With heart?
Smells like kitsch to me...

The heart is
just an ordinary pump.

Sweetheart!?
That’s what my mom calls me.

I don’t need heart
I’ve got smarts.

... we believe, though,
that everything should be done with heart.
This book is proof that heart is all that matters.

Podravka: annual report
year two thousand and five

We feed people in 30 countries.
That is a great responsibility.
You can’t cook without heart.
In order to prove that our basic idea is the right one,
we’ve conducted a little experiment to find the difference
between cooking with heart and cooking without.

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

Mission: To create high-quality branded products that win the trust of clients and consumers.

What did we do last year?
They say that numbers don't have heart. See, our numbers are beautiful because they are big, and have heart.

In the year 2005 our profit was 62.6 million HRK. However, we are not completely satisfied with this result as we expected more and with good reason. After the first nine months we already reached a profit of 84 million HRK and believed we would go beyond the 100 million figure. Nevertheless, some unpredictable circumstances occurred over which at that moment we had no influence. The operating result of last year is very good and if it were not for the extraordinary events, it would have been a satisfactory year.

As trends in the last year are concerned, the great majority of them are positive. We recorded a growth of sales in all segments and on almost all markets. The food segment recorded a sales growth of roughly 5 percent, and pharmaceuticals 2.8 percent, taken that last year a price drop of over 10 percent occurred in pharmaceuticals which means that this growth is really much higher.

We are pleased with the growth of sales on foreign markets which is 1.6 percent, led by the Serbian market with 35 percent, Bosnia and Herzegovina with 11 percent and especially the East European markets, primarily Russia, which had been detected as a strategic market where even more significant results can be achieved.

In the year 2005 we managed to reduce the general and administrative costs as well as the selling and distribution costs in relative, but some of them also in absolute amounts. The only significant and deliberately increased investments were made in marketing which we plan to continue in the forthcoming period. Among many reasons underlying this increase, the most significant is better exploitation of the power of the Vegeta brand. Vegeta Mediterranean was launched on all markets and this year we plan to go out with some other varieties of Vegeta. Alongside, last year we also managed to launch a new product each month and we plan to continue this practice. This illustrates the strength of our research and development as well as the vitality of successful monitoring of trends demanded by consumers on one hand, and the strength and vitality of our sales organisation on the other.

Together with the already mentioned unexpected provisions, last year we put effort in applying all accounting standards including ISFR 19, and all issued by 1 January this year were applied to the 2005 year balance sheet, so this too had partial impact on the final result. All of this gives hope that in the year 2006 there will not be any major extraordinary expenses.

As far as the most noteworthy events are concerned marking Podravka's business operations in the year 2005, I would like to highlight adopting the Corporate Management Code, remarkable growth of shares and value for our shareholders, passing of the Code of Ethics and receiving the Superbrand Award for Vegeta in Russia. We also made investments of 136 million HRK, in the SBA Food and Beverages 88 million HRK and in the SBA Pharmaceuticals 48 million HRK. The process of disposing unproductive assets still continues with the disposal of the factories "Koprivnička tiskarnica" and "Sana" in progress. Last autumn Reiber Food Polska S.A. and Podravka Warsaw established a strategic alliance in the segment of sales and distribution on the market of Poland which was extended to the market of Hungary. On the Polish market we united the sales force which currently counts 150 employees. Apart from strengthening brand positions of both companies, we expect this strategic partnership to result in savings in the field of sales and distribution.

During the year 2005 Podravka signed partnership agreements on the markets of South-eastern Europe; with the company Vegafruit from Bosnia and Herzegovina in the field of processing, distribution and export placement of fruit and vegetables, with Swisslion Takovo on cooperation in the field of production on the markets of Serbia and Montenegro and also the distribution agreement for Agrokomerc products on the territory of Bosnia and Herzegovina. We are the first Croatian company that signed an agreement on long-term business cooperation with the Croatian Association of Hotel Owners anticipating joint effort in improving and creating the tourist gastronomic offer.

All that we have undertaken so far shall be continued in this year with the aim to optimise business operations and increase profit and benefits for the owners, our shareholders. I strongly believe that we shall succeed and that the business year 2006 and all the forthcoming shall be even better than the year 2005.

With kindest regards, Darko Marinac
President of the Management Board of Podravka d.d.

not to forget:
at least four meals daily!

The year 2005, in strategic terms, was a year in which most changes in key fields occurred. As a response to the constant changes in the environment in which Podravka operates, process changes and adjustments were initiated in order to establish a good relationship with the competitive surroundings. The reorganisation process started in the Finance, Marketing, Sales and Purchasing departments to prepare them for prompt reaction to market demands. In the Finance sector the integration process at corporate level began and new systems of performance measurement at all business segments are being introduced. Purchasing has been centralised at company level in the interest of a high quality approach towards suppliers. Projects concerning sales force computerisation have impact on its efficiency and bring changes in client approaching. In the field of development, Podravka has signed a scientific and professional cooperation agreement with the Institute Ruđer Bošković especially on projects where activities and interests overlap. A strategic alliance was established with the company Reiber Food Polska s.a. in sales and distribution on the Polish market. With this alliance both companies have created a joint sales force which is significantly larger and stronger than the sales organisations of each partner and is entirely organised according to the demands of the Polish market. What was company life really like in 2005? Let's see in chronological order.

January

Podravka Gave Aid to Earthquake Victims in South Asia

Podravka joined the humanitarian aid action for helping the victims in South Asia by donating Lino baby food. The Croatian Caritas initiated the action of collecting food a day after the tragedy in the countries of South Asia caused by a severe earthquake. The collected aid was distributed in cooperation with sister Caritas organisations in European countries which have their representatives in the affected countries with whom they organised the delivery of aid. The entire action was coordinated by Caritas Internationalis, the Caritas world network with headquarters in Rome. As Mr Boris Peterlin, the leader of special projects in Croatian Caritas said, this is the first shipment from Croatia through the Croatian Caritas for the victims in South Asia. Podravka showed the initiative to help in the most appropriate manner, donating food which apart from water and medicine is most needed. Pliva also joined this action and when the situation with water stabilises, the spectre of items to be sent to South Asia will be expanded.

Vegeta Receives Recognition in the Agency CATI Research

Confirmation that Podravka's Vegeta is the most recognisable Croatian brand was received in the great research conducted in 4 former Yugoslav countries by the Slovenian agency cati. This agency does research to investigate brand representation on the markets of Slovenia, Croatia, Bosnia and Herzegovina and Serbia. According to statements from cati, the joint determinant for the markets of Slovenia, Croatia and Serbia is that the customers in those countries mainly support domestic products, while in Bosnia and Herzegovina imported goods dominate. Consumers in Croatia hold Vegeta as the most recognisable brand while in Bosnia and Herzegovina it holds second place among the most popular brands and in Slovenia fourth place. It is somewhat less recognised in Serbia, compared to the other countries. The second on the list of brands in Croatia, immediately after Vegeta, is Zvijezda oil. The consumers in Bosnia and Herzegovina have placed the oil Floriol imported from Hungary in front of Vegeta. Other Croatian brands popular among consumers in Bosnia and Herzegovina are Margo in 10th place, tinned fish Eva distributed by Podravka in 14th place and Kraš biscuits Domaćica in 19th place.

Lagris Advertising Campaign Comes Second in the Czech Republic

According to the expert jury composed of representatives from advertising agencies, media and clients, the advertising campaign of Podravka Lagris won second place. Megabrands such as Škoda, T-Mobile, Karlovarske mineralni vody, Komercni banka (French Societe General), Eurotel, Cesky Telecom were placed after Lagris, while only the Czech company Oskar mobil was ahead. The marketing campaign of Lagris lasted from the second half of October till the end of November 2004, and the expert jury especially complimented the creativity of Lagris printed advertisements.

Renault Master Van Presented to the Association of Disabled Persons of the Koprivničko-križevačka County

Deputy president of the Management Board, Željko Đurđina presented on behalf of Podravka a Renault Master van to the Association of Disabled persons of the Koprivničko-križevačka County. Željko Đurđina said that he believed the van will be well used. Keys were given to Slavko Kuzmić at COOR "Podravsko sunce" who thanked Podravka for providing the means for purchasing this van on leasing.
- The Association tried to collect the money by organising humanitarian concerts, donations, voluntary contributions and other activities. The action ultimately finished successfully after two and a half years of persistence. Podravka has made our dream come true and we are more than grateful. The van will also be used by other associations for disabled persons gathered at "Podravsko sunce", and I believe that soon we will have enough to make additional adjustments on the van to make it more appropriate for the disabled. Employees from some companies in Koprivnica had the chance to help the Association by donations and last year Belupo and Podravka employees also participated in this humanitarian action. Therefore, Slavko Kuzmić thanked them all for their contribution and this humanitarian action also marked the 20th anniversary of the Association of Disabled Persons of the Koprivničko-križevačka County.

February

Podravka Provides Help for the Croatian National Theatre in Osijek

In an appropriate ceremony in Osijek an agreement was signed by which Podravka will assist the Croatian National Theatre in Osijek, a cultural institution with a high reputation in Croatian culture. The agreement was signed by the manager of the Croatian National Theatre in Osijek, Željko Čagalj and the president of the Management Board of Podravka, Darko Marinac.
- I am extremely pleased that Podravka, as one of the strongest Croatian companies, was prepared to support our work and assist us during this year. This will help us improve the quality of our work and raise the level

of artistic creativity – said the manager of the Croatian National Theatre in Osijek, Željko Čagalj. The president of the Management Board of Podravka, Darko Marinac, highlighted that he is proud that Podravka can help the Croatian National Theatre in Osijek and he hopes that in the future the support will be even better.

Podravka, the First Large Partner of the National Association of Small and Family Hotels

On the Lake Plitvice during the 36th Croatian Business Meetings "Manufacturers to the Hotel Business 2005", an agreement was signed between Podravka and the National Association of Small and Family Hotels. The agreement was signed on behalf of Podravka by member of the Management Board, Miroslav Vitković and Šime Klarić on behalf of the National Association of Small and Family Hotels. According to Mr Klarić, the Association signed its first large agreement with the food industry Podravka and its signing is the first step in the realisation of its arrangements so far. Both parties are satisfied due to favourable conditions for product purchasing for some hundred members of the Association. Mr Vitković said that the agreement represents a base for developing further quality.
- With the signing of this agreement the entire product range of Podravka products is represented in the offer of small and family hotels and the next step will be regulating further relations with each of the members, because we wish to take into account each and every of their specific features. Podravka has made the first step ahead in the foodservice segment and we wanted to be the first partner of the National Association of Small and Family Hotels, because Croatia apart from food and agriculture should be recognised by its tourism – highlighted Mr Vitković when signing the agreement.

A New Lino Baby Food Factory Under Construction

Podravka will soon start with the construction of a new Lino baby food factory in the industrial zone Danica in Koprivnica, next to the plant for the production of cream spreads. This is an investment estimated at 100 million HRK and is to be completed by the end of next year. With Vegeta and the cover brand Podravka, the brand Lino is the most famous of Podravka brands on the territory of South-eastern Europe. Baby food, with the well known bear Lino, has been present on the market for 35 years. Many generations grew together and they still like to taste it although it is primarily intended for children. Today, Lino is the market leader in the category of baby food in all countries of former Yugoslavia. Great potential for baby food Lino is the Russian market on which Podravka is currently significantly present only with Vegeta.

March

POMAK Attendants Receive Diplomas

Diplomas were awarded at the Faculty of Economics in Zagreb to the first generation of students of Podravka's management academy POMAK, the only management academy in Croatia founded by a company. Diplomas were given to POMAK graduates by Darko Marinac, the president of the Management Board of Podravka, while Darko Tipurić, vice-dean of the Faculty of Economics in Zagreb handed FBA diplomas – the fundamental POMAK module accomplished in cooperation with the Faculty of Economics in Zagreb. 46 students finished POMAK, which consists of two basic modules: FBA (Fundamentals of Business Administration) accomplished in cooperation with the Faculty of Economics in Zagreb and LIDER. The FBA or fundamentals of business administration covers "hard" managerial skills, consists of 200 hours of lectures and workshops with topics covering the field of general, financial, marketing, strategic and global management. Lecturers are full professors from the Faculty of Economics in Zagreb, as well as foreign professors, lecturers at business schools, the Leeds Metropolitan University, MBA programs and other. LIDER covers the "soft" managerial knowledge and skills, consists of 200 hours of workshops and practice from the field of leadership, motivation, remuneration, communication, negotiation, team work and other skills oriented towards human resource management. Lecturers at LIDER are well known psychologists and communicologists and other lecturers specialised in particular topics.

Podravka Merged Companies in the Czech Republic and Slovakia within the Efficiency Project

Within the Efficiency Project, aimed at business rationalisation, Podravka decided to merge the operations of its companies in the Czech Republic and Slovakia. Podravka with the acquisition of Lagris who has production facilities in the Czech Republic and Slovakia, together with its own representation offices in Prague and Bratislava, in both countries had two companies. In order to optimise expenses, a decision was made that business for the Czech Republic was going to be handled by the company Podravka – Lagris A.S. with headquarters in Luhačovice, which will integrate all Podravka's activities on the Czech market. Goran Markulin was appointed president of the Supervisory Board of the company Podravka – Lagris, and members Mr Miroslav Repić and Ms Aleksandra Maxianova, as representative of the employees. For the purpose of rationalising business and optimising expenses in Slovakia, a decision was made to merge the company Lagris Slovakia S.R.O. with headquarters in Zvolen and the company Podravka International S.R.O. with headquarters in Bratislava. In that way Podravka's business operations in Slovakia continue jointly within the company Podravka International S.R.O. with headquarters also in Bratislava. Lagris' company in Zvolen remains under Podravka's shelter, but as a remote production facility of the company Podravka International. After optimising the production of Vegeta on the market of the European Union, and the purchase of the 50 percent share in the company Podravka International by the partner Cerere in Slovakia, this is another step towards efficient business on the markets of Central Europe. In the year 2003 Podravka achieved total sales revenue of 361.6 million HRK, which is 11.2 percent in the total revenue of Podravka, on the markets of Central Europe (Czech Republic, Slovakia, and Hungary).

Agreement Signed Between Development Alternatives Inc. (DAI) and Podravka

An agreement on technical assistance and cooperation on a joint project of strengthening production and competitive capacities of Podravka's subcontractors was signed between Development Alternatives Inc DAI and Podravka at a working meeting held in the gastronomic centre "Štagelj". The agreement was signed by Željko Đurđina, deputy president of the Management Board of Podravka and Joe L. Welsh, head of the branch office and the project ACE – Agribusiness Competitiveness Enhancement – DAI. The meeting was attended by representatives of the subcontractors who have direct benefit from this project and Josip Friščić, prefect of the Koprivničko-križevačka County. Cooperation on this joint project is based on strengthening production capacities of Podravka's subcontractors with the ultimate goal to enhance the quality and value of products and services, reduce the import of food to Croatia and create new sales channels. DAI shall provide technical support to Podravka's subcontractors in the field of vegetables, foodservice and meat program. Professional technical assistance by DAI on the vegetable program refers to the elaboration, implementation and control of the pilot project for irrigation in some counties, the development of various models of irrigation according to technologies for the production of particular cultures, as well as professional training for manufacturers on the use of new technology. In the foodservice program field trips will be organised to companies with similar activities, and connection with similar international companies and its experts for the purpose of exchanging experience. In the meat program it is anticipated to provide assistance in improving the production and management of pig farms in order to enhance competitiveness through cost reduction, development of storage capacities and drying of cereals and oil plants as well as support in elaborating development plans.

April

American Inspection Permit Prolonged for Podravka's Meat Industry

Dr Aurora Craver, audit director of the Food Safety and Meat Inspection Service at the American Ministry of Agriculture, with her associates visited Podravka's meat industry. This is an annual inspection which the American inspection performs in order to establish to possibility of exporting meat products to the market of the USA. Apart from examining the overall production process, special attention was given to the accompanying documents, including documents of the authorised vet inspection, control laboratories, HACAP, SOP and DDD systems, humane treatment of animals and a control of the central microbiological and physical-chemical laboratory. Following a comprehensive analysis, Podravka was assessed with the highest grade of acceptance and it was established that the products display the highest level of food safety and quality. Therefore, Podravka will continue to export its products under number HR 139 to the American market, as one of only three Croatian meat industries. Podravka has been exporting to the American market products based on pork, especially luncheon meat and pâté for a long number of years, but also to around twenty other world countries. The control of raw material, packaging and the production process up to the final product is from the very start under absolute control, tested not only within the company but also in independent external labs. Namely, all the production processes are under daily surveillance of eight independent veterinary inspectors, the state inspectorate, and very often visits from foreign expert services, from the American inspection services to the ones from the European Union, which guarantees total safety of Podravka meat products.

Podravka Signed an Agreement with the Croatian Association of Hotel Owners

President of the Executive Board of the Croatian Association of Hotel Owners, Franco Palma and the president of the Management Board of Podravka Darko Marinac signed an

For ~~chicken~~ chicken and vegetable skewers, I need: 500 g chicken breast fillet, 200 g red pepper, 100 g zucchini, 100 g spring onions, 200 g mushrooms, 200 ml dark ~~bee~~ beer, 4-5 tbsp oil

agreement on long-term business cooperation. The agreement between the Croatian Association of Hotel Owners and Podravka is another step to long-term cooperation between Podravka and hotel owners, anticipating not only classic cooperation but also joint work on the improvement and creation of a gastronomic offer in tourism. The Croatian Association of Hotel Owners is an independent professional business organisation which promotes, coordinates and represents the mutual interests of hotel and restaurant owners. There are currently 190 members who in a certain way already work with Podravka, but this agreement will provide a deeper cooperation. Podravka realises a significant share of its sales in the Republic of Croatia through tourism. Over a half of this turnover is realised through direct cooperation with hotel – tourist companies, while the remaining turnover is realised through retail.

ISO 9001:2000 Certificate to Podravka Meat Industry

Podravka's meat industry was awarded the ISO 9001:2000 certificate for quality in business operations. This is the result of an audit conducted during March by the certification firm Det Norske Veritas (DNV). In their reports the Norwegians especially complimented the slaughtery and the production of canned meat and especially highlighted the good work organization and supervision of performance parameters, marketing for high quality competition monitoring and marketing action performance analysis, as well as controlling for its proactive approach and price analysis of raw material and products and the implementation of the trainee mentorship system. Podravka's meat industry, on its way to receiving the certificate passed the procedure which other parts of the Podravka Group who already have the certificate passed, which the Norwegians again checked during March. Emphasis was made on the education of employees about the management system, document elaboration, implementation of defined processes and other documents, internal audits, and corrections of detected discrepancies, preliminary audits of the certification firm, respectively, a "dress rehearsal". As in other system introduction projects, the most difficult phase was implementation into the practical operation of defined processes and other documents.

