss	2,602	2,709	(3.9%)
Borrowings	335,423	490,413	(31.6%)
Provisions	4,814	22,288	(78.4%)
Total current liabilities	**963,107**	**1,139,040**	**(15.4%)**
Total liabilities	**1,809,271**	**1,766,768**	**2.4%**
Total equity and liabilities	**3,524,165**	**3,458,158**	**1.9%**

Consolidated statement of cash flows of Podravka Group

(in HRK thousands)	H1 2014	H1 2013	% change
Profit / (loss) for the year	**25,218**	**39,367**	**(35.9%)**
Income tax	8,259	13,079	(36.9%)
Depreciation and amortization	64,122	75,736	(15.3%)
Impairment loss on assets held for sale	4,691	0	100.0%
Impairment of investments	483	0	100.0%
Remeasurement of financial instruments at fair value	(107)	(4,409)	(97.6%)
Gains on disposal of property, plant, equipment and intangibles - net	(279)	(14)	1892.9%
Impairment of trade receivables	5,544	11,586	(52.1%)
Decrease in provisions	(18,845)	(1,388)	1257.7%
Interest income	(883)	(2,163)	(59.2%)
Value adjustment (write-down) of loans and interest	1,500	0	100.0%
Interest expense	26,023	30,333	(14.2%)
Effect of changes in foreign exchange rates	(5,842)	(15,487)	(62.3%)
Changes in working capital:			
(Increase) / decrease in inventories	(47,521)	18,650	n/a
Decrease / (increase) in trade receivables	22,552	110,602	(79.6%)
(Decrease) / increase in trade payables	(605)	(72,670)	(99.2%)
Cash generated from operations	**84,310**	**203,222**	**(58.5%)**
Income tax paid	(7,893)	(7,161)	10.2%
Interest paid	(27,274)	(30,918)	(11.8%)
Net cash from operating activities	**49,143**	**165,143**	**(70.2%)**
Cash flow from investing activities			
Acquisition of subsidiaries and shares, net of cash	(16)	0	(100.0%)
Purchase of property, plant, equipment and intangibles	(95,352)	(34,891)	173.3%
Proceeds from sale of property, plant, equipment and intangibles	4,368	111	3835.1%
Net repayment of loans and investments	(1,618)	(24,604)	(93.4%)
Collected interest	883	2,163	(59.2%)
Net cash from investing activities	**(91,735)**	**(57,221)**	**60.3%**
Cash flow from financing activities			
Proceeds from borrowings	489,815	127,492	284.2%
Repayment of borrowings	(426,059)	(175,877)	142.2%
Net cash from financing activities	**63,756**	**(48,385)**	**n/a**
Net increase / (decrease) of cash and cash equivalents	**21,164**	**59,537**	**(64.5%)**
Cash and cash equivalents at beginning of the year	179,461	118,208	51.8%
Cash and cash equivalents at the end of year	200,625	177,744	12.9%

Statement of management's responsibilities

Koprivnica, 25th July 2014

STATEMENT FROM EXECUTIVES RESPONSIBLE FOR PREPARING FINANCIAL STATEMENTS

Consolidated financial statements of the Podravka Group for the period January – June 2014 have been prepared in compliance with the Accounting Act of the Republic of Croatia and International Financial Reporting Standards (IFRS) and provide an overall and true presentation of assets, liabilities, profit and loss, financial position and business operations of the Group and all related companies involved in the consolidation.

Corporate accounting and Taxes:
Iva Brajević

Board Member:
Miroslav Klepač

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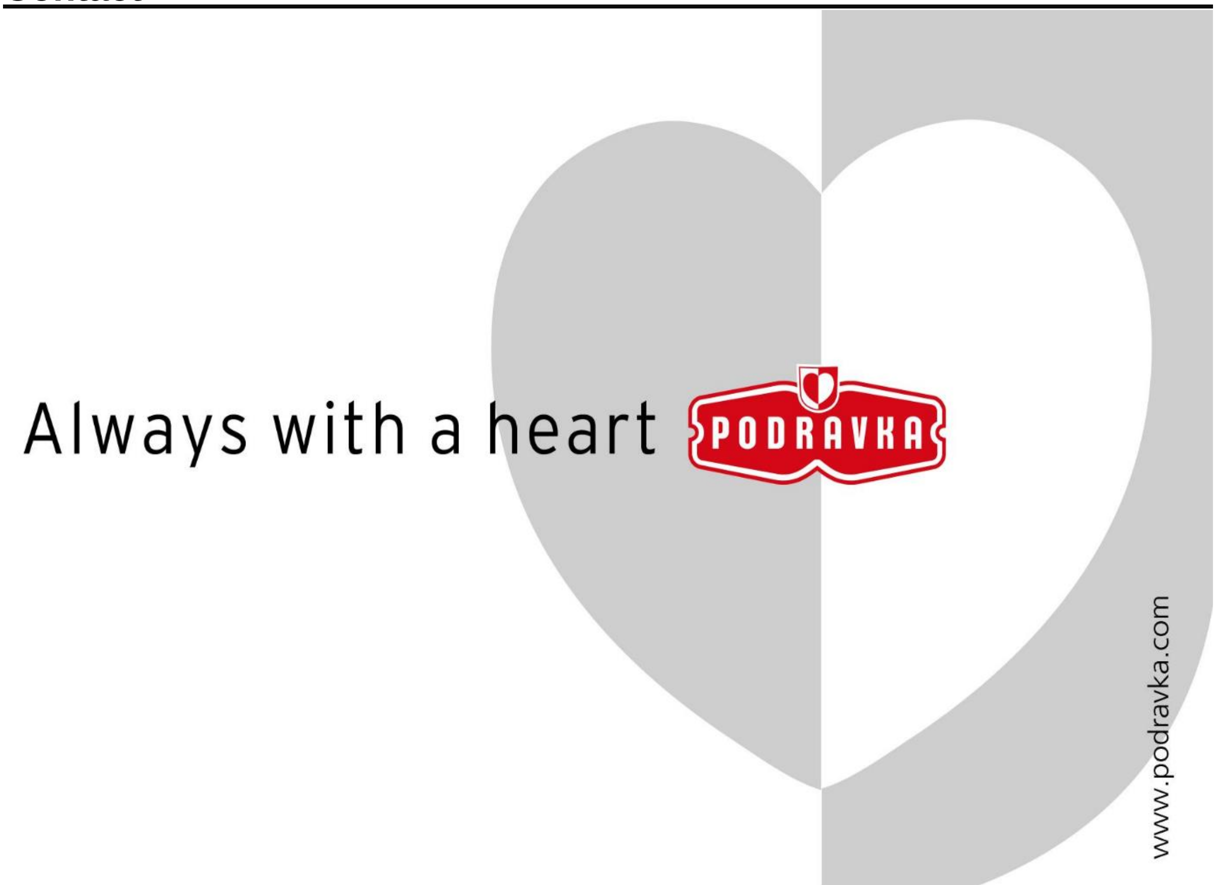
The Business Results of Podravka Group for H1 2014 period were authorised by the Management Board on 25th July 2014.

President of the Management Board:
Zvonimir Mršić

Contact



Podravka d.d.

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