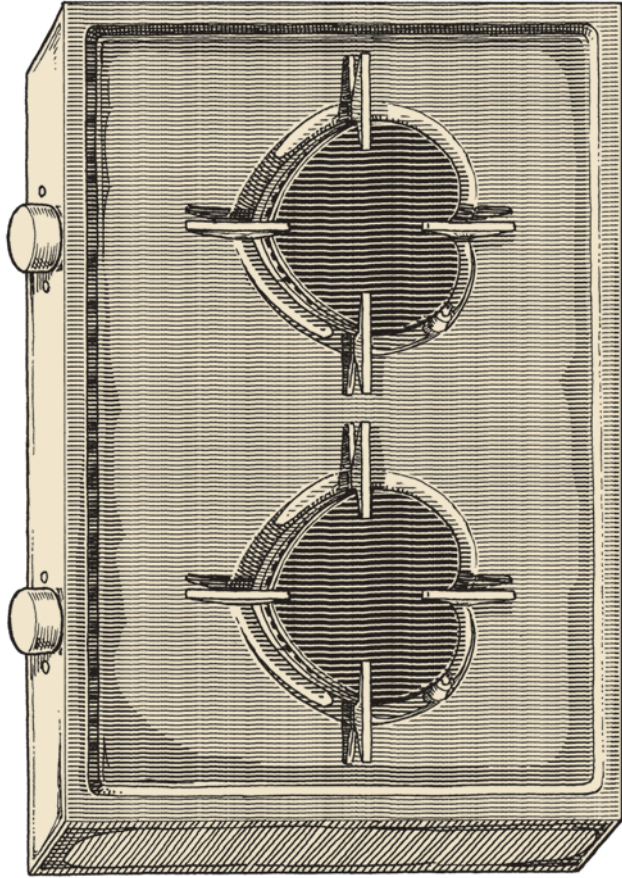


MISSION

To create high-quality branded products that acquire the trust of clients and consumers.

VISION

To be the leading food company in knowledge, consumer relations and revenues among companies headquartered in the region of Southeast, Central and Eastern Europe, as well as a pharmaceutical company which achieves more through a distinctive partnership approach.





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IMPRESUM

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PRESIDENT’S STATEMENT

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PRESIDENT’S
STATEMENT

Looking at the results achieved in 2006 we can say that they are as expected. We continued the started restructuring process and outsourced some of our non-basic activities. Some internal processes in sales, distribution, marketing, production and administrative functions are undergoing the process of turning more economical.

In 2006 Podravka realized total sales revenues amounting to HRK 3.5 million. In spite of the partial discontinuation of Nestle products distribution for the markets of Serbia, and complete discontinuation for markets of Bosnia and Herzegovina and Macedonia, total sales revenues of Podravka Group are higher than the year before. What makes us particularly pleased is that the increased revenues are primarily a result of organic growth

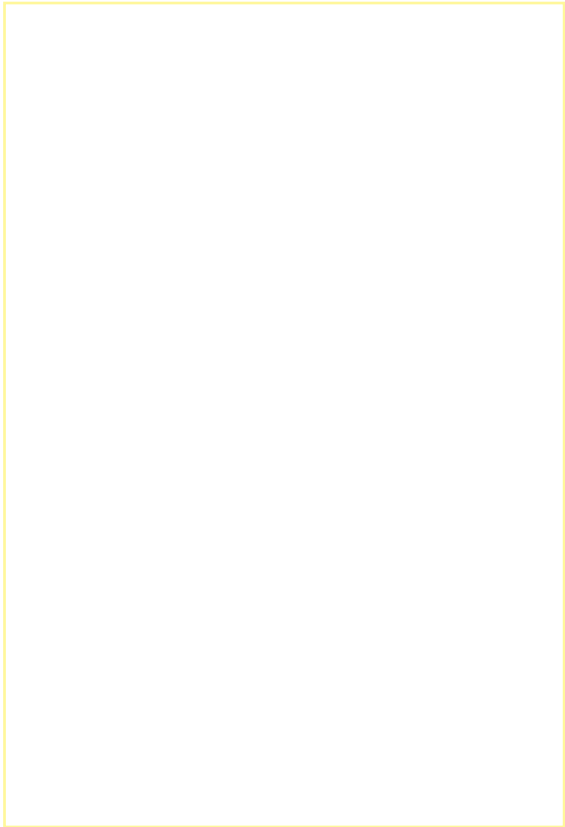
where we realize significantly higher margins compared to commercial goods. Sales growth of practically all Podravka brands completely compensates and exceeds the drop in commercial goods sale.

Looking at markets, 54% of total revenues of Podravka Group is realized in Croatian market, still the most significant market for Podravka. Share of individual foreign markets in the total sales revenue is the highest for the market of South-East Europe (22.5%), followed by market of Central Europe (12.5%), Western Europe, overseas countries and the Orient (6.4%) and market of Eastern Europe (4.4%). Also worth mentioning is the highest growth in the market of Eastern Europe, and it was 12%. We are extremely pleased with last year’s growth of

almost all Podravka brands. Per product groups, the highest growth of 7% marks the group Baby food, sweets and snack Sales growth was also marked in the category Meat and meat products (5%), Podravka dishes (4%), Fruit and vegetables (4%) and Beverages (1%), while the category Food seasonings remained at last year's level.

Our investments in 2006 were HRK 184 million, the majority of which was invested in the new baby food factory which will have the capacities to completely satisfy the demands of new generation of consumers. I would also like to mention that in the past year there was an increase in traded quantities of Podravka's share of 44%, while WACP in 2006 was HRK 400, which is 35% increase compared to the year before. In February 2006 our stock was listed in the Vienna Stock Exchange - SETX

Index, which contains blue chip stocks of the biggest companies listed in the stock markets of Zagreb, Ljubljana, Bucharest and Sofia. During the past year we were extremely active in launching new products. Among others, we have launched Čokolino Crunch and Čokolino Maxi, Vegeta piquant, Čokolino cream spread, Lino baby food with prebiotic, Podravka tortilla chips and many others. Perhaps the most interesting new product is Vegeta liquid stock for Australian market, which increased total Vegeta share on Australian market of food seasonings from 22 to 29%. This is just another in the series of examples of innovativeness and adjusting to specific needs of local markets throughout the world. Last year's activity particularly worth mentioning is the purchase of EVA – canned fish brand, where Podravka for the first time decided to purchase



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only one brand, not the entire company. Eva is one of the most accepted brands of canned fish in the markets of Croatia and South-East Europe with an enormous potential of expanding its range with new products. Purchasing renowned brands continues also in 2007.

Last year Podravka won Superbrand title in Slovakia, while Vegeta brand won that same time title for the second time in a row for Russian market.

I would also like to point out that in 2006 we presided over the Croatian Council for Sustainable Development. Along with this, we were the only Croatian member of the World Business Council for Sustainable Development, an umbrella organization which promotes and encourages the application of sus-

tainable development principles in world economy. In the past year we also continued the trend of investing into education of our employees and such investment will continue also in the future. We feel that our employees, along with our brands, are the inexhaustible source of competitive advantage.

We also believe that the upcoming business year will be even more successful and that we will continue winning the trust of our consumers on all markets.

Best regards,
DARKO MARINAC, *Management Board President*

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JANUARY

PODRAVKA – REGIONAL INVESTOR OF THE YEAR 2005 IN POLAND – Distinguished foreign companies operating in Poland were awarded the high recognition of Investor of the Year 2005 in Warsaw in late 2005. The goal of the competition, organized by the Media Partner Group and the Embassy of the Republic of France, was to honor the largest foreign enterprises that operate on Polish terrain. Companies eligible to participate in the competition were those whose investments exceed USD 1 million and are creating new jobs. Podravka won the recognition as the Investor of the Year 2005 in the Lubuskie Region.

BELUPO PURCHASED THE PARTNER'S SHARE OF DELTIS PHARM

– The president of the Management Board of Belupo, Stanislav Biondić, and Branko Tomašić, owner of the Zagreb company Deltis Pharm, signed a contract on the sale and transfer of the partner's share of Deltis Pharm, according to which Belupo acquired one hundred percent of the partner's share of the company.

BELUPO SIGNED A CONTRACT ON DISTRIBUTION AND REPRESENTATION ON THE RUMANIAN MARKET – Member of the Management Board of Belupo d.d., Hrvoje Kolarić and the owner of the Rumanian wholesale pharmaceutical company A+G Med Trading d.o.o., Adrian Cristea, signed

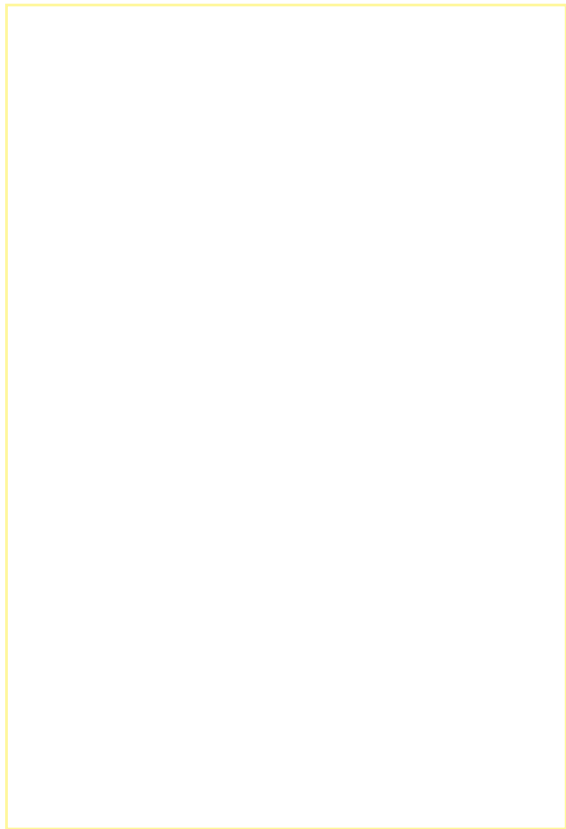
in Koprivnica a contract on distribution and representation. With this contract Belupo has authorized the whole-sale pharmaceutical company A+G Med Trading d.o.o. for import, distribution, sales and marketing on Rumanian market.

FEBRUARY

NEW PRODUCTS ON THE CROATIAN MARKET AND THE MAR-KETS OF SOUTHEAST EUROPE – In order to keep up with world food trends, particularly the rising habit to con-sume cereals for breakfast, Podravka’s Lino Team prepared for the launching of new products: Čokolino Crunch and Čokolino MAXI. Čokolino Crunch consists of chocolate-flavored cereal puffs, the favorite cereal flavor and form.

Čokolino MAXI is a mixture of Čokolino flakes, chunks of chocolate, chocolate-coated puffed-rice clusters and corn flakes. Čokolino is one of the strongest brands and the leader in the category of baby food in the region of South-east Europe. It has been on the market for a full 30 years and many generations of the youngest consumers have grown up with Čokolino.

BELUPO AWARDED THE CROATIAN QUALITY LABEL – For the third time, a product in the Belupo portfolio of medicinal products has received the Croatian Quality label. Last year this prestigious symbol was earned by Irumed and Iruzid, and this year it was awarded to only one herbal medicinal product, Ginkgo Belupo.



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SUPERBRAND RUSSIA AWARDED TO VEGETA IN MOSCOW – At a ceremony held in Moscow, Podravka was recognized for its most popular brand, Vegeta. After receiving Superbrand status in Hungary and Poland, Vegeta was awarded the status of Superbrand Russia for the year 2005. The evaluation and qual-ification of the brand was conducted on the basis of data from the research company of ACNielsen and COMCON, by an inde-pendent commission of experts consisting of distinguished professionals from the fields of marketing and branding, and from the consumers themselves. A total of 1,033 brands, which occupy leading positions in terms of sales volume and brand recognition on the Russian market, were candidates for the award and for the right to bear the symbol. The brands of

famous multinational companies dominate among the win-ners (Kodak, Goodyear, Knauf, Duracell, DHL, MasterCard, etc.) and domestic Russian brands (Aeroflot, Ruska gazeta etc.) and Vegeta is one of the very few brands from this part of Europe that have been awarded the status of Superbrand.

TENNIS TOURNAMENT IN UMAG TO BE CALLED ATP STUDENA CROATIA OPEN UMAG – According to a three-year spon-sorship contract among Podravka and the companies Istragolf and Istraturist, organizers of the ATP from Umag, Podrav-ka’s well-known brand Studena has become the title sponsor of the tournament that will be held for the next three years under the name ATP Studena Croatia Open Umag. Next to this

contract, the Contract on commercial cooperation between Istraturist and Podravka was also signed, which will increase the business between the two companies by a third.

CONFERENCE OF INTERNATIONAL MARKETS HELD – Two-day Conference of international markets was held at Podravka, assembling the top management of Podravka’s international companies from all over the world. During the presentation, Management Board member Goran Markulin called attention to the performance achieved during the year 2005, the goals and guidelines in the year 2006, and the continued efficiency of the system of sales and distribution on the markets. It was emphasized at the conference that it is necessary to continue working on building and developing strong mana-

gement on the markets, focusing on the efficiency of the sales and distribution systems, optimizing market expenditures, raising the level of the quality of the management of distributors, and continuing to introduce modern systems such as SAP. Furthermore, continued organic growth is anticipated on the markets and an increase in the market share and index of distribution. All in all, it was said at the conference that the year 2006 would be a year of growth and changes.

PODRAVKA REWARDS EMPLOYEE INNOVATION – In order to encourage company employees to get active in development, innovations and improving operational processes, the Management Board of Podravka has issued regulations for rewarding employees whose ideas contribute to improving processes

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within the company. With this act, the Management Board wants to motivate employees and reward them for ideas and creativity. Podravka’s development owes much to the innovativeness of its employees, the most famous being the team of prof. Zlata Bartl that invented Vegeta. Every employee is welcome to submit proposals for improvements in the operating process. Employee proposals will be assessed by a specially formed commission.

MARCH

READY-MADE MEALS FOR THE MARKETS OF SOUTHEAST EUROPE – From the range of Podravka’s ready-made meals, a new innovative line has arrived to the markets of Southeast Europe.

Italian cuisine is represented by Lasagne Bolognese, Mexican by Chilli con Carne, Spanish by Paella, and the assortment is completed by Lentil with Sausages, Veal in White Sauce and Tuna in Tomato Sauce. The main feature of these products is their quick preparation; it is sufficient to heat them in a microwave oven for 2 minutes or in boiling water for 15 minutes.

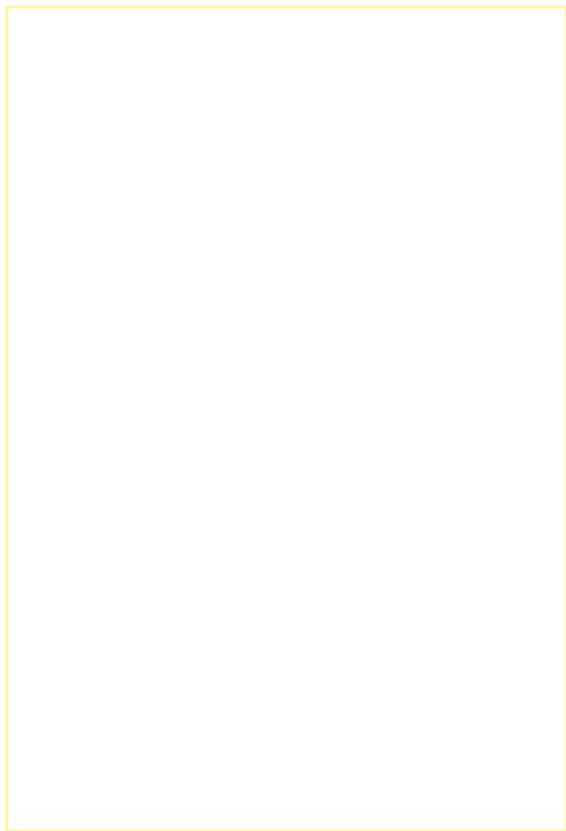
NEW ORGANIZATIONAL SCHEME AS OF 1 MARCH – As of 1 March, Podravka Group has been operating under a new organizational scheme. Individual parts of the existing organizational system, which was set up on 1 July 2004, had not corresponded to their function in practice, so the need arose for the definition of new processes to be completed within new

organizational units. Similarly, in order to reduce expenditures, there must be a reduction in the number of organizational units and, consequently, managerial positions in some parts of the organization.

VEGETA LEADS ON THE CROATIAN MARKET – Vegeta is the leading brand on the Croatian market, followed by Zvijezda oil, Ariel, Zvijezda mayonnaise and Coca-Cola, according to a market research study conducted by the agency Prizma in 2005 on a sample of eight thousand persons. The strongest brand in the markets of Croatia, Slovenia, Bosnia and Herzegovina and Serbia is Milka, the second strongest is Coca-Cola, the third Lenor, and Vegeta comes fourth as the best placed Croatian brand in the region. Next to Vegeta, the only

regional brand among top ten is Grand coffee, produced in Serbia. The next Croatian brands in terms of strength in the region are Podravka soups in fourteenth place, followed by Kiki toffee candy in thirty-first place and Zdenka processed cheese in thirty-third place.

SPECIALIZED STORE WITH PODRAVKA PRODUCTS OPENS IN ZAGREB – The cooperation of Podravka and Danica, Podravka's meat industry, with the Islamic community in Croatia has been strengthened with the opening of a specialized store within the premises of the Islamic Center on Gavella Street in Zagreb. This store sells Danica's meat and meat products, as well as the complete Podravka product assortment. Members of the Islamic faith gather at this Islamic center.



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EXECUTIVE COUNCIL SESSION OF THE FOOD INDUSTRY AND AGRICULTURE ASSOCIATION – An expanded session of the Executive Council of the Food Industry and Agriculture Association was held in the Podravka administrative building. The agenda of the session included a discussion on the anticipated operations of the Croatian food industry on the path and under the conditions of globalization. The members were also informed of the results of a joint meeting with representatives of the unions and employers with Minister Petar Čobanković on the current problem of agricultural land.

ZORAC – THE FIRST ANTIPSORIATIC ON THE CROATIAN MARKET – Belupo's antipsoriatic Zorac, generically known as

tazarotene, was presented before nearly 140 dermatologists from all over Croatia at the Regent Esplanade Hotel in Zagreb. This is the first medicinal product of its kind on the Croatian pharmaceutical market that is on the positive list of the Croatian Institute for Health Insurance (HZZO) and will greatly improve the quality of life for nearly 100,000 patients in Croatia.

APRIL

PODRAVKA AT MOSTAR FAIR 2006 – At the Ninth Mostar International Fair – 2006, over 500 exhibitors from 30 countries from all the continents made presentations, Podravka being among them. The Chamber of Economy of Koprivnica-Križevci

county presented its economic potential next to Podravka's presentation of itself at the fair.

PODRAVKA AWARDED SUPERBRAND SLOVAKIA – Having received Superbrand award in Poland, Hungary and Russia, Podravka received new Superbrand recognition, this time on the Slovakian market. Unlike other recognitions that has been awarded for the Vegeta brand, on this occasion the Podravka brand received the award. This is actually the same product, universal food seasoning, but here it is known under the name of Podravka, and not Vegeta. In the year 1993, the Czech company of Vitana protected the name of Vegeta on the markets of the Czech Republic and Slovakia and Podravka in these markets sells its most recognized product,

Vegeta, under the name of Podravka – food seasoning, maintaining all the recognizable attributes of Vegeta (blue color, cook, vegetables, the identical ingredients etc.).

PODRAVKA AND THE CROATIAN CULINARY FEDERATION SIGN A CONTRACT ON COOPERATION – The secretary of the Croatian Culinary Federation, Borislav Šimenc, and a member of Podravka Management Board, Saša Romac, signed in Koprivnica a five-year contract on business cooperation. Podravka's annual support to the Federation will not be less than HRK 300 thousand, i.e. the total value of the contract is a minimum of HRK 1.5 million. Croatian Culinary Federation gathers more than 2,000 renowned chefs. The Academia Culinarica Croatica, the Croatian

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Culinary Cup, the Vegeta Cup, the state chefs' competition Golden Cook and numerous projects of the national chefs' team, are some of the activities of the Croatian Culinary Federation.

VEGETA LIMITED EDITION – On the markets of Central Europe and Southeast Europe parallel Easter campaigns are being conducted under the name Vegeta Limited Edition. This one-month promotional campaign features a limited quantity of Vegeta products packed in an interesting and attractive 250 g bags at a special price. Due to the signature on the bag, the slogan of the entire campaign will be Vegeta Limited Edition, Signed by the Masters.

PODRAVKA READY-MADE MEALS PRESENTED – At the Zagreb Movie Pub, a presentation was held of Podravka's ready-made meals. Together with the main hostess of this event, Sanja Doležal, well-known media figures participated in the presentation of each individual meal. The tasting of these new Podravka products from the assortment of Podravka's Ready-Made Meals received extensive media coverage.

SECOND CAREER DAY - BELUPO PRESENTS ITSELF TO PROSPECTIVE EMPLOYEES – In approximately one hour, over a hundred curricula vitae were received at the Belupo stand. This year's Second Croatian Career Day was attended by over 5,000 young

persons, college students, and jobs could be found for 200 to 300 of them, said the organizer Nenad Bakić, the director of the Selectio Group, which includes the portal MojPosao (My Job), as he opened the event. 42 companies made presentations at the Career Day.

MAY

ISSUE OF PODRAVKA KUNA BONDS IN THE AMOUNT OF HRK 375 MILLION – Podravka opened the sales book on five-year HRK bonds issue in the amount of HRK 375 million. Podravka is the first company outside the banking segment that has approached the issue of HRK bonds. As with the inaugural edition of Podravka bonds in February 2004 (EUR 27 million, maturity in 2007), with this edition Podravka once again made

a significant contribution to the development of the Croatian capital market in the corporate segment. The bonds were first listed on the Official Market of the Zagreb Stock Exchange on 19 May 2006, when bond trading also began on the secondary market. In comparison to the issue of the new bonds, Podravka offered to buy up the existing euro denomination bonds from investors or replace them with the new bonds, at a price of 100.90 percent.

VEGETA LIQUID STOCK ON THE AUSTRALIAN MARKET – Podravka has launched four new products on the Australian market – liquid stocks under the Vegeta brand: gourmet, chicken, chilli and garlic. Liquid stocks are new products in the portfolio of the Vegeta brand, and were developed in cooperation

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between Podravka d.d. and Podravka International Sydney, which has done business on the Australian market since 1994. These products were created and adapted to the habits of Australian consumers. The goal is to take 10% of the liquid stock market, valued at 33 million Australian dollars, with these new products in the first year.

AGREEMENT SIGNED ON PROTECTING THE WORKER RIGHTS OF KOPRIVNIČKA TISKARNICA – Podravka Management Board member Zdravko Šestak, signed an agreement on protecting worker rights of Koprivnička tiskarnica printing plant with the chief union commissioner, Dražen Horvat, who represents the Union of Employees in Agriculture, the Food

Industry, the Tobacco Industry and Water Management of Croatia (PPDIV) at Koprivnička tiskarnica, and the director of the Koprivnica printing plant, Neven Magdić. This is a key document prior to the separation of the Koprivnica printing plant from the Podravka Group, which will have the force of a collective agreement.

The agreement guarantees that the worker salaries will not be lowered, regardless of possible changes in a worker's job, changes in the operational organization and the systematization of jobs, changes in regulations etc. Similarly, the existing place of work will not be changed, unless the change is to the advantage of the worker. Three years after the sale, the provisions of the Collective Agreement of Podravka will be applied

to the workers, as well as to all the workers of Podravka d.d. Six years after the signing of the sale contract, workers will not be dismissed for business or personal reasons without the approval of the Workers' Council of Koprivnička tiskarnica d.o.o.

JUNE

PODRAVKA AWARDED FOR THE BEST INDUSTRIAL SHARE – The ninth ceremony for the traditional award of the Golden Share was held at the Regent Esplanade Hotel in Zagreb. Podravka was awarded as the best industrial share. Zagreb company Dalekovod, after having won three Golden Shares, was this year's overall winner and the recipient of the Golden Share for the year 2005.

PODRAVKA SOLD KOPRIVNIČKA TISKARNICA D.O.O. – In Koprivnica, a member of the Podravka Management Board, Zdravko Šestak, and the director of Grafičar d.d. of Ludbreg, Franjo Beser, signed a contract pursuant to which Podravka sold one hundred percent of the shares of the Koprivnica printing plant to Ludbreg company. In this manner, the process of spinning-off Koprivnica printing plant from the Podravka Group was completed, and in a transparent process that lasted for 10 months, the Grafičar company from Ludbreg was chosen as the most suitable bidder that accepted all the sale conditions. At the signing, the two companies simultaneously entered into four contracts: the contract on the sale and transfer of the partner's share, the contract on the procurement of packaging

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and other products (pursuant to which Podravka guarantees many years of orders from Grafičar), the contract on the lease of business premises and the contract on real estate purchase option. These four contracts constitute a single entity and Podravka and Grafičar are liable for their fulfillment to be valid before the law. The valuable real estate located in the center of Koprivnica was separated and therefore not part of the sale.

BELUPO'S JUNE DERMATOLOGY WORKSHOPS – Belupo's dermatology workshops were held in Čakovec, Vukovar and Osijek with the subject "The Most Frequent Dermatoses Encountered in General Medical Practices." The selected

lecturers were local specialists in dermatovenerology. The goal of these lectures was to remind physicians one more time of Belupo's wide range of local dermatics and their rational application in various types of dermatoses.

JULY

BELUPO SIGNS DISTRIBUTION CONTRACT FOR ALBANIAN MARKET – Representatives of Belupo and Albanian company CHYNETIC d.o.o. from Tirana signed in Koprivnica a contract on representation and distribution of Belupo's products in the market of the Republic of Albania. Belupo agreed on long term cooperation with this partner for the Republic of Albania in the area of registration and distribution of

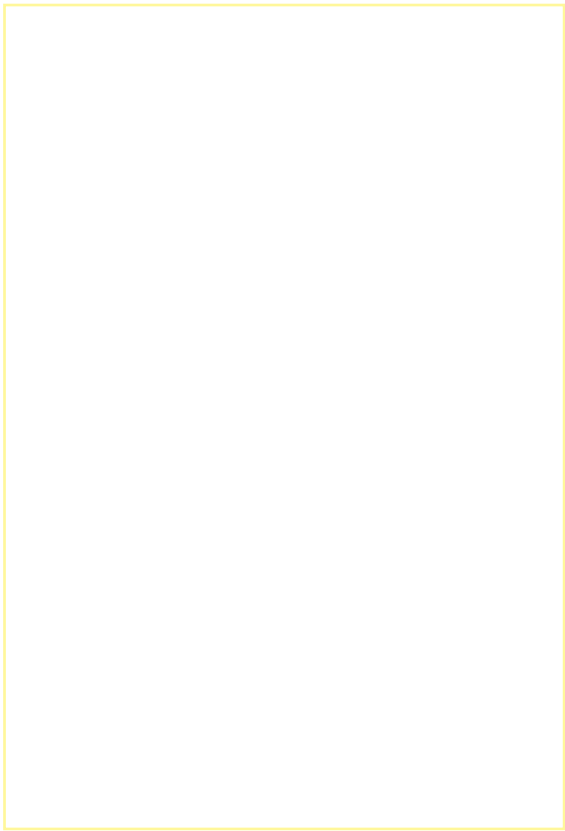
selected Belupo’s medications from the group of dermatic medicines and medicines for the nervous system.

STUDENA WEB SITE REDESIGNED – After nearly two years, the web site of the well-known brands Studena and Studenac, www.studena.com.hr, was redesigned. The presentation of the new Studena and Studenac web site is the continuation of highly successfully cooperation with the agency Skin29 from Koprivnica.

ATP STUDENA CROATIA OPEN UMAG – On the tennis courts of Stella Maris in Umag, competition began on July 24 at the 17th Umag tennis tournament, which takes its name this season from the sponsor and is known as the ATP Studena Croatia

Open Umag. Podravka has a noteworthy role because besides Studena in the name of the tournament, there are numerous promotional campaigns being conducted there, with Podravka’s culinary promoters running the show.

PODRAVKA BECOMES THE FIRST CROATIAN MEMBER OF THE INTERNATIONAL BUSINESS LEADERS FORUM – IBLF – Podravka became the first Croatian corporate member of the International Business Leaders Forum (IBLF), and Darko Marinac, Podravka Management Board president was elected member of the IBLF’s Council where there are other 55 chairmen or board members of leading world companies. This year’s gathering of IBLF’s members was held in London. Conversing to Darko Marinac, British heir to the throne, prince



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Charles, president of this leading world business association, inquired about the economic development of Croatia and its inclusion into international integrations.

AUGUST

BABY FOOD FACTORY, CONSTRUCTION WORKS BEGIN – With the completion of the earthwork at the location of the future new factory, right next to the Linolada Factory, and the selection of Radnik construction company from Križevci as the contractor, construction work began on the new Baby Food Factory.

POTENTIALS FOR MARKET COOPERATION WITH IRAN – The Ambassador of the Islamic Republic of Iran to the Republic

of Croatia, Jafar Shamsian, visited Podravka. “Iranian market has great potential and possibilities for mutual business expansion,” said Jafar Shamsian.

SEPTEMBER

PODRAVKA SOUPS IN NEW PACKAGING – The project included all the soups, with the exception of the classics – Chicken soup and Beef Noodle Soup – which have become symbols of Podravka soups on certain markets with their distinctive and clear designs. The complete redesign of Podravka soups was entered to make it easier for consumers to find their favorite Podravka soups on store shelves. Therefore, it was decided to differentiate the subgroups of clear soups, cream

soups and children's soups with colors. This way Podravka is continuing its successful cooperation with the agency Bruketa&Žinić^{OM}.

NEW CHALLENGES FOR THE MARKET OF BOSNIA AND HERZEGOVINA CONFERENCE HELD – In Budva, a regular conference was held by the sales operative Podravka Sarajevo. The working part of the conference related to market movements in 2006. The results of operations and the circumstances that affected operations, such as the introduction of value-added tax in Bosnia and Herzegovina, were also covered. There was special praise for the IT department, Logistics and Accounting department who participated in the project of the computerization of the company. At the end of the conference, diplomas

were awarded to company sales representatives of Podravka in Bosnia and Herzegovina.

NEW PRODUCT – VEGETA PIQUANT – Vegeta piquant is a new product in the seasonings category, with chilli peppers added to the original combination of vegetables and seasonings. Vegeta piquant imparts a moderately spicy flavor to foods. Vegeta piquant, a completely new product on the market, is also a link between the categories of universal and special seasonings.

BELUPO AWARDED THE GOLDEN MARTEN FOR THE MOST SUCCESSFUL LARGE COMPANY – The Golden Marten was awarded to the most successful companies in Koprivnica-

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Križevci county for the year 2005 at a formal session of the Economic Council of the Koprivnica Chamber of Economy. Belupo was named the most successful large company. The award description, among other things, states that this year the company commemorated its 35th anniversary of successful operations and is the leading pharmaceutical company in Croatia in terms of the sales of medicinal products acting on the cardiovascular system and skin, and records continuous growth in sales in the group of medicinal products acting on the nervous system.

GOLD IN NEW YORK FOR BRUKETA&ŽINIĆ^{OM} AND PODRAVKA'S ANNUAL REPORT – Bruketa&Žinić^{OM} won gold and the grand

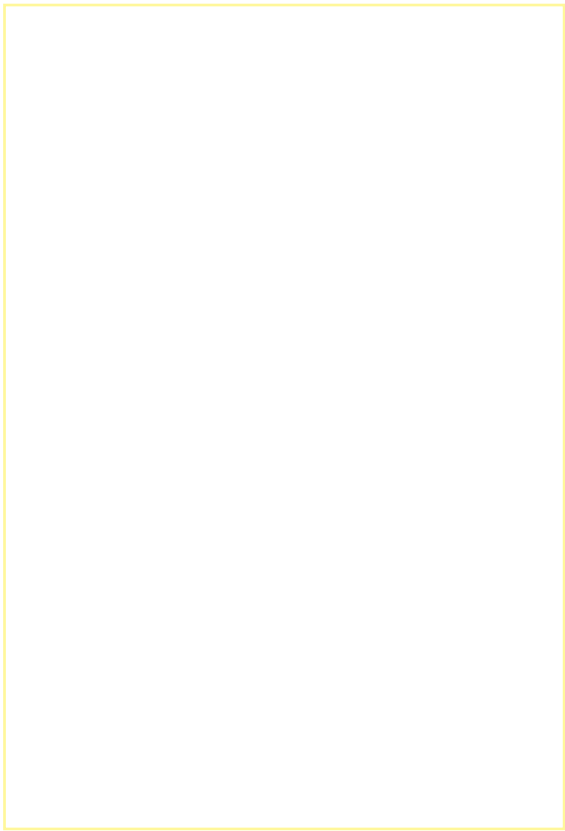
award at the international competition honoring outstanding achievements in the area of annual reports, the ARC Awards 2006. This is the only competition of such importance specializing exclusively in annual reports. This year, the 20th competition aroused great interest and attracted a record number of 1,900 competitors from various countries of the world. Bruketa&Žinić^{OM} won gold for the Annual Report "Feed Me," presenting Podravka's operations for the year 2004.