The Management Board of Podravka d.d. Assigned Duties

The Supervisory Board of Podravka on its session confirmed the duties of the Management Board whose term of office started on 1 April this year. Along with regular duties which assume the tasks of the president and members of the Management Board, duties were assigned as follows:

DARKO MARINAC, president of the Management Board and managing executive director responsible for:

- coordination and management of financial processes – Accounting, Controlling, Treasury,
- coordination and management of Corporate Functions – Strategic Development, Corporate Communications, Legal Affairs, Human Resources,
- business field of Pharmaceuticals and Investor Relations,
- other fields for which no other member of the Management Board has been appointed.

SAŠA ROMAC, member of the Management Board and managing executive director for marketing responsible for the following:

- coordination and management of business fields – Marketing (brands and product categories), Product Development, Operative Controlling and Commercial Partnerships Management.

GORAN MARKULIN, member of the Management Board and managing executive director for international markets responsible for the following:
- coordination and management of business in the fields – Central European Markets, South-eastern European Markets, Western European Markets, Overseas Countries and the Orient, Eastern European markets and
- for jobs of International Key Account Management.

MIROSLAV VITKOVIĆ, member of the Management Board and managing executive director for the Croatian market, meat products and beverages responsible for the following:
- coordination and management of the Croatian Market, Meat Product Program, Beverages, Logistics and Joint Market Affairs.

DRAGAN HABDIJA, member of the Management Board and managing executive director for production responsible for the following:
- coordination and management of the jobs of Production I, Production II, Quality Control and Technology Development and
- jobs of Central Preparation and Production Planning.

ZDRAVKO ŠESTAK, member of the Management Board and managing executive director for services and process improvements responsible for the following:
- improvement and implementation of operating business efficiency in all special processes,
- coordination and management of business processes – Purchasing, Business Surveillance, Information Technology, Service Management, Energy and Technical Services and Business Quality,
- coordination of jobs related to union work and the Employee Council of Podravka d.d.

May

New Design for the Most Recognisable Croatian brand Vegeta

The most famous Croatian brand Vegeta is coming to the market in a new visual look. In order to be consistent and recognisable on the market, the packaging of Vegeta is still in blue colour with the chef character and vegetables. The Vegeta logotype is visually three-dimensional and a novelty is the nutrition table. The new packaging of Vegeta was put on the market at the beginning of May. A media campaign was launched in order to familiarise consumers with the new Vegeta design, which on Vegeta's strategic markets lasted during May. It is characteristic that the most famous Croatian product has been carrying its recognisable packaging for 45 years and this is also the aim of this refreshed version. Today, Vegeta is the most famous and strongest Podravka brand sold in over 40 countries worldwide. During last year Vegeta recorded a sales growth of 2% and with 656 million HRK of sales revenue in the year 2004, participates with 20% in the total revenue of the Podravka Group.

Stanislav Biondić Appointed President of the Management Board of Belupo

Stanislav Biondić was appointed the new president of the Management Board of Belupo on the session of members of the Supervisory Board of the pharmaceutical company from Koprivnica. Stanislav Biondić has been working at Belupo for six years of which he spent two as managing director and four as member of the Management Board. The session, chaired by Darko Marinac, was held on 10 May and members of the Board during the next five year term of office are Branka Perković, the current director of Legal Affairs of the Podravka Group and Hrvoje Kolarić, director of the Pharmaceutical Sector in Pharma Swiss. The former president of the Board, Sani Pogorilić left Belupo by consent.

Podravka Receives the Euromoney Award for Business Excellence

The managing executive director of Euromoney, Richard Ensor, and the director for Central and Eastern Europe, Martin Born, presented The 2005 Award for Excellence to the president of the Management Board Darko Marinac. Euromoney, one of the most powerful European financial magazines, for the first time made a ranking of the companies in Central and Eastern Europe. The ranking was done on the grounds of research which involved the leading banks, marketing analysts and research institutions from that area. Research was based on the company's market position, growth potential, profitability and company management quality. Podravka was selected first among 336 companies covered by the research. The Euromoney award is one of the most prestigious in the international environment, primarily in the segment of finance and financial institutions, but also corporations that are not from the world of finance. The award was founded in 1991 with the purpose to identify the best banks and corporations in different regions and countries worldwide under the name Euromoney Awards for Excellence. This award is yet one of many awards Podravka has received lately. Podravka recently received the certificate ISO 9000:2001 for business quality and for its meat industry, to whom the American Inspection granted the permit for the export of processed meat products as one of three companies from Croatia. Also Vegeta, according to the research conducted by the Slovenian agency CATI, was declared the most famous brand on the territory of South-eastern Europe.

Podravka's Meat Industry Receives the HALAL Certificate

Podravka's meat industry was awarded the HALAL certificate. It is a certificate which confirms that the production processes and products meet the food standards of people of the Islamic confession. The certificate was presented to Podravka by the representatives of the Meshihat of the Islamic Community in Croatia, authorised for its issue on our territory. The first shipment of products, beef goulash and chicken pâté with the HALAL sign, intended for the Islamic Community on the market of Sweden, has already been exported and cooperation is soon expected in some other European countries. This should raise the exports share in revenues of Podravka's meat industry which in the year 2004 totalled 270 million HRK of which somewhat less than twenty percent is revenue from export. This certificate is more substantiated evidence of the quality of Podravka's meat program. Namely, recently Podravka's meat industry received the ISO 9000:2001 Certificate for business quality, the certificate of the American Inspection for export to the market of the USA has been prolonged, while the products beef goulash and tea sausage received the awards for quality "Croatian Creation" and "Croatian Quality", respectively.

June

The Thermal Mineral Water Spring "Grofovo vrelo" Newly Renovated

The vice-president of the Government and the Minister of Family, Veterans' Affairs and Intergenerational Solidarity, Jadranka Kosor, opened the newly renovated thermal mineral water spring "Grofovo vrelo", a cultural monument. The spring was devastated during the war and about one million HRK was invested in its renewal. Apart from Podravka, which in the renewal of "Grofova vrela" invested 600 thousand HRK, the recovery was also assisted by the Ministry of Culture of the Republic of Croatia, the city of Lipik and the Specialised Hospital for Medical Rehabilitation in Lipik. Apart from the brands Studena and Studenac, Podravka produces ice tea under the brand "Studena", juices "Deit" and very soon the first domestic COOL Cola will be launched. During this year new products have been announced from the line of beverages. Thermal mineral water from the spring in Lipik is regularly analysed so it is among the most frequently tested in Croatia. Also, regular routine water analysis tests are made at the lab for water quality control at the factory "Studenac". According to the results of the Institute Ruđer Bošković, the water from the springs of Lipik is over 7600 years old.

July

Podravka Again Participates in the action "Top Scholarships for Top Students"

The ceremony of pronouncing and awarding Top Scholarships for Top Students was held on 5 July in the Crystal Hall of the Westin Hotel in Zagreb when the names of 15 Top female and 10 Top male students were announced. The ceremony was attended by the President of the Republic of Croatia, Stjepan Mesić, Minister Primorac, all the finalists and chancellors and vice-chancellors of Croatian universities as well as presidents or members of management boards of the companies Diners Club Adriatic, INA, INGRA, Podravka and the head of the Croatian National Television, all partners in the action. The selection had two rounds, and the Scholarship Council and the Scholarship Commission chose the best Croatian students. This year 557 applications were received of which ninety of them had a grade average of 5.0. All 100 finalists automatically became members of the Top Student Club which provides many benefits by just showing a membership card. The action "Top Scholarships for Top Students" awards the excellence of 25 students who together share the highest scholarship fund of a million HRK. Since 2003 till today 83 Top students have been awarded and so far over 3 million HRK has found its way into the right hands.

Vegeta - Winner of the "Superbrand" in Russia

Podravka's most famous brand Vegeta is the winner of one more precious foreign award. Namely, after the status of Superbrand in Poland, Vegeta received recognition for Superbrand 2005 in Russia. The assessment and classification of brands, based on data from the research firms ACNielsen and COMCOM, was conducted by an independent expert committee composed of competent experts in the field of marketing, branding and consumers themselves. There were 1033 brands candidates for the award and the right to bear the label, which hold leading market positions in terms of sales volume and brand recognisability on the market of Russia. Vegeta received 385 points from the total of 400 and

For navy bean and tuna salad, I need:

400 g navy beans, 200 g tomatoes, 200 g fresh green beans, 80 g spring onions, 150 g fresh peppers, 400 g fresh tuna, 2-3 tbsp. olive ~~ck~~ oil, and 2 tbsp Vegeta

was placed in the group of 388 brands which gained the right to bear the label Superbrand on the very demanding Russian market. Among the award winners are many brands of well known multinational companies and domestic Russian ones, so Vegeta is one of the vary rare brands from the region of Eastern Europe that has gained right to bear the Superbrand status. Superbrands International has its headquarters in London, and Russia is one of the 45 countries in which it has branch offices. Podravka has been present on the market of Russia for a couple of decades and along with Vegeta it exports soups and baby food. As this is a large and demanding market, Russia has been selected as one of the countries in which Podravka will rapidly develop and increase its business operations. Therefore, this award has even a greater meaning, because it represents Podravka's long-term quality and existence on this market and is a precondition for further expansion of the scope of business in Russia. In the year 2004, Podravka achieved sales revenue in the amount of 114 million HRK on the market of Eastern Europe of which the large majority has been realised on the market of Russia.

September

Podravka and the Institute "Ruđer Bošković" have Agreed Cooperation

The largest Croatian scientific and research institute, the Institute Ruđer Bošković from Zagreb and Podravka as one of the leading regional food companies, have signed an agreement on scientific and professional cooperation. With the signed agreement on scientific and professional cooperation, Podravka and "Ruđer" encourage the development of cooperation on joint projects, especially in the part where their activities and interests overlap. They also intend to connect scientists and experts from economy and in that way improve the active involvement of the Croatian scientific community in strengthening Croatian economy and the development of products based on knowledge. As this is anticipated as a long-term strategic document, the agreement is concluded for an indefinite period of time. For successful accomplishment of this Croatian scientific-economic venture, a joint commission will be appointed to plan, coordinate and assess all the initiated activities. The agreement was signed by Darko Marinac, president of the management Board of "Podravka" and Mladen Žinić, head of the Institute "Ruđer Bošković".

Podravka's Products Receive the Quality Medal

The 81st Autumn International Zagreb Fair was held from 13 till 18 September in Zagreb where Podravka received a couple of "Quality Medals 2005". In the category of fruit juices, refreshing non-alcoholic beverages and fruit and vegetable products, Podravka received the Quality Medal for Peach light jam 270 g., Sour cherry filling 780 g., Relish, vegetable sauce 360 g. and Salsa, vegetable sauce 360 g. Awards were received by the director of Fruit and Tea Development, Nadica Balija, Marketing manager Dunja Milošić Odobašić and senior technologist Marija Vađunec, who is responsible for the development of some of these products. During the fair, the action led by the Croatian Chamber of Commerce "Buy Croatian" was held, where Marketing sand Sales organised "Sales with Prim" for part of its product range. Podravka was also one of the sponsors of the Tourist Authority of the Koprivničko-križevačka County at the fair EKO-ETNO.

The County "Golden Kuna" Goes to Podravka

On the ceremony of the Economy Council of the Croatian Chamber of Commerce held in Koprivnica on 20 September, the "Golden Kuna" plaques were awarded. The "Golden Kuna" in the category of the most successful large trade company was awarded to Podravka which in the previous year had a total of 1.5 billion HRK of revenue on foreign markets including pharmaceuticals. In the category of the most successful middle sized trade company, the "Golden Kuna" was awarded to the company "Lasselsberger – Knauf" from Đurđevac and the most successful small trade company was "Electro-Čelik" from Križevci. The most successful bank was Podravska banka Koprivnica, while "Radnik" from Križevci was given a plaque for special contribution in the development of economy in the Koprivničko-križevačka county celebrating their 55th anniversary of successful business. Awards were given by the president of the Croatian Chamber of Commerce of the County Chamber Miroslav Vitković, the mayor of the City of Koprivnica Zvonimir Mršić, prefect of the Koprivničko-križevačka County Josip Friščić, deputy president of the Economy Council of the County Chamber Ivan Katavić and the vice-president of the Croatian Chamber of Commerce for legal matters and internal organisation Jasminka Trzun. The "Golden Kuna" was received on behalf of Podravka by the member of the Management Board Dragan Habdija.

Gathering of Podravka's Pensioners

The traditional gathering of Podravka's pensioners was held on 23 September at Danica. This year's gathering, by which Podravka confirms its care for its employees who created this food giant from Koprivnica, was attended by 2000 pensioners, Podravka's jubilarians, members of Podravka's Management Board and other guests. At the gathering of Podravka's pensioners people who had interwoven their work into the creation of the company that is the pride of Koprivnica and the entire region were acknowledged. Each pensioner before the celebration was given the amount of 24 HRK per year of service at Podravka and gift packages with Podravka products. Jubilarians with 30, 35 and 40 years of service at Podravka also received cash rewards. The gathering was opened by Dragan Habdija, member of the Management Board, who highlighted the role of pensioners in the creation of the company. The president of the Management Board Darko Marinac added that this gathering belongs to all the pensioners and that Podravka is making good progress and that next year there will be even more happy faces. In this way Podravka gave 2 million HRK to its pensioners.

Cooperation Between Podravka and Swisslion Takovo

Podravka and Swisslion Takovo signed a one year agreement which started their cooperation on the markets of Serbia and Montenegro. The agreement, whose signatories are the director of Podravka's company in Belgrade, Krunoslav Bešvir and the director of DOO Takovije, Goran Kutrički, defines that the Swisslion Takovo concern shall produce in Serbia and Montenegro beef soups under the brand Podravka in accordance with Podravka's recipe and technological standards. In this way the Swisslion Takovo concern has become one of the most important business partners of Podravka on the market of Serbia and Montenegro in the field of cooperative production. The agreement was signed for a period of one year with the option of prolonging if both parties are satisfied. The signing ceremony was attended by Darko Marinac, president of the Management Board of Podravka and Rodoljub Drašković, president of the Swisslion Takovo concern.

October

A New Product of Croatia's Most Famous Brand Vegeta

As a result of following world food trends, especially the growing popularity of the Mediterranean cuisine, Podravka launched a new, unique product in its category on the markets of Croatia, Poland, Russia, the Czech Republic, Slovakia, Hungary and Slovenia. Vegeta Mediterranean is a universal seasoning enriched with aromatic herbs and tomato. The product contains even seven types of Mediterranean herbs and traces the culinary distinctiveness which Croatia enjoys as a Mediterranean country. Vegeta Mediterranean also brings innovation in packaging because a new technology of bag formation has been applied. It is packed in a deltapack bag which enables consumers additional closing, keeping the product fresh. The product bears the label "Croatian Creation" which gives it a modern and dynamic touch, brings consumers something new and helps Vegeta keep its leading position on those markets.

Podravka Issues New Corporate Internet Pages

After less than two years from the last renewal of Podravka Internet pages, Podravka launched new corporate Internet pages at the site www.podravka.com. The renewed corporate pages are user friendly to the public, reporters, associates, the financial and professional public, and all those who share interest for company business. It consists of six thematic modules and corporate communications with Podravka is additionally made easier with the application of @-services.

November

Strategic Alliance Between Podravka and Rieber & Son on the Polish Market

Rieber Food Polska S.A. and Podravka International Export-Import SP. Z O.O. have established a strategic alliance in the segment of sales and distribution on the Polish market. This alliance of daughters of renowned food companies, the Norwegian Reiber & Son and the Croatian Podravka d.d., is a result of almost a year of preparations and negotiations between strategic partners, representing a significant step forward in business advancement for both parties. With this alliance, which officially started on 1 November 2005, Podravka and Rieber have created a joint sales force which is significantly larger and stronger than the sales organisations of each partner and completely organised in accordance with the needs of the large and demanding Polish market. At the same time, the alliance provides notable savings in sales and distribution costs. Apart from the expenses there are other important effects of this synergy. Primarily, this is a market force created by a stronger joint product range, respectively, the fact that Podravka and Reiber together is becoming a larger and more important supplier on that market.

Podravka Receives Awards at the Moscow Festival

At the Moscow International Advertising Festival, the largest advertising festival in Russia, the latest Russian and foreign advertising works were presented. The festival and the jury are international which gives a higher value to the award receivers. At such distinguished festival Podravka received

For risotto with peas I need: 300 g freshly shelled peas, 100 g spring ~~onions~~ onions, two cloves of garlic, 50 ml olive oil, 300 g rice, 1 tsp basil, 1 tsp mint, 2 tsp grated lemon rind, 50 g parmesan cheese, 250 ml water, 200 g cottage cheese (drained!) and for the ~~soup stock~~ soup stock: 1 l water and Podravka vegetable bouillon cubes!

two valuable awards. The agency Bruketa and Žinić received the “Golden Apple” in the group of catalogues for the annual report of Podravka “Feed Me”. Apart from the annual report, the advertising agency Imago with which Podravka cooperates, won a gold and silver apple proving once again the quality and creativity of Croatian advertising works at the 15th Moscow International Advertising Festival (MIAF). The work “Employ me!” direct mailing for Nescafe office sets received the Gold Apple and “Hot or Mild?” megaboard for Podravka ketchup received the Silver Apple. This recognisable and creative campaign will certainly be of great assistance in finding the way to our consumers.

December

Podravka Receives Award for Business Reputation in the Category of Product Quality

At the beginning of December at the Westin Hotel in Zagreb, the Business Reputation Conference 2005 was held for the first time. Annual awards were given based on expert assessment. The project “Business Reputation 2005” is a partner project of the consulting firm Stratego Group, the media firm Lider Press and the agency for business education and business information Infoarena. In the category of defined development vision, Agrokor was first, while Podravka took third place. Ericsson Nikola Tesla was the winner of two first places, for efficient management and innovativeness. Vindija from Varaždin was the best in the category of ethical quality in business contacts, while Pliva was the laureate in employee quality. Agrokor received the award for long-term investment value and social responsibility. Podravka came second in the category of social responsibility. The first place for the best business reputation in the category of product and service quality was awarded to Podravka.

A New Management Board of the Association of Small Shareholders of Podravka

The Assembly of the Association of Small Shareholders of Podravka was held on 5 December at Podravka’s office building where Josip Pavlović was elected president. This young manager has been employed in Podravka since 1999 and currently holds the function of Treasury Director. His deputy is Ksenija Horvat, president of PPDIV Podravka and member of the Supervisory Board. Apart from them, members of the newly appointed Management Board of the Association of Small Shareholders are: Irena Barišić, Damir Bijač, Stanislav Biondić, Željko Capić, Franjo Cirkvenec, Lidija Kljajić, Stjepan Križan, Martinka Marđetko-Vuković, Robert Markulin, Ivan Šestak, Ivica Tomić and Krunoslav Vranar. The Association was founded in 1994 and according to the words of the newly elected president, the tradition of protecting the interests of Podravka and its employees, and Podravina in general, shall be continued by the new convocation of the Management Board.

