PODRAVKA d.d.

AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2006

PRICEWATERHOUSECOOPERS

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Independent auditor's report

To the Shareholders of PODRAVKA d.d.

We have audited the accompanying consolidated financial statements of PODRAVKA d.d.. and its subsidiaries (the 'Group') which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers d.o.o.

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

Tatjana Rukavina
President of the Management Board

Jadranka Čabrajić
Certified auditor

PODRAVKA d.d.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

(in thousands of HRK)	Note	2006	2005
Sales	5	3,467,504	3,441,378
Cost of goods sold		(2,116,279)	(2,104,473)
Gross profit		**1,351,225**	**1,336,905**
Other gains/(losses) - net	6	27,196	(621)
General and administrative expenses		(359,245)	(359,215)
Selling and distribution costs		(905,992)	(899,371)
Other revenues	7	14,755	9,674
Other expenses	8	(1,731)	(1,882)
Operating profit		**126,208**	**85,490**
Finance income		6,509	23,890
Finance costs		(56,568)	(39,539)
Net financial expense	11	(50,059)	(15,649)
Profit before tax		**76,149**	**69,841**
Income tax expense	12	(15,788)	(7,215)
Net profit		**60,361**	**62,626**
Earnings per share - basic	14	HRK 11.24	HRK 11.74
- diluted	14	HRK 11.04	HRK 11.40

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

President of the Management Board

Darko Marinac

The notes on pages 6 to 45 are an integral part of these consolidated financial statements.

PODRAVKA d.d.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2006

(in thousands of HRK)	Note	As at 31 December 2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	16	1,633,454	1,655,399
Intangible assets	17	87,225	91,237
Deferred tax assets	28	24,137	11,098
Available-for-sale financial assets	19	1,394	22,364
Trade and other receivables	21	11,243	13,195
		1,757,453	**1,793,293**
Current assets			
Inventories	20	564,485	569,092
Trade and other receivables	21	1,241,505	908,835
Financial assets at fair value through profit or loss	22	3,046	113
Cash and cash equivalents	23	126,118	126,234
		1,935,154	1,604,274
Non-currents asset held for sale	18	7,898	15,260
		1,943,052	**1,619,534**
Total assets		**3,700,505**	**3,412,827**
EQUITY AND LIABILITIES			
Non-current liabilities			
Long-term debt	27	525,335	515,358
Provisions	29	22,007	14,134
		547,342	**529,492**
Current liabilities			
Trade and other payables	26	920,346	590,709
Short-term borrowings	27	456,860	317,640
Provisions	29	29,277	53,827
		1,406,483	**962,176**
Total liabilities		**1,953,825**	**1,491,668**
Shareholders' equity			
Share capital	24	1,427,329	1,635,796
Reserves	25	148,503	125,514
Retained earnings		170,848	159,849
		1,746,680	**1,921,159**
Total equity and liabilities		**3,700,505**	**3,412,827**

The notes on pages 6 to 45 are an integral part of these consolidated financial statements.

PODRAVKA d.d.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

(in thousands of HRK)	Note	Share capital	Reserves	Retained earnings	Total
Balance at 1 January 2005	24,25	**1,627,060**	**109,182**	**143,186**	**1,879,428**
Foreign exchange differences (net income recognised directly in equity)		-	2,378	-	2,378
Net profit for the year		-	-	62,626	62,626
Total recognised income for 2005		-	2,378	62,626	65,004
Dividend approved		-	-	(26,689)	(26,689)
Purchase of treasury shares		(18,858)	-	-	(18,858)
Options exercised		15,872	-	(5,320)	10,552
Fair value of share options		11,722	-	-	11,722
Transfer to reserves		-	13,954	(13,954)	-
Balance at 31 December 2005	24,25	**1,635,796**	**125,514**	**159,849**	**1,921,159**
Foreign exchange differences (net income recognised directly in equity)		-	2,828	-	2,828
Net profit for the year		-	-	60,361	60,361
Total recognised income for 2006		-	2,828	60,361	63,189
Dividend approved		-	(19,921)	(7,120)	(27,041)
Purchase of treasury shares		(9,721)	-	-	(9,721)
Sale of treasury shares		9,649	-	-	9,649
Options exercised		14,210	-	(2,160)	12,050
Fair value of share options		16,271	-	-	16,271
Transfer to reserves		-	40,082	(40,082)	-
Call option on Company shares		(238,876)	-	-	(238,876)
Balance at 31 December 2006	24,25	**1,427,329**	**148,503**	**170,848**	**1,746,680**