PODRAVKA CONTINUES THE OUTSOURCING PROCESS – After successfully completing the outsourcing process of Koprivnička tiskarnica from Podravka Group, the Board has

reached a decision on intended sales model for parts of the company performing non-basic activities: office building cleaning, perimeter and drains cleaning, laundry, green surfaces maintenance, catering and Kraluš beer hall. Outsourcing of those activities should finish by the end of March 2007, and the process includes 150 people. Restructuring of non-basic activities before the sale also includes reduction of employees working in plants scheduled for sale. The Board has for that reason decided to hire 40 people in the Production II plant for an indefinite period by releasing an internal announcement of vacancies to which workers in the sector Services management, Energetics and technical services can apply.

REDESIGNED COOLINARIKA.COM LAUNCHED – Podravka launched its redesigned culinary portal Coolinarika.com. A complete turnabout was made in the sense of increasing interaction in Podravka’s communication with the users of Coolinarika, as well as mutual communication among the registered users, who now number approximately 30,000. Visitors to the new Coolinarika can have a personal page with private and public content.

OCTOBER
BELUPO DAYS – The traditional 13th Belupo Days were organized at the end of October in Dubrovnik and attracted approximately two hundred participants. The meeting was organized under Belupo’s slogan: “Croatian Quality



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for European Future,” and also included a celebration of Belupo’s 35th birthday. “We have become a company whose performance is comparable to that of similar companies in Western Europe. With our portfolio of approximately eighty preparations, produced in two hundred forms, we have a guaranteed European future,” said Belupo Management Board president Stanislav Biondić.

EVA BRAND PURCHASED – Recognizing the potential of the fish business, Podravka purchased Eva brand from the Zadar company Adria. Eva brand has been present on the markets of Croatia and Eastern Europe for many years and integrating into Podravka’s system, Eva has strengthened the portfolio of

Podravka’s brands and will be the linchpin of development in the future category of Fish and Fish Products. Podravka’s goal with the Eva brand on the markets of Croatia and Southeast Europe is to become the leading company in meeting consumer demand for canned fish and other fish products.

ČOKOLINO ALL-ROUNDER COMPETITION OPENED – The Croatian daily sports newspaper Sportske novosti and Čokolino are organizing sports competition Čokolino all-rounder. Sports competition for elementary school students in Croatia is conducted under the slogan “And what will you be when you grow up?”. At the Ivan Kozarac Elementary School in Županja, the opening of the manifestation and

the first competitions were held. This project is only one in a series of Podravka's activities in the promotion and development of professional, amateur and school sports.

INTRODUCING NEW PACKAGING PRODUCTION LINES IN PODRAVKA'S MEAT INDUSTRY – New packaging production lines have been presented to the public at Podravka's meat industry Danica. They are two new automatic lines for packaging meat cans and Beef goulash, worth about HRK eight million, being the biggest investment into meat industry in the past two years.

ZLATA BARTL, HONORARY CITIZEN OF KOPRIVNICA – Prof. Zlata Bartl was proclaimed an honorary citizen of the city of Koprivnica at a session of the Koprivnica City Council for her

exceptional merit in the area of the economy and the development of Koprivnica. Prof. Bartl is the third person in the independent Republic of Croatia to receive this prestigious recognition (the others were Alois Mock and Žarko Dolinar).

THE PRIME MINISTER OF THE REPUBLIC OF MOLDOVA VISITS PODRAVKA – The Prime Minister of the Republic of Moldova, Vasile Tarlev, visited Podravka. At a working meeting, the members of the Moldovan delegation presented their economy and the possibilities for cooperation with companies in their country. Prime Minister Tarlev pointed out that the Moldavian market offers interested companies direct export to all the countries of the former USSR.

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PODRAVKA
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NOVEMBER

AFTER TWO MONTHS OF RENOVATION PODRAVSKA KLET RESTAURANT REOPENED – Podravka's well-known restaurant, Podravska klet, has reopened its doors after two months of renovation. The new roof was installed on the restaurant by Hungarian craftsmen, due to the specific nature of its manufacture. The interior of the restaurant has also been renovated, especially the cellar which now has sofas designed by Zlatko Kauzlarić-Atač, a comfortable place for relaxing with cognac and cigars. Furthermore, in cooperation with Electrolux, alterations were completed in the restaurant kitchen. These two months of renovation and modernization cost Podravska klet approximately HRK 1.5 million.

BANANA ČOKOLINO – NEW PRODUCT IN THE BABY FOOD CATEGORY – Based upon strong traditions and the application of the newest trends in baby food, a new product under the Lino brand has been developed – Banana Čokolino. This is a natural, nutritious and easily digested product without preservatives and artificial additives such as dyes and flavorings.

CHOPPED TOMATOES WITH OLIVES – AN EXAMPLE OF A SUCCESSFUL AND MODERN DESIGN – Podravka's product Chopped Tomatoes with Olives has been included in an issue of the Design Manual Tetra Recart, published by the company Tetra Pak in November of this year. Since the product Chopped Tomatoes with Olives is recognized as an example

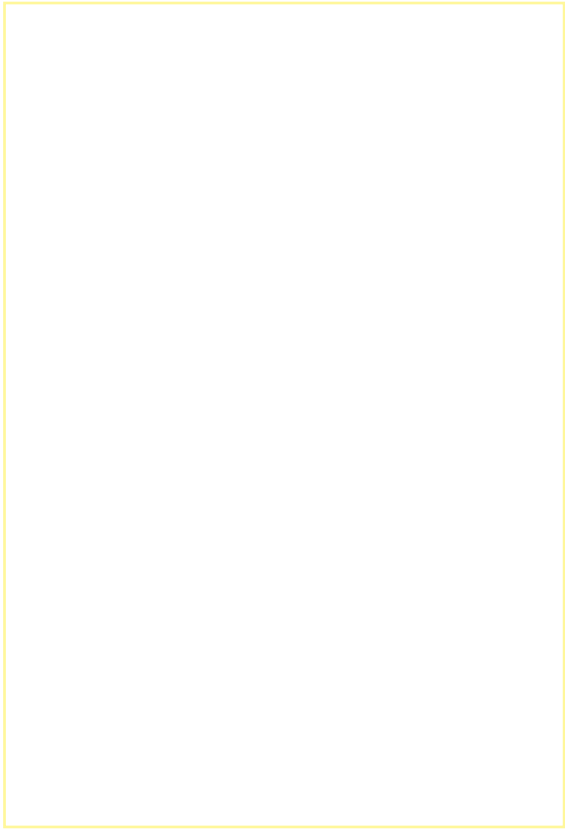
of successful and modern design, publication in the Design Manual Tetra Recart represents a type of recognition for the Preserved Vegetables and Condiments team and an incentive to continue work in the Tomato Category. Design was the work of the agency Piktogram and Podravka's partner Columbus chose this design as a good example for their packaging innovation, Tetra Recart.

THE FIRST CROATIAN CONGRESS ON HYPERTENSION WITH INTERNATIONAL PARTICIPATION – The First Croatian Congress on Hypertension with International Participation, organized by the Croatian Society of Hypertension and the Croatian Medical Association, was held in Zagreb. The congress was attended by over 600 physicians from all over Croatia. This

gathering had exceptional significance for Belupo. It was here that the results of BEL-AH (Belupo in arterial hypertension) studies on the treatment and control of arterial hypertension in Croatia, conducted by Belupo in cooperation with the Department of Nephrology and Arterial Hypertension of the Rebro Clinical Hospital Center, were presented.

DECEMBER

INVESTMENT IN DUGOPOLJE WORTH HRK 29.3 MILLION – Podravka's Supervisory Board approved the Management Board's investment worth HRK 29.3 million to build a distribution warehouse in Dugopolje. This would be the first distribution center in Dalmatia and the works are planned to be completed by June 2007. This distribution center will



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be a high-rack warehouse, completely automated and computerized, it will have more than five thousand pallet places and will employ about 70 people.

INTERNATIONAL AWARD FOR PODRAVKA AND BRUKETA&ŽINIĆ^{OM} – The prestigious Good Design award was presented for Podravka's Annual Report for 2004 entitled "Feed Me", prepared for Podravka by the advertising agency Bruketa&Žinić^{OM}. Good Design is the oldest design competition. It is organized by the Chicago Athenaeum, an international museum of architecture and design, the only museum of its kind in the United States. Having won this competition, the work "Feed Me" will be included in the museum's annual publication.

CROATIAN ART SOCIETY HALL BECOMES A GIANT SOUP POT – Art Society Hall in Zagreb adopted a new appearance for the purposes of Christmas and New Year's holidays. Giant soup pot with a big spoon heated by burners symbolizes 50th anniversary of Podravka's soups. Authors of this creation are agencies Katapult and Bruketa & Žinić^{OM}, who have together with Podravka devised the entire project. Podravka used the newly decorated Hall to "cook" two Christmas parties for its business partners, to thank them on their cooperation and to wish them all the best in the following year.

PODRAVKA GROUP BUSINESS RESULTS

FOR 2006

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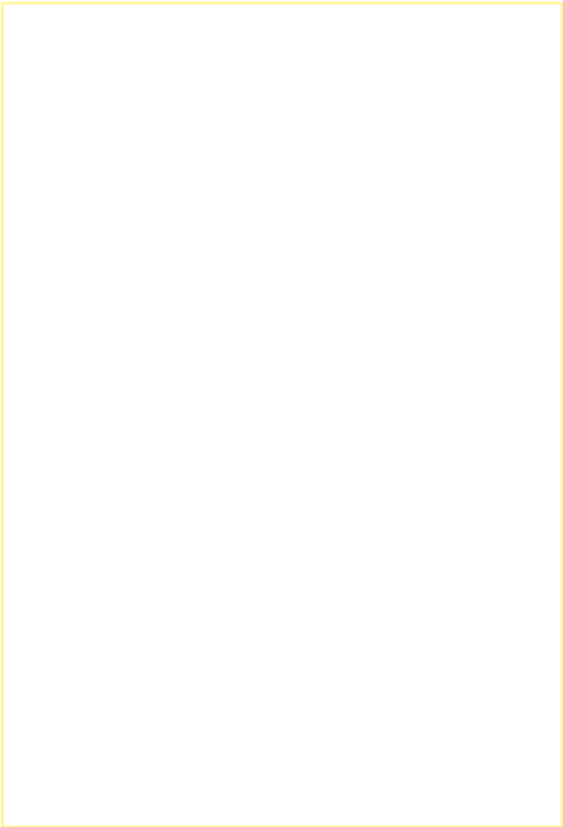
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PODRAVKA GROUP
BUSINESS RESULTS

BASIC EVENTS

1. All Podravka brands mark significant growth, completely compensating and surpassing the drop in the Commercial goods segment.
 - 1.1. The highest growth of 7% marks product group Baby food, sweets and snack. The increase is mostly contributed by sales growth of cereals (Čokolino Crunch and Čokolino MAXI), spreads and dehydrated baby food.
 - 1.2. Growth is also realized by other product groups: Podravka dishes and Fruits and vegetables (4%), Meat and meat products (5%) and Beverages (1%).
2. Croatian market marks 4% organic growth in SBA Food and beverages.
3. Discontinued distribution of Nestlé products in the third quarter in 2006 in Serbia partially, and completely in the markets of Bosnia and Herzegovina and Macedonia, resulted in 13% drop of commercial goods in the markets of Southeastern Europe, which was compensated by significant organic growth of 7%.
4. Gross profit is HRK 1,351.2 mil. which is 1% increase.
5. EBIT is HRK 126.2 mil. which is 48% increase compared to 2005.

- 6. Restructuring process continued: non-basic activities spin-off, rationalization of internal processes in sales, distribution, marketing, production and administrative functions.
- 7. Investments in the observed period were HRK 182.3 mil.
- 8. Corporate bond in HRK issued in May worth HRK 375 mil.
- 9. General Assembly of Podravka shareholders elected new members to the Supervisory Board: Mr Damir Felak, Mr Josip Pavlović, Mr Dražen Sačer, Mr Dubravko Štimac and Mr Mladen Vedriš, who was at the constituting session of Supervisory Board elected Supervisory Board president.
- 10. New products in 2006: Čokolino MAXI and Čokolino Crunch cereals, Čokolino chocolate cream spread, Vegeta liquid stock for Australian market, Lino baby food with prebiotic, Podravka tortilla chips and other.
- 11. EVA – canned fish brand purchased.
- 12. Podravka received Superbrand title in Slovakia and Vegeta Superbrand in Russia.
- 13. Management Board suggested and Supervisory Board accepted the proposal to Shareholder Assembly about dividend payoff for 2006 amounting to HRK 5.00 per share.



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PODRAVKA GROUP
BUSINESS RESULTS

SALES REVENUE

Sales growth of practically all product groups within SBA Food and beverages, emphasizing here 7% sales increase in Baby food, sweets and snack, 5% sales growth in Meat and mead products and 4% sales growth in groups Podravka dishes and Fruits and vegetables, resulted in organic sales of HRK 2,183.7 mil. which is 2% increase compared to 2005.

SBA Pharmaceuticals marks 8% growth in foreign markets, but due to 3% drop in domestic market, a result of restrictive policy by the Croatian Institute for Health Insurance (the prices have been corrected three times during the year) and the prices of Iru-med and Iruzid dropped due to their transfer to generic group of medicines, in total Pharmaceuticals marks 1% sales drop.

SALES PER STRATEGIC BUSINESS AREAS IN MIL. HRK

SBA	2006		2005		Index
	Amount	%	Amount	%	
Food and beverages	2,852.0	82.3	2,819.1	81.9	101
Pharmaceuticals	605.1	17.5	612.0	17.8	99
Services	10.3	0.3	10.3	0.3	101
Total	3,467.5	100.0	3,441.4	100.0	101

SALES PER PRODUCT GROUPS IN MIL. HRK

PRODUCT GROUP	2006		2005		Index
	Amount	%	Amount	%	
Vegeta – food seasonings	653.1	18.8	659.0	19.1	99
Podravka dishes	244.4	7.0	234.7	6.8	104

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Baby food, sweets and snacks	290.1	8.4	270.6	7.9	107
Meat and meat products	328.4	9.5	312.3	9.1	105
Beverages	155.7	4.5	153.4	4.5	101
Rice, legumes and other products	148.5	4.3	163.4	4.7	91
Fruit and vegetables	246.8	7.1	237.3	6.9	104
Commercial goods	657.6	19.0	678.7	19.7	97
Other (Food and beverages)	127.4	3.7	109.5	3.2	116
Pharmaceuticals	605.1	17.5	612.0	17.8	99
Services	10.3	0.3	10.3	0.3	101
Total	3,467.5	100.0	3,441.4	100.0	101

		2006		2005	Index
MARKETS	Amount	%	Amount	%	2:4
Croatia	1,880.8	54.2	1,829.1	53.2	103
South-East Europe	778.7	22.5	789.2	22.9	99
Central Europe	434.8	12.5	469.8	13.7	93
Western Europe, overseas countries and Orient	222.0	6.4	218.3	6.3	102
Eastern Europe	151.3	4.4	134.9	3.9	112
Total	3,467.5	100.0	3,441.4	100.0	101

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PODRAVKA GROUP BUSINESS RESULTS

Sales in the South-Eastern Europe was marked by the discontinuation of Nestlé products distribution in Serbia in small stores and a complete discontinuation of Nestlé products distribution in Bosnia and Herzegovina and Macedonia in the third

quarter 2006, which is a reason of 13% sales drop in Commercial goods. Loss of this revenue is successfully compensated by 7% organic growth. The highest growth was marked in Serbia (24%) and Slovenia (4%).

Western Europe, overseas countries and the Orient market marks 2% sales increase compared to 2005. SBA Food and beverages marks 7% organic growth on that market, mostly contributed by 6% sales growth of Vegeta-food seasonings. Most success is achieved in Vegeta sales in Australia where the new product Vegeta liquid stock increased Vegeta sales in the country for 34%. Also significant for this market is the entry of some categories from Podravka portfolio into Lidl commercial chain on German market.

Business in the market of Central Europe is marked by significant reduction in production of private labels in Rice and legumes, reduction of service production for Kraft Foods (Tang) and reduced sales of dried fruit as a low-profit program, with the purpose of improving the profitability of that market.

Dependant companies in Poland were merged and Czech/Slovakia production was also merged, significantly rationalizing business in that market. Aside from 7% sales drop in the market of Central Europe, profitability is improved on all levels.

STRUCTURE OF OPERATING COSTS IN MIL. HRK

	2006		2005		Index
	Amount	%	Amount	%	
COSTS					2:4
Costs of products sold	2,116.3	62.6	2,104.5	62.6	101
Costs of sales and distribution	906.0	26.8	899.4	26.7	101
General and administrative costs	359.2	10.6	359.2	10.7	100
Total	3,381.5	100.0	3,363.1	100.0	101

Operative costs mark 1% growth with parallel growth of sales and distribution costs and products sold costs while administrative costs remain at 2005 level.

In the sales and distribution costs structure there are also marketing costs which grew about 9%.

PROFITABILITY OF THE PODRAVKA GROUP

In 2006 the restructuring process was more intense than in 2005 and restructuring costs were significantly higher. Net effect of restructuring costs was about HRK 46. mil. on the overall result. Without the restructuring costs net profit was HRK 106.2 mil. which is 52% higher than in the previous 2005, when the profit without restructuring costs was HRK 70.0 mil. Net margin is 3.1% and is 103 bp higher than in 2005. EBIT margin is 5% and is 226 bp higher than last year while gross margin was increased by 12 bp and is 39%.

Taking restructuring costs into account when calculating profitability, net profit is HRK 60.4 mil. which is 4% less than net profit in 2005, while net margin is reduced by 8 bp and is 1.7%. EBIT is 126.2 mil. and is 48% better than EBIT in 2005, while EBIT margin is higher by 116 bp and is 3.6%. Gross profit increased by 1% with the gross margin of 39%, which is 12 bp increase. Earning per share is HRK 11.24.



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PODRAVKA GROUP
BUSINESS RESULTS

PODRAVKA GROUP PROFITABILITY IN MIL. HRK	2006	2006 without restructuring costs	2005	2005 without restructuring costs	change (2/4)	change (3/5)
Sales revenue	3,467.5	3,467.5	3,441.4	3,441.4	1%	1%
Gross profit	1,351.2	1,351.2	1,336.9	1,336.9	1%	1%
EBITDA	327.5	373.3	308.5	315.9	6%	18%
EBIT	126.2	172.0	85.5	92.9	48%	85%
Net profit	60.4	106.2	62.6	70.0	-4%	52%
Profit margins %						
Gross margin	39.0	39.0	38.8	38.8	12 bp	12 bp
EBITDA margin	9.4	10.8	9.0	9.2	48 bp	159 bp
EBIT margin	3.6	5.0	2.5	2.7	116 bp	226 bp
Net margin	1.7	3.1	1.8	2.0	-8 bp	103 bp

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REPORT ON
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TURNOVER AND SHARE PRICE

In the official market of Zagreb Stock Exchange Podravka’s share realized in 2006 a turnover of HRK 671,789,055 with traded volume of 1,646,399 shares, which was compared to 2005 higher for HRK 206.6 mil. (+44%). The highest turnover was realized in May and it was HRK 256.3 mil. with traded volume of 598,431 shares. The lowest price the share was sold in 2006 was HRK 315.01 and it was marked in January, while the highest price amounting to HRK 495.00 was marked two times, in October and December 2006. WACP of Podravka share in 2006 was HRK 399.69, which is 35% increase compared to 2005.

TURNOVER AND SHARE PRICE ON 31 DECEMBER	2006	2005	2004
The highest (HRK)	495.00	365.00	239.00
The lowest (HRK)	315.01	229.00	162.00
Close (HRK)	470.01	318.00	239.00
Yearly turnover (HRK)	671,789,055.00	465,229,006.00	266,425,146.00
WACP	399.69	296.69	198.04

MARKET CAPITALIZATION

Positive movement of Podravka's share in 2006 resulted in increased market capitalization to the level of HRK 2,547.5 mil. The portion of market capitalization in total capitalization of stocks listed in Zagreb Stock Exchange dropped from 2.1% to 1.6%, which is the result of share market growth of 100.3% in 2006.

THE PORTION OF PODRAVKA IN TOTAL MARKET CAPITALIZATION OF ZAGREB STOCK EXCHANGE

in mil. HRK	2006	2005
Podravka	2,547.50	1,723.60
ZSE shares	161,692.20	80,725.00
% Podravka in ZSE	1.6%	2.1%

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REPORT ON
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INDICATORS COMPARED

Earning per share in 2006 is HRK 11.20 which is 4.3% drop compared to the year before, while the price per earning (P/E) is 41.8 and is on the highest level compared to the years of the observed period. Determined by strong price growth in 2006, the ratio of market price and book value of the share is 1.5. Management Board suggested and Supervisory Board accepted the proposal to Shareholder Assembly about dividend payoff for 2006 amounting to HRK 5.00 per share.

PODRAVKA'S SHARE OVER THREE YEAR PERIOD IN MIL. HRK

	2006	2005	2004
Number of shares	5,420,003	5,420,003	5,420,003
Close price	470.01	318.00	239.00
Market capitalization	2,547.50	1,723.60	1,295.40
EPS	11.20	11.74	15.97
P/E	41.80	27.10	14.97
P/BV	1.50	0.90	0.69
Dividend	5*	5	5

STOCK MARKET INDICES

Podravka’ share is one of the rare shares in Croatian capital market which has more than 70% of market capitalization in free float and is highly solvent, which is mostly a precondition for being listed in stock market indices. Next to Croatian indices CROBEX and CROEMI, Podravka’s share has in February 2006 been listed in Vienna Stock Market index - SETX Index. South-East Europe Traded Index, holds blue chip shares of 14 biggest companies listed in Stock Exchanges of Zagreb, Ljubljana, Bucharest and Sofia.

PORTION OF PODRAVKA’S SHARE IN STOCK MARKET INDICES ON 31 DECEMBER 2006		RECOMMENDATIONS OF ANALYSTS	
		Raiffeisen Bank	HOLD
CROBEX	6.70%	Erste Bank	ACCUMULATE
CROEMI	12.60%	Hypo-Alpe-Adria Bank	HOLD
SETX	2.80%	FIMA	HOLD

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DARKO MARINAC – Management Board President

DARKO MARINAC – Management Board President
Mr Marinac was born in 1950 in Zagreb, and in 1973 he graduated from the Faculty of Chemical Engineering, University of Zagreb. In 1987 he completed a business school in Germany. He attended a number of seminars in the areas of management, marketing, sales, research and development and finance. In 1975 he started working in Pliva. From 1990 to 1992 he was head of R&D in Pliva. He established and managed Pliva's companies in Ukraine, Czech Republic and Slovakia. From 1996 to 1999 he was the vice president of Pliva Management Board. From April 2000 he is the president of the Management Board of Podravka. He has been a member of numerous councils, associations and boards, including several supervisory boards

of Croatian and foreign companies. He was the chairman and founder of the Croatian Business Council for Sustainable Development and executive vice president of EGA (the European Generic Medicine Association) located in Brussels, and from 2004 until 2005 he was the chairman of the Board of CEA (Croatian Employers' Association). From 2001 he is a member of the National Competitiveness Council of Croatia and from 2005 is the chairman of the same Council. In 2006 he was re-elected chairman of the Croatian Business Council for Sustainable Development. He received several awards for his achievements in management and entrepreneurship, and was decorated by the President of the Republic of Croatia for his contribution to the development of Croatian economy. In 2001 he received special award as the "International Businessman of the year"

from IMDA (International Management and Development Association) and in 2002 was named "Manager of the year" in Croatia. In June 2004 he becomes a member of European Round Table (ERT of industrialist) in Brussels. In June 2006 he becomes the first Croatian member of International Business Leaders Forum, headquartered in London. He is an active or passive speaker of seven languages.

ZDRAVKO ŠESTAK – *member of the Management Board*

Mr Šestak was born in 1968 in Koprivnica. In 1992 he graduated at the Faculty of Electrical Engineering, University of Zagreb. Among many seminars he also completed the business administration school IEDC Brdo kod Kranja and Professional Diploma in Retailing Management studies at Leeds Metropolitan Uni-

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ZDRAVKO ŠESTAK – *member of the Management Board*

versity. He starts his employment with Podravka in 1993 as system engineer in Podravka's electronic data processing centre. He continues in Research and Development on implementing the information system, and from 1997 he is engaged in the restructuring team for profitability growth on restructuring the corporate business-information system. From 1998 till 2000 Mr Šestak works as assistant director of the project for constructing and establishing the new business-information system on the level of Podravka Group, with the implementation of the SAP R/3 system. Apart from working on this project, from 1997 till 2001 he acts as assistant director of the Information Technology department. Subsequently, he is transferred to the position of Business Intelligence director in the Business



DRAGAN HABDIJA – member of the Management Board

Development sector where he works on the development of corporate strategy, benchmarking and the development of a corporate management system based on corporate goals. From 2002 to 2004 he works as a scientist and assistant director at the Center (Institute) for migration research. He was appointed director of the Information Technology sector and Business Surveillance sector in mid 2004. He has been performing the duties of a member of the Management Board of Podravka d.d. since 2005. He is an active speaker of English language.

DRAGAN HABDIJA – member of the Management Board

Mr Habdija was born on 11 July 1955 in Koprivnica. He graduated at the Faculty of Economy and Business in Zagreb in 1979. He completed the international school of business administration at

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IEDC Brdo kod Kranja, Podravka’s Management Academy POMAK and attended many professional seminars on marketing, finance and business organisation. Since he completed his studies, Mr Habdija has been employed at Podravka. His employment with Podravka started as an officer for planning investments and strategic development at the Institute of Podravka, and afterwards he occupied the function of head of the economic – financial service at Belupo, the director of which service he was from 1983 to 1984. From 1984 until 1986 Mr Habdija is the director of the Marketing sector at Belupo and later director of Fermentation and Pharmaceuticals. From 1989 to 1991 he acts as the vice president of Podravka Business Council in charge of pharmaceutical industry. In 1991 he becomes the director of Belupo and in 1992

he is the Marketing director at Podravka. He occupied the function of director of the Planning, Controlling and Pricing sector within the business program of Branded Food from 1997 until 2000. Subsequently he performed the duties of the executive director for restructuring of Podravka for one year after which, in 2001, he becomes executive director of Podravka’s strategic business area Vegeta and Podravka Dishes. Since 23 August 2003 Mr Habdija has been performing the duties of a member of the Management Board of Podravka d.d. He is a member of numerous management boards of sport or social associations and several supervisory boards. He was the project manager in listing Podravka stock in the official market of Zagreb Stock Exchange. For his achievements in economy he was awarded by



GORAN MARKULIN – *member of the Management Board*

the Town Koprivnica for 2004. He is an active or passive speaker of German, English and Italian language.

GORAN MARKULIN – *member of the Management Board*

Mr Markulin was born in 1973 in Koprivnica and in 1997 he graduated at the Faculty of Economy and Business in Zagreb. In the year 2000 he received his MA at the same Faculty in the scientific postgraduate studies of Foreign Trade. Along with many professional seminars he finished the school of business administration IEDC Brdo kod Kranja and Professional Diploma in Retailing Management studies at the Leeds Metropolitan University. He is an author of many scientific papers and together with prof. Darko Tipurić he published the book “Strategic Alliances”. Mr Markulin started his employment with

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Podravka in 1998 and worked in Marketing as product manager and head of the marketing team for the group of processed vegetable products. In the year 2000 he was transferred from Marketing to the head of industrial analyses in the Business Development sector where his main task was implementing the business intelligence and benchmarking systems in Podravka. At the beginning of 2001 he was appointed executive director of the Business Development sector, subsequently renamed into Strategic Development sector. In strategic development he managed four aspects of business – development of corporate strategy of Podravka Group along with strategic projects, business intelligence, business analyses, merge and acquisition projects. After 4 years of performing the function of Strategic

Development sector director, he was appointed to the position of Board member in charge of international business. Responsible for international business he is in charge of Podravka’s total business abroad Croatia, which includes all international offices and representative offices in the world. He is also a representative of Podravka at World Business Council for Sustainable Development (WBCSD). He is an active or passive speaker of English, German, Italian and Czech language.

SAŠA ROMAC – *member of the Management Board*

Mr Romac was born in 1968 in Zagreb. In 1994 he graduated at the Faculty of Food Technology of the University of Zagreb. He completed the Course for Business Administration and Mana-



SAŠA ROMAC – *member of the Management Board*

gement at the University of Minnesota Minneapolis. Having completed his studies he found employment at Chromos boje i lakovi d.d. in Zagreb where among other jobs he worked as commercial representative for Chromos in Moscow. From 1996 till 1997 Mr Romac worked for Herbos d.d. Sisak as director of the paints and veneering production program. Subsequently he found employment with KUK GmbH Reid Austria where until 2002 he occupies the position of director of the branch office for Croatia, Bosnia and Herzegovina and Slovenia with headquarters in Zagreb. He comes to Podravka in 2002 as executive director for the Nestle program and Commercial Goods and in 2004 takes over the duties of the director of Commercial Partnership Management sector. He is an active speaker of English and Russian language.

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MIROSLAV VITKOVIĆ – *member of the Management Board*

MIROSLAV VITKOVIĆ – *member of the Management Board*
Mr Vitković was born on 5 March 1967 in Koprivnica. He graduated from the Faculty of Food Technology in 1992. He finished the business administration school at IEDC Brdo kod Kranja and attended many professional seminars. Since he completed his studies, he has been employed at Podravka. In Podravka Mr Vitković performs the duties of an import officer, sales director of Podravka International – Prague, and sales director of Podravka International – Bratislava. Since 2001 he is an executive director for the markets of Croatia and South-East Europe. Since 2003 Mr Vitković has been performing the duties of a member of the Management Board of Podravka d.d. in charge of Croatian market. He is fluent in German and Czech.

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MLADEN VEDRIŠ – Supervisory Board President
Mr Vedriš was born on 29 December 1950 in Zagreb. He graduated at the Faculty of Economy and Business in Zagreb in 1973. He finished his postgraduate studies in the field of Financial theory and politics in 1975 at the Zagreb University. That same year he received his MA on the subject “The analysis of causes in increase of public expenditures in the modern world”. In 1996 he received his PhD at the Faculty of Economy and Business in Zagreb on the subject of “Structural politics in the function of restoring efficient market economy in the Republic of Croatia”. From 1975 to 1984 he worked as a scientist and assistant director at the Center (Institute) for migration research. From 1984 to 1990 he worked in the

Executive Council of Zagreb City Assembly as an advisor and manager of the department and acting deputy chairman of City Committee for physical planning and municipal services. From May 1990 to January 1993 he was the chairman of the Executive Council of Zagreb City Assembly. During the war period in Croatia, from 1990 to 1992 he carried the duty of the chairman of Zagreb Emergency Center. From April to August 1992 he was a minister without portfolio at the Government of the Republic of Croatia for the Problem area of urban living and restructuring of government administration. From December 1992 to April 1993 he carried the duty of the vice president of Croatian Government in charge of economy. He was the chairman of Croatian Chamber of Economy from May

1993 to September 1995. From 1993 to 1995 he was a member of the Croatian Parliament. From February 1996 to April 2005 he worked in the company SONDER d.o.o. in the area of consulting, strategic planning, and representation of domestic and foreign companies. In May 2005 he becomes assistant professor in the science area of social sciences at the sub-department for economy politics at the Law school in Zagreb. He is the winner of the Rector's reward in 1971, an acknowledgement given to the most successful students of Zagreb University. In the period from 1975 to 1984 he authored several books, scientific and research works in the area of economic effects of hiring abroad as well as a participated in a series of domestic and international projects. He was actively involved in mutual realization of projects with international organizations

OECD (Organization for Economic Co-operation and Development), ILO (International Labour Organization), World Bank, UNESCO (United Nations Educational, Scientific and Cultural Organization) and other. From 1990 to 1993 he participated in the complete program of restructuring Zagreb under the title Zagreb – the capital of Croatia. In June 1999 he took the Executive Program for Leaders in Development at the Harvard University. He was a guest lecturer at the Faculty of Economy and Business in Zagreb and the Faculty of Economics in Rijeka from 2000 to 2004. From December 2004 to May 2005 he was honorary assistant professor for the scientific field of social sciences, economy field, subject International economy, selected for vocation at the Faculty of Economics and Business in Zagreb. Since February 1988 to July 1994 he was the chairman

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of the Croatian Football Association. He is a member of the Rotary Club in Zagreb since 1998 and a member of National Competitiveness Council since 2001. He is an active speaker of English and Russian language.

MARKO EĆIMOVIĆ – *Supervisory Board Deputy President*

Mr Ećimović was born in 1947. In 1969 he graduated from the Faculty of Economy in Osijek, and in 1999 received his MA from the same Faculty. He was instated in Podravka as a planner analyst in 1970, and since 1975 to 1979 he was the director of Organisation and Distribution sector, and since 1979 to 1983 he was the director of the Investment Planning sector. From 1983 to 1986 he was the director of RO Podravka-

Belupo. From 1989 to 1991 he was a member of the Business Council of Podravka in charge of economics, accounting and IT. Since 1991 to 1996 he is a consultant to Management Board president at Podravka d.d., and since 1998 acts as a consultant in the Finance sector. Since 1990 to 1994 he is particularly engaged and in charge of the process of evaluation and transformation of the company. He is a winner of a series of social rewards and awards for economic and social development. He is an active speaker of German language.

KSENIJA HORVAT – *member of the Supervisory Board*

Mrs Horvat was born in 1966 in Koprivnica. In 1984 she completed her secondary Economics school and since 1984 she

works in Podravka d.d. as an administrator in claims settlement department. In 2000 she graduated from two-year college at the Faculty of Economy and Business in Zagreb and was assigned the position of procurement administrator for the market of Croatia. From 2005 she works and attends college at the Faculty of political sciences in Zagreb, journalism. During the school year 2000/2001 she receives training at sSSH Center for industrial dialogue. In April 2001 she was elected as main woman commissioner of the PPDIV Union in Podravka d.d., and in July that same year she became the coordinator of PPDIV Union for Podravka Group. She performs those duties in the new term, after the last election in 2003. After the election for Workers Council in 2005, in her second term she acts as the deputy chairwoman of the Workers Council of Podravka d.d.