Whichever way you look at it,
it's most important to cook **WITH**

HEARTH

not to forget: a least 4 meals
daily!

Podravka.

annual report
2005

1) Start your day with breakfast
2) Get moving
3) Snack smart
4) Work up a sweat

POD

important notice:
you can't cook without

Results of the Podravka Group for the Year 2005

Key features

1.0. Increase of sales by 4.4% resulted in sales of 3.44 billion HRK.

1.1. Increase of sales in the Strategic Business Area (hereinafter referred to as SBA) "Food and Beverages" by 4.9% resulted in sales of 2.82 billion HRK.

1.2. Increase of sales in the SBA "Pharmaceuticals" by 2.8% resulted in sales of 611.1 million HRK.

2.0. Gross profit of 1,336.9 million HRK which represents an increase of 3.5%.

3.0. EBIT after adjustments with new ISFR and IAS and providing additional provisions amounts to 85.5 million HRK which is 39.1% less than in the year 2004.

3.1. EBIT from regular operations (without the influence of IAS and ISFR changes and additional provisions) amounts to 162.5 million HRK which is 15.7% more than in the year 2004.

4.0. Net profit after adjustments with new ISFR, IAS and providing additional provisions amounts to 62.6 million HRK which is 15.4% less than in the year 2004.

4.1. Net profit from regular operations (without the influence of changes in IAS, ISFR and additional provisions) amounts to 124.8 million HRK which is 40% more than in the year 2004.

5.0. Investments totalled 135.93 million HRK during the observed period.

6.0. The Group's indebtedness totalled 833 million HRK which is 12.9% less compared to 31 December 2004 decreasing the indicator of indebtedness share in the shareholders' equity for 752 BP which now stands at 43.36%.

7.0. The proposed dividend for the year 2005 is 5 HRK per share.

8.0. A business cooperation agreement was signed with the company Rieber & Søn for the markets of Poland and Hungary.

9.0. New products: Vegeta Mediterranean and Ketchup.

10. Vegeta received the award "Superbrand" in Russia[1].

11. The new Management Board was appointed.

12. The Corporate Management Codex was adopted.

Note

New International Standards on Financial Reporting and International Accounting Standards as well as their strict application had a significant impact on the financial statements of the Podravka Group in the year 2005.
All changes in accounting policies have also been retroactively applied with adjustments of retained earnings as at 1 January 2004.
Adjustments with the new IAS and ISFR had a negative impact on the profit of 2005 in the amount of 33 million HRK. Apart from this, additional extraordinary provisions in the SBA "Pharmaceuticals" in the amount of 36 million HRK also had negative impact on the profit of 2005.

[1] In the year 2004 Vegeta received the award "Superbrand" in Poland and according to reasearch conducted by Young & Rubicam was listed among the first three brands with the highest growth potential on the market of Poland.

Sales Revenue

In the year 2005 sales totalled 3,441.4 million HRK which is a 4.4% increase compared to the sales realised in the year 2004. In the last eight months of the reporting period, sales showed a constant increase with major breakthroughs on foreign markets where, in general, a total increase of 6% was achieved. The annual sales growth for the period from the year 2000 till 2005 on foreign markets amounted 8.9%, on the market of Croatia 5.8%, while the total average annual growth for the observed period totalled 7.2%. On foreign markets there was a growth of sales in almost all product groups within the SBA "Food and Beverages" of which the 23% growth within the group of fruit and vegetable processed products (condiments, tomato based products and other fruit and vegetable processed products) should be highlighted as well as the 8% growth within the product group of Podravka Dishes (soups, bouillons, instant, half-prepared and ready to eat dishes, sauces and dressings). Sales increase of 4.4% resulted in an increase of gross profit of 45 million HRK, although the gross margin remained at the year 2004 level. The underlying reason for maintaining the gross margin at the same level was conditioned by the gross margin drop in the SBA "Pharmaceuticals" resulting from the restrictive policy of wholesale drugstores and the Croatian Health Insurance Institute.

Sales per Strategic Business Areas[2]

in mil. HRK	2005		2004		
SBA	Amount	%	Amount	%	Index 2:4
Food and Beverages	2,820.0	81.9	2,688.9	81.6	105
Pharmaceuticals	611.1	17.8	594.7	18.0	103
Services	10.3	0.3	11.4	0.3	90
Total	3,441.4	100.0	3,294.9	100.0	104

In the sales structure of the Podravka Group "Food and Beverages" accounts for 81.9%, "Pharmaceuticals" for 17.8% and "Services" for 0.3%.
The sales of "Food and Beverages" recorded a 5% growth while the sales of "Pharmaceuticals" recorded a 3% growth. "Food and Beverages" realised 47.3% of sales on the market of Croatia, while 52.7% were realised on foreign markets. The growth of "Food and Beverages" on the market of Croatia totalled 4.5%, while the growth on foreign markets was 5.2%.
"Pharmaceuticals" realised 79.6% of sales on the market of Croatia, while on foreign markets 20.4% of sales were achieved. The sales growth of "Pharmaceuticals" on the market of Croatia totalled 1.5%, while the realised growth on foreign markets was 11%.

[2] The reorganisation conducted in September 2004 defined three strategic business areas: "Food and Beverages", "Pharmaceuticals" and "Services".

A gram of protein
contains 4 calories!

Sales per Product Group

in mil. HRK	2005		2004		
PRODUCT GROUP	Amount	%	Amount	%	Index 2:4
Vegeta - Food Supplements	659.0	19.1	656.2	19.9	100
Podravka Dishes	233.9	6.8	221.0	6.7	106
Baby Food, Sweets and Snacks	270.6	7.9	270.7	8.2	100
Meat and Meat Products	312.3	9.1	271.2	8.2	115
Beverages	158.5	4.6	165.7	5.0	96
Rice, Legumes and Other	162.1	4.7	177.6	5.4	91
Fruit and Vegetables	237.1	6.9	217.3	6.6	109
Commercial goods	669.0	19.4	574.6	17.4	116
Other (Food and Beverages)	117.5	3.4	134.6	4.1	87
Pharmaceuticals	611.1	17.8	594.7	18.0	103
Services	10.3	0.3	11.4	0.3	90
Total	3,441.4	100.0	3,294.9	100.0	104

Observed by product group, the highest sales growth was achieved in the group of Meat and Meat Products in the amount of 18%. Sales growth was also achieved in the product groups Podravka Dishes (6%) and Fruit and Vegetables (9%). Commercial goods achieved a 16% growth. A 9% drop was recorded in the sales of Rice, Legumes and Other Products, resulting mainly from the sales drop in the Czech Republic. Sales drop also occurred in Beverages in the amount of 4%. The sales of Vegeta and the sales of Baby Food, Sweets and Snacks were kept at the year 2004 level.
In the year 2005 Vegeta received one more creditable foreign award, "Superbrand" 2005, in Russia, competing with 1033 other brands. Vegeta was given 385 points out of 400 and is among the 388 brands which have gained the right to carry the label "Superbrand" on the Russian market. During the year 2005 a new image of the Vegeta packaging was introduced and a new product Vegeta Mediterranean was launched, containing not less than seven types of Mediterranean herbs, and following the specific culinary quality Croatia enjoys as a Mediterranean country. The highest sales growth during the year 2005 Vegeta achieved on the market of South-East Europe. The Fruit and Vegetables group of products realised a high 23% growth during the year 2005 on foreign markets, mostly due to the growth on the markets of South-East and Central Europe. This year was marked by the expansion of the condiment product palette with the introduction of a new product "Ketchup hot", "Ketchup mild" and "Ketchup" foodservice with dispenser. In November 2005 the campaign "Hot or Mild" was conducted for which the agency "Imago" won second place at the International Advertising Festival (MIAF) in Moscow. Podravka products also received some prestigious awards on the Zagreb Autumn Fair, the "Quality Medal 2005" for vegetable sauces "Relish" and "Salsa", and "Peach Light Jam" and "Sour Cherry Filling". In September 2005 a cooperation agreement was signed with the company Vegafruit from Bosnia and Herzegovina in the field of processing, distribution and export placement of fruit and vegetables.

For tofu with vegetables, I need: 500 g tofu, 1 tbsp. 1 minced clove of garlic, 2 tbsp chopped ginger, 100 g mushrooms, 400 g oyster mushrooms, 200 g red peppers, 100 ml water, 1 tbsp soy sauce, sesame seed oil, 3 spring onions, 2 tbsp Vegeta

Meat and Meat Products realized a total sales growth of 18%. Sales on foreign markets increased 12% while on the market of Croatia it reached 20%. Growth on foreign markets was mainly supported by a 17% growth on the markets of Western Europe, Overseas Countries and the Far East. In the year 2005, the American inspection prolonged the license for Podravka's meat industry, assessing it with high grades for acceptance. The products were confirmed to be at the highest food safety and quality level, which means that Podravka will continue to export her products to the American market. In the year 2005 Podravka was granted the HALAL certificate proving that the production processes and products meet food standards for the people of Islamic religion. This certificate will allow even stronger penetration on foreign markets. Beef goulash and tea sausage received awards for quality "Croatian Creation" and "Croatian Quality" respectively.

Sales per Market

in mil. HRK	2005		2004		
MARKETS	Amount	%	Amount	%	Index 2:4
Croatia	1,828.9	53.1	1,769.1	53.7	103
South-East Europe	789.2	22.9	723.0	21.9	109
Central Europe	470.0	13.7	487.8	14.8	96
West. Europe, Overseas, Far East	218.3	6.3	201.3	6.1	108
Eastern Europe	134.9	3.9	113.8	3.5	119
Total	3,441.4	100.0	3,294.9	100.0	104

On foreign markets the highest growth was recorded on the market of Eastern Europe in the amount of 19%. "Food and Beverages" achieved a 15% growth mainly supported by the growth on the strategic market of Russia in the amount of 20%. Vegeta recorded a growth of 5%, baby food 59%, while the sales of soups recorded a growth of 40% on the market of Russia. Stronger penetration of "Pharmaceuticals" on the Russian market resulted in sales growth of 33%.

Sales in South-East Europe (SEE) recorded a 9% growth, of which the majority of 11% was achieved on the market of Bosnia and Herzegovina and 35% on the market of Serbia. "Food and Beverages" in SEE realised a 9% growth. The sales of Vegeta remained at the sales level of the year 2004, while growth was recorded by Podravka Dishes (2%), Processed Fruit and Vegetable Products (28%), Commercial Goods (18%) and Meat and Meat Products (9%). "Pharmaceuticals" achieved a growth of 8% mostly due to the growth on the markets of Bosnia and Herzegovina and Slovenia. During the year 2005 Podravka signed partnership agreements on the market of South-East Europe with the company Vegafruit from Bosnia and Herzegovina for cooperation in the field of processing, distribution and the export placement of fruit and vegetables, with Swiss Lion Takovo for cooperation in the field of production on the markets of Serbia and Montenegro and an agreement for the distribution of Agrocomerc products on the territory of Bosnia and Herzegovina. The markets of Western Europe, Overseas Countries and the Far East recorded 8% higher sales compared to the year 2004, which is mainly the result of the growth of Commercial Goods sales by 25%, Meat and Meat Products by 17%, Vegeta by 1% and Podravka Dishes by 33%. A sales drop was recorded only on the market of Central Europe in the amount of 4%.

This drop was mostly the result of sales drop in the product group Rice, Legumes and Other Products, which compared to the previous comparative period had a 10% shortfall. The sales of Vegeta remained at the level of the year 2004, while a 27% growth was achieved in the group of Fruit and Vegetable Products. In autumn Rieber Food Polska S.A. and Podravka International Export-Import SP. Z O.O. established a strategic alliance in the segment of sales and distribution on the Polish market which was also extended to the Hungarian market. On the Polish market the companies integrated their sales forces which now count 150 employees. This strategic agreement will apart from stronger brand position for both companies result in savings in sales and distribution. All foreign markets account for 46.9% of the total sales which is 0.6 PP more than in the year 2004. The sales share on the market of the Republic of Croatia reached 53.1%. Sales realised in the year 2005 totalled 1.83 billion HRK, 3% more than in the comparative reporting period. The highest growth was achieved in Meat and Meat Products in the amount of 20%, Commercial goods 16%, Podravka Dishes 4% and Fruit and Vegetables 1%. A drop was realised in Beverages in the amount of 5% and Vegeta 2%, while Baby Food, Sweets and Snacks remained at last year's sales level. In the year 2005 the Croatian market was characterised by further trade consolidation and therefore, key accounts participated in total sales with 80% which is three percent more than in the year 2004. Further expansion of private brands, customer demands for specific packing and stronger marketing activities in trade chains have created additional pressure on product prices. Concentration has also marked the hotel industry where, during the year 2005, two interest groups of hotels appeared: Association of Small and Family Hotels (OMH) and Croatian Association of Hotel and Restaurant Owners (HUH). In April 2005 Podravka signed a long term business cooperation agreement with HUH which anticipates classic cooperation but also joint efforts on the improvement and creation of the gastronomic offer in tourism.

Structure of operating costs/expenses

in mil. HRK	2005		2004 adjusted		
COST/EXPENSES	Amount	%	Amount	%	Index 2:4
Costs of goods sold	2,104.5	62.6	2,003.0	63.5	105
Sales and distribution costs	899.4	26.7	812.3	25.7	111
General and administrative costs	359.2	10.7	339.6	10.8	106
Total	3,363.1	100.0	3,155.0	100.0	107

The highest growth (11%) was recorded in sales and distribution costs which account for 26.4% of the net sales and is 176 BP more than in the year 2004. This growth is mainly the result of higher marketing expenses due to increased marketing activities in the second half of the year. General and administrative costs recorded a 6% growth, but if we exclude the single instance (extraordinary) effect on cost increase in the year 2005 (additional provisions for legal disputes and changes in accounting policies), the observed costs show a 10% drop. The share of general and administrative costs in net sales accounted for 10.4% and remained at the year 2004 level. If the mentioned single instance costs are excluded, the share of general and administrative costs in net sales accounts for 8.9% which is a drop of 143 BP compared to the year 2004. Costs of goods sold showed a 5% increase compared to the year 2004. The share of costs of goods sold in the net sales accounts for 60.9%, remaining at the year 2004 level.

Profitability of the Podravka Group

Sales increase in the amount of 4% resulted in the increase of gross profit by 5% maintaining the gross margin at the year 2004 level. The EBITDA margin is lower by 228 BP compared to the year 2004, while the EBIT margin is 178 BP lower. Net profit amounts to 62.6 million HRK which is a 15% drop compared to the year 2004. The net margin is lower by 43 BP. If we exclude the negative single instance effect on the year 2005 profit (disclosed in column 3 and column 6) arising from the application of new accounting policies and the negative single instance effect of additional provisions for legal disputes in "Pharmaceuticals", EBIT was 16% higher with a EBIT margin of 4.7%, net margin of 3.6% and net profit of 124.8 million HRK. Earnings per share totalled 11.74 HRK. Return on capital was 3.3%. Return on assets was 1.8%.

in mil. HRK	2005	2005 before adjustments with new IAS and provisions	2004 adjusted	2004 before adjustments with new IAS	Change (2/4)	Change (3/5)
Sales revenue	3,441.4	3,441.4	3,294.9	3,294.9	4%	4%
Gross profit	1,336.9	1,340.0	1,291.9	1,306.6	3%	3%
EBITDA	308.4	385.5	370.3	384.2	-17%	0%
EBIT	85.5	162.5	140.4	154.3	-39%	5%
Net profit	62.6	124.8	74.0	84.2	-15%	48%

Profit margins in %	2005	2005 before adjustments with new IAS and provisions	2004 adjusted	2004 before adjustments with new IAS	Change (2/4)	Change (3/5)
Brutto marža	38.8	38.9	39.2	39.7	-36 BP	-72 BP
EBITDA marža	9.0	11.2	11.2	11.7	-228 BP	-46 BP
EBIT marža	2.5	4.7	4.3	4.7	-178 BP	4 BP
Netto marža	1.8	3.6	2.2	2.6	-43 BP	107 BP

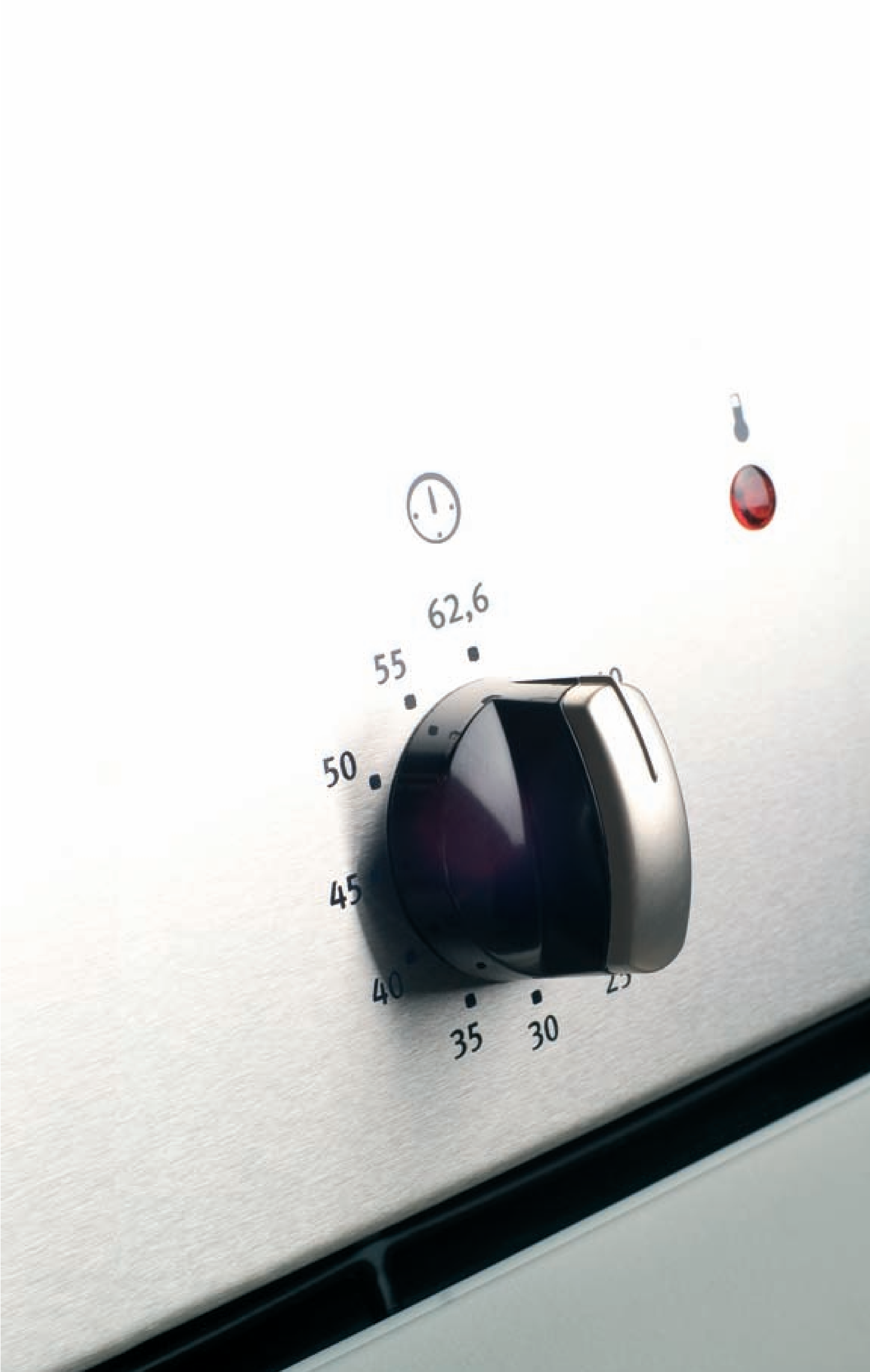
Profitability per Strategic Business Area

in mil. HRK	Food and Beverages			Pharmaceuticals		
SBA	2005	2004	Changes	2005	2004	Changes
Sales revenue	2,820.0	2,688.9	5%	611.1	594.7	3%
Gross profit	985.3	942.3	5%	354.0	352.4	0%
EBITDA	186.9	244.5	-24%	118.2	123.0	-4%
EBIT	8.5	53.1	-84%	76.4	87.2	-12%
Net profit	10.6	19.4	-45%	51.4	54.4	-6%
Profit margins						
Gross margins	34.9	35.0	-10 BP	57.9	59.3	-133 BP
EBITDA margin %	6.6	9.1	-247 BP	19.3	20.7	-134 BP
EBIT margin %	0.3	2.0	-167 BP	12.5	14.7	-216 BP
Net margin %	0.4	0.7	-35 BP	8.4	9.1	-74 BP