The notes on pages 6 to 45 are an integral part of these consolidated financial statements.

PODRAVKA d.d.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

		Year ended 31 December	
(in thousands of HRK)	**Note**	**2006**	**2005**
Cash flows from operating activities			
Cash generated from operations	32	293,680	363,545
Tax paid		(15,661)	(14,180)
Interest paid		(50,465)	(40,747)
		227,554	**308,618**
Cash flows from investing activities			
Sale of shares and interests		12,919	-
Purchase of tangible and intangible assets	16, 17	(182,316)	(134,597)
Sale of tangible and intangible assets		6,143	9,708
Sale of assets held for sale	18	15,420	-
Long-term loans given and deposits		-	(554)
Repayment of long-term loans given and deposits		2,565	370
Purchase of trading securities	19	(9,105)	(6,679)
Sale of trading securities		35,525	5,891
Short-term loans given and deposits		(252,000)	-
Interest received		145	-
Dividends received		-	355
		(370,704)	**(125,506)**
Cash flows from financing activities			
Purchase of treasury shares	24	(9,721)	(18,858)
Sale of treasury shares	24	22,583	20,444
Proceeds from long-term borrowings		10,330	58,725
Repayment of long-term borrowings		(333,573)	(165,584)
Proceeds from short-term borrowings		667,626	241,565
Repayment of short-term borrowings		(562,170)	(232,908)
Proceeds from bonds issued	27	375,000	-
Dividends paid		(27,041)	(25,468)
		143,034	**(122,084)**
Net (decrease)/increase in cash and cash equivalents		**(116)**	**61,028**
Cash and cash equivalents at beginning of year	23	126,234	65,206
Cash and cash equivalents at the end of year	23	126,118	126,234

NOTE 1 – GENERAL INFORMATION

Podravka prehrambena industrija d.d., Koprivnica (the Company) is incorporated in the Republic of Croatia. The Company and its subsidiaries (the Group) are manufacturers of a wide range of foodstuffs, non-alcoholic beverages, pharmaceutical products and other services. In addition to Croatia, the Group has production facilities in Poland, the Czech Republic, Slovakia and Slovenia. More than half of overall sales is realised in Croatia, and more than one third of sales is realised in Central and Eastern European countries.

The Company is domiciled in Koprivnica, Croatia, Ante Starčevića 32.

As at 31 December 2006, the Company's shares were listed on the public joint stock company listing on the Zagreb Stock Exchange.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) Amendments to published standards effective in 2006

Certain standards, amendments and interpretations are mandatory for the Group's accounting periods beginning on or after 1 January 2006 and are relevant for the Group's activities:

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards early adopted by the Group

No standards were early adopted by the Group.

(c) Standards, amendments and interpretations effective in 2006 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- IAS 19 (Amendment), Employee Benefits
- IAS 21 (Amendment), Net Investment in a Foreign Operation
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- IFRS 1 (Amendment), First-Time Adoption of International Financial Reporting Standards
- IFRS 6 and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
- IFRIC 4, Determining whether an Arrangement contains a Lease
- IFRIC 5, Rights to interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

(d) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards are mandatory for the Group's accounting period beginning on or after the effective date, but have not been early adopted by the Group:

- *IFRS 7, Financial Instruments: Disclosures and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007).* IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Company will apply IFRS 7 beginning 1 January 2007. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Management considered the effect of the new IFRS 7 and the amendment to IAS 1 and concluded that additional disclosures will be necessary in the financial statements with respect to capital management.