MILAN ARTUKOVIĆ – *member of the Supervisory Board*

Mr Artuković was born in 1934 in Klobuk near Ljubuški in Bosnia and Herzegovina. He graduated at the Faculty of Economy and Business in Zagreb. Before he arrived to Franck he worked at Badel in Zagreb. Of the total 45 years of work, he spent 32 years at Franck, 28 he was the general manager and for 3 years he was commercial director of Franck. He is the director of IVERO konzalting d.o.o., majority owner of Franck, and the chairman to the Supervisory Board of Franck.

DAMIR FELAK – *member of the Supervisory Board*

Mr Felak was born on 8 April 1950 in Zagreb. He attended his primary and secondary informatics-mathematical school

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in Koprivnica. He graduated at the Faculty of Forestry in Zagreb in 1990. That same year he was employed as a trainee at the Forest estate “Mojca Birta oOUR”, Forest exploiting. During his training year he worked in Koprivnica and in Ludbreg forestry. From 1991 to 1997 he walked his beat in Sokolovac forestry. In 1997 he was elected deputy prefect of Koprivnica-Križevci county in charge of economy and he carried that duty until 2001 when he returned to work for “Hrvatske šume” (Croatian Forests) to Sokolovac forestry where he again walked his beat. That same year he is transferred to the position of research assistant for forest exploiting in Forest management, Koprivnica branch. On 15 January 2005 he was appointed manager of Sokolovac forestry, the

position he holds today. He was a volunteer in the Croatian Independence War in 1991 and was awarded the Certificate of participation in the Homeland War 1990-1992, Certificate of the Fatherland Gratitude and The Order of Croatian Three-Strand. From 1993 to 1997 besides his regular job in Hrvatske šume he carries the duty of the head of Sokolovac district. He is fluent in English.

GORAN GAZIVODA – *member of the Supervisory Board*

Mr Gazivoda received his MA at the Faculty of Economy and Business in Zagreb in 1978 in the area of economic sciences. Since 1975 to 1977 works as an import administrator at Astra Mašinoimpex trade, Zagreb. In 1977 transfers to Ljubljanska

banka Zagreb, where he works as a consultant in foreign currency department and as a director in charge of advancing personal banking. Since 1978 to 1982 lives and works in London as deputy director of a representative office of Ljubljanska banka in London. In the next four years, till 1986 runs a department for international banking at Ljubljanska banka in Ljubljana. Mr Gazivoda continues his career in USA where he acts as a senior vice chairman of LBS Bank – New York since 1986 to 1996, in charge of credit banking and marketing. In 1996 he transfers to the representative office of Austrian bank Creditanstalt in New York, where he remains for a year acting as general manager in founding the bank in Zagreb. In 1996 he is the head of the representative office of Creditanstalt in Zagreb. During 1998 and 1999 works

as deputy chairman of Bank Austria Croatia d.d. Board in Zagreb. In January 2000 becomes Board chairman of Bank Austria Creditanstalt Croatia d.d. and in mid 2001, when the bank changes its name to HVB Bank Croatia d.d., continues his career as Board chairman of HVB Bank Croatia d.d. In mid 2003 becomes Board deputy chairman of HVB Split-ska banka d.d. In October 2006 becomes Board chairman of Banka Sonic d.d., member of the Banco Popolare di Verona e Novara.

BORIS HMELINA – *member of the Supervisory Board*

Born on 17 March 1945 in Zagreb. He graduated at the Faculty of Economy and Business at Zagreb University and received his B.Sc. in Economics. In March 2000 he passed the State

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exam for bankruptcy administration at the Ministry of Justice, Public Administration and Local Self-government. Since 1970 to 1975 he is assistant director of general and personnel affairs in Nikola Tesla factory in Zagreb, and since 1975 to 1977 acts as the chief in general and personnel affairs in UP Borongaj Zagreb. Since 1977 to 1979 he is a commercial director in Fisheries department of Yugoslavia, and since 1979 to 1988 he was a director of the representative office Naftagas-Promet Novi Sad for Croatia, Slovenia and Bosnia and Herzegovina. Since 1988 to 1991 he is a commercial director at Chromos, synthetic resins factory in Zagreb, where since 1991 to 1997 he carried the duty of the Board chairman. Since 2002 he carries the duty of bankruptcy administrator

in many companies. In 2003 he founded and became director of the Hmelina i dr., company for bankruptcy affairs. He is an active speaker of English and passive of Italian.

FRANJO MALETIĆ – *member of the Supervisory Board*

Mr Maletić was born on 21 May 1951 in Ferdinandovec, Đurđevac. He graduated from the Law school in Zagreb and since 1972 to 1983 he works in Sloga export import. He is a director of JAT (Yugoslav airlines) in Zagreb since 1983 to 1987 and since 1987 to 1991 he is a director of JAT Canada. From 1991 to 1993 is a director of INA Tours, since 1993 to 2000 director of Golden marketing and since 2000 to 2001 is an assistant director to Večernji list daily paper. Currently

the chairman of Vjesnik d.d. Board. He is an active speaker of English and Russian language.

DRAŽEN SAČER – member of the Supervisory Board

Born on 20 April 1951. He graduated at the Zagreb University Medical school. He completed his postgraduate studies in the area of rheumatology at the same School. He gained his work experience in the Public Health Institute in Koprivnica, in general hospital “Dr. Tomislav Bardek” in Koprivnica and in private medical practice. He is currently working at his own private office. He published a dozen research papers, participated in numerous congresses, symposiums and seminars in Croatia and abroad. He finished manual medicine course, court appointed expert course and acupuncture

course. He received numerous rewards and acknowledgements - Certificate of participation in the Homeland War, Certificate of gratitude by the Croatian Medical Association in 1997, Degree of Croatian Medical Association, Certificate of gratitude by the Croatian Union of Physically Disabled Persons Association in 2003 and the Certificate of gratitude by the Croatian Red Cross in 1998 and 2001. He is actively engaged in political activities. He is a member of the Croatian Social Liberal party (HSLs) (he was a member of the Small council of HSLs and the president of the Central committee for the Liberal party). He was a Councilor at the Koprivnica Town council and a member of the County assembly for the Koprivnica-Križevci county and the mayor of Koprivnica in 2000/2001. He is the physician for the Podravka Handball

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Club from 1988 and a member of the Podravka d.d. Shareholders Association Assembly since 2000. He worked for two terms as a member of the Central Committee for the Croatian Red Cross and since 1996 he is the chairman of the Red Cross association of Koprivnica. He initiated the building of soup kitchen in Koprivnica and is one of the re-activators of Koprivnica Ecology Association. He is an active speaker of English and German language.

JOŠIP PAVLOVIĆ – member of the Supervisory Board

Mr Pavlović was born in 1977. He graduated at the Faculty of Economy and Business in Zagreb in 1999. He was employed in Podravka d.d. as a planer and controller in 1999, and since

2001 he is working as resources procurement manager. From 2002 to 2003 he works as a director for loans management, and since 2003 he is the director of the Treasury sector. He is an active speaker of English and German language.

DUBRAVKO ŠTIMAC – member of the Supervisory Board

Mr Štimac was born on 16 January 1966 in Novska. He graduated at the Faculty of Economy in Zagreb in 1992. From that same Faculty he received his MA in 1997, Organisation and Management course. In 1997 he passed an exam for a securities agent at the organisation of the Securities Board for the Republic of Croatia. He participated in the Securities Processing Training Program in New York in 1998, organized

by The Bank of New York and in 2001 he participated in the Fund Management at City University Business School in London. In 2002 he passed an exam for a certified administrator of pension funds. In 2003 he participated in the Fixed Income Derivatives Program in Zagreb and in 2004 Euromoney Asset Management School in Moscow. From July 1992 to August 1993 he worked as a navigator aboard the ship Western Wave Western Geophysical Company, Houston, USA. He is an independent sales clerk at Zagrebačka tvornica papira d.o.o. (Zagreb paper factory) from September 1993 to September 1994. From September 1994 to November 1997 he worked as an independent administrator in foreign trade at PBZ Investholding d.o.o. where he became the manager of the Foreign Trade sector. From March 1998 to June 1998

he works as an assistant director of the Securities center at Privredna banka Zagreb d.d. where he became director of the Securities Ward at the same bank. In January 2001 he became the project manager of the retirement reform at Privredna banka Zagreb d.d. From October 2001 he is the Board chairman of PBZ Croatia osiguranje d.d., the company for managing obligatory retirement fund. From 1995 to 1996 he was a part time lecturer at the Faculty of Economy and Business in Zagreb, subject International economy. He authored several articles and research papers, he participated and spoke at several foreign and domestic conferences with subjects on capital markets. He is an active speaker of English and German language.

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The following members performed their duties at the Supervisory Board until the General Assembly held on 20 July 2006.

BOŽO PRKA – *Supervisory Board President*

Mr Božo Prka was born in 1958. He graduated at the Faculty of Foreign Trade of the University of Zagreb and won his master's degree at the Faculty of Economy of the University of Zagreb. He was sales director and later financial director of Diona, Zagreb, financial consultant for the consulting company Progres and tax and accounting advisor at TEB Zagreb. In the year 1992 he was appointed assistant to the Minister of Finance of the Republic of Croatia and in 1993 Deputy Minister of Finance. Mr Prka was Minister of Finance at the

Government of the Republic of Croatia during the period from 1994 till 1997. He was awarded the title Minister of the Year in 1996 – an annual award presented by the magazine Central European. In 1998 he became president of the Management Board of Privredna banka Zagreb. Mr Prka has participated and spoken at many conferences and seminars organised by the European Council, EFFAS, Euromoney and Wall Street Journal.

BARICA MACAN – *member of the Supervisory Board*

Mrs Barica Macan was born on 30 August 1949 in Brest Pokupski, Municipality of Petrinja, where she finished grammar school in 1968. She graduated at the Faculty

of Agriculture of the University of Zagreb in 1973 and in the same year started employment with Agrariacoop d.o.o. Zagreb as senior financial officer. In 1977 she joined Veletržnica i hladnjača d.o.o. Zagreb as senior officer for planning and analysis where in 1978 she was appointed leader of Bookkeeping and a year later head of the Financial accounting sector. The company Veletržnica i hladnjača d.o.o. Zagreb was a part of Unikonzum d.o.o. Zagreb, but in 1990 Veletržnica i hladnjača d.o.o. Zagreb was announced a public enterprise in a 100% ownership of the City of Zagreb for reasons of common interest. Since 1990 she has occupied the position of financial director. In the year 2000 Mrs Macan was appointed deputy principal of the Municipality Office for Economy of the City of Zagreb. However, in

2001 she returned to Zagrebačka veletržnica d.d. as financial director. She was member of the Supervisory Board of Hladenje d.d. Zagreb, member of the Supervisory Board of Tržnice Zagreb d.o.o. and member of the Supervisory Board of Elektroinstalacije d.d. Zagreb.

MARIJAN CINGULA – *member of the Supervisory Board*

Mr Marijan Cingula graduated at the Faculty of Economy of the University of Zagreb in the year 1975 and in 1985 won his master’s degree in economy, at the Faculty of Organisation and Informatics, Varaždin, where in 1992 he became Doctor of Information Science. From 1977 till 1980 he worked for Zagrebačka Banka, branch office Zabok. During the period from 1980 till 1995 he was assistant and assistant-professor

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at the Faculty of Organisation and Informatics, Varaždin. From 1995 till 1998 he was assistant director and director at Varaždinsko tržište vrijednosnica d.d. Varaždin (today the Varaždin Stock Exchange). He led the process of organisation restructuring and trade development from classic to modern stock trade based on automatic order matching in the electronic system OTIS (On-line Trading Information System). From 1998 till 2001 he was director and founder of the Office for Development and Entrepreneurship, Vadea d.o.o. Varaždin. He established an independent consulting company for business consulting, restructuring, organisation and manager training (1990). As fulltime associate in the education of managers he has worked for the Croatian

Association of Employers, Računovodstvo, revizija i financije d.o.o. (Accounting, Audit and Finance) and Delfin d.o.o. Mr Cingula is the author of the first Croatian secondary school textbook for the subject Entrepreneurship for secondary commercial schools. Since 2001 he again started working at the University of Zagreb, and at present he is full professor for the disciplines “Strategic Management” and “Organisation Design” at the Faculty of Organisation and Informatics, Varaždin and leader of the postgraduate scientific study “Business Systems Management”. Mr Cingula has attended many specialisation courses abroad and worked in the organisation of numerous scientific and professional gatherings, both domestic and international. He is the elected

president of the association “Croatian Accountant”. He is fluent in English, Russian and German, married and father of three children.

ĐURO ZALAR – member of the Supervisory Board

Mr Đuro Zalar was born on 5 April 1949 in Kalinovac. He finished grammar school in Zagreb in 1968, graduated at the Faculty of Food and Biotechnology, Zagreb in 1974 and won his master’s degree in the field of biotechnology at the same Faculty in 1990. He started his career in Podravka d.d. in 1974 performing the following duties: from 1974 till 1980 technologist in Research and Development, from 1980 till 1983 technical director of the Soup Factory and from 1983 till 1988 its managing director. From 1988 till 1991 he was

director of the Food Industry, from 1991 till 1997 member of the Management Board of Podravka d.d., from 1997 till 2001 director of Investment Projects and since 2001 the director of Quality Control and Technology Development. He is fluent in both German and English. Mr Zalar is a member of the Management Board of the Croatian Business Council for Sustainable Development, member of the Biotechnical Foundation of the Faculty of Food and Biotechnology, Zagreb and member of the Management Board of the Food Technologists and Nutritionists Club in Zagreb.

DARKO OSTOJA – member of the Supervisory Board

Mr Darko Ostoja graduated at the Faculty of Mechanical Engineering in Zagreb. In 1991 he completed the entreprene-

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urship course at Babson College, USA and in 1994 passed the examination for brokers in Zagreb. From the beginning of his professional career he has been engaged in entrepreneurship in the private sector. During the period from 1980 till 1990 he was owner and leader of the company Meting from Čakovec, engaged in the production of spare parts, haulage and reconstruction of industrial plants, with 120 employees. From 1990 till 1995 he was co-owner and director of the consulting company Consult Invest d.o.o. from Varaždin, and since 1995 he is the co-owner and director of the company for security transactions I.C.F. d.o.o. Zagreb. His field of business is entrepreneurship and management and he has led significant business projects, especially numerous acquisitions of which many have involved

the entry of international capital and know-how into Croatia. Mr Ostoja planned and was in charge of one of the largest Croatian international ventures – the take over of the company Elan in Slovenia. He is fluent in English.

PODRAVKA NEEDS TO HAVE A BETTER MANAGEMENT OVER ITS EXPENSES AND ASSETS AND GROW MORE THROUGH ACQUISITIONS

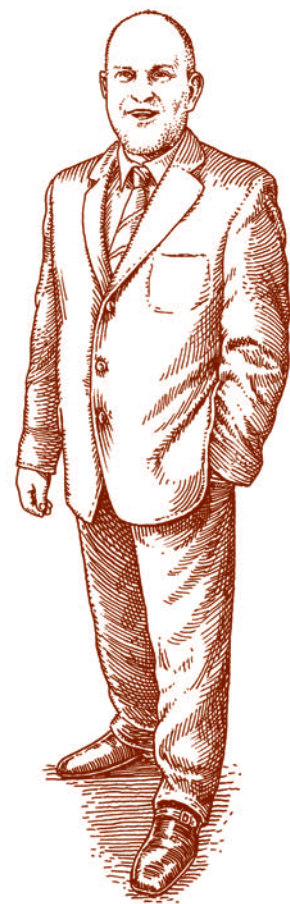
LATE 2006 WE STARTED REDEFINING PODRAVKA'S DEVELOPMENT STRATEGY AND WE INTEND TO FINISH IT IN 2007. PROJECTED 10 PERCENT GROWTH IS FEASIBLE. HALF OF IT IS ORGANIC GROWTH, HALF OF IT ARE ACQUISITIONS

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The public – the press and the analysts – unanimously say that 2006 is quite different in Podravka's development cycle, compared to the previous couple of years. Not as much for its results, as for more changes in management activities which led to the change as to how the company is perceived. Darko Marinac, Management Board president, provides an insight of business in the past year, particularly regarding changes instigated, whose effects, he is deeply convinced, will be visible in a year or two.

What makes 2006 so different?

Our last year's results are within the framework of previous years' results and are as expected. But the key is in the change of how we invested the money in that year and in

the new moves we made. The company is oriented totally differently, first of all expenses-wise. Namely, we have started investing into projects that reduce costs, instead of, like it has been so far, trying to reduce them by devising restriction programs, hollering by it and banging our fists on the table. That methodology basically never yielded any result, except that the table needed mending in the end. Now we have started investing in order to be able to change some technologies, to reduce the number of employees where they are in excess, so that we might outsource some parts of the company which do not have any future in our business. In 2006 we spent about HRK 50 million, but we call it the investment into better future.

Why have not you started with the process sooner? Are some circumstances changed?

Last year was the first year when the Management Board was able to create its own program and budget. Just a reminder that the current Management Board was established in April 2005 and at the time inherited the budget defined earlier. It was able to create its own only for 2006, enter some projections and actually define such work program. Not to be misunderstood – the Management has been trying to do that before, but restructuring, in the sense of improving business efficiency – Podravka has never turned into its regular business, something that would not be an obligation and a task for an outsider. Restructuring has to be a mainstream into which the entire management will be involved, because an

outsider cannot increase its efficiency, it has to be done by the managers. The program has to be lowered in the management hierarchy so that the managers directly responsible can be measured for their efficiency.

Was not such directing of the Management Board your responsibility, and this is your second term as the Board president? Or is this Board simply a better team than the one before?

This Management Board has better capabilities of observing the basic business problems, I believe it has a better focus and sticks to it firmly. I would not say that we are a better team than the previous ones, but this Management Board recognizes problems and importantly, tries to resolve them immediately, what also speaks of its determination.

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Does this program mean that you have developed some parameters of efficiency tracking?

This is just another important novelty from 2006. Key performance indicators (KPI) were developed for all levels of management, they are tracked systematically and their application has been analyzed this year for the first time. Using KPIs we are actually managing the company. Everybody was given four key parameters important for their position, and if all or most of them achieve them as planned, it means that the company is heading in the right direction. That way everybody could be measured, and the total success is reflected on overall result, while an individual success is visible on manager's salary and status. Those who outperform have

additional bonuses, but also those who underperform for two years in a row will have to leave their positions.

What do the first numbers show?

In the first year about 15 people have already exceeded their set goals, which also helps us distinguish between the successful ones and those who are not. I have to say here that Podravka is one of the rare Croatian companies to start using standards common in world corporations. For devising the program we used best consultants we could find in the market for individual areas and they are working for us in 5 to 6 sectors, and we have also used internal consultants, especially in IT where we have practically connected the whole world.

Similarly, we entered the human resources department, in other words we have started systematically connecting on resources level, which is one of our most important projects, since we feel that resources are the only thing we can actually manage. I also find it extremely important that we changed the philosophy of managing international markets.

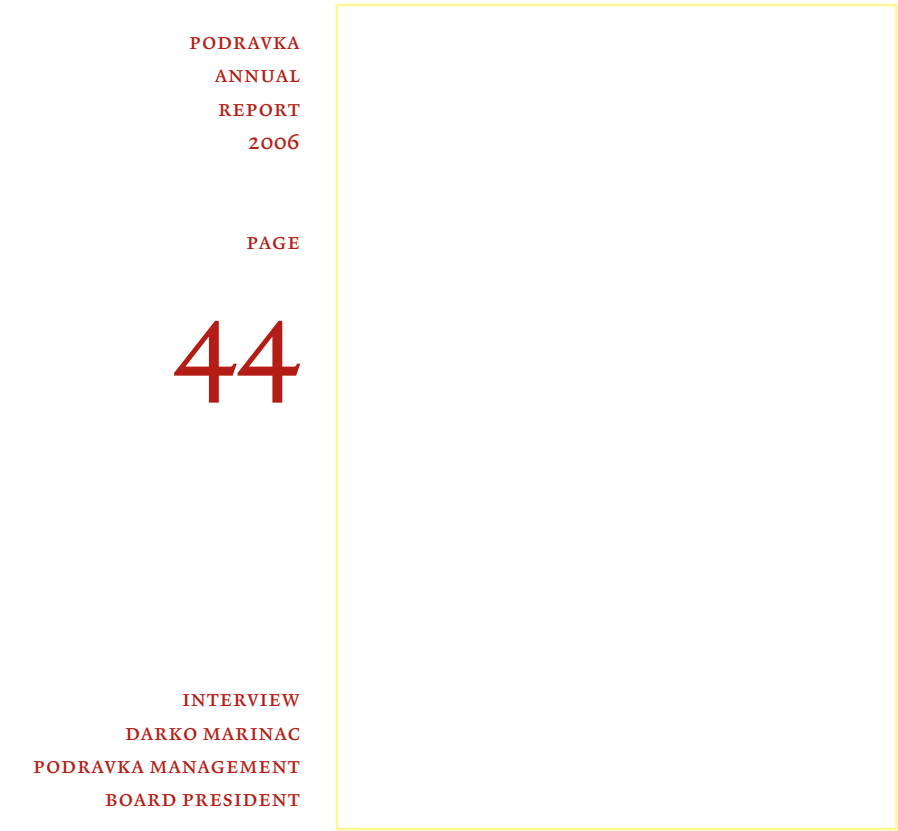
What does it mean specifically?

We have determined certain processes and set the rules of the game where all international markets have similar organization, adjusted to domicile consumers of course, we have there KPIs and timeliness that have to be reached, and the most important for me, we have changed the practice that the general manager of an international office be a person

from Croatia. Now this is a rule practically on all markets, and all directors are mostly the best people we can get in certain countries, mainly from the same branch, i.e. leading food companies. There are some developing markets for which it is important to have our own person, but in countries where we have a stabile organization we took the best possible choice on the market.

Why? What is the key advantage of local management?

First it is acknowledging local culture. Besides, we cannot raise enough of our own high quality people that would win on all 18 markets and beat competition like Maggi and Knorr along the way. As it is impossible for us to produce that many managers as required by international organization, we had to buy them.



Is the new concept yielding results?

So far not completely. The greatest effects are not even expected in managing the company on international markets, although that will also be a lot easier. The highest positive effect of such policy will be reflected on the mother company. Namely, those people will effect organic growth in the way to seek products that would sell well in that particular market, and not to pursue the practice so far, when the merchandise was produced in Croatia and it was left to those in Poland to sell it any way they can. Now that we have different cultures in our management, experiences and knowledge about market habits, we get quality that has a direct influence over us, i.e. our organic growth. I would

just like to add that in 2006 on our most important market, Poland, considering that by purchasing another brand we completely changed the organization, we terminated the contracts with Rieber&Son and started fresh.

Is the organization in Poland becoming a kind of role model for other markets?

Modern structure is created there, founded from the beginning on today's work principles, completely clean from history and obligations, with about 40 people who are relating to key customers in a completely new way, and to business in general. Therefore I expect that Poland achieves serious growth and really to become a role model market.

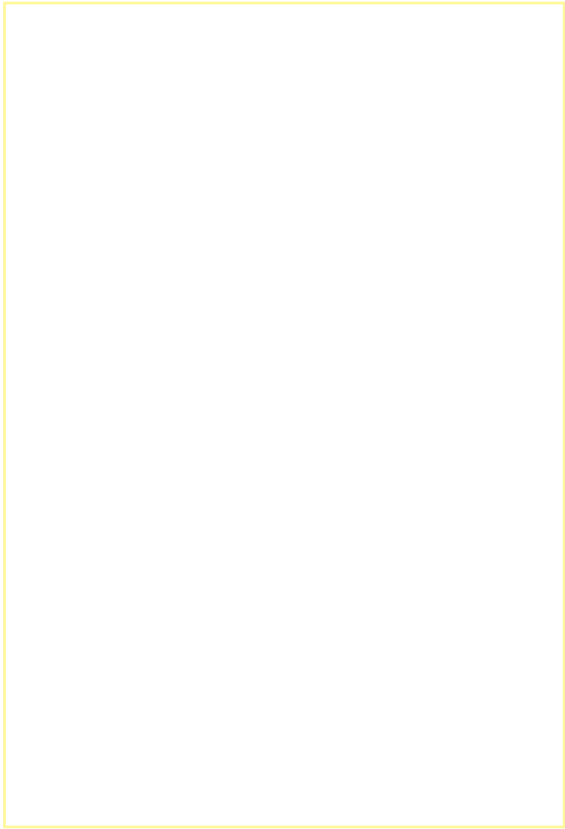
Is this the model that will be used to try to yield results on the market important for Podravka in the entire region of Central Europe?
Yes, it actually is a concept that will be applied in other countries. Czech and Slovakia also have new organization and management, and thus also a serious opportunity for stronger growth, while in Hungary we are still finding our position, because our problems and problems in the market were different. So now finally we have the situation under control, we manage expenses well and expect an offensive in 2007.

You are quite confident about good results in 2008?
Naturally, because our calculation is quite clear. I will provide just one example. About HRK 40 million that we provided

for severance payments in 2006 is returned in 17 months. Besides, there will be more of such moves on the restructuring plan.

Are we saying that 2006 was the beginning of deep changes of Podravka strategy?
Yes. Late 2006 we started redefining Podravka's development strategy and we intend to finish it in 2007. Strategic projections go as far as 2011.

Can you provide some key parameters and goals of the strategy?
There are three basic parts. The first part was widely elaborated, and it is about better management of expenses, the second part is growth strategy that now clearly includes



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acquisitions, which we did not have earlier and the third leverage is better use of Podravka assets.

Were not the acquisitions the constituent part of present strategy as well?
I would say that this form of growth is before all on the level that was not approved of before. Now the organic growth and acquisitions are equally important, which means there are people, programs and ways this needs to be achieved.

What are the annual growth projections?
About 10 percent, half of which is organic, and the other half are acquisitions.

Is such growth feasible, especially considering the stagnating results in core business?
Our average growth in the last year was about 10 percent. True, our total growth was somewhat lower, but it was because we lost Nestle. But we have compensated for it by organic growth.

After publishing of the results the analysts were quite reserved about indicators in core business. Podravka's net result is still carried by Belupo?
That is true. On the other hand, in spite of high profit rates, Belupo actually has a drop. Namely, all of the restructuring costs we spent in Food and beverages segment. In that sense

Belupo is in quite a favourable position and it is not expected to apply such cutbacks and changes, so when showing profit, Belupo has a significant positive effect on the overall result. It would not be good if the problems that Food segment is experiencing at the moment be shown on Belupo's result.

Is it possible for the food segment to reach a situation when it will start showing more profit?

It is. But one has to say that if we were to outsource Belupo today, on the one hand we would have a lower profit, but we would also lose 300 days of nonpayment that the pharmaceutical industry is facing these days. In that sense is the synergy between Podravka, that is highly cash positive and Belupo, that is not, quite good.

What does the third leverage of the strategy actually mean?

We will simply try to use all the assets we have – immovable, movable and financial – and create higher profit, and if we can not, then we will sell them. Podravka truly has quite a lot of assets and that is why we formed a special division that handles these issues and it has to handle this one, because it is the only thing it was assigned. If we do not put it into action, we will continue to generate high expenses, while on the other hand if we make it work, considering the size, we can achieve some serious results.

Why is asset management only now approached in such a systematic manner?

The fact that the report on Podravka's transformation has

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all of its assets enumerated and what became equity, it does not mean that the assets were really owned by Podravka and that that resolved all legal issues such as its entry into ledgers, land registry, and so on. Only now, after we have defined what is ours, now it is being listed and put in the ownership function. It is clear that this is a result of a longer period of neglecting this task, but I am quite satisfied that we have started handling this as well.

What are growth projections for 2011?

About billion euros. I have to say that it will in its major part depend upon acquisitions, since our organic growth will not exceed five percent.

In your strategy, have you classified your markets by their importance?

In a way we have. Namely, Croatia and the market of South East Europe is our turf, this is where we are strong and recognized, and for those markets we do not need a revolution. This is where our operations are stabile, where we operate normally, where we have developed companies and people, renowned brands and this is where we really feel like trend setters. But for some other markets, first of all Poland, Romania, Germany and Russia we feel that we have a strong potential, but we are not using it quite enough. Compliant to that, these markets mark the biggest changes. Besides Poland, a new approach, new company and management

are defined for Romania, while Germany and Russia already carry high growth percentages, but it does not prevent us to develop a more offensive approach.

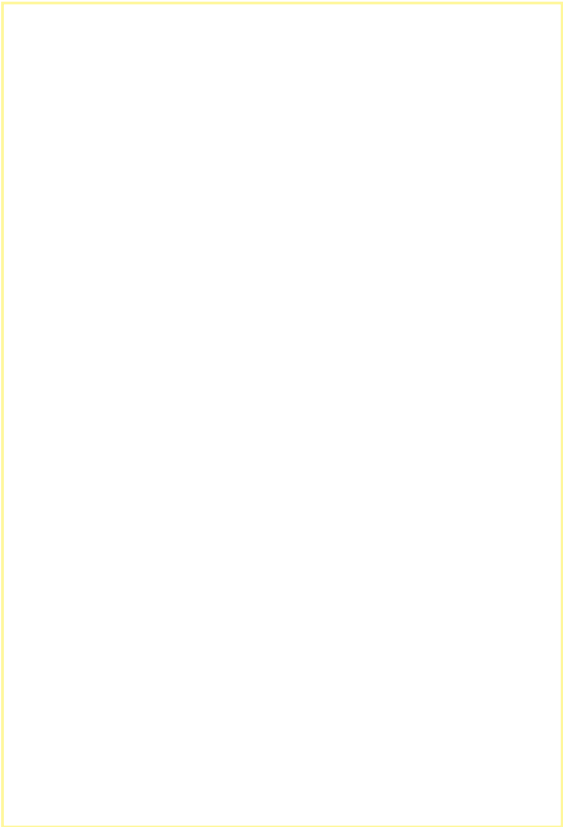
Are not these the countries characterized by low bases to which growth is added up?

I would not agree with you completely. A hundred million kunas turnover is not to be discarded. In 2006 we have completely left the ethno segment in Germany and entered regular commercial channels, all the leading chains, where we took over the first place in universal food seasonings late last year. Although this market is not as big as the one in Poland, number one position in Germany automatically provides us with a different starting point to negotiate with traders. In

Russia we are leaving Moscow and St. Petersburg, so we are trying to obtain a better control over Russia with our own channels and our own manpower. But considering its size, I think we will never be able to say that we have a complete control over it.

Was not there an acquisition mentioned in Russia at one time? Was not that too ambitious and it did not come true?

I would like to explain that under the term acquisition we imply a lot of things in the M&A activities – from brand purchase to various forms of cooperation with local partners. It is not like we have an idea to purchase a company in Russia and play a boss there, but we feel that together with partners we have there, we could build our brand or



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ensure some other form of long term presence on the market there. The company we were looking at purchasing engaged into that kind of cooperation, but with one other world corporation.

Croatia is still your most important market. What are the changes introduced here?

First of all we were working here on costs control, and we have produced an entirely new logistics strategy, sales and distribution is reorganized on the level of entire country. Changes in administrative services are also starting, i.e. reduction of the number of employees in administration. But the problem in Croatia is that here we have everything

we do not have in other markets, and this is the reason why the results of changes show the slowest.

Are the future M&A activities defined in accordance to priority markets?

The ground we will be performing acquisitions will be Croatia and South East Europe and the four mentioned markets, within five primary product categories. In this combination we have set about 10 targets on which we are working and most definitely a majority of them will be realized. It surely will not be the case as it has been so far that an acquisition and some other good projects go to waste because of hesitation on the inside.

Will you pursue new categories that Podravka is not currently holding, but it would like to?

There are such scenarios as well, although it is our primary goal to strengthen the existing categories and develop some new ones.

ADVANTAGES AND DISADVANTAGES OF STATE SHARE IN PODRAVKA
The State remains co-owner due to possible expansion of food industry. On the operative level, on a short run, it would be better to have all owners as private persons. But looking at changes necessary before accessing EU, it might not be a bad idea for the State to remain in Podravka

We were all counting on another major decision to be made in the previous year – the one related to privatization of the State share

in ownership of Podravka. It did not happen and then the Prime minister sent a clear message that such course of events is not to be expected in 2007 either. How much can that affect the realization of business plans, i.e. how much are the efficiency and shareholding structure interdependent?

They should be independent, but in life it is not always so. While we have a lot of this State share in our ownership structure and not a clear presentation of ownership structure in the Supervisory Board, there will always be influences that are not economic, or they have a connotation of some other stakeholders, which automatically does not provide an optimum economic result. But in the end it is not anything out of the ordinary and such ownership structures exist in other companies in Europe. We truly have

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no particular problems with this as the entire Supervisory Board is quite efficient in their relation towards business and the future of Podravka. If this continues, I do not see any problems. On the other hand, although I do not know about all the motives of owners, in case the State remains in the shareholding structure I can only assume that they are holding on the idea of expanding the food industry in Croatia. This does not necessary have to be about mutual takeovers, but it can also mean a more firm cooperation among companies. In that case the role of the State and its ownership package might be highly significant and it might help in putting one such package into function. Therefore I even see some opportunities in this decision made by the

State. On the operative level, on a short run, it would be better to have all owners as private persons. But looking at changes necessary before accessing EU, it might not be a bad idea for the State to remain in Podravka.