3,441
700
600
500

3,441 billion kuna in total revenues

62.6 billion kuna in net profits


62,6
55
50
45
40
35
30


6

6% growth on foreign markets

19% growth on the markets of Eastern Europe


19


05:00
TIMER

5 kuna dividends per share

total investments in 2005 of 136 million kuna


1900
1800
1700
2kg
10g
1600
136
1400
1300
1200
1100

On the grounds of Article 263, item 3, Article 280, item 3 and Article 300 c of the Company Act, the Supervisory Board of Podravka d.d., has on its 23rd session held on 31st May 2006 brought the following on the Supervision of Business Affairs of Podravka d.d. in the year 2005.

Report of the Podravka d.d. Supervisory Board

This report covers the period from 1 January 2005 till 31 December 2005. The Supervisory Board of Podravka d.d. (hereinafter referred to as: Supervisory Board), in compliance with the authority established by the provisions of the Company Act, the Articles of Association of Podravka d.d. and the Supervisory Board Rules of Procedure has continuously supervised the conduct of business affairs of Podravka d.d. during the year 2005, making decisions and conclusions on five sessions held in the year 2005. In the process of supervising the business affairs of Podravka d.d., the Supervisory Board during the year 2005 discussed many issues concerning the affairs of Podravka d.d. and its subsidiaries.

The Supervisory Board established a Remuneration Commission which in 2005 held two sessions and appointed the Internal Auditor of the Supervisory Board.

During the period from 1 January 2005 till 31 December 2005, the Supervisory Board 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.

On the grounds of having insight into the management of business affairs of Podravka d.d., the Supervisory Board ascertained that in the year 2005 Podravka d.d. acted in compliance to all laws, Podravka d.d. acts and decisions of the General Assembly.

The Supervisory Board examined the report of the auditors PricewaterhouseCoopers d.o.o. Zagreb, Alexandera von Humboldta 4, who had reviewed the financial reports of Podravka d.d. and its subsidiaries for the year ended 31 December 2005, and accepted the submitted auditor's report. The Supervisory Board after examining the Annual Report of Podravka d.d. and its subsidiaries about the business affairs and company position for the business year 2005 submitted by the Management Board of Podravka d.d., has established that the annual financial reports of Podravka d.d. and its subsidiaries for the year ended 31 December 2005 have been prepared in compliance with the business records of Podravka d.d. and its subsidiaries and display accurate data of the property and state of affairs of Podravka d.d. and its subsidiaries, and has therefore granted its approval, accordingly.

In accordance with the provisions of Article 300 d of the Company Act, the Supervisory Board has submitted the annual financial reports to the General Assembly of Podravka d.d. for approval.

The following documents are an integral part of the financial reports of Podravka d.d. for the year ended 31 December 2005:

a) Profit and Loss Account of Podravka d.d.
b) Balance Sheet of Podravka d.d.
c) Cash Flow Statement of Podravka d.d.
d) Report on Podravka d.d. capital changes
e) Notes accompanying the financial reports of Podravka d.d.
f) Profit and Loss Account of Podravka d.d. and its subsidiaries
g) Balance Sheet of Podravka d.d. and its subsidiaries
h) Cash Flow Statement of Podravka d.d. and its subsidiaries
i) Report on capital changes of Podravka d.d. and its subsidiaries
j) Notes accompanying the financial reports of Podravka d.d. and its subsidiaries
k) Auditor's Report by the auditing enterprise PricewaterhouseCoopers d.o.o. Zagreb, Alexandera von Humboldta 4.

The Supervisory Board has 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 has forwarded it to the General Assembly of Podravka d.d. for adopting.
The Supervisory Board has approved the draft decision of the Management Board of Podravka d.d. on the distribution of profit for the business year 2005 and has forwarded it to the General Assembly of Podravka d.d. for adopting.

President of the
Supervisory Board
Božo Prka. M. Sc.

Whichever way you look at it,
it's most important to cook
with heart!!!

Independent reviewers agree: it's totally OK to cook with heart.
Honestly, we didn't charm them with our soups.

PODRAVKA d.d.

Consolidated Financial Statements

31 December 2005

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF PODRAVKA d.d., Koprivnica

We have audited the accompanying consolidated balance sheet of Podravka d.d. and its subsidiaries (the "Group") as at 31 December 2005, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements set out on pages 2 to 45 are the responsibility of the Management of Podravka d.d. (the "Company"). Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers d.o.o.

Zagreb, 15 March 2006

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

(in thousands of HRK)	Note	2005	2004
Sales	5	3,441,378	3,294,949
Cost of goods sold		(2,104,473)	(2,003,009)
Gross profit		1,336,905	1,291,940
Other losses net	6	(621)	(4,667)
General and administrative expenses		(359,215)	(339,624)
Selling and distribution costs		(899,371)	(812,327)
Other revenues	7	9,674	16,482
Other expenses	8	(1,882)	(11,358)
Operating profit		85,490	140,446
Net financial expense	11	(15,649)	(48,061)
Profit before tax		69,841	92,385
Income tax expense	12	(7,215)	(18,365)
Net profit		62,626	74,020
Earnings per share			
- Basic	14	11.74 kn	14.04 kn
- Diluted	14	11.40 kn	13.49 kn

The consolidated financial statements set out on pages 2 to 45 were approved by the Management Board on 15 March 2006.

President of the Management Board
Darko Marinac

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005

(in thousands of HRK)	Note	2005	2004
ASSETS			
Non-current assets			
Property, plant and equipment	16	1,655,399	1,740,374
Intangible assets	17	91,237	122,450
Deferred tax assets	27	11,098	1,234
Financial assets at fair value through profit or loss	19	22,477	19,735
Trade and other receivables	21	13,195	10,634
Total non-current assets		1,793,406	1,894,427
Current assets			
Inventories	20	569,092	568,924
Trade and other receivables	21	908,835	884,983
Held for sale assets	18	15,260	-
Cash and cash equivalents	22	126,234	65,206
Total current assets		1,619,421	1,519,113
Total assets		3,412,827	3,413,540
LIABILITIES			
Non-current liabilities			
Long-term debt	26	515,358	684,496
Provisions	28	14,134	11,985
Total non-current liabilities		529,492	696,481
Current liabilities			
Trade and other payables	25	590,709	565,823
Short-term borrowings	26	317,640	271,808
Provisions	28	53,827	-
Total current liabilities		962,176	837,631
Total liabilities		1,491,668	1,534,112
Shareholders' equity			
Share capital	23	1,635,796	1,627,060
Reserves	24	125,514	109,182
Retained earnings		159,849	143,186
Total shareholders' equity		1,921,159	1,879,428
Total liabilities		3,412,827	3,413,540

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

(in thousands of HRK)	Note	Share capital	Reserves	Retained earnings	Total
Balance at 1 January 2004	23	1,599,620	104,762	75,124	1,779,506
Foreign exchange differences (net income recognised directly in equity)		-	11,121	-	11,121
Net profit for the year		-	-	74,020	74,020
Total recognised income for 2004		-	11,121	74,020	85,141
New issue of shares		2,880	-	-	2,880
Coverage of loss		-	(3,956)	3,956	-
Dividend approved		-	(10,390)	-	(10,390)
Purchase of treasury shares		(5,231)	-	-	(5,231)
Sale of treasury shares		1,447	-	-	1,447
Options exercised		18,127	-	(2,269)	15,858
Transfer to reserves		-	7,645	(7,645)	-
Fair value of share options		10,217	-		10,217
Balance at 31 December 2004	23, 24	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
Purchase of treasury shares		(18,858)	-	-	(18,858)
Options exercised		15,872	-	(5,320)	10,552
Fair value adjustment of options		11,722	-	-	11,722
Dividend approved		-	-	(26,689)	(26,689)
Transfer to reserves		-	13,954	(13,954)	-
Balance at 31 December 2005	23, 24	1,635,796	125,514	159,849	1,921,159

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

Year ended 31 December (in thousands of HRK)	Note	2005	2004
Cash flows from operating activities			
Cash generated from operations	31	363,545	356,929
Tax paid		(14,180)	(26,777)
Interest paid		(40,747)	(43,654)
		308,618	286,498
Cash flows from investing activities			
Acquisition of equity interest, net of cash acquired	-	(2,257)	
Purchase of tangible and intangible assets	16, 17	(134,597)	(131,400)
Disposal of tangible and intangible assets		9,708	4,857
Long-term loans given and deposits		(554)	(8)
Repayment of long-term loans given and deposits		370	5,882
Purchase of trading securities	19	(6,679)	(24,479)
Sale of trading securities		5,891	20,900
Short-term loans given and deposits		-	(6,150)
Repayment of short-term loans given and deposits		-	3,150
Interest received		-	39
Dividends received		355	343
Payment of bonus from retained earnings		-	(2,269)
		(125,506)	(131,392)
Cash flows from financing activities			
Purchase of treasury shares	23	(18,858)	(3,405)
Sale of treasury shares	23	20,444	17,748
Proceeds from long-term borrowings		58,725	143,432
Repayment of long-term borrowings		(165,584)	(183,596)
Proceeds from short-term borrowings		241,565	247,564
Repayment of short-term borrowings		(232,908)	(421,093)
Proceeds from bonds issued	26	-	15,829
Dividends paid		(25,468)	(10,708)
		(122,084)	(194,229)
Net increase/(decrease) in cash and cash equivalents		61,028	(39,123)
Cash and cash equivalents at beginning of year	22	65,206	104,329
Cash and cash equivalents at the end of year	22	126,234	65,206

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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 and cosmetic products. In addition to Croatia, the Group has production facilities in Poland, the Czech Republic, the Slovak Republic 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 2005, 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 consolidated 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

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements of the Group have been prepared under the historical cost convention (acquisition cost), 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.

Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2005. Listed below are those new or amended standards or interpretations, which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2004, unless otherwise described below.

IAS 1 (revised 2003) Presentation of Financial Statements

IAS 2 (revised 2003) Inventories

IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors

IAS 10 (revised 2003) Events after the Balance Sheet Date

IAS 16 (revised 2003) Property, Plant and Equipment

IAS 17 (revised 2003) Leases

IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates

IAS 24 (revised 2003) Related Party Disclosures

IAS 27 (revised 2003) Consolidated and Separate Financial Statements

IAS 28 (revised 2003) Investments in Associates

IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation

IAS 33 (revised 2003) Earnings per Share

IAS 36 (revised 2004) Impairment of Assets

IAS 38 (revised 2004) Intangible Assets

IAS 39 (revised 2004) Financial Instruments: Recognition and Measurement

IAS 39 Amendment (revised 2004) Transition and Initial Recognition of Financial Assets and Financial Liabilities

IAS 40 (revised 2003) Investment Property

IFRS 2 (issued 2004) Share-based Payments

IFRS 3 (issued 2004) Business Combinations

IFRS 4 (issued 2004) Insurance Contracts

IFRS 5 (issued 2004) Non-current Assets Held for Sale and Discontinued Operations

IFRIC 1 (issued 2004) Changes in Existing Decommissioning, Restoration and Similar Liabilities

IFRIC 2 (issued 2004) Members' Shares in Co-operative Entities and Similar Instruments

SIC 12 (revised 2004) Consolidation - Special Purpose Entities

The adoption of the above new and revised standards had no material effect on the Group's policies or was not relevant to the Group's operations, except as follows:

- IAS 1 (revised 2003) has affected the income statement presentation and other disclosures.

- IAS 24 (revised 2003) has affected the identification of related parties, specifically, key management compensation information has been added.

- The adoption of IAS 39 (revised 2004) has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss.

- The adoption of IFRS 2 Share-based payments has resulted in a change in the accounting policy relating to the disclosure of share option rights.

- The adoption of IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004) resulted in a change in the accounting policy for goodwill (set out below).

- The adoption of IFRS 5 resulted in different classification and measurement of non-current assets held for sale.

Up to 31 December 2004, goodwill was amortised using the straight-line method over its estimated useful life (10 years). The Group ceased amortising goodwill on 1 January 2005. Accumulated amortisation was eliminated against the cost of goodwill on 1 January 2005. Goodwill is now tested for impairment annually, or when there are indications of impairment also at interim balance sheet dates.

Up to 31 December 2004, costs from valuation of share option rights in the income statement and the corresponding changes in total equity have not been disclosed. In line with the transitional provisions of IFRS 2, the Group has restated comparative figures for the previous period in order to disclose:

– costs arising from options after 7 November 2002, which have not vested as at 1 January 2005.

– costs arising from options, which were outstanding as at 1 January 2005.

The adoption of IFRS 2 resulted in:

	2005	2004
Increase in share premium (in thousands of HRK)	11,722	10,217
Increase in general and administrative expenses (in thousands of HRK)	11,722	10,217
Decrease in basic earnings per share (in HRK)	11.74	14.04
Decrease in diluted earnings per share (in HRK)	11.40	13.49

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

-IAS 21 – goodwill and fair value adjustments arising on the acquisition of a foreign entity are prospectively treated as assets and liabilities of the foreign entity and translated at the closing rate. In 2004, goodwill was carried at historical cost denominated in foreign currency and translated using the exchange rate at the date of transaction.

- IAS 39 - does not require the classification of financial assets as at 'fair value through profit or loss' of previously recognised financial assets.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

–IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). Since the Group has no defined benefit plans, this amendment is not relevant.

–IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Group will apply this amendment beginning 1 January 2006.

–IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). This amendment is not relevant to the Group's operations, as the Group does not use derivative financial instruments for intragroup transactions.

–IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006). This amendment requires issued financial guarantees to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management is still considering the impact of this amendment.

–IFRS 1 (Amendment), First-Time Adoption of International Financial Reporting Standards (effective from 1 January 2006). This amendment is not relevant to the Group's operations as the Group is not a first-time adopter of IFRS.

– IFRS 6 and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). IFRS 6 and related amendment are not relevant, as the Group does not carry out exploration activities for mineral resources.

– IFRS 7, Financial Instruments: 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 Group will apply IFRS 7 beginning 1 January 2007, and the related impact is still under consideration by management.

– Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of the amendment to IAS 1, and concluded that no additional disclosures are necessary in the financial statements, as the Group does not have any specific internal or external requirements related to capital management.

– IAS 21 (Amendment) – Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on quasi-equity inter-company loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognised in consolidated profit or loss. It also extends the definition of 'net investment in a foreign operation' to include loans between sister companies. This amendment is not relevant to the Group's operations.

– IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement, when: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets; and (b) the arrangement conveys a right to use the asset(s). Management is still considering the impact of IFRIC 4 to the Group's operations.

– IFRIC 5, Rights to interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). IFRIC 5 is not relevant to the Group's operations.

– IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 January 2006). IFRIC 6 is not relevant to the Group's operations.

– IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1 January 2007). IFRIC 7 is not relevant as the Group does not operate in a hyperinflationary environment.

– IFRIC 8, Scope of IFRS 2 (effective from 1 January 2007). IFRIC 8 will be applied as of 1 January 2007.

– IFRIC 9, Reassessment of Embedded Derivatives (effective from 1 January 2007). Management is still considering the impact of IFRIC 9 on the Group's operations.

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. They 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 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:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates; and

(iii) 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.

2.5 Property, plant and equipment

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation. 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. 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 assets is calculated using the straight-line method to allocate their cost over their estimated useful lives. Depreciation is calculated for each asset until the asset is fully depreciated or to its residual values if significant.

Depreciation annual rates based on estimated useful lives are as follows:

	%
Buildings	2.00 – 10.00
Equipment	3.00 – 37.00

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 proceeds with carrying amount. These are included 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. 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).

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Licences and other rights

Licences and other rights relating to product distribution are shown at historical cost. Licences and other rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences and other rights over their estimated useful lives (5 years).

(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 (5 years).

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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 held for sale

Non-current assets are classified as held for sale and carried at the lower of carrying amount and fair value (less selling expenses), provided that the carrying amount will be recoverable through subsequent sale, rather than through continued use.

2.9 Financial assets

The Group classifies its financial assets in the following two categories: at fair value through profit or loss, and loans and receivables. 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

This category includes financial assets designated at fair value through profit or loss at inception. A financial asset is classified in this category if so determined by Management. Assets in this category are classified as non-current assets if they are not expected to be realised within 12 months of the balance sheet date.

(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.

Regular purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. 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. Loans and receivables are carried at amortised cost using the effective interest method. 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.

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 'other gains/losses – net' in the period in which they arise.

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.

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 testing of given 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 or 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, spare parts and trade goods are stated at the lower of cost, determined using the weighted average method, or 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 comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

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 in 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.

Where the Group 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.

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 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.