Is there any specific information about the expansion of the food industry? Will the opportunity for another expansion once again be missed?

So far there is not any, but I feel the reason is that we are so much advanced in the pre-election year. The report on the other hand is done, it is very good so it is not ruled out that somebody intends to use it for pre-election purposes. If not then, then surely after the election. The opportunity will

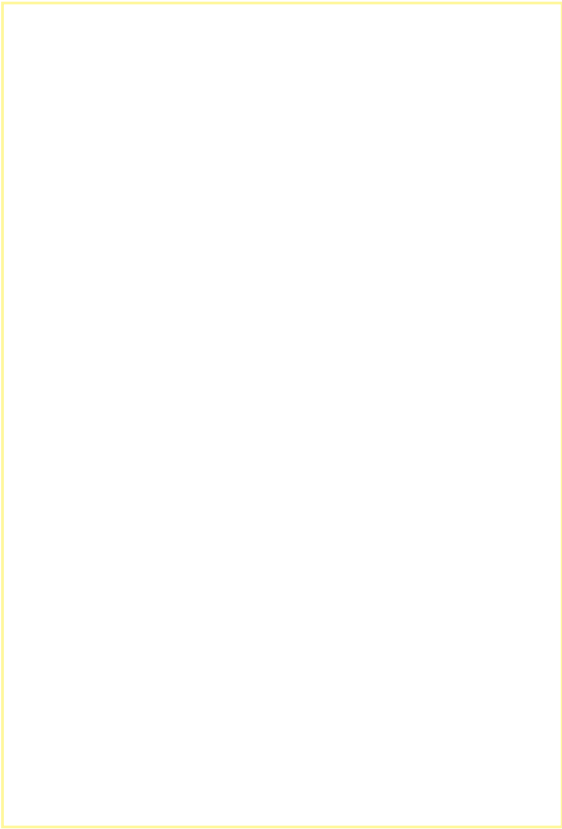
surely not be missed, because it has been arranged that even if somebody from the State does not start it, the industry itself will.

How do you feel about the comments that the investors are tired of expectations from grand changes in the company?

As long as we are a desirable share for trading, then I am not worried about such comments. The analysts know our bases, know what we find good, we are the only international company considering our shareholding portfolio, but also product portfolio, even when the employees structure is concerned. We achieve results comparable in our markets, and our efficiency is somewhat lower because in Croatia we have expenses that we cannot resolve over night. We will never

grow at 40 percent rate, our share will never have 180 percent growth in a short time span and it is not a share where two people can make an arrangement and make a mutual profit. We are observing all the rules of the Zagreb Stock Exchange, we are a stabile company and the only thing others can be dissatisfied with in our business is our low profitability, and this is something we ourselves are also dissatisfied about. But here as well we have set clear guidelines on how we are going to act on the issue, this year and the next, and we feel that the analysts will be able to calculate that the profitability will reach the level comparable to similar companies.

Will the price growth not disturb the plans for purchasing the State package, devised by the managers and workers?



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I continue to feel that this program is a good way to privatize the State part of the portfolio. But, as long as there is no law on the matter, there is no point in talking about it, as well as neither on the subject of any real possibility of any group buying off any package or share, aside from regular channels, and that is on Zagreb Stock Exchange. The trade is about 20 percent of our total capital, which actually means that in a four-year cycle our entire capital is revolved on the Stock Exchange.

PODRAVKA HAS TO REMAIN SUCCESSFUL ENOUGH IN THIS CLASH OF LOCAL AND GLOBAL

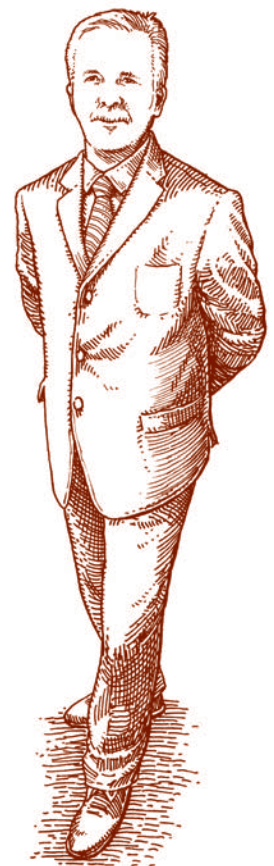
I AM CONVINCED THAT PODRAVKA WOULD NOT BE PODRAVKA IF IT WOULD NOT HAVE STRONG LOCAL ROOTS AND IF IT WOULD NOT BE LIKEWISE RENEWED THROUGH ITS HUMAN RESOURCES. BUT BIG MULTINATIONAL COMPANIES DO NOT PERSIST ONLY IN THEIR REGIONS AND HEADQUARTERS, BUT THE SERIES OF THEIR FUNCTIONS SPREADS

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PODRAVKA SUPERVISORY
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Dr Mladen Vedriš joined the Supervisory Board of Podravka as an independent economic adviser. Business public commented on that Podravka's move as an extremely important in advancing the concept of the structure of supervisory boards in Croatian companies, determining by it the increased participation of independent experts as a generally positive trend. A concrete example outlines the expectations regarding the contribution of Mr Vedriš to strategic questions critical to the development of Croatian biggest food company.

Does Podravka seem different to you after having met it on the inside?

Partially it surely does. In July there will be a year elapsed since I entered Podravka's Supervisory Board and in this

past period I had the opportunity to get to know the company in more detail. I have managed to get a somewhat different, better preview, what is understandable. You would find yourself in the same situation if you wanted to go on a trip and would want to get a better idea of your destination, so you would read all the existing literature. But only when you get there, when you meet the people and feel the happening on the inside, you get a different idea. Such a process of getting to know Podravka was present with me as well, and it appears to be so with some other new members of the Supervisory Board, having stimulating effect on creation of the overall picture of future events that have to happen.

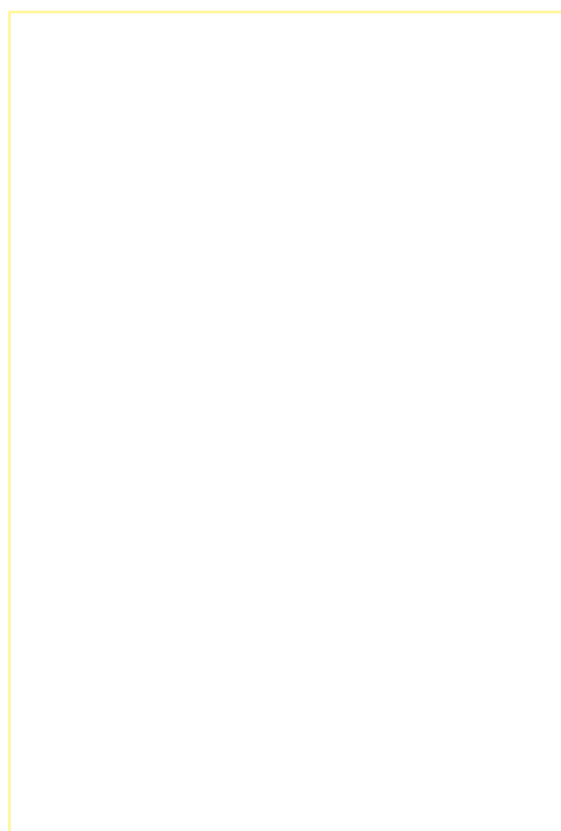
How was the Management Board organized regarding the responsibilities and duties of the Supervisory Board members?

Together with a team of experts the Management Board prepared some really good workshops on the topic of strategic development concept. Thus through individual segments of strategic development we have gotten to know the details of the existing situation in the company and we have approached defining its future goals. Just as a comparison, it was done in such a lively manner, as if when a top mechanic dismantles an engine before you and on the spot makes an analysis of how to increase its compression. I got the feeling that the entire Supervisory Board, observing such a lively presentation at a workshop held in Prague could even strongly and immediately accept the focus of this company

that needs to be directed to exiting, particularly to foreign markets.

In relation to that, in those strategic plans what connotations do the regional markets carry?

Constant monitoring of events in global market is constantly present. But with regional markets, one should bear in mind that today it is the European Union we are talking about. In Podravka we are not talking about central Europe in a classical manner anymore, i.e. we are starting from the fact that Bulgaria, Czech Republic, Hungary, Poland or Slovenia are part of the Union's market. We also should not forget that part of the priorities focused on countries which in their regional frameworks are still outside EU such as Bosnia and Herzegovina



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and Serbia. As for further advances in the region, the job of the Supervisory Board is outside the decision making domain on operative moves in management or participation in daily operations of the Management Board. But with every strategic commitment, the Management Board wishes to have a complete support of the Supervisory Board, so a much intensive engagement can and needs to be expected here. In the meantime, the Supervisory Board was making decisions also on providing ownership consents related to some purchases and sales, of which it was previously informed to the detail.

What is your general evaluation of the relations between the Management Board and the Supervisory Board?

Traditionally in Podravka there is always a high degree of total corporate culture, which is reflected also in the way such an important company is being led, is managed and how it reports on its business results. This is the reason Podravka was on one of the internationally most reputable scales elected among the leading companies when it comes to corporate culture and social responsibility.

What are Podravka's other advantages and what are its weaknesses?

Podravka has a series of fine quality and expert people on all levels. Next to the developed corporate governance, there is also a high level of knowledge. If you look at Vegeta, to what extent it has sustained and developed as a powerful brand,

if you look at the innovative capability of the company to launch new products, it all says a lot about technological power of Podravka. Good people and good organization is what we are talking about.

Things I feel are a potential danger today, relate to the fact about ever high competition pressures coming from different sides. This is at the same time a threat, but also an opportunity. Croatia is getting more and more open in domestic market, and a breakthrough to external markets requires significant funds and expert human resources. At the same time we are fighting a fierce battle to maintain the market positions at home, but parallel we need to step outside our own back yard. The weakness might be expressed in the fact that some processes of making decisions in the future

need to be faster. Final decisions, regardless of whether it is about acquisitions or deinvesting, tolerate no delay. Objectively they are set and the right move needs to be made at the right time.

What ownership structure would you prefer in the following period?
Majority of Podravka's shares is in the market. With a general prices increase in Croatia, it also happened that Podravka's share faced an exceptional growth. I believe it is a reflection of the market situation, but also a recognition to fundamentals of Podravka. The value and the power in the following period will be recognized by different investor groups: retirement funds, investment funds and individual investors, and at some point one might expect a strategic investor willing

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to make its portfolio bigger and is ready to pay a premium on such an investment at the stock exchange. Processes related to the ownership structure can be seen in the context in which Croatia is coming into a thinking stage about its strategic resources. As far as Podravka is concerned, it is natural that one such market company in this branch cannot permanently remain a strategically protected resource. In the future it will be evaluated in the market and managed according to its future shareholding structure, especially in the period when, going towards the EU, optimum solutions for further privatization processes are sought. Conditionally speaking, it would not be a problem at all to make a good profit on the Vegeta brand, if someone

is to buy Belupo and some more good quality segments, but how to preserve positive regional and macroeconomic effects on the economy. Podravka has to maintain the profile of a company that has the strength and the capacities to be developed in its entirety and make significant contributions to total national development. Finland is proud of its Nokia where third of the investment portfolio are American investment funds. But at the same time Nokia has significant implications on local and regional development of Finland and national economy as a whole. It therefore is not an issue whether shareholding structure can be changed, maintaining the social and developmental dimension of the company at the same time.

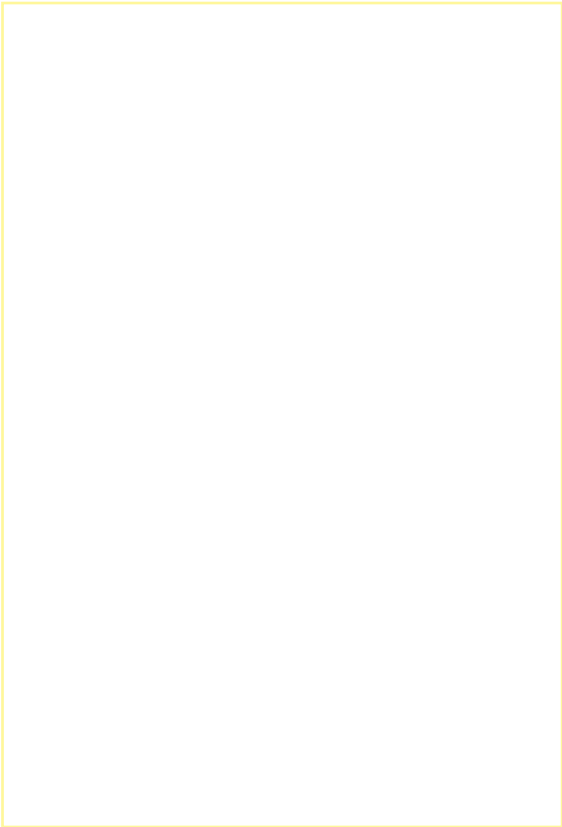
Should Podravka enter acquisitions and what should they be?

Yes, that goes without saying. The key is in focusing on those acquisitions which are complementary in relation to individual segments of own production, but region as well. In the Beverages segment Podravka is searching for the right solution, acquisitions, which would make the water, a high quality product significantly stronger for its volumes, distribution and offer. Podravka opted to be more present with its acquisition in Poland as it is 40 million people market and Vegeta has an exceptionally good status. The main task of Podravka's Strategic Development sector, in cooperation with the Management Board, is to recognize the points where "two and two become five", i.e. what needs to be purchased. Podravka has several such targets in the region and in Croatia.

The time will show which priorities are realistic and achievable. Overall company profitability needs to be contributed as well as better use of the capacities, to what is called the economy of scale.

What about the outsourcing policy?

Within a reasonable period we would need to determine everything that is not our core business, and what can sustain on its own. It is a reasonable commitment and when the Board makes that suggestion, it will receive its support by the Supervisory Board. As far as core business in Podravka is concerned, they are food & beverages and pharmaceuticals, and seeing it any other way is too early to say. The two divisions, just like with big conglomerates



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where there are more divisions at the same time, can exist within a company as wholes.

What are your experiences with all parties in Koprivnica?

Just like with parents with unreserved love for their children, the same is with anyone you might speak to in Koprivnica; Podravka is not only appreciated, but everybody feels an integrative part of it. It comes from the fact that somebody in the family works there, it is someone's parents, children or close family. The employment itself means also presence in the company, but also caring. On the other hand, looking at the size of the town and the company, you can tell that in a row of segments company permeates the town, even

the region. It is unquestionable that everybody related to Podravka has a series of suggestions and experiences they would like to see adopted.

The Supervisory Board cannot make estimations and weigh all the shades of the relations and interests, but we insist on constant dialogue. The Supervisory Board feels that the Management Board and the Town have much to discuss and make mutual arrangements about. Podravka supports numerous cultural and humanitarian projects, but is also helping in regional development and town actions. For instance, the story about town ale house is quite known, and my belief is that it is in the mutual interest of the Town and Podravka that the tradition remains preserved. The higher

the degree of compliance between their interests means winning strategy for both sides. When the Town for instance is investing into communal infrastructure, it is a move that is also useful for Podravka.

How big is the problem that the company's position is local and its character global?

I am convinced that Podravka would not be Podravka if it would not have strong local roots and is renewed likewise through its human resources. But if you look at big multinational companies, they do not persist only in their regions and headquarters, but the series of their functions spreads. The globalization trend is unstoppable. Recently I visited Linz, the industrial center of Austria, where our hosts in a

globalization wording presented what they have achieved in the past twenty years in the reconstruction of steel-mills. Today they manufacture parts of the most sophisticated technology for automobile engines. The management, finances and the research remained in Austria, while the production moved to East Europe. If you were listening with your eyes closed, it would seem as if you were listening to a lecturer from Harvard. But when you opened your eyes, you realize that the presenters are wearing their national outfits and give an impression of a postcard from 70 years back. The combination of new software and love for its region and the tradition can be quite well intertwined in practice. Meaning, for Podravka it also remains a question how to continue to be successful in the clash of local and global.

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INVESTORS AND THE MARKET ANXIOUSLY EXPECT THE SHARES FROM THE STATE PART IN PODRAVKA

IT IS ESTIMATED THAT MAXIMUM 10 TO 15 PERCENT OF THE PACKAGE WOULD BE PRIVATIZED IF ESOP IS APPLIED AND MANAGEMENT IS INVOLVED. IT WOULD ACTUALLY BE QUITE LOGICAL THAT THE REMAINING PART OF THE STATE SHARE IS BROUGHT TO THE STOCK EXCHANGE



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ROBERTO MOTUŠIĆ
ZAGREB STOCK EXCHANGE
MANAGEMENT BOARD
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On opening of the season of presenting yearly business results, Roberto Motušić, Management Board chairman of the Zagreb Stock Exchange decided to use the opportunity to promote new business premises and Podravka was the natural choice of the company which will start the new practice of presenting results at ZSE premises. The idea of bringing together the stock exchange, issuers and public in a somewhat less formal manner has quite unexpectedly achieved a strong response – after Podravka more and more companies are presenting their business activities, especially those related to capital market, to the public from top of the highest business tower in Zagreb.

Why way Podravka chosen for the promotion of this new concept of nearing the Stock Exchange to the public?

One of the reasons, as I have pointed it out at the promotion, is the fact that Podravka share is one of the stars at the Stock Exchange in the first quotation and one of the oldest shares and one of the most solvent. If you ask a foreign investor to count five Croatian companies, Podravka always comes first. This is simply about strong brands and their recognizability abroad and in Croatia, and we at the Stock Exchange simply found it natural to take advantage of the potential. But I would definitely emphasize that the second important reason was the fact that Podravka is a company that is a school example of corporate governance and investor relations in a positive sense. After Pliva left the Stock Exchange, Podravka truly is a company that at this moment has the best

developed investor relations, cares for them and knows how to function with them.

Have you got an example?

The example is every road show that they went. Every time the investors showed a great interest for the company. Personally, when I was working someplace else, several times I attended Podravka's presentations of business results and I can say that it was always done in professional manner. It is exactly how investors like it.

Does the Stock Exchange draw any benefits of it? Does this have any specific effect to your institution?

Of course it does. That way we receive credibility, especially towards abroad, because it is a proof that here in Croatia we

have good companies and competent people that are ready and capable to work on corporate governance all the way. Statistics say that for shares on emerging markets the investors are ready to pay for premium on a share of a company which has developed investor relations according to the most positive rules of corporate governance, where the governance and supervision authorities abide by those rules.

What is the average on the premium? Do you feel it is already built into the current price of Podravka?

The premium sometimes climbs as high as 30 percent. Naturally I could not speculate at the moment about whether the current price of Podravka in the market is its true price or does it contain a premium because of their investor relations. You

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would have to ask the Management about that, since they are the ones that have previously been making such elaborations.

You also attended the presentations of other investors. What makes Podravka so specific?

It is simply different. It can be ascribed to the presentation skills and experience of Mr Marinac, but also to the techniques that he has managed to transfer to the rest of the management. He is truly quite skillful with the investors, he can provide exactly the answers they are looking for.

Does it mean that the investors or their analysts can be "seduced"?

I would not say that they are prone to seduction, but the

truth is that a lot of it depends upon the presentation. One should not forget that the company is perceived through the primary manager echelon and that the investors are always buying the expectation, they are investing into the future. If the future is more skillfully presented, the investors will be "softer". Such expectations naturally have their limits and in the end ledgers are the strongest argument, but nevertheless one should not diminish the value of selling what makes the company special, what is a task of a manager.

Croatia does not have its fair number of companies with developed corporate governance. ZSE and Croatian Financial Services Supervisory Agency together with some experts have

actually started an action of promoting positive rules of corporate governance, the Code has been prepared and published, round tables and expert meetings are being held to the subject... In the sense of promotion, how could the experiences of companies as Podravka come to use?

The key issue in wide promotion is actually quite simple – too many managers at our companies do not know what corporate governance is and it sometimes seems as if we are talking in vain. It is exactly why we feel that an extensive educational action and the promotion of the Code is necessary in the form of individual conversations with managers and company owners, i.e. from the point of view of shares issuer. We have to show them the importance and the value of introducing the practice in their companies, and they have

to want that the price of their share on the Stock Exchange reflects the true value of their company. There are companies that are ready to do it and those that are not. I remember an example of a presentation of one tourist company before investors when the leading person of the company presented in such professional and systematic style that the investors called their brokers while the presentation was still running and gave orders to buy the stocks of that company. To those that do not even wish to see their investors, and believe me – there are such companies – we need to show them why it is important to change an attitude.

Can we expect that the Stock Exchange as an institution would hire, for instance Mr Marinac, to act as a coach or to hold a lecture

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to those interested in how to present a company compliant to the rules of corporate governance?

To all of those who wish to introduce corporate governance, the Stock Exchange will provide as much help as possible. We will provide contacts, organize meetings with heads of companies which were an example of a good CG practice, instruct them with techniques of work and organization, and it is not excluded that we will try to organize what you just suggested.

But on the other hand Podravka is continuously in the restructuring process. How do the investors see this?

The truth is that Podravka has for a number of years been

performing a series of cut backs, changes in tactics, all in the anticipation of some truly big event that might have even more serious impact on the business result. I believe that the investors are a little bit tired and that they would really need something to entice them again about Podravka. It is true that changes are obvious in the past several months, especially in acquisitions.

In spite of that Podravka is still one of the most solvent shares in the market?

That is true. Although many say that the primary reason is a non-sufficient number of good quality papers in our market, I think that Podravka is highly solvent, first of all owing to its

shareholder structure with the major part of small investors and institutional investors. In my opinion, the investors need several quick wins which will also be reflected on the result.

Somehow there is a feeling that you also feel that the only true driving force would actually be privatization of the State part in the company. Is this what the investors are waiting for?

I believe it is so. My position as the head of the Stock Exchange prohibits me to make any speculations and develop potential scenarios, but I believe that the investors' focus would in that case be directed somewhere else.

How would that be reflected to trade, to solvency?

The sales would be increased, simply following the higher

number of shares on the market. For the Stock Exchange specifically that would be a positive series of events.

According to this, would not then the privatization of the State share in Podravka via Stock Exchange be the most appropriate, in spite of the fact that the State gave a clear message that so far this is not going to happen?

My belief is that a grand ESOP program is not good for the society, and it is not sending a good message to big investors. As the estimate is that this way and with the cooperation of the managers maximum of 10 to 15 percent of the package would be privatized, it would actually be quite logical to bring the rest to the Stock Exchange.

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The market has truly reached its peak, the profits are exceptional. Would it not be good for the State to have used this situation and privatize the share in Podravka?

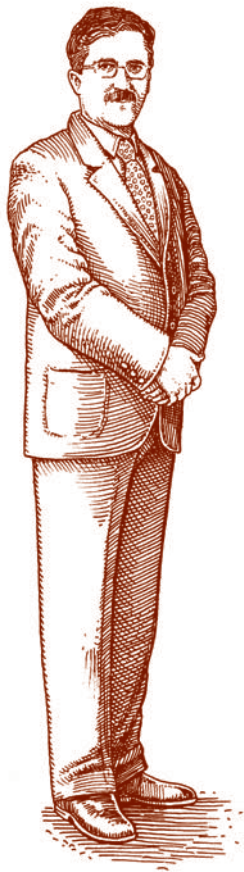
From the standing point for the country and considering the evaluation and share prices, now is the time for this. But it is owner's prerogative, especially the State's, to evaluate all the parameters, and in this case political motives are quite important and one must admit that the issue of privatizing Podravka in the pre-election year would be sensitive for any political body. But it is undisputed that this privatization would provide the Management Board with slightly more maneuvering space, which would also be recognized by the investors.

The media speculate about new private issues at the Stock Exchange, and the IPO of telecommunication company T-HT is announced for the fall? Will this reduce the interests for the existing shares on the market? Will this throw Podravka into the background?

Most certainly it will not, because as the assets grow being managed in Croatia, they are also growing with other investors, and the capital has to be placed and optimal portfolio structure has to be maintained, and in that sense Podravka as a share in the first quotation and the biggest representative of the Food sector is the most desirable instrument.

MANAGEMENT AND WORKERS OF PODRAVKA SHOULD BE ENABLED TO HOLD THE OWNERSHIP

LOYALTY OF THE EMPLOYEES TOWARD THE COMPANY SHOULD BE USED AS AN ADVANTAGE.
AND IF THEY DO NOT SUCCEED IN MANAGING THE COMPANY SUCCESSFULLY,
IN THE SECOND STAGE THERE WILL BE A TAKEOVER ANYWAY



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MIODRAG ŠAJATOVIĆ
EDITOR IN CHIEF
“LIDER” BUSINESS WEEKLY

For the years spent in business journalism, although not also for its age, Miodrag Šajatović, editor in chief of Lider business weekly is truly a doyen of Croatian business journalism. Besides being an active writer, he has raised numerous generations carrying this category of journalism in various Croatian media. The experience of observing a business scene has turned Šajatović into an analyst that would be welcome in any investment house. He himself would rather stay a journalist and an editor, with only occasional outings to other spheres of business.

You are the promoter of the thesis on importance of creating companies – national champions to which the State should provide an incentive for additional development. What are the

characteristics of such companies and what is it that the State should provide them?

The expression of a national champion comes from EU, and it is the original “product” from Angela Merkel. It is about good companies with international fame and expansion potential, for what they need some incentive. State administration, diplomacy and other structures should do everything in their power to enable such companies to realize their plans in foreign markets, especially those of investment nature. The key assumption is good management at companies but also good relations between state administration and private bankers who should accompany such projects. Unfortunately, the situation in Croatia does not appear to be so.

Do you feel that the companies really need that?

I do, because I fell this would completely make their approach and business on third markets easier. It is not the same to have a prime minister who knows the interests of other country towards Croatia, and what are our interests toward that country so that during state visits the conversations are being led with particular direction of interest. After that the competent management at companies would not need much. Perhaps the thesis is best explained by example. At the time when Societe General was interested in takeover of Splitska banka, negative signals started arriving to Croatia from France about Croatian accession to EU. It is hard to believe that it was a mere coincidence. I would say it was a kind of pressure to our Government to lobby with

contemporary bank owners, or at least send a clear signal that Croatia has it in its national interests that the French buy Splitska banka. Of course, such games are being played on numerous levels and are not always fruitful, but they are something one should be aware of and find ways for timely response.

More or less similar appeals to various state administrations have been sent for years back, but its realization is lacking. Have you any idea why it is so?

I cannot tell whether it is about not being able to distinguish or lacking expertise. But one should point out that in the 15 years of Croatia's independence we had no prime minister who could feel business in the right way, so nobody ever took

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MIODRAG ŠAJATOVIĆ
EDITOR IN CHIEF
“LIDER” BUSINESS WEEKLY

the problem seriously, at least not when it comes to public approach. Of course that on the other hand it is related to the unity of the Croatian business community. If the big players could find mutual interest to always have a candidate ready to take over the position of an Economy minister or a Prime minister, regardless of political party winning the election, and that they be the ones to suggest people for key positions with which they could communicate and have an ear for business, I am quite confident that the Government would then have a different approach to economy. Such an approach first of all presupposes mutual consideration of businessmen and a desire to work for mutual benefit. Of course, one has to emphasize that this is not something to be shouting from rooftops.

What about direct engagement of businessmen in politics? Is it not a more acceptable way?

Perhaps that way is better, but in that case it could happen that on public functions partial private interests prevail that one company could advance, and the other could not. The Berlusconi case is an example.

What is the warranty that some statesman would not behave that way even if he would come to the position as a product of joint interest of the business community? The companies themselves have different interests on the markets?

Naturally, it is not just the same who the candidate is. For instance, the person should have some experience in managing

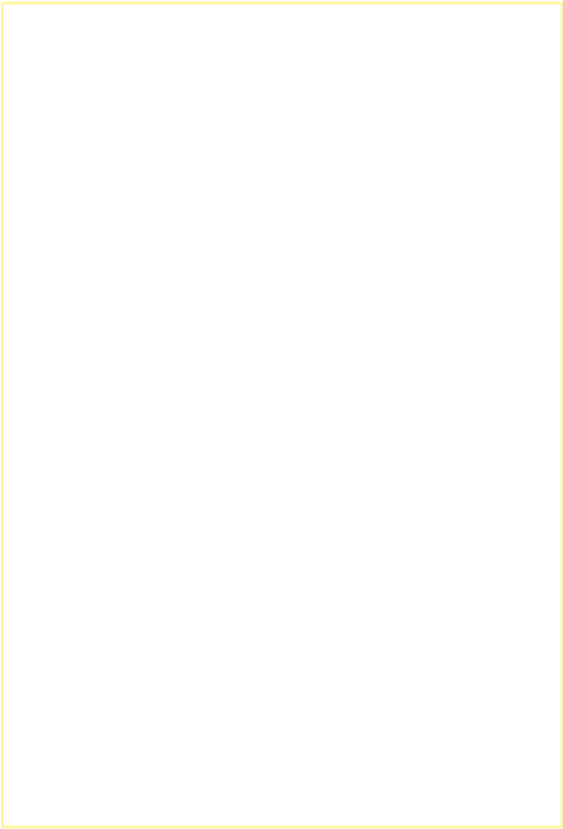
a holding that comprises of different companies and who would from that position have to carefully and wisely satisfy the interests of all of his companies.

What kind of a state incentive would Podravka need for instance?
It is hard to talk about it superficially. The greatest incentive for Podravka perhaps would be if the State would leave the shareholding structure. Here I would make a move that would not be completely without risks and enable management and workers to become co-owners of the company.

Why do you feel that this would be better for the company than for instance privatization via stock exchange?
Podravka is strongly manifested as a company whose employees

are bound to it. As it is one of its main traits, then it should be used as an advantage. As the employees have been stressing for so many years back that Podravka is theirs, then the employees and management should be enabled to purchase the share package and to give them a chance to prove how loyal to the company they really are and whether they can run it. This is the best way that the management and the employees present themselves as owners. In two or three years it will show whether their salaries and status were more important to them than efficient business. And if they do not succeed in managing the company successfully, in the second stage there will be a takeover anyway.

Do you feel that the decision of the State not to sell its share is exclusively politically determined or are there some other motives behind it?



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When it comes to election year, every government is extremely timid. At Podravka’s misfortune, Dukat was sold in the manner that brought about such reaction of the public. If it were not for Dukat, I believe that the chances for privatization of State share in Podravka this year would be even higher.

Croatian economy has gone through numerous stages in the past 20 years and its structure is greatly changed. Podravka has also been changing together with the market. What would be its stages that you would particularly like to stress?
I have to admit that I have been tracking Podravka ever since it has been managed by Pavle Gaži, so since my student days, Podravka has reached its peak in ‘80s in former Yugoslavia.

Then it was a big and highly advanced company. After Gaži left, Podravka started stagnating, firstly in the development sense. The company always had several currents, local interests were quite strong, question of ownership unsettled and I have to admit that there were times when I predicted a collapse, or that it will disappear under some big multinational company that would keep only Vegeta but practically destroy everything else. I was actually quite convinced of such an outcome.

What actually happened was that such circumstances really kept Podravka from such a scenario?
In the end it turned out to be so. When it comes to stages of its development, Podravka has truly become quite recognizable

in public for modernizing its management, to be more precise, when Darko Marinc took over the helm. I believe this was the change that started returning Podravka back to its saddle.

The analysts feel that Podravka’s skillful management is portraying a much better image of the company than what it really is. How do you comment that?

I might agree, but I believe there is a realistic explanation for this. Years during which due to problematic relations of all stakeholders they could not make more radical moves, they have managed to overcome with successful building of company image. It seems that the time is now gone and I hope that they have started with more intense activities that they were expected.

Can Podravka compare with some of Croatian companies? Or do we know what are their qualities, more or less. What is it that is missing?

Considering its structure it is hard to compare it with any other in Croatia. If we are talking about food, Podravka is practically the only company having international business. Its shares are in the first quotations and its shareholder structure is quite different than the others. I believe it is a shame that the company did not in due time, in the period of transformation and privatization, produce their own strong person who would make a mark on its business, because it is in the transformation stage that a lot of it was lost. But positive changes are taking place, particularly in the past several months. And that is why privatization would be important

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for Podravka, because the management would be given additional incentive by moving away from politics.

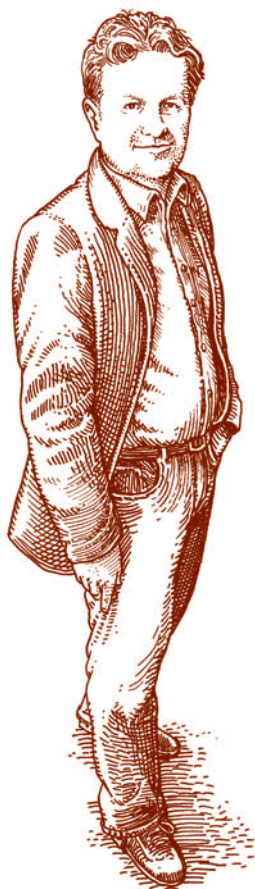
Do you feel that high exposure of Podravka has a negative influence over its current performance, but at the same time it is an unmeasurable advantage for the future. Could you elaborate on the attitude?

All Croatian companies have trouble exporting, but even when they create their positions in foreign markets, exchange rate policies do not create high profit for them. It thus turns out that those operating on home turf achieve much better results than companies struggling all over the world, which gives a message that it is actually better to get

confined within national borders than striving to strengthen export. But no matter how much Podravka might now be losing on foreign markets, in the moment when home market hits a smaller or bigger crisis in reduced demand, and my prediction is that this will happen, its position on foreign markets will be a savior. This is one of the main reasons why our companies, in spite problems, have to export.