(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. The long-term employee benefit liability includes assumptions of 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 are included in assumptions about the number of options that are expected to 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 of 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 restructuring costs, warranty 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. Restructuring provisions represent mainly employee termination benefits.

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, estimated returns, rebates and discounts. Revenue is recognised as follows:

(a) Sales of goods

Income from the sale of goods are recognised when the Group has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Income from the retail sales of goods 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.

(b) 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.

(c) Interest income

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

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

(e) Income from government subsidies

Income from government subsidies is recognised at fair value where there is reasonable assurance that the subsidy will be received and the Group will comply with all related conditions. Income from government subsidies is recognised in the period necessary to match them with costs that are intended to be compensated and is presented within other revenues in the income statement.

2.20 Dividend distribution

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

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.

(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 and the USD. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign equity and business operations.

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.

(b) Credit risk

Current assets, which potentially subject the Group to concentrations of credit risk primarily include cash, trade receivables and other receivables. The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Credit risk with respect to loan receivables is limited due to the fact that all of the loans are secured by bank guarantees from major banks and collateralised assets. The Group has policies that limit the amount of credit exposure to any 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. 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 sheet date.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

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

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom 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 discussed 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 revised estimated gross margin at 31 December 2006 was 10% lower than management's estimates at 31 December 2005, it would not result with an impairment charge for the Group. If the revised estimated pre-tax discount rate applied to the discounted cash flows was 10% higher than management's estimates, it would not result with an impairment charge for the Group.

(b) Other long-term employee benefits

In line with the collective bargaining agreement, the Company and certain subsidiaries within the Group 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.

NOTE 5 - SEGMENT INFORMATION

Primary reporting format - business segments

At 31 December 2005, the Group is organised on a worldwide basis into three business segments:

1. Manufacture and wholesale of food and beverages

2. Manufacture and wholesale of medicines

3. The sale of services comprises printing, power supply and food services..

The segment results for the year ended 31 December 2004 are as follows:

(in thousands of HRK)	Food and beverages	Medicines	Services	Total Group
Sales	2,688,872	594,681	11,396	3,294,949
Operating profit	53,094	87,152	200	140,446
Finance costs	(31,221)	(16,840)	-	(48,061)
Profit before income tax	21,873	70,312	200	92,385
Income tax expense	(2,438)	(15,927)	-	(18,365)
Profit for the year	19,435	54,385	200	74,020

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

(in thousands of HRK)	Food and beverages	Medicines	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)	2005 Food and beverages	Medicines	Services	Total Group	2004 Food and beverages	Medicines	Services	Total Group
Depreciation	142,525	39,545	2,611	184,681	146,030	34,722	2,615	183,367
Amortisation	35,942	2,256	48	38,246	45,391	1,109	11	46,511
Impairment of goodwill	–	–	–	–	2,000	–	–	2,000
Impairment of trade receivables	15,085	2,932	98	18,115	16,155	1,695	84	17,934
Restructuring costs - termination benefits	3,361	1,401	–	4,762	22,508	8,060		30,568

The segment assets and liabilities at 31 December 2004 and capital expenditure for the year then ended are as follows:

(in thousands of HRK)	Food and beverages	Medicines	Services	Total Group
Assets excluding goodwill	2,578,592	792,764	15,379	3,386,735
Goodwill	26,805	–	–	26,805
Total assets	2,605,397	792,764	15,379	3,413,540
Liabilities	1,290,417	235,101	8,594	1,534,112
Capital expenditure	98,713	32,577	110	131,400

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	Medicines	Services	Total Group
Assets excluding goodwill	2,574,008	798,454	13,269	3,385,731
Goodwill	27,096	–	–	27,096
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

Secondary reporting format - geographical segments

Sales

(in thousands of HRK)	2005	2004
Croatia	1,828,947	1,769,124
South-eastern Europe	789,219	722,954
Central Europe	469,992	487,778
Western Europe, overseas and Orient	218,284	201,258
Eastern Europe	134,936	113,835
Total	3,441,378	3,294,949

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

Non-current assets

(in thousands of HRK)	2005	2004
Croatia	2,821,858	2,836,921
South-eastern Europe	244,413	221,020
Central Europe	322,082	330,889
Western Europe, overseas and Orient	22,250	22,388
Eastern Europe	2,224	2,322
Total	3,412,827	3,413,540

Total assets are allocated based on where the assets are located.

Capital investments:

(in thousands of HRK)	2005	2004
Croatia	124,030	112,180
South-eastern Europe	7,566	8,068
Central Europe	4,286	11,050
Western Europe, overseas and Orient	44	101
Eastern Europe	-	1
Total	135,926	131,400

Capital expenditure is allocated based on where the assets are located.

NOTE 6 - OTHER LOSSES - NET

(in thousands of HRK)	2005	2004
Gains on sale of financial assets at fair value through profit or loss (Note 19)	2,036	1,792
Gains/(losses) on sale of non-current assets - net	4,593	(695)
	6,629	1,097
Foreign exchange losses - net	(7,250)	(5,764)
	(621)	(4,667)

NOTE 7 - OTHER REVENUES

(in thousands of HRK)	2005	2004
Government subsidies	2,936	3,145
Dividend received	355	343
Interest from time deposits and customers	2,906	10,398
Interest from given loans	175	350
Other	3,302	2,246
	9,674	16,482

NOTE 8 – OTHER EXPENSES

(in thousands of HRK)	2005	2004
Interest from suppliers	1,882	5,493
Loan receivables written off	–	2,126
Other	–	3,739
	1,882	11,358

NOTE 9 – EXPENSES BY NATURE

(in thousands of HRK)	2005	2004
Raw materials, consumables and energy used, cost of goods sold	1,583,568	1,511,266
Depreciation and amortisation (Note 16 and 17)	223,007	229,878
Staff costs (Note 10)	792,580	772,686
Change in inventories of work in progress and finished goods	14,605	(1,295)
Advertising and promotion costs	257,370	213,343
Maintenance	27,267	27,887
Transportation	69,064	68,451
Rental costs	54,317	50,511
Net provisions for trade receivables	18,115	17,934
Other	323,166	264,299
	3,363,059	3,154,960

NOTE 10 - EMPLOYEE COSTS

(in thousands of HRK)	2005	2004
Salaries	743,226	713,487
Share options	11,722	10,217
Termination benefits /i/	4,762	31,636
Awards	16,789	3,334
Transportation	10,498	10,061
Donations and aids	1,403	1,316
Other	4,180	2,635
Total	792,580	772,686

As at 31 December 2005, the number of employees by the Group was 7,181 (2004: 7,283).

/i/ In 2005, the Group accrued termination benefits for 88 employees, of which termination benefits have been paid to 40 employees (2004: accrued and paid to 250 employees).

NOTE 11 - FINANCIAL EXPENSE

(in thousands of HRK)	2005	2004
Interest expense from long-term borrowings	(26,413)	(33,281)
Interest expense from short-term borrowings	(2,301)	(6,344)
Interest expense from issued bonds and other	(10,825)	(14,119)
Net foreign exchange gains from borrowings (Note 13)	23,890	5,683
Total	(15,649)	(48,061)

NOTE 12 - INCOME TAX

(in thousands of HRK)	2005	2004
Current income tax	16,941	18,195
Deferred tax (Note 27)	(9,726)	170
	7,215	18,365

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% (2004: 20.6%) applicable to profits of the consolidated companies as follows:

(in thousands of HRK)	2005	2004
Profit before taxation	69.841	92.385
Tax calculated at weighted average tax rates applicable to profits in the respective countries	14.108	19.031
Income not subject to tax	(6.647)	(5.835)
Expenses not deductible for tax purposes	20.835	15.550
	28.296	28.746
Utilised tax loss	(11.355)	(10.551)
Current income tax	16.941	18.195
Deferred income tax (credit)/expense	(9.726)	170
Tax charge	7.215	18.365

Unutilised tax losses in the amount of HRK 38,592 thousand (2004: HRK 141,853 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 2010. In 2004, the Croatian tax authorities have carried out a full-scope tax audit of the Company's income tax and VAT returns for the periods 2002 and 2003. In accordance with local regulations, the tax authorities may at any time inspect the 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 Group's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTE 13 – NET FOREIGN EXCHANGE GAINS/(LOSSES)

Foreign exchange gains/(losses) are recorded in the income statement as follows:

(in thousands of HRK)	2005	2004
Other losses – net (Note 6)	(7,250)	(5,764)
Finance expense (Note 11)	23,890	5,683
	16,640	(81)

NOTE 14 – EARNINGS PER SHARE

(1) 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.

	2005	2004
Net profit attributable to shareholders (in thousands of HRK)	62,626	74,020
Weighted average number of shares	5,335,385	5,272,642
Basic earnings per share (in HRK)	11.74	14.04

(2) 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 158,708 were not exercised (2004: 212,375 options).

	2005	2004
Net profit attributable to shareholders (in thousands of HRK)	62,626	74,020
Adjustments for share options	158,708	212,375
Weighted average number of shares in issue for diluted earnings per share	5,494,092	5,485,016
Diluted earnings per share (in HRK)	11.40	13.49

NOTE 15 – DIVIDENDS PER SHARE

As at 30 June 2005, the Company's General Assembly reached a decision on the distribution of profit for the financial year 2004 by approving payment of dividends on ordinary shares in the gross amount of HRK 5,00 per share, totalling HRK 26,689 thousand. During 2005, dividends have not been fully paid. Unpaid dividends are included in other liabilities (Note 25).

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Equipment	Assets in course of construction	Total
At 1 January 2004				
Cost	1,796,100	1,460,501	138,745	3,395,346
Accumulated depreciation	(662,474)	(932,542)	–	(1,595,016)
Net book value	1,133,626	527,959	138,745	1,800,330
Year ended 31 December 2004				
Opening net book amount	1,133,626	527,959	138,745	1,800,330
Effect of changes in foreign exchange rates	10,364	3,255	(1,609)	12,010
Additions	3,545	3,380	111,712	118,637
Transfer	66,503	129,257	(195,760)	–
Disposals	(292)	(1,830)	(2,992)	(5,114)
Impairment	(1,300)	(822)	–	(2,122)
Depreciation	(59,923)	(123,444)	–	(183,367)
Closing net book amount	1,152,523	537,755	50,096	1,740,374
At 31 December 2004				
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
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	(5,705)	–	–	(5,705)
Impairment	(6,245)	(617)	(549)	(7,411)
Transfer to 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

Group buildings and land worth HRK 891,980 thousand (2004: HRK 955,972 thousand) have been mortgaged against the Group's borrowings.

Leased tangible assets where the Group is the lessee under a finance lease comprise the following:

(in thousands of HRK)	2005	2004
Cost of capitalised finance leases	53,853	52,892
Accumulated depreciation	(30,932)	(21,585)
Net book value	22,921	31,307

NOTE 17 - INTANGIBLE ASSETS

At 1 January 2004 (in thousands of HRK)	Goodwill	Software	Distribution right	Other	Total
Cost	52,460	125,305	67,694	5,704	251,163
Accumulated amortisation	(13,163)	(67,492)	(13,539)	-	(94,194)
Net book value	39,297	57,813	54,155	5,704	156,969
Year ended 31 December 2004					
Opening net book amount	39,297	57,813	54,155	5,704	156,969
Effect of changes in foreign exchange rates	-	1,667	-	-	1,667
Additions /i/	-	313	-	12,450	12,763
Transfer	-	17,325	-	(17,325)	-
Impairment charge	(2,000)	-	-	-	(2,000)
Disposals	-	(259)	-	(179)	(438)
Amortisation	(10,492)	(22,480)	(13,539)	-	(46,511)
Closing net book amount	26,805	54,379	40,616	650	122,450
At 31 December 2004					
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	-	187	-	6,599	6,786
Transfer	-	6,616	-	(6,616)	-
Disposals	-	(68)	-	-	(68)
Transfer to assets held-for-sale (Note 18)	-	(22)	-	-	(22)
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

/i/ The increase in intangible assets primarily relates to an upgrade of the SAP application software and the purchase of software for warehouse management.

Impairment tests for 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. The recorded goodwill balance as at 31 December is as follows:

(in thousands of HRK)	2005	2004
Lagris	24,878	24,587
Ital Ice	2,218	2,218
	27,096	26,805

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 the business segment. Management determined the budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates (4.25%) used are pre-tax and reflect specific risks relating to the relevant segments. In 2004, goodwill impairment was recorded for Ital-ice in the amount of HRK 2,000 thousand based on revised management projections of future operating results.

NOTE 18 - NON-CURRENT ASSETS HELD FOR SALE

(in thousands of HRK)	2005	2004
Business premises in Knez Domagoj Street, Koprivnica (Note 16)	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) /i/	5,138	-
Total	15,260	-

/i/ As an adjustment to fair value of this property, an impairment expense was recorded in the amount of HRK 724 thousand.

NOTE 19 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(in thousands of HRK)	2005	2004
Long-term investments:		
Investments in securities	1,340	5,277
RTL d.o.o.	21,037	14,458
EKO OZRA d.o.o.	100	-
	22,477	19,735

Movements during the year are as follows:

(in thousands of HRK)	2005	2004
Opening net book value	19,735	15,882
Additions /i/	6,679	24,479
Disposals /ii/	(3,952)	(20,502)
Fair value adjustments	-	(209)
Effect of foreign exchange rates	15	85
Closing net book value	22,477	19,735

/i/ Total additions include the following:

- In January and October 2005, the investment in RTL d.o.o. was increased by the amounts of HRK 1,285 thousand and HRK 5,294 thousand (2004: HRK 14,199 thousand), as part of the capital increase in RTL. The equity interest of 8.5% remained unchanged.

- In November 2005, the Group made an equity contribution in the company EKO OZRA d.o.o. in the amount of HRK 100 thousand. As at 31 December 2005, the equity interest in the stated company was 9.9%.

- At the beginning of 2004, the Group paid-in an additional amount of HRK 10,280 thousand as an increase in the investment in Dinova d.o.o..

/ii/ Total disposals include the following:

- In August and September 2005, shares in the following companies were sold: Gospodarsko Kreditna banka Zagreb, Croatia osiguranje Zagreb, Riviera Holding Poreč and Istarska kreditna banka Umag.

- In April 2004, the entire interest in Dinova d.o.o. with a book value of HRK 19,000 thousand was sold at a price of HRK 20,900 thousand, and the difference between the sales price and the book value in the amount of HRK 1,900 thousand was recorded as a gain from interests sold as part of Other losses - net (Note 6).

Financial assets at fair value include the following securities:

(in thousands of HRK)	2005	2004
Listed securities:		
- Shares of GKB	-	823
- Shares of Croatia osiguranje	-	2,200
- Shares of Riviera Holding Poreč	-	47
	-	3,070
Unlisted securities:		
- ZD Olšava	1,327	1,312
- Bonds of Privredna banka Zagreb	13	13
- Shares of IKB Umag	-	882
	1,340	2,207

NOTE 20 - INVENTORIES

(in thousands of HRK)	2005	2004
Raw materials and supplies	186,570	175,570
Work in progress	70,239	83,245
Finished goods	168,144	175,131
Trade goods	144,139	134,978
	569,092	568,924

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 11,746 thousand in 2005 (2004: HRK 740 thousand) and were included in cost of goods sold in the income statement.

NOTE 21 – TRADE AND OTHER RECEIVABLES

(in thousands of HRK)	2005	2004
Non-current receivables /i/:		
Flats and sale of flats via loans	3,020	3,322
Other non-current receivables and deposits	10,175	7,312
	13,195	10,634
Current receivables:		
Trade receivables	946,494	934,618
Less: Provisions for impairment /ii/	(163,077)	(171,770)
Net trade receivables	783,417	762,848
Bills of exchange received	50,500	50,934
Prepayments	7,520	7,267
Other trade receivables /iii/	67,033	63,900
Short-term loans given	365	34
	908,835	884,983
	922,030	895,617

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

/ii/ In 2005, a net expense in the amount of HRK 18,115 thousand (2004: HRK 17,934 thousand) was realised for the impairment of trade receivables, which was included in 'selling and distribution costs'. In addition, HRK 26,808 thousand trade receivables were eliminated, which have been provided for in earlier periods (2004: HRK 10,840 thousand).

/iii/Other receivables recorded as at 31 December 2005 are as follows:

(in thousands of HRK)	2005	2004
Prepaid VAT receivable	38,901	34,754
Prepaid income tax receivable	4,701	6,457
Receivables from employees	2,480	2,275
Prepaid expenses	9,201	6,608
Amounts due from settlement agreements	1,893	4,016
Other	9,857	9,790
	67,033	63,900

NOTE 22 – CASH AND CASH EQUIVALENTS

(in thousands of HRK)	2005	2004
Cash with banks	123,740	64,465
Cheques received	134	101
Deposits	2,360	640
	126,234	65,206

NOTE 23 – SHAREHOLDERS' EQUITY

	Number of shares	Ordinary shares (in 000 Kn)	Share premium (in 000 Kn)	Treasury shares (in 000 Kn)	Total (in 000 Kn)
At 1 January 2004	5,224,807	1,623,121	12,001	(35,502)	1,599,620
Shares issued /i/	9,599	2,880	–	–	2,880
Purchase of treasury shares	(26,691)	–	–	(5,231)	(5,231)
Sale of treasury shares	9,361	–	–	1,447	1,447
Employee share options:					
– options exercised	110,104	–	–	18,127	18,127
– fair value of options	–	–	10,217	–	10,217
At 31 December 2004	5,327,180	1,626,001	22,218	(21,159)	1,627,060
At 1 January 2005	5,327,180	1,626,001	22,218	(21,159)	1,627,060
Purchase of treasury shares	(65,721)	–	–	(18,858)	(18,858)
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

As at 31 December 2005, the Company's share capital amounted to HRK 1,626,000,900, distributed among 5,420,003 shares (2004: 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.

/i/ According to the decision of the Croatian Privatisation Fund in 2004, the capital was increased by issuing 9,599 new shares with a nominal value of HRK 300 per share. These shares relate to the valuation of land in Zagreb, Žitnjak in the amount of HRK 2,879,700, which was not included in equity during the Company's privatisation process in 1993.

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 Employment contracts. 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 Termination contract. 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:

	2005 Average exercise price (in HRK per share)	Options (number of options)	2004 Average exercise price (in HRK per share)	Options (number of options)
At 1 January	169.47	212,375	161.51	273,930
Granted	269.40	24,054	173.91	95,219
Forfeited	-	-	167.97	(15,670)
Exercised	147.26	(76,388)	149.82	(110,104)
Lapsed	308.00	(1,333)	183.30	(31,000)
At 31 December	194.15	158,708	169.47	212,375

As at 31 December 2005, 158,708 outstanding options (2004: 212,375 options) were granted. In 2005, 34,000 options (2004: 8,000 options), which were exercisable, were not granted. Options exercised in 2005 resulted in 76,388 options (2004: 110,104 options), being issued at an average price of HRK 147.26 (2004: HRK 149.82). The related weighted average market price at the time of exercise was HRK 308.66 (2004: HRK 196.49).