I AM PARTICULARLY PLEASED ABOUT THE HUGE SHIFT OF FOOD PRODUCERS TOWARDS QUALITY

BIG COMPANIES ARE SEEKING COOPERATION WITH SMALL MANUFACTURERS. SMALL MANUFACTURERS
ARE OFFERING HIGH QUALITY, AND THE BIG PLAYERS ARE OPENING THE MARKET FOR THEM IN
A JOINT PERFORMANCE. THAT WAY NO NAME GLOBAL FOOD PRODUCTS GET THEIR FULL IDENTITY.
LOCALLY SUCH PRODUCTS GET A TICKET TO THE WORLD MARKETS



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INTERVIEW
RENE BAKALOVIĆ
PROMOTER OF
CROATIAN
GASTRONOMY

Rene Bakalović is a promoter of Croatian gastronomy in the world and a promoter of world gastronomic trends in Croatia. He is using different media in the process, from expert local press to CNN. The world of food he is describing and analyzing in the widest of civilization contexts. He is particularly interested in original entrepreneurship ideas: production, forming, distribution and presentation of food today are the most dynamic spheres of the economy, and as he says, to Croatia they are the first class development opportunity.

What are the key effects that determine world food of today?

The world of food is probably the most dynamic sphere of human activity. But it has been that way from the very beginning of civilization. The difference today is in that the interest of

experts and amateurs and their knowledge on the subject is high and is increasing by the day. What we eat, how we eat, what are the consequences of eating that way – these are all the questions which are being asked frequently every day and we are getting more and more unexpected replies. The Internet is the first global dynamic sociological instrument. It proves to us that food, next to sex, is the most frequent subject in total human communication. Other mass media and communication systems are showing this huge modern fascination with food as a media subject. This subject is so interesting that even the historians are “rewriting history”. Namely, they have come to realize that they have neglected the basic driving force of human history, and that is food. And history written in thus

the most acceptable way is an interesting reading and puts things into perspective. Historic enigmas get solved that way. As a gastronomist I am mostly interested in those turning points where food transfers from necessity to pleasure: food becomes gastronomy.

How are global movements reflected on our situation?

We are at a key turning point. The question is how much are we going to allow ourselves to be dictated by cheap import. We should not reply by start producing cheap low quality food. If we wanted to, we could not do it. There will always be someone who can produce a certain victual at a more favourable price. On the other hand, we have prerequisites to produce a number of victuals of a superb quality. This is a huge

turning point, starting from the level of consciousness and politics, through thorough expertise and integral intelligent marketing. But it can be done. Let us just have a look at the quoted examples of oil manufacturers from Istria. Starting with the change in methodology and technology of processing to forming and presentation of products, these stages have in several years made a huge shift. Now the most picky segments of the world market have come to realize that Croatia produces oils of the highest quality and those connoisseurs are now willing to pay the highest prices for our oils just like for those from Tuscany or some other elite regions. But Dalmatia produces oil in several times higher quantities than in Istria. The Dalmatians have a big challenge before them of inventing a new strategy according to the Istrian model.

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How do you see the role of big manufacturers in such challenges of winning the demanding international market?

I am particularly pleased about the huge shift of big food producers towards quality. Even multinational companies offer exclusive lines of products in order to increase the total image of its brands. Almost all supreme food products with extensive ingredients also state the precise origin and manufacturing technique. This opens interesting models of cooperation. Big companies are seeking cooperation with small manufacturers. Small manufacturers are offering high quality, but also non-standardizing in many production segments. Big manufacturers are finding models of standardization and quality constancy. What is important, with a joint

performance, they are opening the market and are solving some problems for the small manufacturers which are unsolvable for them. That way no name global food products get their name and full identity. Locally they are not canceled, but get a ticket to the world markets.

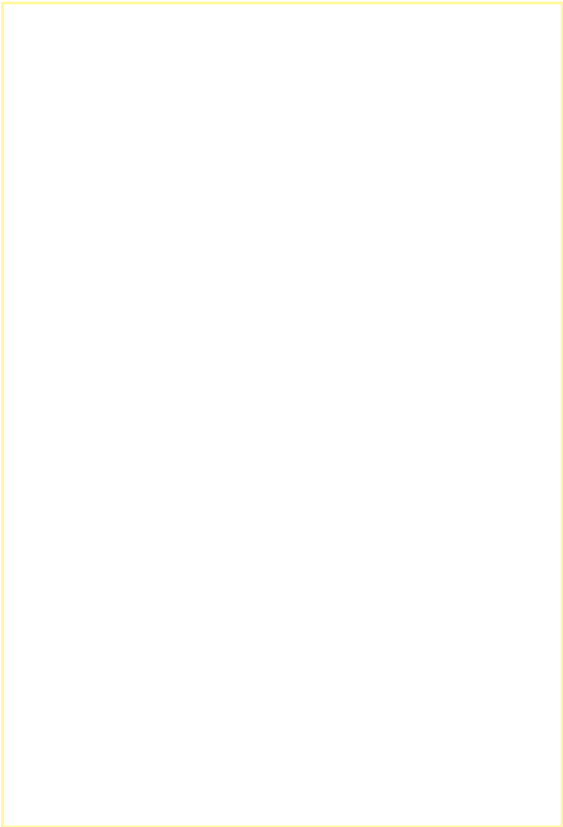
So trends are not one way?

No, they are not. This is where the information get their weight. Up until recently not even on the Internet you could not find any information about truffles from Istria. Well prepared international culinary presentations attract an elite world public and are spreading the story of Croatia as an exceptionally interesting gastronomical destination.

What are the possibilities for promotion of a national food identity?
It is exceptionally interesting and quite instructive how cream and cheese have become a political subject, how it was turned into a symbol of a constancy of national identity. Cream and cheese was turned into a central national gastronomical icon. Will the integration into a bigger political structure cancel the traits of regional?
The answer is quite simple: it will, if we allow it. Standardization and regulation can turn into different shapes. Small and family dairies can find their own passage to the most demanding parts of the market using some modern democratized information channels. They can join in clusters or they can seek partnership with big companies. My colleagues and myself are receiving invitations to cooperation

by big companies and possible small partners when designing such projects.

Are we looking at a new trend here?
Yes. A very important trend. Big companies are inviting renowned gastronomists to cooperation. From the most banal usage of their character on packaging of mass products to devising new ones. Great chefs are now preparing and developing recipes for confectionary food products here as well, for example high quality frozen ready-made meals. They have made a selection of a series of meals for our tradition, adjusted the recipes to the gastronomical spirits and new technologies of manufacture and packaging. Even the gastronomists themselves were often surprised at the quality of the products,



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where experience and knowledge was joined with modern technological options. Even the most demanding hospitality industry in the world is using fine confectioned products, such as canned liquid stock. There is an entire scene with exceptional profitability opportunities. The small ones can create a path for the big ones or start together right away. Opening of new or forgotten markets is today ahead of us.

What is it specifically that you have in mind?
I attended an award of the first Halal certificate to our food manufacturer. This is about a confirmation of a production opening the markets of Islam countries for the manufacturers. On the occasion the speaker reminded of two facts. First of

all, former Yugoslavia was a huge exporter to Islam countries. Secondly, major part of the goods and services exported originated from Croatia. A big segment of the market today is open for superb food products which are achieving exceptionally favourable prices. Our company is the first to get this certificate and is offering products which are completely based on traditional regional recipes. Their biggest problem is that they have to expand their capacities in order to satisfy the growing demand.

“Food forensics” raises food quality. What is food globalization bringing?
Availability of different kinds of food, this democratization by globalization is a key in new relations in the world of food.

Suddenly an enormous number of people crossed the threshold of existential minimum, swamped with food offered from all over the world. The fact carries numerous positive and negative side effects. Negative side effect is first of all the questionable quality of widespread distributed victuals. Offer of cheap food in the world market is often destroying local tradition and on the level of food production as well as on the level of eating habits. Luckily, such trends are quickly provoking quite the opposite effects. Quality of the victuals is getting more and more tested and the methods themselves and measuring instruments are surpassing an incredible level. We have come to the option of true “food forensics”. When given a piece of meat, experts can tell exactly on what pasture the cow was grazing. Such options are canceling various manipulation

options. Up until recently the individuals could for instance mix the remains of old olive oil with the new vintage, but now it can all be precisely measured, regardless of subjective organoleptic judgments. Type, origin, manufacture method, caring and ageing are precisely measurable facts.

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VEGETA: THE MOST FAMOUS CROATIAN BRAND IS SOLD IN MORE THAN 40 COUNTRIES AROUND THE WORLD

IN ALMOST HALF A CENTURY VEGETA RETAINED ITS RECOGNIZABILITY AND ORIGINALITY,
BUT IT ALSO ADAPTS TO TIME AND CONSUMER NEEDS. THAT WAS THE REASON VEGETA MEDITERAN
WAS LAUNCHED TO THE MARKET IN 2005 AND VEGETA PIQUANT IN 2006



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PODRAVKA'S FOOD
SEASONING WINS THE
WORLD

Vegeta is the most recognized Croatian brand and an original Croatian product being sold in more than 40 countries around the world. From a small local product Vegeta became a successful brand due to the positive coupling of functional characteristics of the product and emotional experiences that relate consumers with the brand. Vegeta sales growth of 6 percent contributed to a significant sales increase in the markets of Western Europe, overseas countries and Orient. The highest success is achieved in Australia where the new product Vegeta liquid stock increased Vegeta sales in the country by 34 percent. At the majority of Podravka strategic markets, Vegeta is a synonym for the entire category of universal food seasonings, because in 1959 Podravka with its new product created this

new category. For a long number of years Podravka was next to the Vegeta brand also developing the category itself, defining the standards of marketing communication and market performance in general. The success of the Vegeta brand is also shown by the results of independent research agencies, and thus Prizma agency research from late 2005 shows that Vegeta brand is in the leading position among the strongest brands in the region. Young & Rubicam agency published their results in Polish market and proclaimed Vegeta several years ago one of the brands with the highest growth potential in that market. Vegeta is a unique combination of vegetables and spices, originating from Podravka's research laboratories, made according

to the secret recipe of prof. Zlata Bartl and was launched to the market in 1959. Vegeta today is a holder of international recognitions, received Superbrand award in 2004 for Polish market, in 2005 for Hungarian and Russian market and in 2006 it was awarded Superbrand for Slovakian market for the brand Podravka, the name under which Vegeta is sold in that market as one of the strongest brands on those strategic markets and is definitely number one today for universal food seasonings in Europe. Constant innovations of the Vegeta brand in strategic markets are not only related to new products, packaging innovations, or design, but also marketing messages, new approach to the shelf and similar. Podravka is constantly investing into the development and advancement of Vegeta products and their packaging, offer-

ing to consumers different new and innovative packages, and special attention is paid to the design of the packaging comprised today of recognizable elements: blue colour, vegetables and the chef. In spring 2005 Vegeta dons her new attire – the packaging design was refreshed and modernized. Innovations in developing new products resulted in two new items in a very short period – Vegeta mediteran was launched in 2005, a universal food seasoning based on vegetables and Mediterranean herbs enriching the meals of Mediterranean cuisine, and in 2006 Vegeta piquant was launched, a universal food seasoning that with its combination of vegetables and spices imparts a piquant but moderately spicy flavor to meals. Winning the hearts of the consumers was not easy, and partially it is the result of quality and use value of the product itself, but

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PODRAVKA'S FOOD
SEASONING WINS THE
WORLD

also long term marketing presence in the market. Vegeta has been present in the media and has been communicating with the consumers since 1974 when the great culinary TV show “Little secrets of great chefs” started running, where a renowned chef would prepare meals using Vegeta and transfer different culinary recipes to the audience. That year was also the beginning of a marketing communication of Vegeta which was used to educate consumers how with a tablespoon of Vegeta they can prepare a rich and delicious meal. Over the years Vegeta has been present in various communication forms – on television, radio, press, different events and similar. Podravka is paying great attention to the education of consumers on the products themselves and variety of their use, so Vegeta booklets with recipes

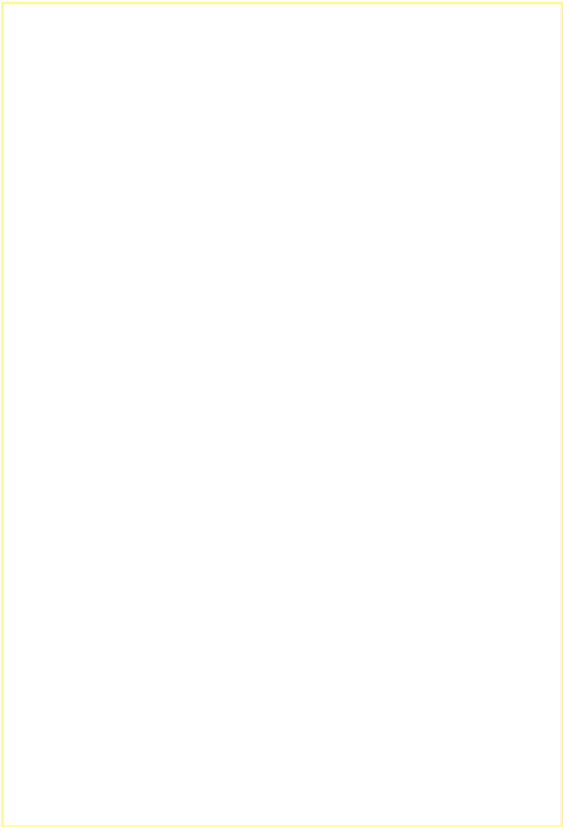
are always wanted. Consumers can win them by participating in actions at points of sale or buy some of them later. The basic idea of actions at points of sale is rewarding consumer loyalty with different promotional rewards, but also an education on innovations, new products and new directions in product use.

Things you did not know about Vegeta

- sold in 5 continents
- launched to the market as “Vegeta 40”, the name later changed to Vegeta
- blue colour of the packaging was the revolution in food industry
- available through Amazon.com

PODRAVKA SOUPS: PRODUCT PRESENT ON FIVE CONTINENTS

LAST YEAR'S PACKAGING REDESIGN WAS INTRODUCED IN ORDER TO EMPHASIZE HOW PODRAVKA RECOGNIZES THE DESIRES AND NEEDS OF THE CONSUMERS FOR MODERN AND ATTRACTIVE, PROVIDING AT THE SAME TIME DELICIOUS, HIGH QUALITY PRODUCTS



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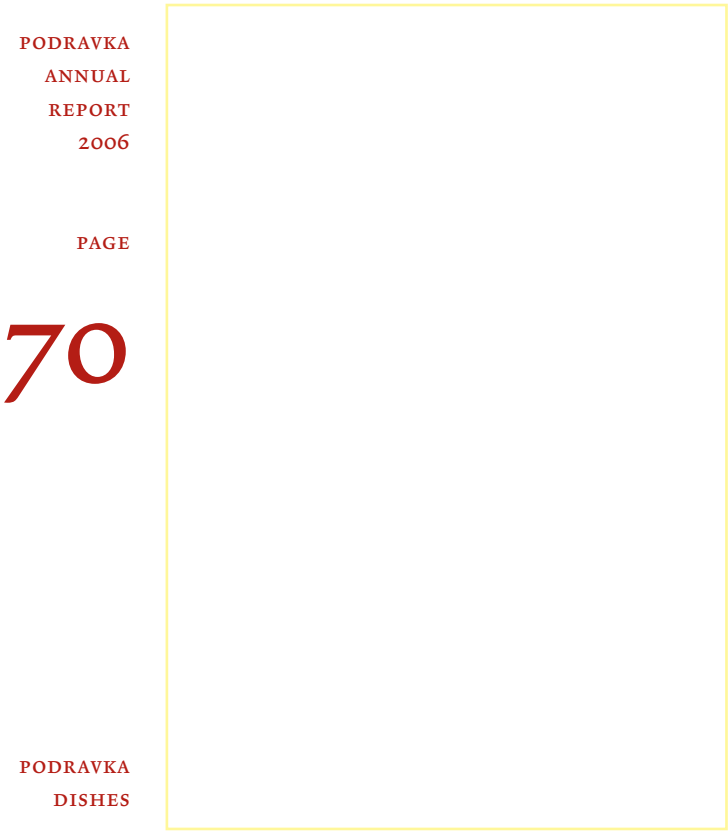
PODRAVKA
DISHES

Podravka dishes are constantly expanding the range of their high-quality and practical products, leaving room at the same time for culinary imagination. The overall range consists of 230 different products, adapted to the needs of consumers in 37 countries around the world. Business program of Podravka dishes includes: Podravka packet soups and stock cubes, instant soups Fini-Mini, semi-ready meals based on pasta with sauces under the brand Talianetta, Fant sauces, gastro range of soups, bouillons, stocks and sauces as well as soup supplements and Spaghetti Milanese. In 2006 the project of soup redesign was introduced with the idea to get a more modern, refreshed appearance of products on the shelf and to emphasize how Podravka recognizes the

desires and needs of the consumers for modern and attractive and at the same time practical products. As per product groups, Podravka dishes category achieved in 2006 in Croatian market 4 percent sales growth, while this category in the market of Eastern Europe contributed with 11 percent organic growth. The idea of making soups emerged and developed in early '50s, and in the process of introducing soups into Podravka participated professor Zlata Bartl in 1957, when her laboratory launched the first four packet soups presented in the fall that year at Zagreb Fair. In the upcoming period new soups were developed and introduced, so the production advanced from improvised production till the first machine for making stock cubes was purchased in 1959. The first Podravka

chicken soup named “Zlatka” is renowned for its packaging, because it displayed the rooster. Ten new soups presented at Zagreb Fair in 1964 ensured Podravka the leading position in the production of soup concentrates in former Yugoslavia. That same year Podravka won five medals for its soups. Today the soups are produced under the brand “Podravka dishes” and their number in the product range is 33. The latest soup in the market is Cream of cheese soup 70 g, and the oldest being Chicken Noodle Soup 62 g, the leader on domestic, but also foreign markets. Podravka soups are exported to five continents, and Podravka stock cubes are also present all over the world. In the wide range of packet soups, Podravka offers interesting, diversified and rich flavours of clear soups, cream soups and

Bambino soups intended for children. Fini-Mini instant soups are convenient to be consumed in different occasions and different places. All you need is a package of Fini-Mini soup, a cup, some hot water and a minute or two. Product range contains clear and cream packet soups. Under the Talianetta brand Podravka transferred familiar recipes of international cuisine based on pasta into a warm and delicious meal for two. The range consists of nine different semi-ready meals based on pasta which can be made in 5 to 15 minutes. Podravka’s range of ready-made meals consists of representatives of renowned world cuisines. High value ingredients, only the selected pieces of meat and vegetables are a guaranty for a delicious and fresh meal. Modern processing technology under



high temperatures ensure durability of the product, original fullness of flavour and smell and complete safety for the consumer in the conditions of storing at room temperature. The range of Podravka meals is adjusted to the demands of vegetarian cuisine. For their simple and universal application especially big and equally important aid in modern cooking are also Podravka stock cubes. Podravka stock cubes help in the preparation of delicious and economic meals, starting from hors-d’oeuvre, sauces, stews, pastas, rice meals, potatoes to meat meals and casseroles. Constant innovations of the product range and promotional activities made Podravka brand a synonym for food products, a synonym for food.

Podravka soups in numbers: 53 kinds of soups in domestic markets and 20 more for gastro markets, 130 kinds of products total range of Podravka soups in domestic market, almost 90 kinds of soups in all markets and 27 more for gastro markets, more than 10 percent sales growth in the last 3 years, 48 percent of consumers in Croatia relate Podravka with soups Twice around the planet – In 1992 prepared plates of Podravka soups (115 million of soups sold in domestic market) could girdle half of the planet Earth, and in 2002 the quantities were quadrupled to 450 million plates

2006 – THE YEAR OF NEW LINO PRODUCTS

PRODUCTS UNDER THE BRAND LINO ARE EXPORTED TO MORE THAN 20 COUNTRIES AROUND THE WORLD AND HAVE A LEADING POSITION IN CROATIA AND OTHER COUNTRIES OF SOUTH EAST EUROPE. BABY FOOD, SWEETS AND SNACK CATEGORY MARKS IN 2006 THE HIGHEST SALES GROWTH OF 7 PERCENT



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NATURAL AND
HEALTHY LINO
BABY FOOD

Lino is one of the most recognizable Podravka's brands. Lino comprises of dehydrated baby food products and the brand is exported to more than 20 countries around the world and has a leading position in Croatia and other countries of South East Europe. Lino products are highly recognized and the consumers perceive them as high quality and high value products, and the brand is an absolute leader in the markets of former Yugoslavia. In that category of Baby food, sweets and snack the highest sales growth of 7 percent was marked in 2006. That same year new product Lino baby food with prebiotic was launched to the market. Lino baby food contains cereal flakes with various supplements, adapted to tastes of children. It is rich in minerals and vitamins

necessary for children's growth and development, without preservatives, artificial colours and other additives. Favourite products are Čokolino, Lješnjak Čokolino, Keksolino, Frutolino, Medolino and Rižolino. The range of Lino products also includes milk products (prepared with water, but also with milk, as per taste of the consumer) and non-milk products (prepared with milk). Preparation of Lino meal is exceptionally fast and simple – without cooking! All you have to do is cover the flakes with water or milk and children can enjoy their favourite meal. The origins of baby food in Podravka go back as far as 1970. In its beginning the products were produced under the license of the German partner Dr Ritter & Co. Koeln. Aurora was the brand

of baby food, but also the name for products made from flour and based on flour. Only later did Podravka become a trademark for baby food. Every product contained the likeable bear which remained the part of Lino's identity even to this day. What is interesting is that the name Čokolino did not come from the word "čoko" (chocolate) and the bear "Lino". That name together with the rest of them was skillfully created in '70s so that each sort of pap was added the suffix (Čoko-, Medo-, Fruto-, ...) "lino". In the beginning it did not mean much. It was just a nice ending for the names of the products. It was only later, in '80s that the bear gets the name for that suffix.

From its beginnings the consumers preferred the chocolate taste of the product, so Čokolino became one of the strongest regional brands. Other products in the range: Čokolino,

Lješnjak Čokolino, Frutolino, Keksolino, Rižolino, Stracciatella, Karamelino, Grisolino, Medolino and Medolino extra. There is also Lino baby food with prebiotic – products based on rice and corn. Both of these cereals are easily digested and have a beneficial effect on intestinal flora. These cereals contain no gluten. Rice and corn rarely provoke any allergies. The flavours are Rice and corn, Rice with banana and apple, Rice with 5 types of fruit and Corn.

ČOKOLINO

Čokolino brand was defined and launched to the market in early 2006 in the category of breakfast cereals (Čokolino Crunch and Čokolino MAXI). But in the minds of the consumers it is recognizable for its history and as such it contributed to the

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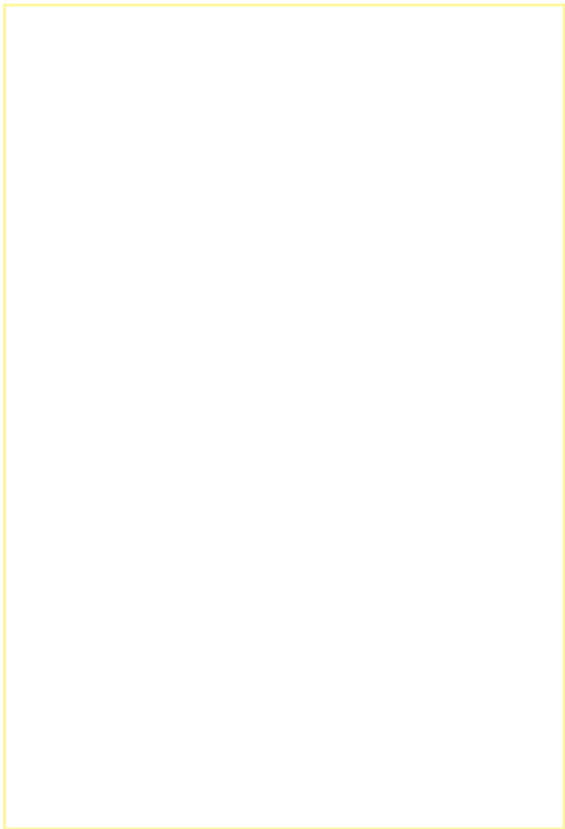
NATURAL AND
HEALTHY LINO
BABY FOOD

successful launch of Čokolino breakfast cereals to the market. Čokolino has become a synonym for all that is chocolate. Products under Čokolino brand taste like real chocolate, and high quality ingredients make them delicious, natural and nutritious. They are easy to prepare and an appealing packaging makes them cool and fun.

Čokolino cereals are delicious, nutritious, rich in vitamins, iron and calcium, without artificial additives and preservatives, easy to prepare, equipped with fun and entertaining contents. Čokolino cereals can be found in the markets of Croatia, Slovenia, Serbia, Bosnia and Herzegovina, Montenegro, Macedonia and Kosovo. The range of products includes Čokolino Crunch, Čokolino Maxi and Čokolino cream spread.

STRATEGIC PRODUCTS FROM LIPIK

WHEN BOTTLING STUDENA, NO PRESERVATIVES ARE ADDED, WHICH MAKES IT ONE OF THE MOST DEMANDING PRODUCTS IN THE ENTIRE PODRAVKA RANGE. THE CONTROL OF ITS PRODUCTION, QUALITY AND SANITARY VALIDITY IS PERFORMED ON HOURLY BASIS



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STUDENAC AND
STUDENA

Mineral water, spring water and other products from Podravka's factory in Lipik are among strategic products. In the sales structure of Podravka Group for 2006, strategic business area Food and beverages participates with 83 percent, while Beverages group grew by 1 percent.

Clear and cold spring water Studena comes to surface between granite rocks of mountain Psunj at the spring called Bukovac. Just like Studenac mineral water, Studena has preserved natural purity in the depths of the ground, and analyses performed at the Ruđer Bošković Institute in Zagreb confirm that there is no mixing with the rain water. The analysis proves that the water entered the underground 7600 years ago and it is the guaranty that the pure natural

spring water Studena is free from contemporary pollution. When bottling Studena, no preservatives are added, which makes it one of the most demanding products in the entire range. Application of modern technology when bottling Studena and the systems of hazard analysis and critical control points are a guaranty of its sanitary validity and high quality.

The history of mineral water in the area of Lipik and its surroundings originates from the period of the Jasi tribe, and it is also assumed that it was consumed by the Old Romans. The first written trace of mineral water and its usage appeared in 1708. Mineral water bottling plant becomes part of Podravka in 1970 and then the water is known as

“Natural mineral water”, while the name “Lipički studenac” it receives in 1973. During the Homeland War the bottling facilities were destroyed for their major part, but in mid July 1992 as the first renewed factory on the liberated territory of the Republic of Croatia started operating.

Mineral water gets the name “Studenac” in 1998 and it maintains it till this day. In 2000 natural mineral water gets the name Studenac, and pure spring water Studena is also launched to the market.

Studena is a natural spring water that with its balneologic-chemical characteristics, i.e. its mineral content is placed in the group of calcium-magnesium-hydrogen-carbon cold spring water. It is ideal for everyday use due to its composition which complies with the strictest standards of quality

set by the EU. Besides from glass and PET bottles, Studena is today the most widely spread water in its packing of 18.9 liters in Croatia, being poured from more than 30,000 cooler machines.

Based on spring water Studena, Studena with apple, strawberry, lemon, apple and pear (Studena sport) flavours is produced, together with four flavours of Studena ice teas.

Mineral water Studenac contains high quantities of diluted minerals and as such it is perfect for rehydrating the fluids lost due to increased physical strain.

The variety of bottling in glass and PET bottles enables a wider selection of refreshment it provides. Studenac managed to preserve its natural purity, and the analyses of the Ruđer Bošković Institute from Zagreb confirm that there is

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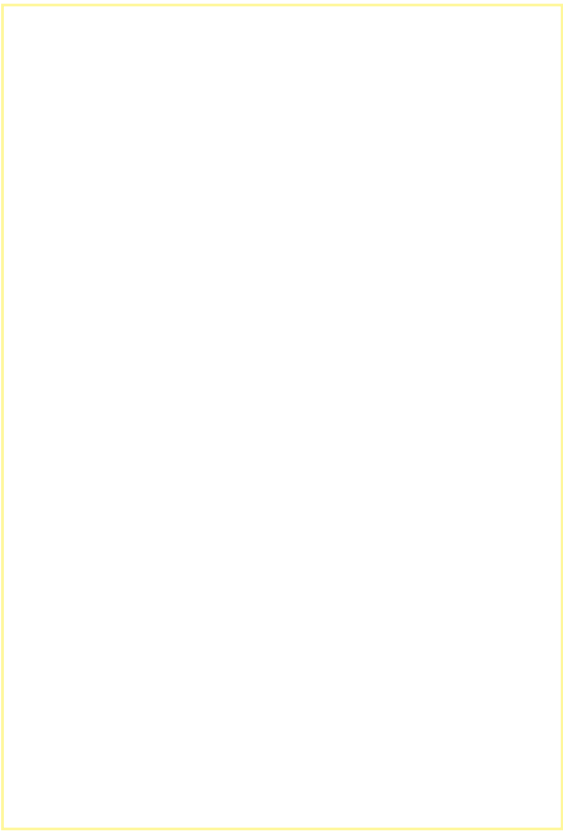
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STUDENAC AND
STUDENA

no mixing with rain falls. The analysis also proves that the water entered the underground more than 37,000 years ago and that can be the guaranty of its purity from contemporary pollution.

HIGH QUALITY MEAT PRODUCTS TO BE EXPORTED TO ALL THE COUNTRIES AROUND THE WORLD

FROM ITS VERY BEGINNING, THE COMPLETE PROCESS FROM RAW MATERIAL CONTROL, PACKAGING,
PRODUCTION PROCESS TO THE FINISHED PRODUCT, IS UNDER ABSOLUTE CONTROL, AND EXCEPT
IN THE COMPANY IT IS BEING SUPERVISED AT INDEPENDENT EXTERNAL LABORATORIES



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PODRAVKA'S
MEAT INDUSTRY
DANICA D.O.O.

Podravka's meat industry has an export number HR139 under which it has been exporting to markets around the world for more than twenty five years. Meat and meat products category realized in 2006 sales growth of 4 percent. Currently it is one of the three Croatian meat industries with licenses for exporting to all the countries around the world, and it is exporting to twenty countries. Next to countries of the European Union and USA, Danica meat products were met by the consumers from the area of former Yugoslavia, Australia, Switzerland and Greece. Half of the products consist of exported meat cans based on beef, where the leading product is Beef goulash, while export of sausage products to the EU market is under development.

Since October 2006 Podravka's meat industry Danica has new packaging lines. They are two new automatic lines for packaging meat cans and Beef goulash, worth about HRK eight million, being the biggest investment into meat industry in the past two years. Therefore the Quality Control department warrants that raw materials entering the production process are sanitary valid, and in compliance with high standards set by the inspections of the European Union and USA Inspection of the Department of Agriculture. Early 2006 started an extensive communication campaign of Podravka's meat industry under the title "The secret is in the flavour". Leader product in the focus of the campaign in

the group of durable sausage products and the carrier of the label “Croatian Quality” was the product Čajna sausage. The campaign also represented other products in Podravka range of meat products, such as Winter salami, Kraški vrat (Smoked shoulder butt), Ham in casing. The campaign resulted with familiarizing consumers with Podravka’s meat industry, the wide range of its products, as well as their supreme quality. Podravka’s meat industry also has a HALAL certificate. The certificate signifies that the production processes and products themselves are in compliance with food standards of believers of Islamic religious community. The certificate was presented to Podravka by the representatives of Meshihat of the Islamic community in Croatia, authorized for its issuing in Croatia. Podravka’s meat industry also received

ISO 9000:2001 certificate for quality in business processes, the certificate of the USA Import Inspection was renewed, while the products Beef goulash and Čajna sausage received quality labels “Originally Croatian”, and “Croatian Quality”. The labels “Originally Croatian” and “Croatian Quality” are the labels which the consumers recognize and appreciate, they are the labels that instigate trust and are a warranty of quality constancy.

Expanded distribution network with centers in Split, Rijeka, Zagreb, Rovinj, Zadar and Osijek has a positive effect on availability of products of Podravka meat industry in the stores of any Croatian region.

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PODRAVKA’S
MEAT INDUSTRY
DANICA D.O.O.

SIX PRODUCTION PROGRAMS

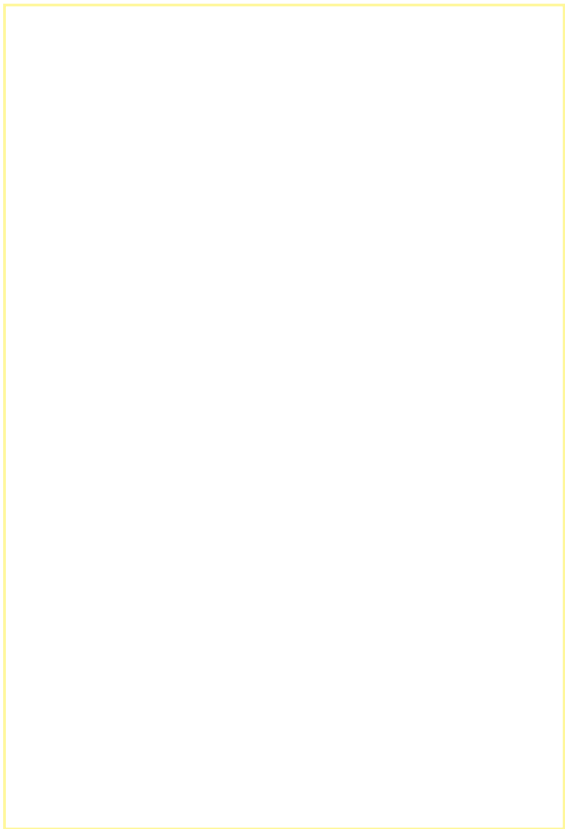
- 1. meat cutting and processing
- 2. production of cooked and semidurable sausages and dried products
- 3. production of durable sausages and dried products
- 4. production of poultry products
- 5. production of meat cans
- 6. production of frozen formed products

DOLCELA

“SWEET TOUCH OF FANTASY”

DOLCELA BRAND OFFERS BAKING AIDS, DESSERTS AND CAKE MIXES.