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

	Average	Number of shares	
Expiry date	exercise price	2005	2004
2006	140.70	8,000	18,000
2007	153.61	26,000	46,000
2008	172.74	50,334	67,001
2009	187.18	58,374	81,374
2010	296.69	16,000	-
		158,708	212,375

The fair value of options granted during the period determined using the intrinsic value method was HRK 831 thousand (2004: HRK 6,007 thousand).

NOTE 24 – RESERVES

In thousands of HRK	Legal reserves	Other reserves	Translation reserves	Reserves for treasury shares	Total
At 1 January 2004	35,572	54,338	(7,627)	22,479	104,762
Coverage of loss /ii/	–	(3,956)	–	–	(3,956)
Dividend paid	–	(10,390)	–	–	(10,390)
Transfer to reserves /i/	606	7,039	–	–	7,645
Foreign exchange differences	–	–	11,121	–	11,121
At 31 December 2004	36,178	47,031	3,494	22,479	109,182
At 1 January 2005	36,178	47,031	3,494	22,479	109,182
Transfer to reserves /i/	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

Both legal reserves (maintained at five percent 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 statute.

/i/ According to the decision of the General Assembly of Podravka d.d. in June 2005, the Company's profit for 2004 was allocated to: legal reserves in the amount of HRK 1,636 thousand, reserves for treasury shares in the amount of HRK 2,168 thousand, and other reserves in the amount of HRK 1,446 thousand. In 2005, an additional amount of HRK 8,704 thousand (2004: HRK 7,645 thousand) was transferred to other reserves in accordance with the Statutes of certain Group companies.

/ii/ According to the decision of the Company's General Assembly in July 2004, the Company's loss was covered from other reserves in the amount of HRK 3,956 thousand.

NOTE 25 - TRADE AND OTHER PAYABLES

(in thousands of HRK)	2005	2004
Trade payables	456,625	462,969
Other payables /i/	134,084	102,854
	590,709	565,823

/i/ Other payables are as follows:

(in thousands of HRK)	2005	2004
Salaries and other payments to employees	62,561	60,227
Dividend payable	2,117	896
Interest payable on borrowings	13,195	14,403
Taxes and contributions payable	15,787	11,531
Purchase of equity interests	738	767
Other	39,686	15,030
	134,084	102,854

NOTE 26 - BORROWINGS

(in thousands of HRK)	2005	2004
Non-current borrowings		
Banks in Croatia	373,432	419,867
Banks in foreign countries	113,517	182,605
Bonds issued	199,142	207,123
Finance lease	16,052	23,713
Current portion of non-current borrowings	(186,785)	(148,812)
	515,358	684,496
Current borrowings		
Banks	130,151	121,970
Current portion of non-current borrowings	186,785	148,812
Other	704	1,026
	317,640	271,808
Total borrowings	832,998	956,304

Total secured borrowings of the Group amount to HRK 467,628 thousand (2004: HRK 562,765 thousand). Bank borrowings are secured by the land and buildings of the Group. 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)	2005	2004
6 months or less	387,919	491,352
6-12 months	54,153	5,736
1-5 years	312,953	355,438
Over 5 years	77,973	103,778
	832.998	956.304

The maturity of non-current borrowings is as follows:

(in thousands of HRK)	2005	2004
Between 1 and 2 years	369,329	184,585
Between 2 and 5 years	117,895	446,113
Over 5 years	28,134	53,798
	515,358	684,496

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

Podravka Group	2005			2004		
	HRK %	EUR %	Other %	HRK %	EUR %	Other %
Non-current borrowings						
Banks in Croatia	4.00	4.29		4.00	4.33	
Banks in foreign countries		4.06	4.28		4.06	5.33
Bonds issued		5.00			5.00	
Finance lease		6.16			5.28	
Current borrowings						
Banks	4.05	3.48	4.45	4.00	4.08	5.82
Other	4.50			4.50		

Bonds issued

In February 2004, the Company issued 27.0 million bonds in the amount of EUR 27.0 million, with a nominal value of EUR 1 and maturity in February 2007. Short-term borrowings from Zagrebačka banka and Privredna banka in the total amount of HRK 189.4 million were closed through bonds issued and the remaining amount of HRK 15.8 million was used to increase cash on the Company's giro account.

As at 31 December 2005, the balance of liabilities for bonds issued was translated using the mid-market exchange rate of the EUR and was recorded in the amount of HRK 199.1 million. The interest expense for 2005 amounted to HRK 10.0 million (2004: HRK 8.7 million), of which accrued interest not yet due amounted to HRK 8.6 million (2004: HRK 8.7 million), which is recorded under 'other liabilities' (Note 25).

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

	Carrying amounts		Fair values	
	2005	2004	2005	2004
	(in 000 kn)		(in 000 kn)	
Non-current borrowings				
Banks in Croatia	247,544	374,693	249,398	377,839
Banks in foreign countries	60,026	87,315	60,184	87,473
Bonds issued	199,142	207,123	200,735	207,123
Finance lease	8,646	15,365	8,646	15,365
	515,358	684,496	518,963	687,800

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 4.25 % (2004: 3.95%). 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)	2005	2004
HRK	177,839	158,026
EUR	552,248	670,848
Other	102,911	127,430
	832,998	956,304

The Group has the following undrawn borrowing facilities:

(in thousands of HRK)	2005	2004
Floating rate:		
- Expiring within one year	139,591	98,609
	139,591	98,609

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

NOTE 27 - DEFERRED INCOME TAX

(in thousands of HRK)	2005	2004
Deferred tax assets	11,098	1,234
Deferred tax liabilities	-	-
	11,098	1,234

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)	2005	2004
Beginning of the year	1,234	1,313
Foreign exchange differences	138	91
Income tax credit/(expense)	9,726	(170)
End of the year	11,098	1,234

NOTE 28 – PROVISIONS

	Legal proceedings	Employee benefits	Restruc-turing	Total
At 1 January 2005	11,985	–	–	11,985
Additions	39,943	13,695	2,680	56,318
Foreign exchange differences	(32)	–	–	(32)
Used during year	(310)	–	–	(310)
At 31 December 2005	51,586	13,695	2,680	67,961
Analysis of total provisions:				
Non-current	2,540	11,594	–	14,134
Current	49,046	2,101	2,680	53,827

Legal proceedings

In the ordinary course of business, the Group companies were defendants and plaintiffs 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 2005. It is expected that HRK 49,046 thousand will be used during 2006 and HRK 2,540 thousand during 2007.

Short-term provisions primarily relate to an outstanding legal suit relating to the termination of a foreign distribution agreement. The provision includes both principal amount claimed and related penalty interest.

Employee benefits

This provision comprises estimated long-term employee benefits relating to jubilee awards, as defined by the collective bargaining agreement. It is expected that HRK 2,101 thousand will be used during 2006, HRK 5,849 thousand by 2010 and the remaining amount after 2010.

Restructuring

During 2005, a provision was made for termination benefits for employees of the Group company Sana d.o.o., Hoče, Slovenia, due to the relocation of production to Koprivnica. The provision of HRK 2,680 thousand is expected to be fully utilised during the first half of 2006.

NOTE 29 – COMMITMENTS

In 2005, the purchase costs of tangible fixed assets contracted with suppliers amounted to HRK 21,207 thousand for the Group (2004: HRK 41,730 thousand for the Group), which are not yet realised or recognised in the balance sheet as at 31 December 2005 and 2004.

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)	2005	2004
Not later than 1 year	24,894	20,782
Later than 1 year and not later than 5 years	28,772	32,228
	53,666	53,010

NOTE 30 – CONTINGENCIES

(in thousands of HRK)	2005	2004
Legal proceedings	6,652	21,099
Guarantees	26,788	25,467
	33,440	46,566

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.

NOTE 31 – CASH GENERATED FROM OPERATIONS

(in thousands of HRK)	Note	2005	2004
Net profit		62.626	74.020
Income tax	12	7,215	18,365
Depreciation and amortisation	16, 17	223,007	229,878
(Gain)/Loss on sale of tangible and intangible fixed assets	6	(4,593)	695
Provisions for current assets	20, 21	37,067	25,246
Provisions for non-current assets	16, 17	8,135	4,122
Share option fair value adjustment	23	5,478	10,217
Provisions	28	55,976	11,985
Gain on sale of investments	6	(2,036)	(1,792)
Interest income	7	(5,580)	(10,524)
Dividend income	7	(355)	(343)
Interest expense	11	39,539	53,744
Write-off of loan receivables	8	–	2,126
Effect of movements in foreign exchange rate		(22,181)	13,904
Other items not affecting cash		(5,940)	7,564
Movements in working capital:			
Movements in inventories		(11,914)	40,650
Movements in trade receivables		(45,709)	(135,550)
Movements in other current assets		(4,646)	21,135
Movements in trade payables		4,856	8,553
Movements in other liabilities		22,600	(17,066)
Cash generated from operations		363,545	356,929

NOTE 32 – RELATED PARTY TRANSACTIONS

EXPENSES	2005	2004
Key management and executive directors compensation – Group		
Salaries	50,424	56,951
Share-based payments through income statement	10,857	5,727
Share-based payments through equity	5,320	2,269
	66,601	64,947

NOTE 33 - EVENTS AFTER THE BALANCE SHEET DATE

As at 21 January 2006, the Group acquired a 100% equity interest in the company Deltis Pharm d.o.o., Zagreb, whose principal activity is the provision of services and trade, for an amount of HRK 2,308 thousand.

Details on net assets acquired are as follows:

	(in thousands of HRK)
- Purchase consideration wholly paid in cash	2,308
- Fair value of assets acquired (see below)	2,308

The assets and liabilities arising from the acquisition are as follows:

(in thousands of HRK)	Fair value	Carrying amount
Cash	3	3
Intangible assets - rights gained /i/	2,380	-
Trade receivables	750	750
Trade payables	(745)	(745)
Borrowings	(80)	(80)
Net assets acquired	2,308	(72)

/i/ Rights gained relate to the valuation of acquired registration files and the right to use the resolution on circulating the generic medicine, whose active substance is Lizinopril, which was appraised by experts in the Sector for the development of generic operations and intellectual property.

NOTE 34 – SUBSIDIARIES

	Business activity	2005 Interest in %	2004 Interest in %
Belupo d.d., Koprivnica	Manufacture of medicines	100.00	100.00
– Belupo d.o.o. Ljubljana	Sale of medicines	100.00	100.00
– Belupo s.r.o., Bratislava	Sale of medicines	100.00	100.00
– Belupo d.o.o., Skopje	Sale of medicines	100.00	–
Koprivnička Tiskarnica d.o.o., Koprivnica	Printing services	100.00	100.00
Danica d.o.o., Koprivnica	Manufacture of meat products	100.00	100.00
Podravka Inženjering d.o.o., Koprivnica	Services	100.00	100.00
Poni trgovina d.o.o., Koprivnica	Wholesale	100.00	100.00
Ital-Ice d.o.o., Poreč	Manufacture of frozen products	100.00	100.00
Sana d.o.o., Hoče, Slovenija	Manufacture of powder sweets	100.00	100.00
Podravka d.o.o., Ljubljana, Slovenija	Sales	100.00	100.00
Podravka d.o.o., Skopje, Makedonija	Sales	100.00	100.00
Podravka d.o.o., Sarajevo, Bosna i Hercegovina	Sales	100.00	100.00
Podravka d.o.o., Podgorica, Srbija i Crna Gora	Sales	100.00	100.00
Podravka-International Deutschland -"Konar" GmbH, Njemačka	Sales	100.00	100.00
Podravka d.o.o., Beograd, Srbija i Crna gora	Sales	100.00	100.00
Podravka-International Kft, Budapest, Mađarska	Sales	100.00	100.00
Podravka-International e.o.o.d., Sofia, Bugarska	Sales	100.00	100.00
Podravka-International Pty Ltd, Sydney, Australija	Sales	100.00	100.00
Podravka-International Sp.z o.o., Warsaw, Poljska	Sales	100.00	100.00
Podravka-Polska Sp.z o.o., Kostrzyn, Poljska	Manufacture of Vegeta	100.00	100.00
Podravka-International s.r.l., Bucharest, Rumunjska	Sales	100.00	100.00
Lagris a.s., Lhota u Luhačovic, Češka	Manufacture	100.00	100.00
– Lagris s r.o., Zvolen, Slovačka	Manufacture	–	25.00
– Podravka-International s.r.o., Bratislava, Slovačka	Manufacture	25.00	–
Lagris s r.o., Zvolen, Slovačka	Manufacture	–	75.00
Podravka-International s.r.o., Bratislava, Slovačka	Manufacture	75.00	100.00
– Podravka-International s.r.o. Prag	Sales	100.00	100.00
Podravka-International USA Inc. Wilmington	Sales	100.00	–

We were in a kitchen without heart…

You just can't cook without heart.

You can't cook without
heart!

Ante is 36 years old.
He lives on the coast of the Adriatic Sea.
He and his family love to eat what we make.
This is his story.

„There are secrets you don't wan to reveal, the secrets you only want to whisper to someone special, you know it..." Every Thursday shortly after 7 p.m. Arsen Dedić would sing that song while Oliver Mlakar, the TV host, and Stevo Karapandža, the chef de cuisine of the Esplanade hotel, would wait at the TV studio ready to join us. The host would briefly address the viewers, exchange a moderately funny and polite witticism with the cooking wizard in the white garment and then he would finally ask him what he would prepare that day. The chef would point to the articles lying on the table and say the name of a fancy recipe that would instantly make our mouth water. Admittedly, the veal on the TV screen looked sickly grey, the sea basses as well, the tomatoes were suspiciously grey and the onions and the saffron didn't look much better. However, that was because we had a black-and-white TV set. We believed that in reality all these things had their own savoury colour, just as we believed in everything we saw on the TV screen back at the early age of television.

The grey scenes from „The secrets of Vegeta cuisine", a short program broadcast for several seasons in the latter half of the seventies, will remain impressed somewhere upon my brain cortex until the day I die, together with some other experiences that spring to my mind when Podravka is mentioned.

However, it's not just about the food and the flavours my tongue and polate have been familiar with since I was a child; it is also about the images, the sounds, the emotions. For example, take that song by Arsen I've mentioned at the beginning.

Many years later, after Karapandža and Mlakar had long been absent from the TV screen, I learned that it was actually a love song, but I simply coud not embrace it as such. I couldn't accept that „the secrets you didn't want to

reveal" were actually some-
thing shared by a man and
a women involved in a ro-
mantic relationship - to me it
remains a song about cooking
to this day.
It can be compared to my ama-
zement when I first saw Ko-
privnica. By the time I visited
that little town I had already
been in my adulthood and I
had stopped believing in ma-
gic a long time ago, and God
only knows how small I had
to be to be able to think so-
mething like that, to imagine
Koprivnica like an idyllic

landscape made of chocolate, the kind that was depicted on Čokolino boxes.

Podravka means comfort, warmth, safety. Do you want me to present you with a vivid image? Here it is. A winter morning. I'm wearing my pyjamas, holding a cup of steaming tea in my hand, standing in the corner of my kitchen and leaning against the wall with a decorative ceramic plate hanging on it, the toes of my left foot scratching the calf of my left leg. There are few companies I would admit into my

intimate space while I'm stan-
ding in the kitchen, dishe-
velled, with gummed-up eyes,
wearing my pyjamas; but
Podravka is homelike, I've
known it my whole life. Its
chubby little hearts bring
back the memories of my pa-
rents' home, I remember see-
ing them on little pots, mugs
and tea towels, and later, when
I found myself somewhere in
an unfriendly world, lost and
lonely, I can't really say that
they gave me comfort, but it
was always good to see
something familiar. In a

mess hall, for instance. You know how full of anxiety, how unloved and alienated a man can feel in such a terrible place as the army is. However, even in such a place when I got two little packages of Podravka rosehip or apricot jam on a scratched white plastic plate, the hearts on them would remind me of home and then I would know that, thank heavens, there was still someone who was fond of me.

„Hey Tomić wanna swap jams?!" shouted someone from the other side of the mess hall.

By coincidence, I was the only person in the platoon who liked rosehip jam. Everybody else preferred apricot.

Rosehip jam was at that time, and it still is, my favourite Podravka's product. For breakfast. The champion of the afternoon's meal would be goulash, and in both cases there is more to it than taste because in the story about Podravka, as I have already pointed out, the taste is not everything; other senses also count. The relevant thing here is the picture on the red tin of goulash, the picture of that dappled cow looking at you with its big placid eyes. I grew up in the coutryside and I have a special relation to cows; they fill me with the sense of mildness, the sense of peaceful satisfaction, the feeling that life is good. If you ask me, there is nothing unusual in the fact that the Hindu worship them because they truly are sacred animals. Now, whoever painted that cow on Podravka goulash tin is a great talent. That's what a cow should look like. Even if they cocked up some of that goulash in the factory, if they put too much of one condiment or completely forgot about the other, I probably wouldn't notice because the very packiging of the product fills me with enormous trust.

While we were building our weekend cottage we warmed that goulash on a little gas cooker in the open. The two Bosnian lads, the bricklayers, Ibro and Mirke, a father and a son, a master and an apprentice, they would have nothing else for lunch. Perhaps it was because they were Muslim and didn't eat pork, perhaps they simply adored the goulash like I did.

Either way, every single day around noon the four of us would descend the scaffold, wash our hands and faces and sit at a table made of unplaned boards under a quince-tree, and hungrily scoop the thick dark-red mixture of meat, sauce and macaroni. They don't eat such food even in New York, on the Fifth Avenue, as we ate that May: Ibro, Mirke, my dad and I, weary after hard work sitting under the quince-tree. After lunch we would climb back on the skeleton of our weekend cottage and toil together until nightfall singing folk songs. Food sometimes wondrously makes you warm to some people.

Perhaps you disagree?

Well, listen up then, because I have some more stories to tell.

SWEET BODY-BUILDING

Waste management is, as we all know, one of the burning issues of mankind. Bottles, boxes, tin cans billions of tons of paper, plastics, metal and glass pile up around us at an unsettling rate and it is just a matter of time before the land surveyors discovered that some heap of discarded packiging had outgrown Chomolungma mountain in Nepal. We are all surprised by the way things have been developing in that respect because until recently we had lived in a modest civilisation which was not in the habit of throwing things away. Back then, almost nothing was disposable. Objects were more permanent, more solid. We repaired them persistently and they lived longer, stayed with us and served us for a long period of time, perhaps assuming some other role, fulfilling some other purpose.