THE MOST SOLD PRODUCT IN THE DOLCELA RANGE IN 2006 WAS VANILLA PUDDING



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PODRAVKA

SWEETS

PROGRAM

After a long year cooperation and license production with “Dr. Oetker” and after a one-year transition period, in 1998 Podravka’s sweet program is launched to the market under the Dolcela brand, parallel in Croatian and Hungarian market. In the beginning they were only several products, and in time the product range expanded and now Dolcela brand comprises of several product groups: baking aids (Vanillin sugar, Baking powder, Whipped topping, Glazing), desserts (Puddings, Whipped topping powder) and cake mixes (for Princes puffs, Cream for creampie...). Next to Croatia, the products are also sold in the markets of former Yugoslavia - Bosnia and Herzegovina, Slovenia, Macedonia, Serbia, Montenegro, Kosovo and in somewhat smaller volumes in

USA, Australia, Sweden and Switzerland. Dolcela products follow the trends of low-calorie products, they are light sweets that can be prepared from the basic recipe found on the packaging up to original specialties, depending on the fantasy and desire of the maker. Another characteristic of these products is definitely fast and simple preparation from a powder to a dessert. Dolcela offers products of fast and simple preparation that can be prepared also by skillful homemakers, using their creativity and imagination, but also those who care for sweet and are not connoisseurs in their preparation. Dolcela products can be enjoyed in any opportunity, because next to desserts and sweets Dolcela offers all it takes in order to put

some imagination into your sweet creations. The most sold product in the Dolcela range in 2006 was Vanilla pudding. The story goes that the pudding was invented in the Middle Ages by a joker named Jack Pudding. But the culinary history marks that the French called pudding all that was cooked, and the English reserved the name pudding only for fine sweets cooked on steam. Only in the middle of the 20th century preparation of pudding becomes remarkably simple, and pudding becomes one of the favourite sweets in the world. Dolcela also contributes to its glory, providing puddings of already famous aromas of vanilla, chocolate, strawberry, raspberry, cocoa and hazelnut. Other Dolcela desserts are Panna cotta, Tiramisu and Whipped topping powders (preparation with water and

milk). Worth pointing put are eight kinds of baking aids (Whipped topping, Vanillin sugar, Baking powder, Creamfix, Glazing, Gussnel, Ground gelatine and Želin) and seven attractive cake mixes (Princes puffs, Cream for creampie, Cake cream, Parfe cream chocolate, Jogurtina cream and Cmok, mix for potato dough).

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PODRAVKA
SWEETS
PROGRAM



TORTILLAS ENRICHED KVIKI ASSORTMENT

TASTY AND CRUNCHY SNACK FROM CORN FLOUR HAS BEEN PRESENT IN CROATIAN MARKET SINCE LATE 2006 IN THREE FLAVOURS. SALTED, SPICY (POPULAR CHILLI) AND CHEESE, UNDOUBTEDLY WILL THRILL EVEN THE MOST DEMANDING GOURMANDS OF SALTED SNACKS



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KVIKI
SNACK BRAND

Products in the Kviki range are characterized by long year tradition in Croatian market and in the market of South East Europe. The market knows them since 1974 and the first production lines produced salted sticks, later pretzels, fish crackers, ducat, cocktail, peanuts and popcorns. Salted durable snack is produced in traditional manner (mixing the dough, baking), they are baked, not fried in fat. Baking ensures the fullness of flavour, guaranteed recognizable taste and good quality of the product. Good quality packaging guarantees the crispiness and freshness of the product throughout its shelf life. Kviki products are delicious, they can be shared and enjoyed with friends and family at any moment, any where. Their creative diversity in an

unexpected ways brings flavour and quality that makes your mouth water and you have the need to nibble and nibble... The most sold product in the Kviki range in 2006 was Kviki gric in 50 g packet. Novelty in the Kviki range is definitely entry into new subcategory and launch of tortillas, introduced to the market in late 2006. Tasty and crunchy snack made from corn flour is present in Croatian market in three flavours. Salted, spicy (popular chilli) and cheese, undoubtedly will thrill even the most demanding gourmands of salty snacks. The products were envisaged to satisfy the refined tastes of Croatian consumers. For those that watch for their weight, Podravka has great news. Fat content in Podravka tortilla chips is significantly lower than that in regular chips.

SALES IN CROATIAN MARKET GREW BY 19 PERCENT

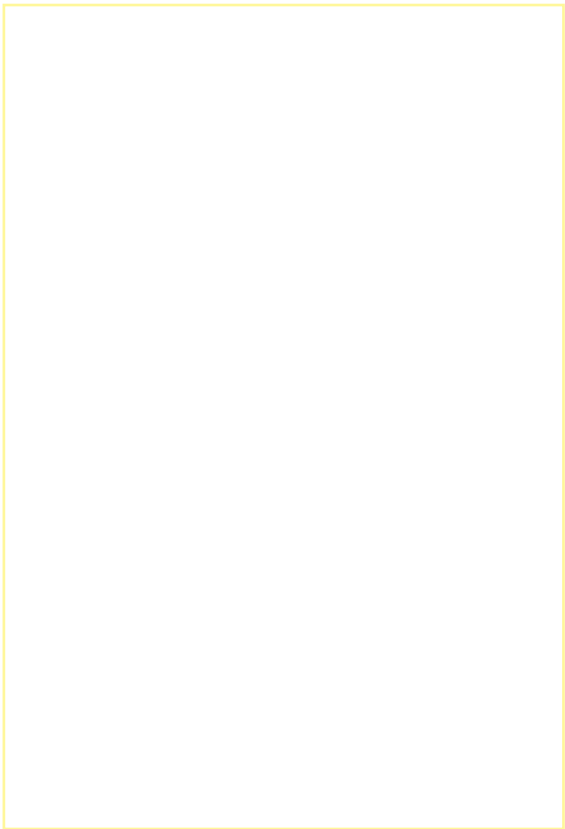
AMONG 120 PRODUCTS THERE ARE ICE CREAMS, FROZEN VEGETABLES AND POMMES FRITES,
READY-MADE MEALS, SWEETS AND BAKERY PRODUCTS, AND THE HIGHEST SALES GROWTH
OF 46 PERCENT WAS MARKED BY THE FROZEN VEGETABLES

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PODRAVKA
FROZEN
PRODUCTS

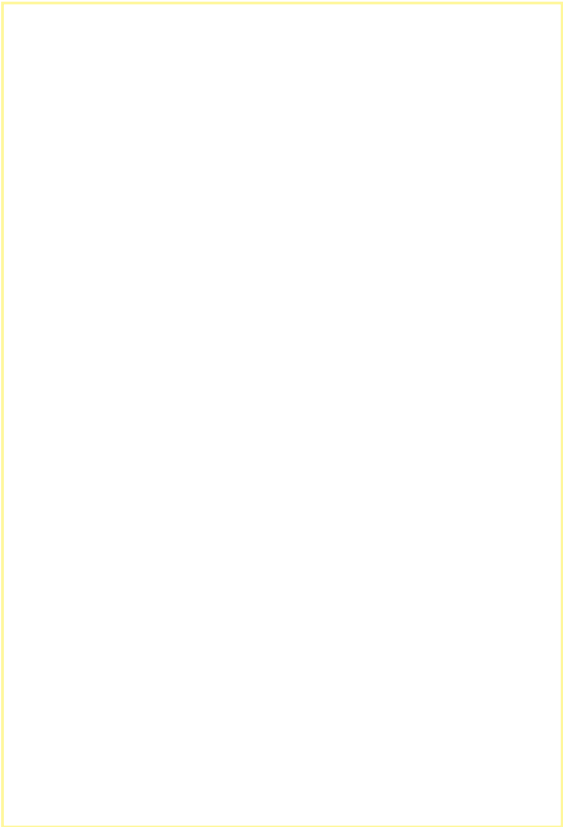


Podravka entered the segment of frozen products in 2002 recognizing in this category a high growth potential. Last year this program included 120 products in total: ice cream (catering, family, impulse), frozen vegetables and pommes frites, ready-made meals, sweets and bakery products. Sales growth in 2006 in Croatian market was 19 percent compared to sales growth of 2005, and the highest sales growth was in the vegetables category, where the marked growth was 46 percent. The range was extended last year with seven new products: two vegetable mixes, cup ice cream, three bakery products and a dessert. Podravka ice cream carries 43 percent in the overall sales of the complete Podravka frozen program. Although in the ice cream structure, catering ice cream

makes 65 percent, high sales growth rate is marked by family ice cream, particularly owing to widening of the range with the ice cream in boxes in 2005. Podravka frozen products and pommes frites make 36 percent of the sales of Podravka frozen program, and Baby peas is the leading item in the overall sales of Podravka range of frozen program. Particularly well accepted by the consumers are Podravka vegetable mixes – Royal mix, French salad and Rich mix. Owing to high quality of the products, introducing innovations into the range compliant to demands of the consumers and recognizable communication methods, original recipes on the back of the products, rewarding consumers on points

of sale, tasting, Podravka frozen products mark a market share increase and brand recognizability. Podravka family ice creams in boxes and cups are of fine creamy structure and characteristic milky flavour in 11 combinations. Podravka is also offering a rich range of catering ice creams of various refreshing flavours. The program is completed by impulse ice creams coated with crusty chocolate on a stick, Limač and Roly or in a cup, and there is Hippy, frozen water desserts on a stick. Frozen sweets to point out are Tiramisu and Mozart cake, Whipped Cream, Tiramisu and Schwarzwald dessert and Podravka Dolcela cakes – Hungarian and Honey cakes. Podravka frozen vegetables is a group of products distinguished in rich nutritious substances, especially in high

contents of natural vitamins and minerals, mostly originating from the fruits of the plants and have thus a direct effect on physical and mental fitness of people. Vegetables have been carefully selected according to the characteristics of the types and degree of maturity in order to get a satisfactory quality of frozen products, which is then further processes by modern freezing procedure – Individually Quick Frozen (IQF) – according to highly strict rules and conditions that ensure maximum preservation of the quality. Vegetables is an exceptionally important, according to some the most important, group of victuals and should participate in good quality and healthy diet on every day basis, and Podravka’s frozen vegetables, processed in supreme manner, is an absolute replacement for fresh vegetables.



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PODRAVKA
FROZEN
PRODUCTS

In the range of its products Podravka also contains ready-made meals that are exceptionally easy to prepare: all you need to do is to heat them up in a pan or microwave, without cooking, adding water or other ingredients. They are Gnocchi with 5 types of cheese, Black squid risotto and Fisherman’s risotto.

PODRAVKA PURCHASED EVA BRAND

EVA BRAND IS AMONG RARE DOMESTIC BRANDS WITH HIGH RECOGNIZABILITY
IN CROATIA AND COUNTRIES OF FORMER YUGOSLAVIA

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ENTERING
THE CANNED
FISH MARKET

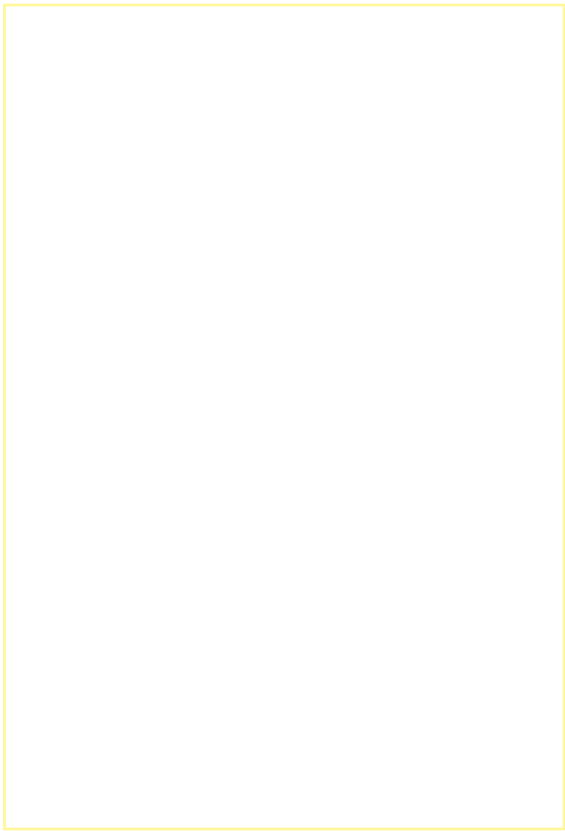


Fish products are a novelty in Podravka’s portfolio ever since Podravka expanded it in 2006 by recognizing the potential of the category and late that year purchased the Eva brand from Adria company from Zadar. Eva brand is among rare domestic brands with high recognizability in Croatia and countries of former Yugoslavia where it has been holding strong positions achieved through long years of work and brand development and constant level of high quality. In this region Eva has been present for a number of years, but after Yugoslavia collapsed, the brand stagnated and due to constant pressure of the competition the brand was set back with its portfolio, design and innovations. Podravka’s goal in the markets of Croatia and South-East Europe with Eva

brand is to be the leading company in satisfying consumer needs in the area of canned fish and other fish products. The sign of this brand is an exceptionally identifiable walrus which is contributing to the overall positive image of Eva brand. The walrus evokes positive emotions because the consumers perceive it as kind, amiable, reliable, safe and related to the sea and the fish. The brand’s slogan, “Eva. From the heart of the sea.” is the communication carrier towards consumers, linking Eva brand with Podravka, evoking the heart as Podravka’s recognizable sign.

VEGETABLE PRODUCTS OF DOMESTIC RECIPES

PRODUCTS WITHOUT PRESERVATIVES ARE PREPARED FOLLOWING DOMESTIC RECIPES.
COMPARED WITH COMPETITION PRODUCTS, THEY CONTAIN A HIGH SHARE OF VEGETABLES.
THE RANGE IS ENRICHED WITH NEW PRODUCTS AND THE EXISTING ONES ARE REDESIGNED IN PACE WITH TIME



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PODRAVKA
VEGETABLES,
TOMATO AND
CONDIMENTS

Podravka condiments are products without preservatives, prepared following domestic recipes. They are of a full and recognizable taste, color and smell, and these characteristics originate from the rich vegetable taste and special mixture of spices that provide a rounded aroma and pleasant smell. They are produced from highly controlled raw materials (mostly domestic) in a technological procedure that ensures preservation of all the highly valuable vegetable ingredients. In home-made cooking such products are prepared at a boiling temperature that destroys valuable vegetable ingredients. Considering competition products, they contain a high share of vegetables. Products where tomato is represented in shares from 55 to 85 percent (Salsa, Salsa hot tomato sauce, Tomato

sauce with champignons, Tomato sauce with olives, Relish and Pindjur) contain a high level of antioxidant lycopene. Lycopene neutralizes free radicals that damage tissues and are causing malign tumors in our bodies. In 2006 the range was enriched with Bolognese sauce, Tomato dip mild and hot, Chopped tomatoes with basil and oregano, Chopped tomatoes with olives, Chopped tomatoes with garlic and olive oil and Sterilized champignons. The redesign of the entire range of tomato products was also performed, as well as pickled and sterilized vegetables and tomato sauce. The most sold products in 2006 in the Vegetables category are Pasteurized cucumbers 670 g, in the Tomato category

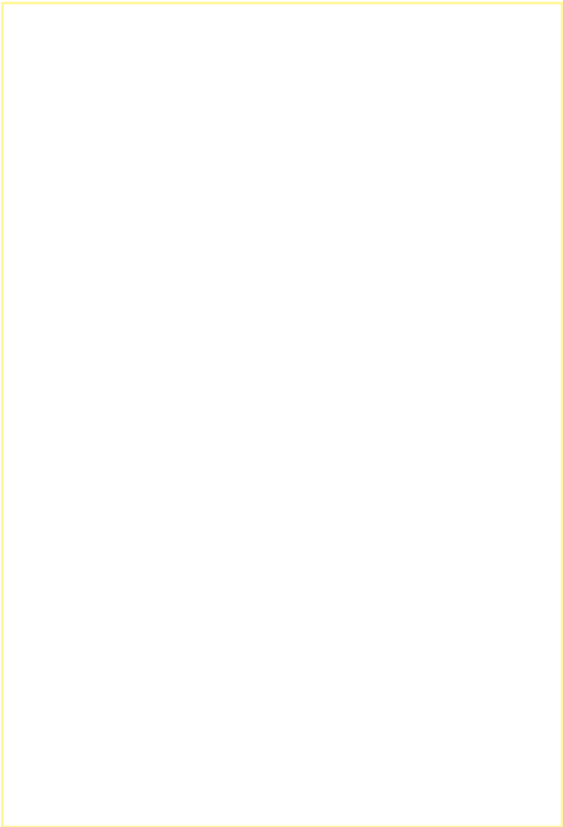
- Tomato puree TB 500 g, and in the condiments category - Ajvar mild sterilized 350 g. Podravka's advantages in food production are favourable agro-ecologic conditions, favourable natural conditions as well as the production of raw materials without the application of genetic engineering. Podravka has strong expert support in production of raw materials in the sense of protection of herbs individually with the producers. The highest standards related to food production are respected in the process. Thanks to Podravka Ajvar has become an industrial product that in its quality matches the highest European and world standards. Podravka's Ajvar is aromatic and delicious vegetable product made from paprika, added egg-plant, oil and spices. The technology used to prepare Ajvar at Kalnik

factory is among leading technologies used in modern world. Podravka's tomato products are made without preservatives, with the application of the supreme modern technology and are distinguished in richness of nutrients. Moreover, the ingredients are completely preserved in finished products. Podravka's side-dishes and ready-made sauces are products without preservatives, prepared according to the recipes of our grandmothers. The range is completed with pasteurized and sterilized vegetable products. Pasteurized vegetables are prepared with the methods of traditional winter food storing. Sterilized vegetables are carefully selected, they are high quality vegetables available all year round, thermally processed in a second they become an imaginative side dish or a meal on its own.

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PODRAVKA VEGETABLES, TOMATO AND CONDIMENTS	

NEW FLAVOURS OF ROOIBOS “WONDER TEA”

THE MOST SOLD PRODUCT IN 2006 IS ROSEHIP TEA 60 G. THE ASSORTMENT IS EXPANDED WITH FOREST FRUIT TEA 50 G, AND FRUIT TEA 600 G. NEW FLAVOURS IN THE ROOIBOS TEA RANGE ARE ALSO INTRODUCED (ROOIBOS MIX AND ROOIBOS VANILLA)



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PODRAVKA
TEAS

Podravka tea is a rich, filling drink with full flavour and clear particulate smell. Podravka has been producing teas in Umag since 1973. The first four teas, in contemporary cooperation with license partner Jacobs, under the sign of the heart and the name Podravka were Chamomile, Linden tea, Mint and Indian tea. From the wide selection of different flavours, specially emphasized is Podravka Green tea, which has proved to be the “first among equal”. Since 2006 the assortment of Podravka teas has been complemented with Forest fruit 50 g and Fruit tea 600 g. The most sold product in the range of Podravka teas in 2006 was Rosehip tea 60 g. The campaign of introducing new flavours in the range of Rooibos teas (Rooibos Mix and Rooibos vanilla)

was introduced in early 2006, and it included tv commercial, product tasting at points of sale and sales awarded with additional Podravka products. Rooibos is herbal drink from the leaves of a unique South-African plant called the Red bush. The homeland of this autochthonous plant is dry plateau of South African Republic. In the Far East, in the countries that cherish the tea cult, a supreme hospitality is shown in a special tea ceremony, popular by the name “wonder tea”. Rooibos tea is rich in minerals, contains no theine, has antioxidant characteristics, and works refreshing and soothing, which are the characteristics that won the lovers and true connoisseurs of teas. It is a natural, healthy refreshing drink without theine,

additives, preservatives and colour, also suitable for children. It is highly efficient in reducing cramps with children, it reduces allergies and skin irritations, efficient with bronchial problems and asthma. At any moment, as a warm or cold drink, a supplement of daily needs of the organism for nutrients, strengthens the immune system. It is extremely rich in important minerals, recommended to everyone, especially to sportsmen and children.

Podravka is producing today a whole range of teas for any occasion. Green and Indian tea are traditional teas related with primeval rituals, customs and health. Fruit teas are offered in five different flavours: Apricot, Cherry, Lemon, Strawberry with vanilla and Forest fruit. Among herbal teas there are Linden tea, Hibiscus, Chamomile, Rosehip and

Mint leaves. Ciciban is a delicious tea, a fine blend of the best soothing herbs, suitable for children of three months of age and up.

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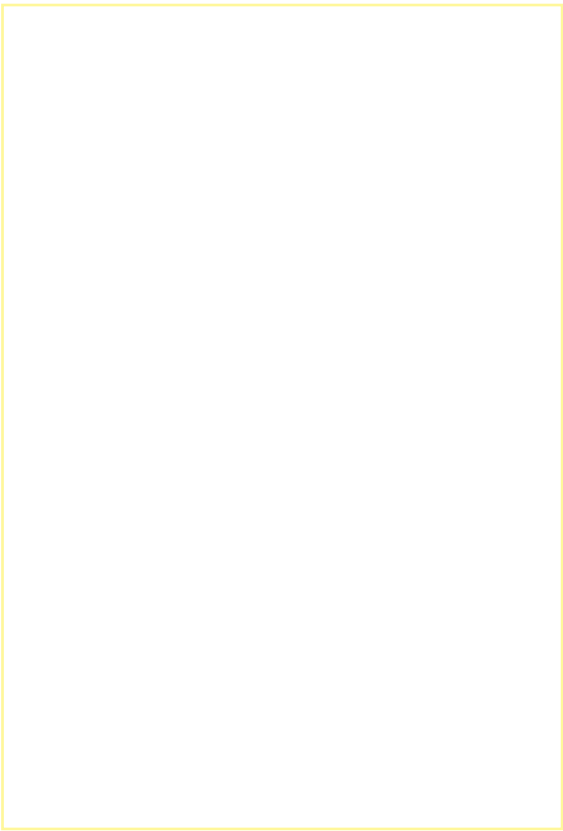
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PODRAVKA
TEAS



THE MOST SOLD IS PLUM SPREAD

LAST YEAR NEW LARGE PACKAGING OF LOW-CALORIE RASPBERRY AND BLUEBERRY JAM
WAS INTRODUCED, TOGETHER WITH 270 G CHERRY, FOREST FRUIT, ORANGE-STRAWBERRY
AND CRANBERRY JAMS AND NEW COMPOTES OF PLUM AND SOUR CHERRY



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FRUIT

Fruit category realized 4 percent sales growth in 2006, as seen per product groups. The most sold product in the Fruit category in the same year was Plum spread 870 g. New products introduced in 2006 were Low calorie jams raspberry 5 kg, blueberry 5 kg, Extra-jams sour cherry 270 g, forest fruit 270 g, orange-strawberry 270 g, cranberry 270 g, Plum compote with seed 4350 g, Sour cherry compote without seed 680 g and Sour cherry compote without seed 2600 g. The predecessor of today's Podravka were the workshops for basic processing of fruit, owned by Matija and Marijan Wolf. On 15 October 1934 a license was obtained and half-industrial fruit processing started. After the Second World War the industry is renewed. Ceremonial opening was held

on 1 October 1947. The production of fruit pulps, marmalades and jams was named Podravka. In the '50s the main products were Mixed fruit jam, jams and compotes. In the first ten years 90 percent of the production was Mixed fruit jam. In the production structure, in 1957 jam took about 50 percent and in 1958 more than 37 percent of the production. Today Podravka has developed jams for specific purpose for confectionary industry, as well as specific-purpose jams for bakeries and pastry shops. New product is Sour cherry bakery jam, produced based on own technology. It is intended for homemakers that wish to prepare delicious home-made strudels, without the stuffing coming out of the pastry.

Podravka's Plum spread is a product of recognizable high quality and unique in the world. It is produced from plums (*Prunus domestica*) and today's recipe has been used since 1975. Extremely high portion of fruit and small amounts of added sugar provide this product with an extremely rich flavour. After careful analyses of the process and production methods, a certificate was obtained that Podravka Plum spread can carry this highest epithet that a product can have: Original. It means original recipe, original technology, selected raw material.

Other parts of the fruit program are Podravka jams, honey and compotes.

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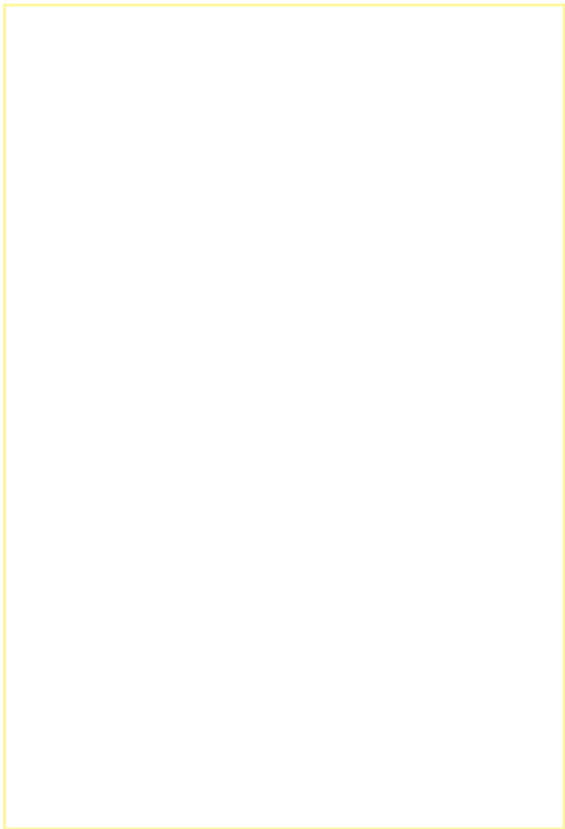
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FRUIT



LEADING REGIONAL
WEB SITE FOR AFICIONADOS
OF GOOD FOOD

FAITHFUL FANS OF COOLINARIKA ARE YOUNG PEOPLE OR THOSE WHO FEEL
YOUNG AT HEART: STUDENTS, FAMILIES WITH SMALL CHILDREN, BUT ALSO
INDIVIDUALS WHO, ALTHOUGH LIVING AND COOKING FAST, LIKE TO ENJOY FOOD SLOWLY



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COOLINARIKA
IN 5 NIBBLES

Podravka’s Coolinarika.com has in four years become a key regional web destination and a warm home for a huge virtual community of food lovers. Faithful fans of Coolinarika are young people or those who feel young at heart: students, families with small children, but also individuals who, although living and cooking fast, like to enjoy food slowly. Coolinarika supports gourmands and bon vivants, people with particular eating habits and demands and those prone to pleasure as much as health. Seventy percent of Coolinarika visitors come from Croatia, and 30 percent come from the countries of the region, Europe and the remaining parts of the world. At the first glance a trivial, but not an easy task of this project is to raise the level of public dialogue about food and health. On

the Internet Podravka has also positioned itself as a competent collocutor that the consumers can turn to not only when they need to make decisions while shopping, but also in situations when they need any advice about cooking and health. The main contents of the site are the recipes and articles, but the true beauty lies in the users’ possibility to evaluate and comment on them and add their own recipes and photos. That way Coolinarika.com and its users, consumers of Podravka products in fact, have created a large and fast growing point of culinary encounter, information, knowledge, experience and opinion exchange on every possible culinary subject. Coolinarika in numbers: Number of users: 8723 – Number of Podravka recipes: 2083 – Number of user recipes: 4116

REPORT OF THE
SUPERVISORY BOARD
OF PODRAVKA D.D.

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REPORT OF THE
SUPERVISORY BOARD
OF PODRAVKA D.D.

Pursuant to item 3 of Article 263, item 3 of Article 280 and Article 300 c of the Companies Law, the Supervisory Board of PODRAVKA d.d. has passed on its 29th meeting held on 16th May 2007 the following REPORT OF THE SUPERVISORY BOARD OF PODRAVKA d.d. ON THE SUPERVISION OF LEADING BUSINESS OPERATIONS OF PODRAVKA d.d. IN 2006.

This Report covers the period from 1st January 2006 until 31st December 2006. The Supervisory Board of PODRAVKA d.d. (hereinafter: the “Supervisory Board”) pursuant to powers defined in provisions of the Companies Law, the Articles of Association of PODRAVKA d.d. and the Rules of Procedure of the Supervisory Board, continually supervised the leading of business operations of PODRAVKA d.d. in 2006 by making decisions and conclu-

sions on six sessions held in 2006. By supervising the leading of business operations of PODRAVKA d.d., the Supervisory Board discussed numerous issues regarding business operations of PODRAVKA d.d. and its subsidiaries in 2006. The Supervisory Board founded four committees: Audit Committee, Remuneration Committee, Human Resources Committee, Strategic Development Committee. Audit Committee held two sessions in 2006 and Remuneration Committee held one session. In the period from 1st January 2006 until 20th July 2006 the Supervisory Board acted and consisted of the following members: Božo Prka, Marko Ećimović, Milan Artuković, Marijan Cingula, Goran Gazivoda, Boris Hmelina, Ksenija Horvat, Barica Macan, Franjo Maletić, Darko Ostoja and Đuro Zalar. In the period from

20th July 2006 until 31st December 2006 the Supervisory Board acted and consisted of the following members: Mladen Vedriš, Marko Ećimović, Milan Artuković, Goran Gazivoda, Damir Felak, Boris Hmelina, Ksenija Horvat, Franjo Maletić, Josip Pavlović, Dražen Sačer and Dubravko Štimac.

Having examined the leading of business operations of PODRAVKA d.d., the Supervisory Board determined that PODRAVKA d.d. acted in 2006 in accordance with laws, acts of PODRAVKA d.d. and resolutions of the General Assembly.

The Supervisory Board examined the report of the Auditors – PricewaterhouseCoopers d.o.o., Zagreb, Alexandra von Humboldt 4, who had reviewed financial reports of PODRAVKA d.d. and its subsidiaries for the year ended 31st December 2006 and the Supervisory Board accepted the submitted report of Audi-

tors. After having reviewed the Annual report on PODRAVKA d.d. and its subsidiaries business operations and on the position of the Company in 2005, submitted by the Management Board of PODRAVKA d.d., the Supervisory Board has determined that annual financial reports of PODRAVKA d.d. and its subsidiaries for the year ended 31 December 2006 were disclosed in accordance with positions in business books of PODRAVKA d.d. and its subsidiaries, and that they disclosed correctly property and business positions of PODRAVKA d.d. and its subsidiaries, and the Supervisory Board gave its approval.

In accordance with Article 300 d of the Companies Law, the Supervisory Board submits annual financial reports to the General Assembly of PODRAVKA d.d. for their determination. Constituent parts of financial reports of PODRAVKA d.d. for the

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REPORT OF THE
SUPERVISORY BOARD
OF PODRAVKA D.D.

year ended 31st December 2006 are as follows:

Profit and Loss Account of PODRAVKA d.d., Balance Sheet of PODRAVKA d.d., Cash Flow Statement of PODRAVKA d.d., Statement of Changes in Equity of PODRAVKA d.d., Notes to the Financial Statements of PODRAVKA d.d., Profit and Loss Account of PODRAVKA d.d. and its subsidiaries, Balance Sheet of PODRAVKA d.d. and its subsidiaries, Cash Flow Statement of PODRAVKA d.d. and its subsidiaries, Statement of Changes in Equity of PODRAVKA d.d. and its subsidiaries, Notes to the Financial Statements of PODRAVKA d.d. and its subsidiaries, Report of the Auditors on the audit conducted by PricewaterhouseCoopers d.o.o. Zagreb, Alexandra von Humboldt 4. The Supervisory Board approved the report of the Management

Board of PODRAVKA d.d. on the position of PODRAVKA d.d. and PODRAVKA d.d. and its subsidiaries and the report is submitted to the General Assembly for adoption.

The Supervisory Board approved the draft resolution of PODRAVKA d.d. concerning the appropriation of the profit for the 2006 business year, and the draft of the resolution has been submitted to the General Assembly of PODRAVKA d.d. to be adopted.



Dr Mladen Vedriš – Supervisory Board President

AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF PODRAVKA GROUP

We have performed an audit of consolidated financial statements of Podravka Group and its subsidiaries (hereinafter “Group”). Consolidated financial statements consist of consolidated balance sheet as at 31 December 2006, 2006, consolidated income statement, consolidated report on equity change and consolidated report on cash flow statement and the summary of significant accounting policies and notes to the financial reports.

RESPONSIBILITY OF THE MANAGEMENT BOARD FOR FINANCIAL REPORTS

The Management Board is responsible for forming and an objective review of these consolidated financial statements in compliance with International standards of financial reporting. The responsibility of the Management Board includes: determining, leading and application and maintaining of internal controls relevant for forming and objective review of the financial reports without materially significant errors that may arise as a consequence of fraud or error; the choice and application of appropriate accounting policies; defining accounting evaluations suitable for existing circumstances.