Homemade pickled vegetables used to end up in the jars of industrial jam while industrial pickled vegetables used to replace homemade jam. Even today you can probably come across those white little shallow pots with strings of tiny red hearts on them. The red

cap has probably been mispla-
ced but out of that little pot,
somewhat damaged now, in
which Vegeta had been sold, so-
me child might still eat biscuits
in milk for breakfast before
school. Or if you happen to be
in some vineyard cottage and
your host pours you some ho-
memade riesling straight from
the barrel. He hands you a six-
ounce mug and you know whe-
re it comes from everything
comes back to you and you are
almost moved by the memory.
They used to sell Podravka
mustard in those little mugs

and your mom or grandma used to collect them; she would wash them up after the family had finished the mustard and put them in the cupboard.

If someone in the family was getting married, it was all but unnecessary to buy glasses and pots for the young couple; they could equip their kitchen with the old packiging alone. The following story goes back to the time when we used to wash up and reuse old packiging, which sometimes served some very unusual purposes.

I recall, it was a German magazine, the type of press that didn't exist in our country at the time. During our long breaks and after school, the lucky owner would turn its pages carefully and with reverence while the rest of us would crowd around him and peep over his shoulder sighing. If you think you know what we were looking at, you are mistaken.

Fascinated, we gawked at half-naked men. Admittedly here and there in a bodybuilding magazine you could come across a photograph of a woman but we protested against them in disgust. Women were repulsive, men were godlike. Muscular, suntanned, shaved all over, oily and grinning; we were literally drooling over them. Some psychoanalyst would probably have a lot to say about thirteen-year-olds fascinated by men in swimming trunks, but I couldn't care less about that. I would have a lot to say about psychoanalysts too.

It's 1983. My cousin Zdeslav an I, infatuated by the pictures of oily German blockheads, decided to practice body-building, but that sport hadn't been included in the available extracurricular activities. There were traditional dances, drama section, literary section, ship-model building, boyscouts, five-a-side soccer, but if you wanted to lift weights in front of a mirror-you could forget about it. Back then in our old country body-building was stil in its infancy; there was a single famous body-builder, a fellow from Vojvodina called Petar Čelik, who used to sell proteins which were supposed to make your muscles swell like crazy. Petar

Čelik advertized his stuff on the back covers of Lunov Magnus comic books and the Golden series where you could find order forms for that miraculous preparation.
I no longer recall whether we ordered the proteins or not, but I know we made a lot of effort to build those weights. We made them ourselves using a steel pole, some concrete and a pair of three-kilo tin cans of Podravka's mixed-fruit jam. Perhaps you also had a pair of weights like that: a steel pole a meter and a half long, its ends fixed into cylinders

made out of concrete and two motor-oil or jam cans. We chose jam cans. Zdeslav filched one at home, as a partner in our two-member body-building club, I had to produce the other one. However, the only tin can I found in our cupboard contained approximately a kilo and a half of jam, and the only thing that was to some extent similar to it was a huge five-kilo can od Podravka's pickled cucumbers.

By the way, I don't know whether you've noticed, but in the old days food was sold in bigger containers. It was probably

because memories of hunger were still fresh; after all, our country got out of poverty as recently as fifty years ago. They didn't have finger food or other such ostentatious nonsense back then, the food had to come in substantial quantities, in battalion packages, in order to be taken seriously.
So I brought a pickle can and Zdeslav said that pickles were out of the question.

„Come on, use your head," he said. „With the jam can on one side and the pickle can on the other, weights wouldn't be in balance. Your one arm would develop quicker than the other one."

„We could turn it over. We would lift the jam with our left arm and the pickles with our right arm, and then the other way round."

„No way. Both sides must weigh equally."

„Then you go ahead and look for it in your own house. If I can't produce a jam can, maybe you can find a pickle can."

Zdeslav then invoked some unknown body-building authority who claimed that jam cans make the best material for building weights and I went back home feeling half-furious and half-disappointed. I ransacked the house looking for an empty jam can and, having come very close to a decision to ruin a kilo and a half of jam, I spotted it on the edge of a stair among my grandmother's flowers.

My grandma has never grown much appreciacion for the clay flower-pots. She grew her plants in damaged cooking-pots and cans, or if it was a bigger plant, in old hot-water tanks and broken washing-machine drums. I hated the idea at that time but now I find it irresistible. Anyway, among my grandma's flowers lined up along the edge of the staircase I discovered an asparagus planted in a three-kilo Podravka mixed fruit jam can with a familiar heart motive and a smiling boy whose mouth had been smeared with jam. Perhaps he was not smeared with jam? I no longer recall... The paint on the can had somewhat faded and I guess that's why I failed to notice it right away. The bottom of grandma's flower-pots was usually rusty due to watering, wet humus would make the tin rust, but that one was still in good shape. The asparagus wasn't that lucky though. Under the cover of darkness I killed it viciously and threw it away.

Zdeslav and I clumsily made a few slabs of concrete while some grown-ups hassled us sitting on the little walls nearby. „Screw the weights," they teased us. „Grab a hoe, son, and you'll see how your muscles would bulge."

But we didn't let them discourage us. We checked upon our weights daily during the following week to see if the concrete had hordened. When the weights were finaly ready we started exercising strenuously. One, two... one, two... one, two. Up and down... up and down, up and down. We trained flushed-faced in Zdeslav's back yard while the twins smeared with jam smiled at us gaily. Every now nad then we would measure our forearms with a tape measure. However, our plan to start looking like the Incredible Hulk

or at least Spiderman in a sho-
rt period of time wasn't develo-
ping well. To devote oneself
seriously to body-building you'd
have to be a complete fool or
serve some serious time in jail.
I gave it up and Zdeslav pre-
sently joined me.

Eventually, in a few
months we came across some
other German magazines with
pictures of women, which became
far more interesting than those
of men. These magazines you
know the kind I'm referring
to, all of a sudden became a
thousand times more exciting

than those with grinning oily Herculeses. Zdeslav and I turned into decent heterosexuals just as everyone had expected. We might not have perfectly devel- oped muscles but we have learnt to live with it as well as our wives. To tell you the truth, I'm always a little hurt when wo- men laugh at me when I take my clothes off at the beach. Last year on the island of Brač some woman almost choked on an apricot when she saw me, but I endured that with great stoi- cism pretending to gaze at the grey silouette of the town of

Brač. The only one who still keeps reminding me of the body-building episode is my grandmother. Once in a while she gives a wistful sigh and says...

„Dear God, I would like to know what has become of my asparagus?"

And I keep quiet. I pretend I have nothing to do with it.

The last time I saw the weights made out of Podravka's jam tin cans, they were lying in the tall grass at the bottom of Zdeslav's back yard together with other junk. I figured that archaeologists would be very surprised when they discovered them a thousand years later. What did they use it for, they would be wondering, staring in amazement at the concrete cylinders in rusty tin cans with a grimy little boy smiling from them.

YELLOW LOVE POWDER

One Saturday in spring two years ago I happened to be at S.'s house in the suburb of Zagreb. We had a barbecue in his garden. I am not going to reveal his name, later you'll understand why. Lounging in wicker chairs and deckchairs under the blossoming apple trees, with cold glasses in our hands, we were squinting at the sun shining through the branches. The spots of light danced on our faces and on the lawn reminding me of those exquisite canvases by Monet. The new Lam-Chops' album was playing on the stereo. In short, it was one of those perfectly peaceful spring afternoons when you feel that our world is by far the best of all existing worlds in the universe. Especially when smell of grilled meat came up to us together with the breeze and tickled our nostrils play-fully.

„Is it over yet?!" some ungrateful person yelled from a deckchair to the enthusiast who was standing by the grill in a cloud of smoke.

You are aware that in every group there is a person who volunteers, often joyfully, to light a fire and grill the meat for everybody. What would the clever guys like me do without these poor fellows?

„Here, the sausages are done,„ he said wiping his tearing bloodshot eyes.„ I'm going to grill the chicken now."

„And how long will that take?" said the person lounging in a deckchair. The tone of frustration in his voice suggested that he was seriously hungry.

„I need some Vegeta for the chicken," said the barbecue guy.

„I haven't got any."

„Someone should go to the supermarket and buy some."

„I don't use Vegeta and it will stay that way," said S. harshly.

Relishing the string music and the warm sound of Kurt Wagner's Les Paul guitar, I failed to notice determination in S.'s voice at the first instant. It took a few seconds before the meaning of these unusual words reached my central nervous system making its way through my numb body. Now, what sort of gastronomic fundamentalism is that? Has S. joined some Christian sect which forbids using Vegeta? Besides, I can't imagine a Croatian home without this universal food supplement? If you ask me, that is a serious lack of patriotism. After all, a large number of my compatriots would rather give up

the Savudrian bay them Vegeta.
„Excuse me", I asked,
„what kind of statement is that?
„What statement?"
„The one concerning Vegeta?"
S. lookend around the garden and said with a certain anxiety in his voice...
„Not now. I'll tell you about it some other time."
And he did tell me all about it a few months ago when there were no women around.
This story also compels us to go back to the past. At the end of the seventies

Yugoslavia lived between the two worlds, neither here not there, sceptical to the East, distrustful to the West, having refused to choose sides in the Cold War it stayed a non-aligned country. It built its unique consumerist socialism invented by marshal Tito himself, who misteriously managed to unite the idea of a proletarian revolution with plastic raincoats and cigarettes made under licence. For the happy future and the yearned-for dawn of communism, the Yugoslav people died singing songs and reeking of twelve-year-old

whiskey.
Back then, in the golden decade of the post-war Yugoslavia's brief history, when in the international distribution of forces the country seemed to function as a free-trade zone between the United States' and the Soviet Union's political interests, playing the role of a bizarre communist duty-free shop, my acquaintance S. graduated with excellent grades from an elite secondary school in Zagreb. As was the custom, the graduation was celebradet by going on a trip to a place a

long way from home, where nobody knew our heroes and where they could indulge in drinking, demolishing hotel furniture and reckless fornication. In this case, the wild party, known in the psychiatric science as the high-school seniors' excursion, took place in a beautiful and renowned Eastern Europe capital.

I won't tell the name of that capital, but even if I told you it wouldn't mean anything. Today that city is completely different: lively, rich, cosmopolitan, visited by millions of tourists a year. It doesn't even closely resemble that gloomy place depraved of the last bit of dignity by the former Soviet Union. So, in 1979 the two classes of high-school seniors from Zagreb arrived at that city. They had immature consuming habits and pockets full of Yugoslav dinars, an incredibly strong currency at the time. About ten years later they would probably become respectable, normal people, like Y. did. However, in those days, as eighteen or nineteen-year-olds, on such an extraordinary occasion as the school excursion is, they were a pack of conceited puppies flaunting impudently their relative wealth. They were young and they had an opportunity to behave like the Rolling Stones on a tour. Naturally, that couldn't have ended well.

The barely sobered up, they practically slept in taxies, they ordered ridiculously abundant dinners at the restaurants and tucked bunches of crumpled bills into waiters' pockets not having even bothered to count them. They were disrespectful to the hotel staff, they made fun of the saleswomen in the shops; in a

word, they were a nightmare and their hosts probably couldn't wait to see them leave. However, the reason why they agreed to put up with them were not their lousy Yugoslav dinars but a more precious commodity these kids had brought with them. Because our high-school graduates from Zagreb had learnt an important lesson from the older generations. If you went on excursion to the sad Eastern Europe capital, the true value was not the money, although it was also useful, or nylons, or cognac, although you could also exchange them for a number of things. There was only one thing that mattered - Vegeta.

To the kids from Zagreb it was a mystery. For them, Vegeta was a common thing, an industrial food supplement that could be bought in every supermarket; their palates and tongues were quite used to it. It formed their perception of food to a considerable extent, perhaps even excessively, having given all the food, the fish and the meat, the same, uniform aroma. And all of a sudden there they were, in a country where the stuff was practically considered to be an invention of an alchemist. Receptionists and hotel maids, tour guides, police officers, customs officers, they all winked at them and wispered reverently that single word: „Vegeta". It made you think that in exchange for a certain amount of that yellow substance you could obtain a map showing the deployment of strategic nuclear heads throughout the entire Warsaw Pact.

And so, in the evening of a warm spring day, when the setting sun casted its rays on the stone towers of the old Eastern Europe city, the towers that were totally useless when the Soviet troops had invaded the country, S. met a girl in a garden restaurant. She was the typical Slavic beauty with an oval face, honey-coloured hair and almond eyes.

S. might have been exaggerating because he had been drinking from midday. Anyway, he summoned up courage, approached her and started a conversation. It was quite fortunate that Croatian and the languge spoken in the country visited by our high-school graduates shared a large number of words. The more you drank, the more words you could think off. Admittedly, Y. was drinking so much that he would have probably conversed fluently even in Portuguese.

Word by word, after only half an hour, Y. was allegedly touching her honey-coloured hair and running his fingertips along the arches of her eyebrows and her dry lips. He kissed her cautiously, she pulled away shyly. She thought it was all happening too soon but Y. didn't have time to waste. Two days later they were travelling back to Zagreb. He ordered them dinner, he wanted to try everything from the menu. She giggled bashfully. He poured them some wine. The girl looked at him with her dreamy eyes. He squeezed her small pale hand. She sqeezed him back passionately and feverishly. Having finished their dinner they walked the city streets and strolled under the plane-trees on the riverbank stopping every few steps to kiss insatiably and insanely. What is there to say, it was love at first sight. Except that she thought things were going too fast...

„What are we doing? What are we doing?" she whispered ecstatically over and over again. At least, that's what it sounded like to Y. At first he was touched by the way she was trying to preserve her chastity. Later he was desperate when she clutched his wrist whenever he had tried to reach under her dress. He asked her to come to his hotel room. She shook her head with determination.

„Tomorrow. Tomorrow, my love."

And you know what you're like when you are eighteen. At that age there is no tomorrow. Midni-ght was approaching and it wasn't advisable to stay much longer on the streets of the Eastern Europe capital. The girl's mother was waiting for her. Fina-lly, they were to bid each other goodbye on the street corner. On the other side of the intersection there was a poster of Vladimir Ilyi-ch Lenin; the father of the So-viet revolution was observing them with his bright watchful eyes. The girl was crying. S. felt a lump in his throat. They were clinging to each other pathetically like the long-anticipated Third World War or the nuclear cataclysm would begin the very next day. She was about to get into the taxi waiting by the sidewalk. The plan to take her to the hotel room had gone down the drain and there was only a slender chance that it would succeed the following evening and S. had actually given up all hope when he said...

„I have Vegeta with me. The entire kilo."

The girl with honey-coloured hair went stiff in his arms. S. smiled to himself. As always, the heavy artillery proved effective. With a kilo of Vegeta at the bottom of his travel bag he felt like the master of the universe. He winked cheerfully at the old Ulyanov across the street. But then the girl pulled away and looked at him with the furious look in her sparkling eyes and S. knew he had made a mistake. She said something quickly and brusquely but he could no longer understand a word. The multilingual love magic had dissolved. Offended, she slapped him in the face, turned on her heel and marched off down the street. S. followed her trying to apologize, begging for forgiveness, but all in vain. When she spotted a night tram two blocks away she ran off, jumped on and disappeared from his life forever.

„Psst! Psst! Buddy, do you really have Vegeta?" asked the taxi driver leaning out of the window. S. hadn't even noticed that he was following them. But he didn't feel like trading any more. The supplement to all food had spoiled his sweetest bite. His conceitedness had backfired on him. Thanks to Vegeta he learnt a painful but valuable moral lesson. The remaining thirsty hours until their return to Zagreb he spent crying or staring at the ceiling. He creid the whole way home. He cried, that confirmed bachelor, sixteen years later, telling me this story.

„I understand you completely, man," I told him compassionately.

I didn't have the heart to tell him that the grilled chicken we had that afternoon in his backyard hadn't tasted as good without Vegeta. I mean, perhaps it had, but we are simply used to that taste.

GRANDPA'S RECKLESS BET

I don't know about you, but I get slightly anxious seeing the world getting smaller and smaller. Distances, dimensions, everything is shrinking. For instance, as recently as fifty years ago radio receivers looked like bedside tables. You probably had one of those radios at home, made from dark varnished wood, and perhaps you even opened it when your parents weren't around and studied its dusty longish electron tubes with curiosity. However, as a result of the electronic revolution the tubes were at a certain point utterly replaced by transistors. The transistors also didn't have a chance to relish their victory too long because only a decade or two later the informatic revolution followed and the transistors were replaced by chips. In only two steps the technology has almost been reduced to invisibility. If twenty years ago someone tried to build a computer I am now writing on, it would probably be as big as a fourstorey building. Twenty years ago you would have probably been ridiculed if you tried to imagine an object which was at the same time a phone, a camera, a watch, a calendar and a calculator, and which could be carried in a shirt pocket. Sitting in a café I overheared a conversation between the two men at the next table who were arguing whose cell phone was smaller and I realized that this miniaturization trend had changed our lives. I don't know whether you remember, but men used to argue about whose equipment was bigger.

To be honest, I don't feel quite secure witnessing the miniaturization process of every existing thing, I believe I'm too old to get used to the fact that everything can be reduced to the size of a fingernail and that it can be done today. But on the other hand, compared to my late grandfather I am an enthusiastic futurist. In spite of my conservative resistance which compels me to reject new technologies, I simply cannot imagine the terror my grandfather experienced when he first saw a transistor or when he first became aware that even food can get smaller, down to a point that your entire meal can fit into the palm of your hand. I'm going to tell you about my grandfather's experience and about the day when he first saw a stock cube.

In our village there was a dimly-lit shop everyone called a co-op even though in those days farming cooperatives had been ancient history. I can still see it in my mind's eye. I could still precisely describe where the shopkeeper kept various articles: detergents, cosmetics, shallow tin receptacles containing brown and black shoe polish, lightbulbs, school accessories, two bales of calico on the counter, galvani-zed pots for boiling clothes on the top shelf under the ceiling, crates of beans, chik-peas and lentils, a scale with weights, jars of pickled vegetables and jam, alcohol pâtés, a refrigerator with cheeses and cured meats... At the co-op you could buy every-thing you needed in a village household: the bran, some eggnog liquer, a shovel and a fipple flute. When somebody in your family died you could even buy a dusty funeral wreath made of plastic ivy and decorated with plastic sword lilies. The friendly shopkeeper, Tale was his name, would take a shiny black paper band that would later be attached to the wreath, he would spread it on the counter and in silver paint he would write a few occasional words in calligraphic hand.

„What shall we write?" he would ask dipping the brush into the paint.

„In loving memory of my old man..."

„Don't say 'old man'. 'Dad' or 'father' would be nicer."

„Put 'father' then..."

When I was I child cigarettes were still sold at the co-op by the piece and if the shopkeeper didn't have any small change he would give you a candy or a chewing-gum instead. However, the event I would like to relate occured several years before I was born, but I don't think the place had been essentially different back then. Perhaps they didn't have that many articles.