THE RESPONSIBILITY OF THE AUDITOR

It is our responsibility to express an opinion on these consolidated financial statements based on our audit. The audit was performed in compliance to International auditing standards that state compliance with ethical rules, planning and conducting the audit in order to determine, with a reasonable measure of certainty, that the financial reports are without significant material errors. The audit includes conducting of procedures with the purpose of gathering auditing evidence on amounts and statements in financial reports. The choice of the procedures depends upon auditor's judgment, including the evaluation of the risk of materially significant errors in financial reports that may arise as a consequence of fraud or error. In evaluating these risks, the auditor considers internal controls relevant for forming and an objective review of financial reports formed by the Group with the purpose of conducting auditing procedures in compliance with the existing circumstances, not with the purpose of expressing an opinion on the efficiency of internal controls of the Group. The audit also includes the evaluation of the applied accounting policies, the appropriateness of accounting evaluations defined by the Management Board, together with the evaluation of the overall review of financial reports. We are convinced that the auditing evidence provided is sufficient and that they make an appropriate grounds in order for us to be able to express our opinion.

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OPINION

In our opinion, the attached consolidated financial statements show a realistic and an objective financial position of the Group, in all significant aspects, as at 31 December 2006, the results of its business and cash flows for the year 2006 in compliance to International standards of financial reporting.



PricewaterhouseCoopers d.o.o.
Zagreb, 29 March 2007



Tatjana Rukavina
Management Board Chairwoman



Jadranka Čabrajić
Authorized auditor

CONSOLIDATED
INCOME
STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

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(IN THOUSANDS OF HRK)	Note	2006	2005
Sales	5	3,467,504	3,441,378
Cost of goods sold		(2,116,279)	(2,104,473)
Gross profit		1,351,225	1,336,905
Other gains/(losses) - net	6	27,196	(621)
General and administrative expenses		(359,245)	(359,215)
Selling and distribution costs		(905,992)	(899,371)
Other revenues	7	14,755	9,674
Other expenses	8	(1,731)	(1,882)
Operating profit		126,208	85,490
Finance income		6,509	23,890

(IN THOUSANDS OF HRK)	Note	2006	2005
Finance costs		(56,568)	(39,539)
Net financial expense	11	(50,059)	(15,649)
Profit before tax		76,149	69,841
Income tax expense	12	(15,788)	(7,215)
Net profit		60,361	62,626
Earnings per share			
- basic	14	11.24 kn	11.74 kn
- diluted	14	11.04 kn	11.40 kn

The consolidated financial statements set out on pages 2 to 45 were approved by the Management Board on 29 March 2007.

DARKO MAR

DARKO MARINAC, Management Board President

CONSOLIDATED
BALANCE
SHEET

AS AT 31 DECEMBER 2006

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(IN THOUSANDS OF HRK)	Note	2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	16	1,633,454	1,655,399
Intangible assets	17	87,225	91,237
Deferred tax assets	28	24,137	11,098
Available-for-sale financial assets	19	1,394	22,364
Trade and other receivables	21	11,243	13,195
		1,757,453	1,793,293
Current assets			
Inventories	20	564,485	569,092
Trade and other receivables	21	1,241,505	908,835

Financial assets at fair value through profit or loss	22	3,046	113
Cash and cash equivalents	23	126,118	126,234
		1,935,154	1,604,274
Non-currents asset held for sale	18	7,898	15,260
		1,943,052	1,619,534
Total assets		3,700,505	3,412,827
EQUITY AND LIABILITIES			
Non-current liabilities			
Long-term debt	27	525,335	515,358
Provisions	29	22,007	14,134
		547,342	529,492

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Current liabilities			
Trade and other payables	26	920,346	590,709
Short-term borrowings	27	456,860	317,640
Provisions	29	29,277	53,827
		1,406,483	962,176
Total liabilities		1,953,825	1,491,668
Shareholders' equity			
Share capital	24	1,427,329	1,635,796
Reserves	25	148,503	125,514
Retained earnings		170,848	159,849
		1,746,680	1,921,159
Total equity and liabilities		3,700,505	3,412,827

CONSOLIDATED
STATEMENT OF
CHANGES IN EQUITY

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(IN THOUSANDS OF HRK)	Note	Share capital	Reserves	Retained earnings	Total
Balance at 1 January 2005	24, 25	1,627,060	109,182	143,186	1,879,428
Foreign exchange differences (net income recognised directly in equity)		—	2,378	—	2,378
Net profit for the year		—	—	62,626	62,626
Total recognised income for 2005		—	2,378	62,626	65,004
Dividend approved		—	—	(26,689)	(26,689)
Purchase of treasury shares		(18,858)	—	—	(18,858)
Options exercised		15,872	—	(5,320)	10,552
Fair value of share options		11,722	—	—	11,722
Transfer to reserves		—	13,954	(13,954)	—
Balance at 31 December 2005	24, 25	1,635,796	125,514	159,849	1,921,159

(IN THOUSANDS OF HRK)	Note	Share capital	Reserves	Retained earnings	Total
Foreign exchange differences (net income recognised directly in equity)		—	2,828	—	2,828
Net profit for the year		—	—	60,361	60,361
Total recognised income for 2006		—	2,828	60,361	63,189
Dividend approved		—	(19,921)	(7,120)	(27,041)
Purchase of treasury shares		(9,721)	—	—	(9,721)
Sale of treasury shares		9,649	—	—	9,649
Options exercised		14,210	—	(2,160)	12,050
Fair value of share options		16,271	—	—	16,271
Transfer to reserves		—	40,082	(40,082)	—
Call option on Company shares		(238,876)	—	—	(238,876)
Balance at 31 December 2006	24, 25	1,427,329	148,503	170,848	1,746,680

CONSOLIDATED
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(IN THOUSANDS OF HRK)	Note	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	32	293,680	363,545
Tax paid		(15,661)	(14,180)
Interest paid		(50,465)	(40,747)
		227,554	308,618
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of shares and interests		12,919	—
Purchase of tangible and intangible assets	16, 17	(182,316)	(134,597)
Sale of tangible and intangible assets		6,143	9,708
Sale of assets held for sale	18	15,420	—
Long-term loans given and deposits		—	(554)

Repayment of long-term loans given and deposits		2,565	370
Purchase of trading securities	19	(9,105)	(6,679)
Sale of trading securities		35,525	5,891
Short-term loans given and deposits		(252,000)	—
Interest received		145	—
Dividends received		—	355
		(370,704)	(125,506)
Cash flows from financing activities			
Purchase of treasury shares	24	(9,721)	(18,858)
Sale of treasury shares	24	22,583	20,444
Proceeds from long-term borrowings		10,330	58,725
Repayment of long-term borrowings		(333,573)	(165,584)
Proceeds from short-term borrowings		667,626	241,565

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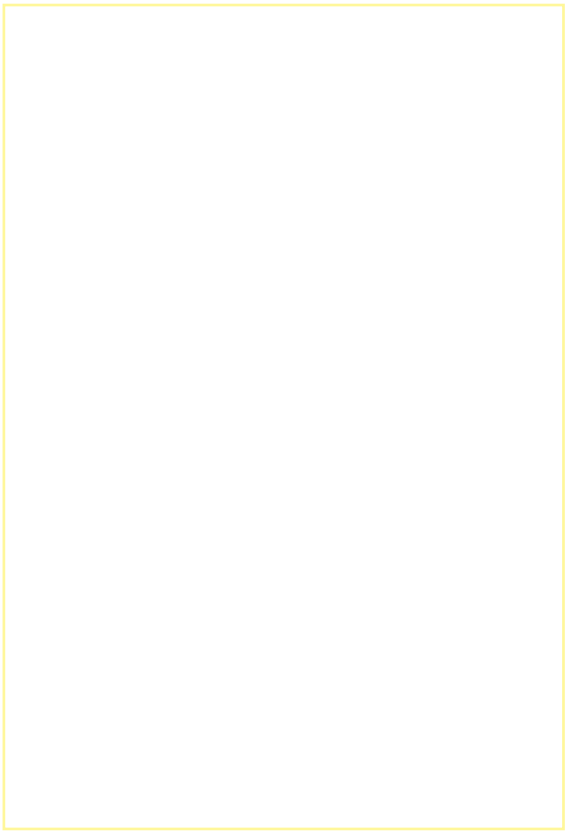
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Repayment of short-term borrowings		(562,170)	(232,908)
Proceeds from bonds issued	27	375,000	—
Dividends paid		(27,041)	(25,468)
		143,034	(122,084)
Net (decrease)/increase in cash and cash equivalents		(116)	61,028
Cash and cash equivalents at beginning of year	23	126,234	65,206
Cash and cash equivalents at the end of year	23	126,118	126,234

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NOTE 1

General information – Podravka prehrambena industrija d.d., Koprivnica (the Company) is incorporated in the Republic of Croatia. The Company and its subsidiaries (the Group) are manufacturers of a wide range of foodstuffs, non-alcoholic beverages, pharmaceutical products and other services. In addition to Croatia, the Group has production facilities in Poland, the Czech Republic, Slovakia and Slovenia. More than half of overall sales is realised in Croatia, and more than one third of sales is realised in Central and Eastern European countries. The Company is domiciled in Koprivnica, Croatia, Ante Starčevića 32. As at 31 December 2006, the Company's shares were listed on the public joint stock company listing on the Zagreb Stock Exchange.

NOTE 2

Summary of significant accounting policies – The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation – These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) Amendments to published standards effective in 2006 – Certain standards, amendments and interpretations are mandatory for the Group’s accounting periods beginning on or after 1 January 2006 and are relevant for the Group’s activities:

- IAS 39 (Amendment), The Fair Value Option. In accordance with requirements of the amendment to IAS 39, financial assets in the balance sheet as at 31 December 2005 were reclassified. Namely, equity investments were recorded as financial assets at fair value through profit or loss under non-current assets in the amount of HRK 21,150 thousand. They have been reclassified as comparative information in the balance sheet as at 31 December 2006 as available-for-sale financial assets in the amount of HRK 21,037 thousand. The remaining amount of HRK 113 thousand was restated as current financial assets at fair value through profit or loss.

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- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts. Management has assessed the values of guarantees payable by estimating underlying future cash outflows. Based on historical experience and future expectations, no future cash outflows are expected and no provision was made as at the balance sheet date.

(b) Standards early adopted by the Group – No standards were early adopted by the Group.

(c) Standards, amendments and interpretations effective in 2006 but not relevant – The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group’s operations:

- IAS 19 (Amendment), Employee Benefits
- IAS 21 (Amendment), Net Investment in a Foreign Operation
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- IFRS 1 (Amendment), First-Time Adoption of International Financial Reporting Standards
- IFRS 6 and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
- IFRIC 4, Determining whether an Arrangement contains a Lease

- IFRIC 5, Rights to interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (d) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group – The following standards, amendments and interpretations to existing standards are mandatory for the Group’s accounting period beginning on or after the effective date, but have not been early adopted by the Group:
- IFRS 7, Financial Instruments: Disclosures and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Company will apply IFRS 7 beginning 1 January 2007. The amendment to IAS 1 introduces disclosures about the level of an entity’s capital and how it manages capital. Management considered the effect of the new IFRS 7 and the amendment to IAS 1 and concluded that additional disclosures will be necessary in the financial statements with respect to capital management.

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- IFRS 8, Business segments is applicable for the period beginning on or after 1 January 2009. Management is still assessing the impact of this standard.
- (e) Interpretations to existing standards that are not yet effective and are not relevant to the Group’s operations
The following interpretations to existing standards are mandatory for the Group’s accounting period beginning on or after the effective date, but are not relevant to the Group’s operations:
- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 is not relevant as the Group does not operate in a hyperinflationary environment.
- IFRIC 8, Scope of IFRS 2 (effective from 1 May 2006). IFRIC 8 is not relevant, since the Group does not have payments or liabilities based on the price or value of own equity instruments, except for Management share options.
- IFRIC 9, Reassessment of embedded derivatives (effective from 1 June 2006). IFRIC 9 is not relevant to the Group’s operations because it does not have any embedded derivatives.
- IFRIC 10, Interim Financial Reporting and Impairment (effective from 1 November 2006). IFRIC 10 is not relevant to the Group’s operations because interim financial reports are not produced.

- IFRIC 11, IFRS 2 – Group and Treasury share transactions (effective from 1 March 2007). IFRIC 11 is relevant, since the Group awards the managements of subsidiaries with treasury shares of the parent Company, but it does not affect the financial statements of the Group.
 - IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). IFRIC 12 is not relevant since the Group is not an operator of a public-to-private service concession arrangement.
- 2.2 Consolidation – Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The

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excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.6). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting – A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currencies – (a) Functional and presentation currency – Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The consolidated financial statements are presented in Croatian kuna (HRK), which is the Company’s functional and presentation currency.

(b) Transactions and balances – Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies – The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows: assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet, income and expenses for each income statement are translated at average exchange rates and all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to “Translation reserves” in shareholders’ equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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2.5 Property, plant and equipment – Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and assets under construction are not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows: Buildings – 10 to 50 years, Equipment – 3 to 18 years. The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets’ residual values and useful lives are reviewed, and adjusted if

appropriate, at each balance sheet date. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount, and are recognised within line item ‘other gains/(losses) – net’ in the income statement.

2.6 Intangible assets – (a) Goodwill – Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates (Note 2.7).

(b) Licences and distribution rights – Product distribution rights have a finite useful life and are carried at cost less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method to allocate the

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cost of licences and rights over their estimated useful lives (5 years). Rights to acquired trademarks and know-how are carried at historical cost and have an indefinite useful life, since based on an analysis of all of the relevant factors, there is no foreseeable limit to the period of time over which the asset is expected to generate net cash inflows. The stated rights are tested annually for impairment and are stated at cost less accumulated impairment losses.

(c) Computer software – Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (up to 5 years).

2.7 Impairment of non-financial assets – Assets that have an indefinite useful life (such as land and certain rights) are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating

units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Non-current assets classified as held for sale – Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the balance sheet as ‘Non-current assets held for sale’ if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date rather than through continuing use. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Company’s management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period’s balance sheet are not reclassified in the comparative balance sheet. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the balance sheet date. If reclassification is required, both the current and non-current portions of an asset are reclassified. Held for sale property, plant and equipment or disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised.

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2.9 Financial assets – The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss – Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

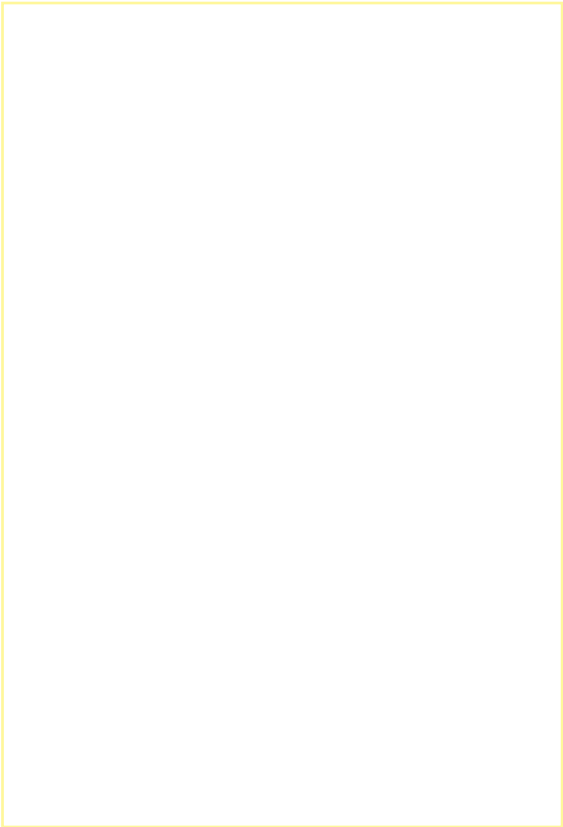
Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the income statement within line item ‘other operating gains/losses’ in the period in which they arise.

(b) Loans and receivables – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months

after the balance sheet date. These are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest method.

(c) Available-for-sale financial assets – Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value. Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity.

A significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. When securi-



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ties classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement in line item “Other gains/(losses) – net”.

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of loans and receivables is described in Note 2.12.

2.10 Leases – The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. Leases where the significant portion of risks and rewards of ownership are not retained by the Group are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.11 Inventories – Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average method, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of work-in-process and finished goods comprise raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Trade goods are carried at selling price less applicable taxes and margins. Small inventory and tools are expensed when put into use.

2.12 Trade and loan receivables – Trade and loan receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "selling and distribution costs".

2.13 Cash and cash equivalents – Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less. Bank overdrafts are included within current liabilities on the balance sheet.

2.14 Share capital – Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of the considera-

tion received over the par value of the shares issued is presented in the notes as a share premium. Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.15 Borrowings – Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. The Group does not capitalise borrowing costs. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Deferred income tax – Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than

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a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.17 Employee benefits – (a) Pension obligations and post-employment benefits – In the normal course of business through salary deductions, the Group makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any other post-employment benefits.

(b) Termination benefits – Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group

recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(c) Long-term employee benefits – The Group recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. Long-term employee benefit liability is determined using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate.

(d) Short-term employee benefits – The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(e) Share-based compensation – The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions

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are included in assumptions about the number of options that are expected to vest (become exercisable). At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.18 Provisions – Provisions for termination benefits, employee benefits and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition – Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group’s activities. Revenue is shown, net of value-added tax, returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group’s activities as described below.

(a) Sales of products and trade goods – wholesale – The Group manufactures and sells its own products and goods of third parties in the wholesale market. Sales of goods are recognised when the Group has delivered the products to the wholesaler, the wholesaler has full discretion over the price to sell, and there is no unfulfilled obligation that could affect the wholesaler’s acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of loss has been transferred to the wholesaler and either of the following has occurred: the wholesaler has accepted the products in accordance with the contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance has been satisfied. Products are sold with volume discounts and customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specific in the sales contracts, net of

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estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of approximately 90 days, which is consistent with the market practice.

(b) Sales of products and goods – retail – Sales of goods sold in retail stores are recognised when the Group sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in distribution costs. The Group does not operate any loyalty programmes.

(c) Sales of services – Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) Interest income – Interest income is recognised on a time-proportion basis using the effective interest method.

(e) Dividend income – Dividend income is recognised when the right to receive payment is established.

(f) Government grants – The Group receives government grants relating to costs from pig breeding and the purchase of apples. Government grants are recognised at their fair value where there is reasonable assurance that the grant will be

received and the Group will comply with all attached conditions. Government grants are recognised in the period when necessary to match them with the costs that they are intended to compensate, and they are recorded in the income statement under other revenues.

2.20 Dividend distribution – Dividend distribution to the Company’s shareholders is recognised as a liability in the Group’s financial statements in the period in which the dividends are approved by the Company’s shareholders.

2.21 Value added tax – The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet on a net basis. Where a provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

NOTE 3

Financial risk management

3.1 Financial risk factors – The Group’s activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest rate risk. The Group does not have a written risk management programme, but overall risk management in respect of these risks is carried out by the Company’s Treasury department.

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(a) Foreign exchange risk – The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EURO. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign capital and operating activities. The majority of the Group’s foreign sales revenue and long-term debt is denominated in EUROS. Therefore, movements in exchange rates between the EURO and Croatian kuna may have an impact on the results of future operations and future cash flow. The Group does not use derivative instruments to actively hedge foreign exchange risk exposure. In 2006, the Group exchanged previously issued bonds denominated in EUROS with newly issued bonds denominated in HRK, thus reducing the Group’s foreign exchange risk (Note 27).

(b) Credit risk – The Group’s assets, which potentially subject the Group to concentrations of credit risk primarily include cash and trade receivables. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, within previously defined credit limitations. The Group has no significant concentrations of credit risk, since receivables are dispersed among a large group of customers. Credit risk with respect to cash is related to bank deposits that are held by one financial institution.

(c) Liquidity risk – Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Group aims to maintain flexibility in funding by keeping committed credit lines available. The Treasury department regularly monitors available cash resources.

(d) Cash flow and fair value interest rate risk – As the Group has no significant interest-bearing assets, the Group’s income and operating cash flows are substantially independent of changes in market interest rates.

The Group’s interest rate risk arises from long-term borrowings and bonds issued. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group does not use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure.

3.2 Fair value estimation – The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance

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sheet date. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

NOTE 4

Critical accounting estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Impairment testing of goodwill – The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 17).

If the estimated gross margin at 31 December 2006 was 10% lower than management’s estimates, this would not have an effect on the recognition of goodwill impairment. If the discount rate applied to the discounted cash flows was 10% higher than management’s estimates, this would not have an effect on the recognition of goodwill impairment.

(b) Long-term employee benefits – In line with the collective bargaining agreement, the Company and certain Group companies provide jubilee awards to employees. For the present value calculation of these benefits, the Group estimates employee turnover based on past trends and determines the appropriate discount rate based on current market conditions. Were the discount rate and employee turnover used to differ by 10% from management estimates, the carrying amount of the related liability would not be significantly different from that recorded.

(c) Legal claims and disputes – Provisions for legal claims and disputes are recorded based on management’s estimate of probable losses after consultation with legal counsel. Based on existing knowledge, the outcomes of future litigation are reasonably estimated and provisions are made, if it is estimated that potential losses will arise from future litigation or out-of-court settlements. In case of favourable outcomes of these legal claims, previously recorded provisions are credited to “general and administrative expenses” of the Group.

NOTE 5

Segment information

Primary reporting format – business segments – At 31 December 2006, the Group is organised on a worldwide basis into three business segments:

- Manufacture and sale of food and beverages
- Manufacture and wholesale of Pharmaceuticals
- The sale of services comprises printing, power supply and food services.

The segment results for the year ended 31 December 2006 are as follows:

(IN THOUSANDS OF HRK)	Food and beverages	Pharmaceuticals	Services	Total Group
Sales	2,852,043	605,127	10,334	3,467,504
Operating profit	(13,952)	139,901	259	126,208
Finance costs	(35,675)	(14,384)	—	(50,059)
Profit before income tax	(49,627)	125,517	259	76,149
Income tax expense	9,067	(24,855)	—	(15,788)
Profit for the year	(40,560)	100,662	259	60,361

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The segment results for the year ended 31 December 2005 are as follows:

(IN THOUSANDS OF HRK)	Food and beverages	Pharmaceuticals	Services	Total Group
Sales	2,820,002	611,095	10,281	3,441,378
Operating profit	8,503	76,411	576	85,490
Finance costs	(5,163)	(10,486)	—	(15,649)
Profit before income tax	3,340	65,925	576	69,841
Income tax expense	7,308	(14,523)	—	(7,215)
Profit for the year	10,648	51,402	576	62,626

Other segment items included in the income statement are as follows:

(IN THOUSANDS OF HRK)	2006				2005			
	Food and beverages	Pharma- ceuticals	Services	Total Group	Food and beverages	Pharma- ceuticals	Services	Total Group
Depreciation	129,749	40,484	42	170,275	142,525	39,545	2,611	184,681
Amortisation	27,156	3,766	55	30,977	35,942	2,256	48	38,246
Impairment of trade receivables	4,742	(934)	—	3,808	15,085	2,932	98	18,115
Restructuring costs – termination benefits	31,074	241	120	31,435	3,361	1,401	—	4,762

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The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

(IN THOUSANDS OF HRK)	Food and beverages	Pharmaceuticals	Services	Total Group
Tangible assets	1,321,895	311,516	43	1,633,454
Intangible assets excluding goodwill	45,509	13,198	161	58,868
Goodwill	28,357	—	—	28,357
Trade receivables	502,366	375,653	—	878,019
Other assets	965,169	136,543	95	1,101,807
Total assets	2,863,296	836,910	299	3,700,505
Liabilities	1,750,278	202,924	623	1,953,825
Capital expenditure	166,288	16,024	4	182,316

The segment assets and liabilities at 31 December 2005 and capital expenditure for the year then ended are as follows:

(IN THOUSANDS OF HRK)	Food and beverages	Pharmaceuticals	Services	Total Group
Tangible assets	1,311,324	343,994	81	1,655,399
Intangible assets excluding goodwill	54,498	9,427	216	64,141
Goodwill	27,096	—	—	27,096
Trade receivables	479,939	303,478	—	783,417
Other assets	728,247	141,555	12,972	882,774
Total assets	2,601,104	798,454	13,269	3,412,827
Liabilities	1,229,139	256,222	6,307	1,491,668
Capital expenditure	87,500	48,219	207	135,926

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Secondary reporting format – geographical segments

SALES (IN THOUSANDS OF HRK)	2006	2005
Croatia	1,880,756	1,828,947
South-Eastern Europe	778,700	789,219
Central Europe	434,818	469,992
Eastern Europe	151,280	134,936
Western Europe, overseas and the Far East	221,950	218,284
Total	3,467,504	3,441,378

Sales are allocated based on the geographical area in which the customer is located.

NOTE 6

OTHER GAINS/(LOSSES) – NET
(IN THOUSANDS OF HRK)

	2006	2005
Gains on financial assets at fair value through profit or loss (Note 22)	115	2,036
Gains on sale of available-for-sale financial assets (Note 19)	8,200	—
Gains on sale of Group company (i)	5,378	—
Gains/(losses) on sale of non-current assets – net	13,713	4,593
	27,406	6,629
Foreign exchange losses – net (Note 13)	(210)	(7,250)
	27,196	(621)

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(i) In June 2006, the equity share in the Group company Koprivnička tiskarnica d.o.o. was sold. Koprivnička tiskarnica was sold for an amount of HRK 18,000 thousand less expenses for employee termination benefits in the amount of HRK 4,993 thousand. At the day of the sale, the company's assets and liabilities were as follows:

(IN THOUSANDS OF HRK)

		Sold assets and liabilities:	
Total purchase consideration	18,000	• other non-current assets	18
Less: cash in balance sheet	(87)	• current assets (excluding cash)	13,411
	17,913	• current liabilities	(5,887)
Expenses for employee termination		Net capital	7,542
benefits of sold entity	(4,993)		
	12,920	Gain on sale of Group company	5,378

NOTE 7
OTHER REVENUES

(IN THOUSANDS OF HRK)	2006	2005
Government subsidies	3,350	2,936
Dividend received	—	355
Interest from term deposits and customers	8,123	2,906
Interest from given loans and other interest	215	175
Other	3,067	3,302
	14,755	9,674

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NOTE 8
OTHER EXPENSES

(IN THOUSANDS OF HRK)	2006	2005
Interest from suppliers	1.597	1.882
Other interest expense	134	—
	1.731	1.882

NOTE 9
EXPENSES BY NATURE

(IN THOUSANDS OF HRK)	2006	2005
Raw materials and consumables used, cost of goods sold	1,648,215	1,583,568
Change in inventories of work in progress and finished products	(3,092)	14,605
Staff costs (Note 10)	848,122	792,580
Depreciation and amortisation (Note 16 and 17)	201,252	223,007
Advertising and promotion costs	280,057	257,370
Services	166,182	126,147
Rental costs	57,072	54,317
Transportation	40,837	44,556

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Telecommunication	24,875	24,508
Entertainment	29,128	28,975
Taxes and contributions irrespective of results	28,329	26,447
Provisions for trade receivables	16,779	25,321
Collected trade receivables previously provided for	(12,971)	(7,206)
Other	104,788	132,292
Legal claims	(48,057)	36,572
	3,381,516	3,363,059

NOTE 10
STAFF COSTS

(IN THOUSANDS OF HRK)	2006	2005
Salaries	772,429	743,226
Share options (Note 24)	16,271	11,722
Termination benefits – regular (i)	7,057	4,762
Termination benefits – restructuring (Note 29)	24,378	—
Jubilee awards	8,366	16,789
Transportation	10,266	10,498
Other	9,355	5,583
Total	848,122	792,580

As at 31 December 2006, the number of employees at the Group was 6,989 (2005: 7,181).

(i) In 2006, the Group accrued and paid termination benefits for 139 employees (2005: accrued and paid to 40 employees).

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NOTE 11
FINANCIAL EXPENSE

(IN THOUSANDS OF HRK)	2006	2005
Interest expense from long-term borrowings	(18,719)	(26,413)
Interest expense from short-term borrowings	(10,820)	(2,301)
Interest expense from issued bonds and other	(18,630)	(10,825)
Finance cost of call option on Company shares	(8,399)	—
	(56,568)	(39,539)
Net foreign exchange gains from borrowings (Note 13)	6,509	23,890
	(50,059)	(15,649)

NOTE 12
INCOME TAX

(IN THOUSANDS OF HRK)	2006	2005
Current income tax	28,706	16,941
Deferred tax (Note 28)	(12,918)	(9,726)
	15,788	7,215

The tax on the Group’s profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of 20.2% (2005: 20.2%) applicable to profits of the consolidated companies as follows:

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(IN THOUSANDS OF HRK)	2006	2005
Profit before taxation	76,149	69,841
Tax calculated at weighted average tax rates applicable to profits in the respective countries	15,382	14,108
Income not subject to tax	(39,867)	(7,116)
Expenses not deductible for tax purposes	41,451	20,835
Tax losses available for carryforward	14,128	469
	31,094	28,296
Utilised tax loss	(2,388)	(11,355)
Current income tax	28,706	16,941
Deferred income tax (credit)/expense	(12,918)	(9,726)
Tax charge	15,788	7,215

Unutilised tax losses in the amount of HRK 98,462 thousand (2005: HRK 38,592 thousand) are not recognised as deferred tax assets in the balance sheet, as it is uncertain that sufficient taxable profit for related entities will be realised against which these deferred tax assets may be utilised. The stated tax losses may be utilised until 2011.

In 2006, the Croatian tax authorities carried out a full-scope tax audit of the Company’s income tax and VAT returns for the periods 2004 and 2005. The tax findings did not have a material effect on the financial statements.

In accordance with local regulations, the tax authorities may at any time inspect the Croatian Company’s books and records within 3 years subsequent to the year in which the tax liability is reported, and may impose additional tax assessments and penalties. Similar regulations exist for other Group subsidiaries. The Company’s management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

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NOTE 13
NET FOREIGN EXCHANGE GAINS/(LOSSES)
Foreign exchange gains/(losses) are recorded in the income statement as follows:

(IN THOUSANDS OF HRK)	2006	2005
Other (losses)/gains – net (Note 6)	(210)	(7,250)
Financial expense (Note 11)	6,509	23,890
	6,299	16,640

NOTE 14

EARNINGS PER SHARE

Basic earnings per share – Basic earnings per share is calculated by dividing the net profit of the Group by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	2006	2005
Net profit attributable to shareholders (in thousands of HRK)	60,361	62,626
Weighted average number of shares	5,371,612	5,335,385
Basic earnings per share (in HRK)	11.24	11.74

Diluted earnings per share – Diluted earnings per share is calculated as basic earnings per share including the impact of the number of share options given to employees, of which 96,374 were not exercised (2005: 158,708 options).

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	2006	2005
Net profit attributable to shareholders (in thousands of HRK)	60,361	62,626
Adjustments for share options	96,374	158,708
Weighted average number of shares in issue for diluted earnings per share	5,467,986	5,494,092
Diluted earnings per share (in HRK)	11.04	11.40

NOTE 15

DIVIDENDS PER SHARE

As at 20 July 2006, the Company's General Assembly reached a decision on the distribution of profit for the financial year 2005 by approving payment of dividends on ordinary shares in the gross amount of HRK 5.00 per share, totalling HRK 27,041 thousand. During 2006, dividends have not been fully paid. Unpaid dividends are included in other liabilities (Note 26).

NOTE 16
PROPERTY, PLANT AND EQUIPMENT

(IN THOUSANDS OF HRK)	Land and buildings	Equipment	Assets under construction	Total
AT 1 JANUARY 2005				
Cost	1,875,059	1,561,721	50,096	3,486,876
Accumulated depreciation	(722,536)	(1,023,966)	—	(1,746,502)
Net book value	1,152,523	537,755	50,096	1,740,374

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YEAR ENDED 31 DECEMBER 2005				
Opening net book amount	1,152,523	537,755	50,096	1,740,374
Effect of changes in foreign exchange rates	494	(644)	(206)	(356)
Additions	6,096	6,164	116,880	129,140
Transfer	52,903	80,142	(133,045)	—
Disposals and write-off	(5,705)	—	—	(5,705)
Impairment	(6,245)	(617)	(549)	(7,411)
Transfer to non-current assets held-for-sale (Note 18)	(11,472)	(4,490)	—	(15,962)
Depreciation	(61,279)	(123,402)	—	(184,681)
Closing net book amount	1,127,315	494,908	33,176	1,655,399

AT 31 DECEMBER 2005				
Cost	1,907,499	1,582,132	33,176	3,522,807
Accumulated depreciation	(780,184)	(1,087,224)	—	(1,867,408)
Net book value	1,127,315	494,908	33,176	1,655,399
YEAR ENDED 31 DECEMBER 2006				
Opening net book amount	1,127,315	494,908	33,176	1,655,399
Effect of changes in foreign exchange rates	1,732	312	26	2,070
Additions	545	6,179	151,810	158,534
Transfer	12,643	47,002	(59,645)	—
Disposals and write-off	(4,962)	(4,707)	—	(9,669)

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Transfer to non-current assets held-for-sale (Note 18)	(2,605)	—	—	(2,605)
Depreciation	(60,939)	(109,336)	—	(170,275)
Closing net book amount	1,073,729	434,358	125,367	1,633,454
AT 31 DECEMBER 2006				
Cost	1,865,936	1,621,918	125,367	3,613,221
Accumulated depreciation	(792,207)	(1,187,560)	—	(1,979,767)
Net book value	1,073,729	434,358	125,367	1,633,454

Group buildings and land worth HRK 774,143 thousand (2005: HRK 891,980 thousand) have been mortgaged against the Group's borrowings.