The story is about my grandfather
Santo and it concerns one of
these novelties that appeared in
the shops sometime in the sixties.
I know it only as a family legend
and therefore I hope that my au-
nts and uncle would forgive me
if I misunderstood something.

Well, grandpa Santo was a
genuine rascal, a man who wo-
uldn't be tricked easily. Alth-
ough his civil occupation was
bricklaying he spent his entire li-
fe smuggling something. However,
he had never, literally never, spent
a night at a police station. I trust
that this tells you what a sly-

boots he was. The event I am going to relate was probably the only time in the life of this man, who died at the age of seventy four, that somebody managed to outsmart him. Even today my grandmother scowls when someone brings up the day grandpa recklessly lost a small fortune in a bet.

It happened one evening at the co-op, shortly before closing time. Men had returned from the fields and stopped for a bear or wine brandy poured into little glasses by the shopkeeper. Some of them sat on the crates, some on sacks of artificial manure behind the door some just stood resting their arm on the counter. Perhaps they were concerned listening to the report from the Brijuni plenum, because that was approximately the time it took place, when a guy named Mirko, who had his right leg shorter and dragged a huge black shoe, patted his stomach and said...

„Boy, did I enjoy my meal. I devoured two plates of cube soup."

The village men were leaning over the radio and struggling with the layers of incomprehensible party phrases trying to figure out what had actually happened on the islands of Brijuni, and they didn't hear him bragging. Nobody except my grandfather.

„What's that you had for lunch?" asked Šanto suspiciously.

„The cube soup"

„Right," said grandpa with a superior smirk. „And what would that be?"

„It's a soup, man. Podravka makes it. There are chicken-soup cubes and beef-soup cubes. The cubes are this tiny and the soup is finger-licking good."

„You don't say so. Quit rambling, man. How can a soup be in a cube?"

„Cross my heart," Mirko swore.

„Cross something else," said Šanto looking scornfully at his shorter leg. „By God," he cursed, „this fool is making things up."

„Hey people," the invalid turned to the men gathered, „Šanto doesn't believe that they make soup in cubes."

„Just a moment, just a

moment..." said one of them annoyed that somebody interrupted him while he was listening to the radio transmission,

„Don't tell me" said Mirko again to my grandfather, „that you have never heard of stock cubes?"

At that moment grandpa Šanto went seriously mad; he had a feeling that this lame local clown was making fun of him. First he had invented something that didn't exist and now he was making him look like a fool because he wouldn't believe that nonsense.

„There is no such thing," he repeated firmly.

„Do you want to bet?"

„How much?"

„You decide".

„I bet you a thousand dinars that here is no such thing," said grandpa Šanto.

„I can't say with certainty what was the exchange rate of dinar at that time but according to what I'm told a thousand dinars was a serious money.

„Ten thousand," said Mirko challengingly.

„Twenty," Šanto offe-

red arrogantly.
„You're on."
He offered him his hand and grandpa took it firmly.
„Tale, cut it."

„What did you bet on?" asked the shopkeeper looking up from the radio.

„Just cut it, said grandpa confidently and Tale did it.
Mirko grinned triumphantly.

„Tale," he said looking grandpa Santo firmly in the eyes, „do you have stock-cubes?"

„Naturally. Chicken or beef?"
Santo turned pale, went short

of breath and almost fainted. Grandma claims that in those days you could buy a decent cow and a calf for twenty grand. Grandpa had lost a small fortune in a bet and when the shopkeeper put the two Podravka packages of beef cubes and chicken cubes, he could already hear the whole village laughing at him because of this reckless folly.
To avoid making a complete fool of himself he took one of the cubes, unwrapped it, bit half of it off and chewed it for a while abstractedly. Then

he swallowed it and said...
„Well, it's not that bad."

Who cooked up this trouble?

Božo Prka,
the President of the Supervisory Board

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 Economics 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 in 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.

Marko Ećimović,
the Deputy President of the Supervisory Board

Mr Marko Ećimović was born in 1947. He graduated in 1969 at the Faculty of Economics in Osijek and in 1999 completed the postgraduate scientific studies at the same faculty. He started his career in Podravka in 1970 as planner-analysist. From 1975 till 1979 he was director of the Organisation and Distribution Sector and from 1979 till 1983 director of the Investment Planning Sector. He was director of RO Podravka – Belupo from 1983 till 1986 and from 1989 till 1991 member of the Management Board of Podravka responsible for economy, accounting and information technology. Mr Ećimović was advisor to the president of the Management Board of Podravka d.d. from 1991 till 1996 and since 1998 he has been advisor for the Financial Sector. He was especially engaged in the company evaluation and transformation process as job holder during the period from 1990 till 1994. Mr Ećimović has won several public honours and awards for social and economic development. He is fluent in German.

Darko Ostoja,
the Supervisory Board Member

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

Đuro Zalar,
the Supervisory Board Member

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.

Barica Macan, the Supervisory Board Member

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 plan 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 Ms 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 "Hlađenje" 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, the Supervisory Board Member

Mr Marijan Cingula graduated at the Faculty of Economics 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 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.

Boris Hmelina, the Supervisory Board Member

Mr Boris Hmelina was born on 17 March 1945 in Zagreb where he completed his primary and secondary school education. He graduated at the Faculty of Economics of the University of Zagreb and gained the title of graduate economist. In March 2000 he passed the state examination for bankruptcy commissioner at the Ministry of Justice, Public Administration and Local Self-government. From 1970 till 1975 he was assistant director of the General Affairs and Human Resources Department at the company "Nikola Tesla" Zagreb and until 1977 head of the General Affairs and Human Resources Department of UP Borongaj. From 1977 till 1979 Mr Hmelina was commercial director at the Freshwater Fishing Board of Yugoslavia and from 1979 till 1988 director of the agency Naftagas-promet Novi Sad for Croatia, Slovenia and Bosnia and Herzegovina. During the period from 1988 till 1991, Mr Hmelina was commercial director at CHROMOS, factory for synthetic resin, Zagreb where from 1991 till 1997 he performed the duties of president of the Management Board. Since 2002 he has been bankruptcy commissioner of many trade companies and in the year 2003 founded (and became director) Hmelina and Associates, a public trade company for performing bankruptcy commissioning services. He is fluent in English and has passive knowledge of Italian.

Franjo Maletić, the Supervisory Board Member

Mr Franjo Maletić was born on 21 May 1951 in Ferdinandovac, Municipality of Đurđevac. He graduated at the Faculty of Law in Zagreb and from 1972 till 1983 he worked for Sloga Export Import. He was director at JAT (Yugoslav Airlines), from 1983 till 1987 of JAT Zagreb and from 1987 till 1991 JAT Canada. During the period from 1991 till 1993 Mr Maletić was director of INA TOURS, from 1993 till 2000 director of Golden Marketing and from 2000 till 2001 assistant director of Večernji list. Currently, he is president of the Management Board of Vjesnik d.d. He is fluent in English and Russian.

Goran Gazivoda, the Supervisory Board Member

Mr Goran Gazivoda won his master's degree at the Faculty of Economics of Zagreb in the field of economic science in 1978. From February 1975 till March 1977 he worked on export jobs (Astra Mašinoimpex trgovina Zagreb) and during the period from March 1977 till July 1978 on international credit transactions, loan approvals and client operations (Ljubljanska Banka, Zagreb). From July 1978 till August 1982 he was assistant director of the Ljubljanska banka - London

Office. In the period from August 1982 till 1986 he led the affairs of the international credit department at Ljubljanska banka, Ljubljana. From September 1986 till April 1996 he was the deputy president of LBS Bank - New York responsible for strategic business planning in the marketing and credit department. From May till October 1996 he was the representative / managing director for operations in Zagreb - Creditanstalt New York, responsible for opening the Bank's business in Zagreb. From October 1996 till December 1997 he was branch office director of the Creditanstalt Zagreb Office. During the period from January 1998 till December 1999 he was deputy president of the Management Board of Bank Austria Croatia d.d. Zagreb and from January 2000 till June 2001 president of the Management Board of Bank Austria Creditanstalt Croatia d.d. Zagreb. During the period from July 2001 till June 2003 Mr Gazivoda was president of the Management Board of HVB Bank Croatia d.d. From July 2003 till April 2004 he was deputy president of the Management Board of Splitska banka d.d. Since April 2004 he is deputy president of the Management Board of HVB Splitska banka d.d., member of the Supervisory Board of RTL d.o.o. and member of the Executive Board of the Croatian International Chamber of Commerce and chairman of the General Assembly of the Croatian Association of Banks.

Milan Artuković, the Supervisory Board Member

Mr Milan Artuković was born in 1934 in Klobuk near Ljubuški, Bosnia and Herzegovina. He graduated at the Faculty of Economics in Zagreb. Before coming to Franck he worked for Badel, Zagreb. From the total number of 45 years of service, he spent 32 years at Franck, as managing director for 28 years and 3 years as commercial director. Mr Maletić is director of IVERO Consulting d.o.o., the majority owner of Franck, and president of the Supervisory Board of Franck.

Ksenija Horvat, the Supervisory Board Member

Ms Ksenija Horvat was born in 1966 in Koprivnica where she finished secondary commercial school in 1984 and since then has been employed in Podravka d.d. as officer in the claim settlement department. In 2000 she graduated at the two year post-graduate studies of economy at the Faculty of Economics in Zagreb and was appointed purchasing officer in retail for the Croatian market. Since 2005 she has been studying journalism part-time at the Faculty of Political Science. In the academic year 2000/2001 she completed the course of SSSH (Independent Trade Union of Croatia) Centre for Industrial Dialogue. In April 2001 Ms Horvat was appointed head union representative of the PPDIV Union of Podravka d.d. and in July the same year, coordinator of the PPDIV Union for the Podravka Group, which position she also holds in the new term of office after the last elections in 2003. Since Employee Council elections in 2005, she is deputy president of the Employee Council of Podravka d.d. for the second term of office.

Darko Marinac,
President of the
Management Board

Darko Marinac was born in Zagreb in 1950. In 1973, he graduated from the Faculty of Engineering, University of Zagreb. He completed managerial studies at the Croatian Chamber of Commerce and a course for foreign trade at the Faculty of Economics in Zagreb. In 1987, he completed a business school in the "CDG" school of Cologne. 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. In 1980 he was appointed General Manager of the Penicillin Factory. In 1984 he became Director of Animal Health and Agrochemicals Division. From 1990 to 1992 he was head of R&D in Company. He established and managed Pliva's companies in Ukraine, Czech Republic and Slovakia. From 1996 to 1999 he was Vice-President of the Pliva Management Board. In 1999 and 2000 he was involved in M&A activities in company, being Integration Director for Polfa Krakow and Lachema Brno. From April 2000 he is President and CEO of Podravka. He uses, actively or passively, seven languages. He has been a member of numerous councils, associations and boards, including several supervisory boards of Croatian and foreign companies. He was President and founder of the Croatian Business Council for Sustainable Development and Executive Vice-President of EGA (the European Generic Medicine Association) located in Brussels. From 2001 he is member of the Board of National Competitiveness Council of Croatia and from 2005 he is President of the Board of National Competitiveness Council of Croatia. From 2004 until 2005 he was President of the Board of CEA (Croatian Employers' Association) and from 2005 he is member of the Board of CEA. In 2006 he was named again as President 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 the Croatian economy. In 2001 he received special award as the "International Businessman of the year" from IMDA (International Management and Development Association). 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.

Zdravko Šestak,
Member of the
Management Board

Mr Šestak was born in 1968 in Koprivnica. In the year 1992 he graduated at the Faculty of Electrical Engineering of the University of Zagreb. Among many seminars he also finished the business administration school IEDC Brdo kod Kranja and the Professional Diploma in Retailing Management studies at the Leeds Metropolitan University. He started his employment with Podravka in 1993 as system engineer in Podravka's electronic data processing centre. He continued in Research and Development on implementing the information system, and from 1997 he was engaged in the restructuring team for profitability growth on restructuring the corporate business - information system. From 1998 till 2000 Mr Šestak worked as assistant director of the project for constructing and establishing the new business - information system at the Podravka Group level with the implementation of the SAP R/3 system. Apart from working on this project, from 1997 till 2001, he acted as assistant director of the Information Technology Department. Subsequently, he was transferred to the position of Business Intelligence director in the Business Development Sector where he worked on the development of corporate strategy, benchmarking and the development of a corporate management system based on corporate goals. From 2002 till 2004 Mr Šestak was the executive director of the efficiency project and head of the project for the reorganisation and transformation of the Podravka Group. He was appointed director of the Information Technology Sector and Business Surveillance Sector in mid 2004. Since 2005 Mr Šestak has been performing the duties of member of the Management Board of Podravka d.d. He is fluent in English.

Mr Habdija was born on 11 July 1955 in Koprivnica. He graduated at the Faculty of Economics of Zagreb in 1979. He finished the international school of business administration at Brdo kod Kranja and attended many professional seminars. Since he completed his studies he has been employed at Podravka. His employment with Podravka started as 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 of Belupo, the director of which he was from 1983 – 1984. From 1984 until 1986 Mr Habdija was director of the Marketing Sector of Belupo and later director of Fermentation and Pharmaceuticals. He became director of Belupo in 1991 and from 1992 performed the function of 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 the restructuring of Podravka for one year after which, in 2001, he became executive director of Podravka's strategic business area Vegeta and Podravka Dishes. Since 2003 Mr Habdija has been performing the duties of member of the Management Board of Podravka d.d.

Dragan Habdija, Member of the Management Board

Mr Markulin was born in 1973 in Koprivnica and in 1997 he graduated at the Faculty of Economics of Zagreb. In the year 2000 he won his masters degree 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 the Professional Diploma in Retailing Management studies at the Leeds Metropolitan University. He is author of many scientific papers and together with prof. Darko Tipurić he published the book "Strategic Alliances". Mr Markulin started his employment with Podravka in 1998 and worked in Marketing as product manager and head of the marketing team for the group of processed fruit products. In the year 2000 he was transferred from Marketing to the head of industrial analysis 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 later renamed into Strategic Development Sector. He is the representative of Podravka d.d. in the World Business Council for Sustained Development (WBCSD). Since 2005 Mr Markulin has been performing the duties of member of the Management Board of Podravka d.d. He has active or passive knowledge of English, German, Italian and Czech.

Goran Markulin, Member of the Management Board

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 management at the University of Minnesota Minneapolis. After completing 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 the year 2002 he occupied the position of director of the branch office for Croatia, Bosnia and Herzegovina and Slovenia with headquarters in Zagreb. He came to Podravka in the year 2002 as executive director for the Nestle program and commercial goods and in 2004 took over the duties of director of the Commercial Partnership Management Sector. Since 2005 Mr Romac has been performing the duties of member of the Management Board of Podravka d.d. He is fluent in English and Russian.

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. He finished the business administration school at Brdo kod Kranja and attended many professional seminars. After completing his studies he started his employment with Podravka, where he has been working ever since.
In Podravka Mr Vitković performed the duties of import officer, sales director of Podravka International – Prague, and sales director of Podravka International – Bratislava. Since 2001 he was executive director for the markets of Croatia and South-eastern Europe. He is fluent in German and Czech. Since 2003 Mr Vitković has been performing the duties of member of the Management Board of Podravka d.d.

Untill April 1, 2005 Damir Polančec, Željko Đurđina and Dušan Tomašević were members of the Management Board.

Željko Đurđina

Mr. Željko Đurđina was born in 1948. He graduated from the Faculty of Chemistry and Technology of the University of Zagreb and won his master's degree at the Faculty of Food and Biotechnology in 1981. Since he completed his studies in 1971 he has been working in Podravka. During his professional career he performed the duties of technologist-organizer from 1972 to 1977, and project manager from 1977 to 1985. In 1985 he was appointed director of the work organization "Podravka – Food Industry", and remained there until 1990. In 1989 he was appointed member of the Management Board of Podravka and vice-president of the same Board in 1990. In 1991 he was appointed director of PC "Food Industry" and occupied this function until 1997. He was member of the Supervisory Board of Podravka d.d. from September 1997 up to his appointment as vice-president of the Management Board. From 1997 to 2000 he was director of the Vegeta and Soup Factory while it was under construction and in 2000 he was appointed director of the Vegeta factory. Since 2000 till 2005 he was the vice-president of the Management Board of Podravka d.d. During his career at Podravka d.d., he has published many articles from practice in various professional literature.

Mr. Damir Polančec was born in 1967. He graduated from the Agroeconomics Department of the Faculty of Agriculture of the University of Zagreb in 1992. After completing his studies, in August 1992, he started working for "Dukat", Zagreb, as a technologist in the production of melted cheese. From 1992 onwards he has been working for Podravka. In the first two years he worked in FC "Purchasing - import" as a purchasing officer for fruit and vegetables. Subsequently, he was appointed sales officer and three years later, senior sales officer for the purchasing of dried vegetables, especially from countries in transition (Hungary, the Czech Republic, Slovakia, Poland, Bulgaria and Macedonia). In April 1997 he became a member of the team for restructuring purchasing, logistics and production responsible for purchasing. In September 1997 he was appointed director of the Central Purchasing Department. Since March 2000, he has been member of the Management Board of Podravka, responsible for the development of markets of Croatia and South-eastern Europe and material management. In the same convocation of the Management Board of January 2003, he is responsible for sales and market development. In the new convocation of the Management Board in August 2003 he was appointed member of the Management Board responsible for international market development. He completed General Management at the business school "Center", at Brdo kod Kranja. He is member of the Management Board of the Croatian Handball Association and from 2000 till 2005 was President of the Handball Club "Podravka Vegeta" from Koprivnica. He is fluent in English and attends the post-graduate studies course Organization and Management at the Faculty of Economics of Zagreb. Since February 2005 Mr Polančec has occupied the function of vice-president of the Government of the Republic of Croatia.


Damir Polančec

Mr Dušan Tomašević was born on 12 May 1955. He graduated at the Faculty of Economics of Split. He completed the Individual Tuition course at the London School of English and some seminars in the field of management, accounting and finance. He finished POMAK, Podravka's Management Academy, the FBA program, and is preparing his master's thesis at the post-graduate scientific management studies at the Faculty of Economics of Split. In his 20 year long career, he has performed duties of financial director, director of purchasing, director of sales and company director. In the period from 1997 until 2001 he was President of the Management Board of Gavrilović d.d. and also member of the Management Board of four daughter companies. Since 15 January 2001, he is President of Podravka's meat industry Danica d.o.o. In 2003 he was appointed member of the Management Board of Podravka responsible for creating a unique financial company policy, IT, internal audit, organization, the remuneration system and payroll accounting, price policy, material management, the operative efficiency project and for Danica d.o.o. Mr Tomašević has been performing the duties of president of the Management Board of the company PIK Vrbovec since the year 2005.


Dušan Tomašević