Depreciation in the amount of HRK 123,171 thousand (2005: HRK 136,279 thousand) is recorded within cost of goods sold; depreciation in the amount of HRK 22,987 thousand (2005: HRK 24,954 thousand) is recorded within selling and distribution costs; depreciation in the amount of HRK 24,118 thousand (2005: HRK 23,528 thousand) is recorded within general and administrative expenses.

Leased equipment where the Group is the lessee under a finance lease comprises the following:

(IN THOUSANDS OF HRK)	2006	2005
Cost of capitalised finance leases	33,263	53,853
Accumulated depreciation	(20,895)	(30,932)
Net book value	12,368	22,921

NOTE 17
INTANGIBLE ASSETS

(IN THOUSANDS OF HRK)	Goodwill	Software	Distribution right	Brand	Other	Total
AT 1 JANUARY 2005						
Cost	52,460	145,084	67,694	—	650	265,888
Accumulated amortisation	(25,655)	(90,705)	(27,078)	—	—	(143,438)
Net book value	26,805	54,379	40,616	—	650	122,450
YEAR ENDED 31 DECEMBER 2005						
Opening net book amount	26,805	54,379	40,616	—	650	122,450
Effect of changes in foreign exchange rates	291	46	—	—	—	337

Additions	—	6,803	—	—	—	6,803
Impairment	—	(68)	—	—	—	(68)
Transfer to non-current assets held-for-sale (Note 18)	—	(22)	—	—	—	(22)
Disposals	—	—	—	—	(17)	(17)
Amortisation	—	(24,707)	(13,539)	—	—	(38,246)
Closing net book amount	27,096	36,431	27,077	—	633	91,237
AT 31 DECEMBER 2005						
Cost	27,096	151,619	67,694	—	633	247,042
Accumulated amortisation	—	(115,188)	(40,617)	—	—	(155,805)
Net book value	27,096	36,431	27,077	—	633	91,237

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YEAR ENDED 31 DECEMBER 2006

Opening net book amount	27,096	36,431	27,077	—	633	91,237
Effect of changes in foreign exchange rates	1,261	65	—	—	—	1,326
Additions (i)	—	11,287	—	15,500	98	26,885
Disposals	—	(170)	—	—	—	(170)
Impairment (ii)	—	—	(1,076)	—	—	(1,076)
Amortisation	—	(17,439)	(13,538)	—	—	(30,977)
Closing net book amount	28,357	30,174	12,463	15,500	731	87,225

AT 31 DECEMBER 2006

Cost	28,357	158,347	67,694	15,500	731	270,629
Accumulated amortisation	—	(128,173)	(55,231)	—	—	(183,404)
Net book value	28,357	30,174	12,463	15,500	731	87,225

(i) In 2006, the Group purchased the brand “Eva” for the manufacture of canned fish.
(ii) In 2006, based on the projections approved by management, the value of distribution rights of Nestle products was impaired.
Amortisation in the amount of HRK 203 thousand (2005: HRK 182 thousand) is recorded within cost of goods sold; amortisation in the amount of HRK 14,568 thousand (2005: HRK 19,298 thousand) is recorded within selling and distribution costs; amortisation in the amount of HRK 16,207 thousand (2005: HRK 18,767 thousand) is recorded within general and administrative expenses.

IMPAIRMENT TESTING OF GOODWILL – Goodwill is allocated to the Group’s cash-generating units (CGUs) acquired in previous years, namely Lagris, Czech Republic and Ital Ice, Poreč, Croatia. The stated CGUs are included in the business segment Food and beverages.

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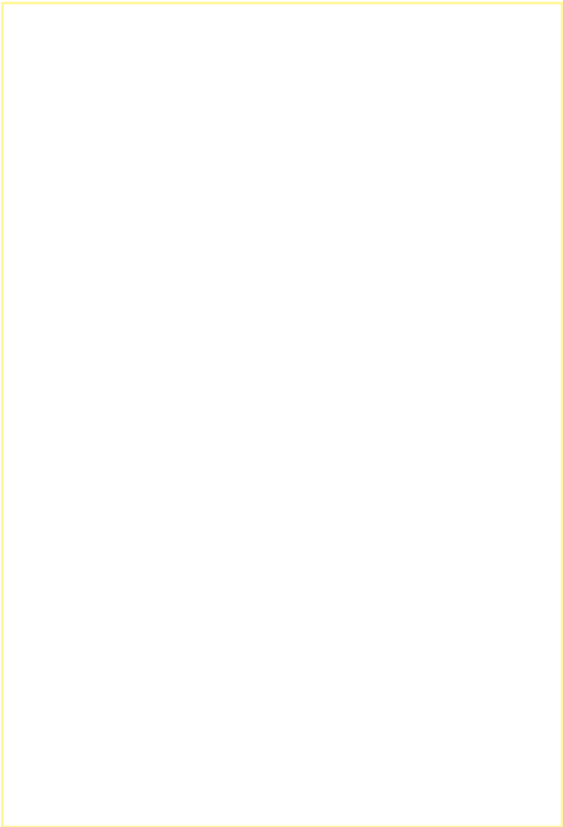
The recorded goodwill balance as at 31 December is as follows:

(IN THOUSANDS OF HRK)	2006	2005
Lagris	26,139	24,878
Ital Ice	2,218	2,218
	28,357	27,096

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial projections approved by management.
Certain assumptions have been used for the analysis of each cash-generating unit within a certain business segment. Management determined the budgeted gross margin based on past performance and its expectations for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount factor of 7.96% was applied to free cash flows consisting of EBITDA and changes in working capital, and reflect specific risks relating to the relevant business segments.

NOTE 18
NON-CURRENT ASSETS HELD FOR SALE

(IN THOUSANDS OF HRK)	2006	2005
Properties, Baruna Trenka 2, Zagreb (ii) (Note 16)	2,605	—
Business premises in Knez Domagoj Street, Koprivnica (i)	—	5,610
Equipment and intangible assets of Koprivnička tiskarnica d.o.o. (Notes 16 and 17)	—	4,512
Property in subsidiary Podravka Kft, Budapest (Note 16) (ii)	5,293	5,138
	7,898	15,260



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(i) In January 2006, land and buildings were sold for an amount of EUR 2,075 thousand or HRK 15,420 thousand. The difference between the sales price and the book value in the amount of HRK 9,810 thousand is recorded within Other gains/(losses) – net (Note 6).

(ii) In 2006, no adjustment to fair value of the stated properties was required, since the carrying amount was lower (in 2005, impairment amounted to HRK 724 thousand).

NOTE 19
AVAILABLE-FOR-SALE FINANCIAL ASSETS

(IN THOUSANDS OF HRK)	2006	2005
Investments in:		
RTL d.o.o. (i)	—	21,037
ZD Olšava	1,394	1,327
	1,394	22,364

(i) In October 2006, the investment in RTL was sold for an amount of HRK 29,237 thousand. Gain on sale of the investment in the amount of HRK 8,200 thousand is recorded within Other gains/(losses) – net (Note 6).

NOTE 20
INVENTORIES

(IN THOUSANDS OF HRK)	2006	2005
Raw materials and supplies	180,093	186,570
Work in progress	56,539	70,239
Finished products	190,599	168,144
Trade goods	137,254	144,139
	564,485	569,092

At each balance sheet date, an assessment is made of damaged and expired inventories. As a result, a provision is made for such inventories which amounted to HRK 9,866 thousand in 2006 (2005: HRK 11,746 thousand) and were included in cost of goods sold in the income statement.

NOTE 21
TRADE AND OTHER RECEIVABLES

(IN THOUSANDS OF HRK)	2006	2005
NON-CURRENT RECEIVABLES (i)		
Loans given	2,867	3,020
Other non-current receivables and deposits	8,376	10,175
	11,243	13,195
Current receivables:		
Trade receivables	1,014,533	946,494
Less: Provisions for impairment (ii)	(136,514)	(163,077)
Net trade receivables	878,019	783,417

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Bills of exchange received	34,230	50,500
Advances to suppliers	6,948	7,520
Bank deposits (iii)	250,000	—
Other receivables (iv)	70,270	67,033
Short-term loans given	2,038	365
	1,241,505	908,835
	1,252,748	922,030

(i) The fair value of non-current receivables approximates the carrying amounts, since the contracted interest rates reflect market rates.

(ii) Movements on the provision for impairment of trade receivables are as follows:

(IN THOUSANDS OF HRK)	2006.	2005.
At 1 January	163,077	171,770
Increase (Note 9)	16,779	25,321
Collected (Note 9)	(12,971)	(7,206)
Written off as uncollectible	(30,371)	(26,808)
At 31 December	136,514	163,077

In 2006, the expense of the provision for trade receivables, i.e. the income from the collection of trade receivables previously provided for is included in “selling and distribution costs”.

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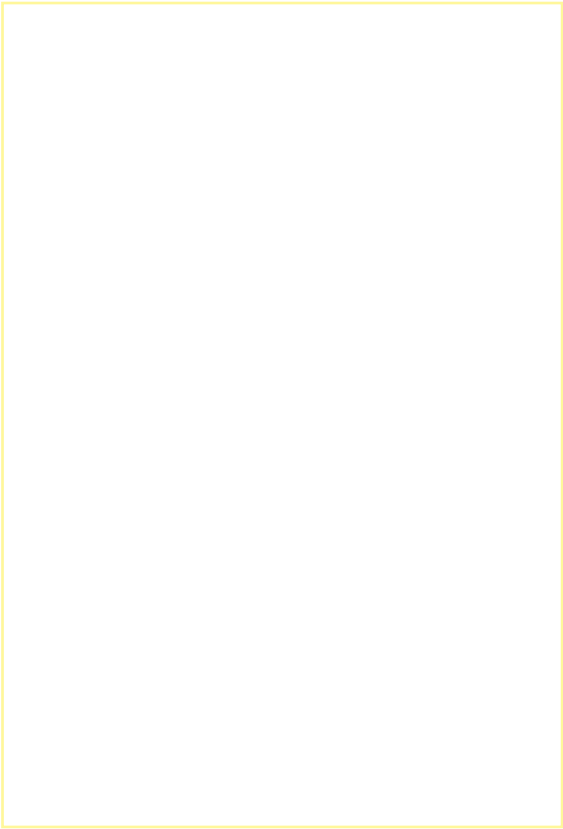
(iii) During May and June 2006, a short-term deposit was made to a domestic bank for a period of one year at an effective interest rate of 2.5%. The fair value of loans as at the balance sheet date amounted to HRK 250,228 thousand.

(iv) Other receivables recorded as at 31 December 2006 are as follows:

(IN THOUSANDS OF HRK)	2006	2005
Prepaid VAT receivable	46,580	38,901
Prepaid income tax receivable	1,608	4,701
Receivables from employees	2,884	2,480
Prepaid expenses	5,106	9,201
Amounts due from settlement agreements	1,400	1,893
Other	12,692	9,857
	70,270	67,033

NOTE 22
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(IN THOUSANDS OF HRK)	2006	2005
Investments in:		
Investment funds	2,933	—
Other	113	113
	3,046	113



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Movements during the year are as follows:

(IN THOUSANDS OF HRK)	2006	2005
Opening net book value	113	3,965
Additions (i)	9,105	100
Disposals (ii)	(6,172)	(3,952)
Closing net book value	3,046	113

(i) In 2006, shares were purchased in the investment funds ST US\$ Bond and PBZ Custody in the total amount of HRK 9,105 thousand. In 2005, an investment was made in the company EKO OZRA d.o.o. in the amount of HRK 100 thousand (share in capital 9.9%).
(ii) In 2006, the share in the investment fund PBZ Custody was sold for an amount HRK 6,287 thousand. The difference between the selling price and the book value in the amount of HRK 115 thousand is recorded within Other gains/(losses) – net (Note 6). In 2005, shares in the following companies were sold: Gospodarsko kreditna banka Zagreb, Croatia osiguranje Zagreb, Riviera Holding Poreč and Istarska kreditna banka Umag.

NOTE 23
CASH AND CASH EQUIVALENTS

(IN THOUSANDS OF HRK)	2006	2005
Cash with banks and in hand	126,110	123,740
Cheques received	8	134
Deposits	—	2,360
	126,118	126,234

NOTE 24
SHAREHOLDERS' EQUITY

	Number of shares	Ordinary shares	Share premium (IN THOUSANDS OF HRK)	Treasury shares	Total
At 1 January 2005	5,327,180	1,626,001	22,218	(21,159)	1,627,060
Shares issued (i)					
Purchase of treasury shares	(65,721)	—	—	(18,858)	(18,858)
Sale of treasury shares					
EMPLOYEE SHARE OPTIONS					
• options exercised	76,388	—	(4,572)	20,444	15,872
• fair value of options	—	—	11,722	—	11,722
At 31 December 2005	5,337,847	1,626,001	29,368	(19,573)	1,635,796

At 1 January 2006	5,337,847	1,626,001	29,368	(19,573)	1,635,796
Purchase of treasury shares	(25,000)	—	—	(9,721)	(9,721)
Sale of treasury shares	25,133	—	3,661	5,988	9,649
Employee share options (i):					
• options exercised	62,334	—	(2,385)	16,595	14,210
• fair value of options	—	—	16,271	—	16,271
Call option on Company shares (ii)	—	—	(238,876)	—	(238,876)
At 31 December 2006	5,400,314	1,626,001	(191,961)	(6,711)	1,427,329

As at 31 December 2006, the Company's share capital amounted to HRK 1,626,000,900, distributed among 5,420,003 shares (2005: HRK 1,626,000,900 and 5,420,003 shares). The nominal value amounted to HRK 300 per share. All issued shares are fully paid.

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(i) EMPLOYEE SHARE OPTIONS— Options for the purchase of Podravka d.d. shares are granted to members of Management and certain executive directors of Podravka d.d., Belupo d.d. and Danica d.o.o. in accordance with the applicable Contracts for the period from 2000 to 2005. The exercise price of the granted option equals the average share price of the Company's shares per the Zagreb Stock Exchange in the year the option is granted (employees of Belupo are entitled to a purchase price of 60% of the average price). The vesting period normally starts at the beginning of the business year. Options are acquired separately for each business year. The vesting period is one year. The exercise period is from 3 to 5 years after the end of the year when they were granted. Based on historical practice, upon termination of employment the options vest immediately and can be exercised 6 to 12 months, as determined by the Employment Termination Agreement. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2006 Average exercise price (in HRK per share)	Options (number of options)	2005 Average exercise price (in HRK per share)	Options (number of options)
At 1 January	194.14	158,708	169.47	212,375
Granted	—	—	269.40	24,054
Exercised	193.32	(62,334)	147.26	(76,388)
Lapsed	—	—	308.00	(1,333)
At 31 December	194.68	96,374	194.15	158,708

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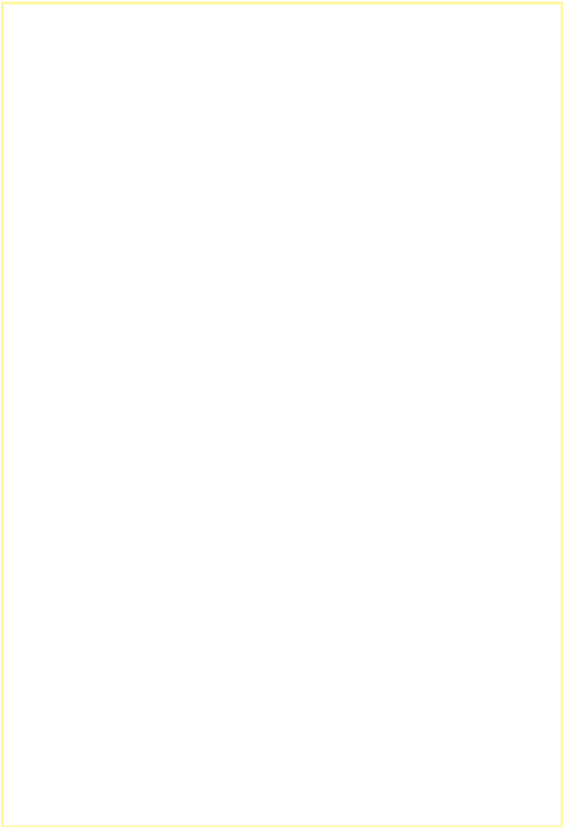
As at 31 December 2006, 96,374 outstanding options (2005: 158,708 options) were granted. In 2006, 28,000 options (2005: 34,000 options), which were exercisable, were not granted. Options exercised in 2006 resulted in 62,334 options (2005: 76,388 options), being issued at an average price of HRK 193.32 (2005: HRK 147.26). The related weighted average market price at the time of exercise was HRK 402.83 (2005: HRK 308.66).

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	Average exercise price	No. of shares 2006	No. of shares 2005
2006	—	—	8,000
2007	—	—	26,000
2008	163.29	28,000	50,334
2009	186.59	55,374	58,374
2010	296.69	13,000	16,000
		96,374	158,708

Based on new Employment contracts, Management is not entitled to options for the purchase of shares. The fair value of options granted in 2005 determined using the intrinsic value method was HRK 831 thousand as at 31 December 2005.

(ii) CALL OPTION ON COMPANY SHARES – The Company’s General Assembly reached a decision on the acquisition of own shares based on certain conditions. During 2006, the Company entered into a share option agreement with an unrelated third party (“Put option holder”). According to the agreement, the Company has the option (“Call option”) to purchase all of the Company’s own shares owned by the Put option holder at any time from 20 May 2006 through to 20 April 2007. As at 31 December 2006, the number of Company shares acquired by the Put option holder was 576,880. The exercise price is equal to the average price paid for the shares by the Put option holder, increased by 4.5% annual interest component and a 1% option fee. Further, the Put option holder can force the Company to purchase all acquired shares in the period from 20 April 2007 to 20 May 2007.



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NOTE 25
RESERVES

(IN THOUSANDS OF HRK)	Legal reserves	Other reserves	Translation reserves	Reserves for treasury shares	Total
At 1 January 2005	36,178	47,031	3,494	22,479	109,182
Transfer to reserves	7,407	4,379	—	2,168	13,954
Foreign exchange differences	—	—	2,378	—	2,378
At 31 December 2005	43,585	51,410	5,872	24,647	125,514

(IN THOUSANDS OF HRK)	Legal reserves	Other reserves	Translation reserves	Reserves for treasury shares	Total
At 1 January 2006	43,585	51,410	5,872	24,647	125,514
Transfer	—	19,921	—	(19,921)	—
Dividend approved (i)	—	(19,921)	—	—	(19,921)
Transfer to reserves (ii)	702	39,380	—	—	40,082
Foreign exchange differences	—	—	2,828	—	2,828
At 31 December 2006	44,287	90,790	8,700	4,726	148,503

Both legal reserves (maintained at 5% of the Company's share capital) and treasury share reserves are maintained as required by the Croatian Company Law. These reserves are non-distributable. Other reserves mainly comprise statutory reserves recorded in accordance with the Company's Articles of Association.

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- (i) According to the decision of the Company's General Assembly in July 2006, distribution of dividend was approved in the gross amount of HRK 5 per share. Unallocated profit was used for dividend distribution.
- (ii) According to the decision of the General Assembly of Podravka d.d. in July 2006, the Company's profit for 2005 was allocated to: legal reserves in the amount of HRK 678 thousand, and statutory reserves in the amount of HRK 644 thousand. In 2006, an additional amount of HRK 38,760 thousand (2005: HRK 8,704 thousand) was transferred to reserves in accordance with the Articles of Association of certain Group companies.

NOTE 26
TRADE AND OTHER PAYABLES

(IN THOUSANDS OF HRK)	2006	2005
Trade payables	533,374	456,625
Other payables (i)	386,972	134,084
	920,346	590,709

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(i) Other payables are as follows:

(IN THOUSANDS OF HRK)	2006	2005
Salaries and other payments to employees	62,663	62,561
Dividend payable	2,213	2,117
Interest payable on borrowings	17,037	13,195
Taxes and contributions payable	16,704	15,787
Purchase of equity interests	32	738
Call option on Company shares (Note 24 (ii)) (i)	247,275	—
Other	41,048	39,686
	386,972	134,084

(i) As at 31 December 2006, the carrying amount of the liability approximated its fair value.

NOTE 27
BORROWINGS

(IN THOUSANDS OF HRK)	2006	2005
NON-CURRENT BORROWINGS		
Banks in Croatia	125,051	247,542
Banks in foreign countries	25,400	60,028
Bonds issued	372,158	199,142
Finance lease	2,726	8,646
	525,335	515,358

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CURRENT BORROWINGS		
Banks in Croatia	345,744	169,728
Banks in foreign countries	104,644	139,802
Bonds issued	1,182	—
Finance lease	4,883	7,406
Other	407	704
	456,860	317,640
Total borrowings	982,195	832,998

Total secured borrowings of the Group amount to HRK 315,784 thousand (2005: HRK 467,628 thousand). Bank borrowings are secured by the land and buildings of the Group (Note 16).

The gross finance lease liability is as follows:

(IN THOUSANDS OF HRK)	2006	2005
Up to 1 year	5,320	8,767
Between 1 and 5 years	2,932	10,378
	8,252	19,145
Future financial expense	(643)	(3,093)
Net book value of finance lease liability	7,609	16,052

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The net book value of the finance lease liability is as follows:

(IN THOUSANDS OF HRK)	2006	2005
Up to 1 year	4,883	7,406
Between 1 and 5 years	2,726	8,646
Net book value of finance lease liability	7,609	16,052

The exposure of the Group’s borrowings to interest rate changes based on the contractual repricing dates at the balance sheet dates are as follows:

(IN THOUSANDS OF HRK)	2006	2005
6 months or less	479,858	392,950
6-12 months	52,356	59,183
1-5 years	432,449	352,731
Over 5 years	17,532	28,134
	982,195	832,998

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The maturity of non-current borrowings is as follows:

(IN THOUSANDS OF HRK)	2006	2005
Between 1 and 2 years	73,025	369,329
Between 2 and 5 years	434,778	117,895
Over 5 years	17,532	28,134
	525,335	515,358

The effective interest rates at the balance sheet date were as follows:

	2006			2005		
	HRK	EUR	Other	HRK	EUR	Other
	%	%	%	%	%	%
NON-CURRENT BORROWINGS						
Banks in Croatia	4.00	5.01	—	4.00	4.29	—
Banks in foreign countries	—	5.13	4.84	—	4.06	4.28
Bonds issued	5.32	5.00	—	—	5.00	—
Finance lease	—	7.15	—	—	6.16	—
CURRENT BORROWINGS						
Banks	4.57	4.22	4.75	4.05	3.48	4.45
Other	4.50	—	—	4.50	—	—

BONDS ISSUED – In May 2006, the Company issued 375,000 thousand bonds in the amount of 375,000 thousand, with a nominal value of HRK 1 and maturity in May 2011. Bonds are listed on the Zagreb Stock Exchange.

Issued HRK bonds less acquisition cost amounting to HRK 3,217 thousand were used for the following:

- redemption of existing bonds in the amount of EUR 26,839 thousand (countervalue of HRK 194,982 thousand),
- payment of interest on redeemed bonds in the amount of HRK 2,297 thousand,
- repayment of a short-term loan to Privredna banka Zagreb in the amount of HRK 15,014 thousand,
- settlement of the purchase of old bonds in the amount of HRK 1,950 thousand,
- cash increase on the Company's giro account in the remaining amount of HRK 157,540 thousand.

Interest not yet due arising from HRK bonds for 2006 amounted to HRK 11,954 thousand and is recorded under “Other payables” in Note 26.

As at 31 December 2006, the balance of liabilities for non-redeemed bonds issued in February 2004, translated using the mid-market exchange rate of the EUR was recorded in the amount of HRK 1,182 thousand (2005: HRK 199,142 thousand). These bonds become due in February 2007 and are recorded as current liabilities. The interest expense of bonds denominated in EUR for 2006 amounted to HRK 3,637 thousand (2005: HRK 9,998 thousand), of which accrued interest not yet due amounted to HRK 51 thousand (2005: HRK 8,566 thousand), which is recorded under “Other payables” in Note 26.

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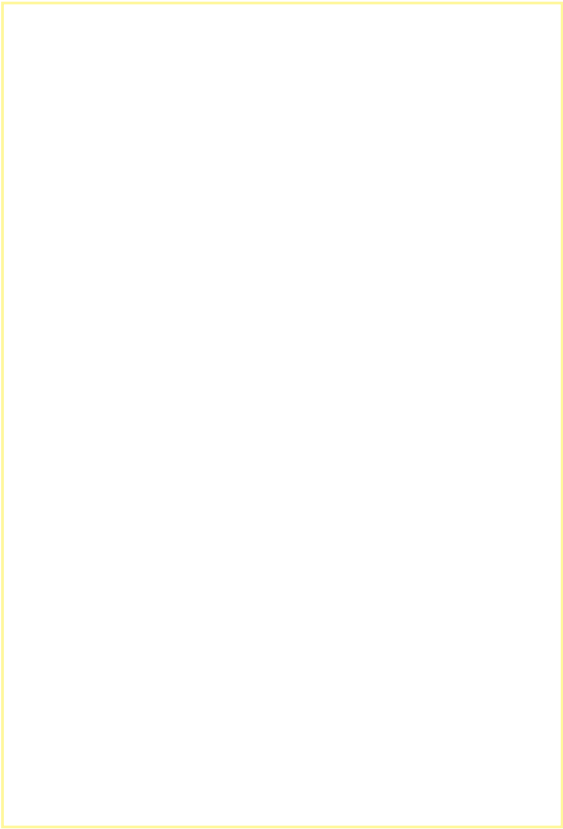
The carrying amounts and fair value of non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2006	2005	2006	2005
	(IN THOUSANDS OF HRK)		(IN THOUSANDS OF HRK)	
NON-CURRENT BORROWINGS				
Banks in Croatia	125,051	247,544	125,051	249,398
Banks in foreign countries	25,400	60,026	25,400	60,184
Bonds issued	372,158	199,142	366,750	200,735
Finance lease	2,726	8,646	2,835	8,992
	525,335	515,358	520,036	519,309

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.35% (2005: 4.25%). The carrying amounts of short-term borrowings approximate their fair value.

The carrying amounts of the Group’s borrowings are denominated in the following currencies:

(IN THOUSANDS OF HRK)	2006	2005
HRK	637,700	177,839
EUR	254,911	552,248
Other	89,494	102,911
	982,195	832,998



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The Group has the following undrawn borrowing facilities:

(IN THOUSANDS OF HRK)	2006.	2005.
FLOATING RATE		
• Expiring within one year	130,663	139,591
	130,663	139,591

The borrowing facilities comprise current borrowings granted on a revolving basis for the purpose of financing temporary requirements, and they are repayable from cash inflows.

NOTE 28
DEFERRED TAX ASSETS

(IN THOUSANDS OF HRK)	2006	2005
Deferred tax assets	24,137	11,098
Deferred tax liabilities	—	—
	24,137	11,098

Deferred tax assets are recognised for tax losses and tax credits carried forward to the extent that it is probable amounts recorded will be realised through future taxable profits of the related Group entities.

Movements on the deferred income tax account are as follows:

(IN THOUSANDS OF HRK)	2006	2005
Beginning of the year	11,098	1,234
Foreign exchange differences	121	138
Income tax credit/(expense) (Note 12)	12,918	9,726
End of the year	24,137	11,098

The majority of the recorded deferred tax assets in the amount of HRK 22,677 thousand (2005: HRK 9,173 thousand), relates to the government grant provided to the company Podravka Kostrzyn, Poland based on realised capital investments in that country.

NOTE 29
PROVISIONS

	Legal proceedings	Employee benefits	Termination benefits	Total
ANALYSIS OF TOTAL PROVISIONS				
AS AT 31 DECEMBER 2005				
Non-current	2,540	11,594	—	14,134
Current	49,046	2,101	2,680	53,827
At 1 January 2006	51,586	13,695	2,680	67,961
Increase	2,564	10,960	24,378	37,902
Foreign exchange differences	—	—	—	—

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Used during year	(1,768)	(2,074)	(2,680)	(6,522)
Unused amount – decrease	(48,057)	—	—	(48,057)
At 31 December 2006	4,325	22,581	24,378	51,284

ANALYSIS OF TOTAL PROVISIONS
AS AT 31 DECEMBER 2006

Non-current	4,325	17,682	—	22,007
Current	—	4,899	24,378	29,277

LEGAL PROCEEDINGS – In the ordinary course of business, the Group was defendant and plaintiff in a number of pending legal proceedings. Management believes that the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2006. It is expected that HRK 4,325 thousand will be used during 2008.

EMPLOYEE BENEFITS – This provision comprises estimated long-term employee benefits relating to jubilee awards, as defined by the collective bargaining agreement and bonuses to executive directors. The non-current portion of the provision relates to estimated acquired rights to jubilee awards that will be paid after 2007.

A part of the increase in provisions amounting to HRK 8,366 thousand relates to estimated expenses of acquired rights of employees to jubilee awards (Note 10) and the estimated amount of bonuses to executive directors of HRK 2,594 thousand which is recorded under other staff costs (Note 10).

The current amount of employee benefits includes HRK 2,305 thousand of jubilee awards and HRK 2,594 thousand of annual bonuses to executive directors that will be paid in 2007.

TERMINATION BENEFITS – Based on adopted Group restructuring plans, in December 2006, a redundancy agreement with 136 employees was reached in December 2006, ensuring payment of a stimulating termination benefit in January 2007.

NOTE 30
COMMITMENTS

In 2006, the purchase costs of tangible fixed assets contracted with suppliers amounted to HRK 67,742 thousand (2005: HRK 21,207 thousand), which are not yet realised or recognised in the balance sheet.

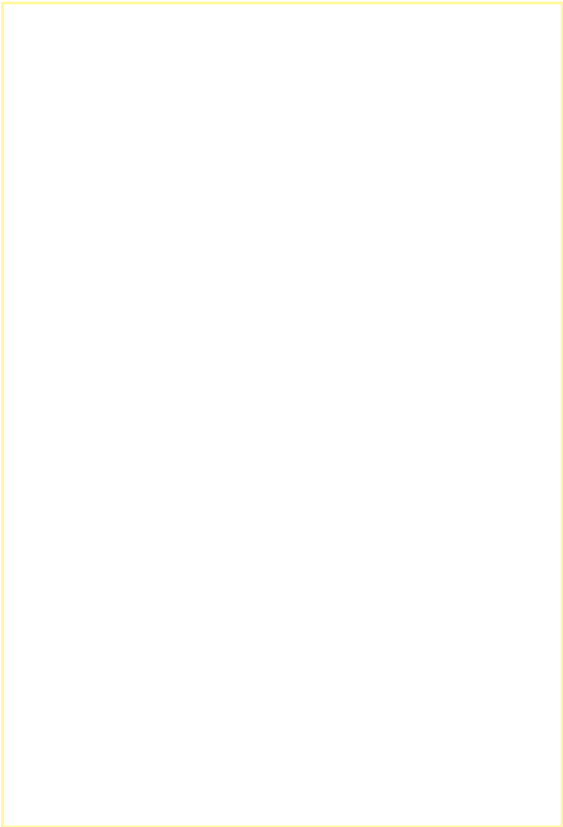
The future payments receivable under operating leases for the usage of vehicles, forklift trucks and refrigerator show-cases are as follows:

(IN THOUSANDS OF HRK)	2006	2005
Not later than 1 year	26,314	24,894
Later than 1 year and not later than 5 years	29,955	28,772
	56,269	53,666

NOTE 31
CONTINGENCIES

(IN THOUSANDS OF HRK)	2006	2005
Legal proceedings	6,837	6,652
Guarantees	21,646	26,788
	28,483	33,440

With respect to legal proceedings and guarantees granted, contingent liabilities have not been recognised in the balance sheet, as Management estimated that no contingent liability will arise for the Group.



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NOTE 32
CASH GENERATED FROM OPERATIONS

(IN THOUSANDS OF HRK)	Note	2006	2005
Net profit		60,361	62,626
Income tax	12	15,788	7,215
Depreciation and amortisation	16, 17	201,252	223,007
(Gain)/loss on sale of tangible and intangible fixed assets	6	(3,900)	(4,593)
Available-for-sale assets	18	(9,812)	
Provisions for impairment of current assets	20, 21	14,341	37,067

Disposal of non-current tangible assets		7,583	6,247
Provisions for non-current assets	16, 17	(906)	1,888
Share option fair value adjustment	24	15,388	5,478
Provisions	29	10,306	55,976
Gain on sale of financial assets at fair value, available-for-sale financial assets and investment in Group company	6	(13,693)	(2,036)
Interest income	7	(8,338)	(5,580)
Dividend income	7	—	(355)
Interest expense	11	45,907	39,539
Other interest expense	8	134	—
Effect of movements in foreign exchange rate		(2,558)	(22,181)
Other items not affecting cash		(5,655)	(5,940)

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MOVEMENTS IN WORKING CAPITAL

Movements in inventories	3,310	(11,914)
Movements in trade receivables	(117,573)	(45,709)
Movements in other current assets	7,951	(4,646)
Movements in trade payables	79,033	4,856
Movements in other liabilities	(5,239)	22,600
Cash generated from operations	293,680	363,545

NOTE 33
RELATED PARTY TRANSACTIONS

(IN THOUSANDS OF HRK)	Note	2006	2005
EXPENSES			
Key management and executive directors compensation – Group			
SALARIES			
		53,961	50,424
Share-based payments through income statement	10	16,271	11,722
Share-based payments through equity		7,629	5,320
		77,861	66,601

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