- *IFRS 8, Business segments* is applicable for the period beginning on or after 1 January 2009. Management is still assessing the impact of this standard.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(e) Interpretations to existing standards that are not yet effective and are not relevant to the Group's operations

The following interpretations to existing standards are mandatory for the Group's accounting period beginning on or after the effective date, but are not relevant to the Group's operations:

- *IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006).* IFRIC 7 is not relevant as the Group does not operate in a hyperinflationary environment.
- *IFRIC 8, Scope of IFRS 2 (effective from 1 May 2006).* IFRIC 8 is not relevant, since the Group does not have payments or liabilities based on the price or value of own equity instruments, except for Management share options.
- *IFRIC 9, Reassessment of embedded derivatives (effective from 1 June 2006).* IFRIC 9 is not relevant to the Group's operations because it does not have any embedded derivatives.
- *IFRIC 10, Interim Financial Reporting and Impairment (effective from 1 November 2006).* IFRIC 10 is not relevant to the Group's operations because interim financial reports are not produced.
- *IFRIC 11, IFRS 2 – Group and Treasury share transactions (effective from 1 March 2007).* IFRIC 11 is relevant, since the Group awards the managements of subsidiaries with treasury shares of the parent Company, but it does not affect the financial statements of the Group.
- *IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).* IFRIC 12 is not relevant since the Group is not an operator of a public-to-private service concession arrangement.

2.2 Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and provision for impairment, where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

Land and assets under construction are not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	10 to 50 years
Equipment	3 to 18 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

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

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates (Note 2.7).

(b) Licences and distribution rights

Product distribution rights have a finite useful life and are carried at cost less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method to allocate the cost of licences and rights over their estimated useful lives (5 years).

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets (continued)

(c) Computer software

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

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life (such as land and certain rights) are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Non-current assets classified as held for sale

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

Held for sale property, plant and equipment or disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised.

2.9 Financial assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

(a) Financial assets at fair value through profit or loss

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Loans and receivables are carried at amortised cost using the effective interest method.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity.

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

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

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of loans and receivables is described in Note 2.12.

2.10 Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases where the significant portion of risks and rewards of ownership are not retained by the Group are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.11 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average method, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of work-in-process and finished goods comprise raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Trade goods are carried at selling price less applicable taxes and margins.

Small inventory and tools are expensed when put into use.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Trade and loan receivables

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

2.13 Cash and cash equivalents

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

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of the consideration received over the par value of the shares issued is presented in the notes as a share premium.

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

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. The Group does not capitalise borrowing costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(*c) Long-term employee benefits*

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

(d) Short-term employee benefits

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits (continued)

(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 vest (become exercisable). At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.18 Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Revenue recognition (continued)

(a) Sales of products and trade goods – wholesale

The Group manufactures and sells its own products and goods of third parties in the wholesale market. Sales of goods are recognised when the Group has delivered the products to the wholesaler, the wholesaler has full discretion over the price to sell, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of loss has been transferred to the wholesaler and either of the following has occurred: the wholesaler has accepted the products in accordance with the contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance has been satisfied.

Products are sold with volume discounts and customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specific in the sales contracts, net of estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of approximately 90 days, which is consistent with the market practice.

(b) Sales of products and goods – retail

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

(c) Sales of services

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

(d) Interest income

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

(e) Dividend income

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

(f) Government grants

The Group receives government grants relating to costs from pig breeding and the purchase of apples.

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are recognised in the period when necessary to match them with the costs that they are intended to compensate, and they are recorded in the income statement under other revenues.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Dividend distribution

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

2.21 Value added tax

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EURO. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign capital and operating activities.

The majority of the Group's foreign sales revenue and long-term debt is denominated in EUROs. Therefore, movements in exchange rates between the EURO and Croatian kuna may have an impact on the results of future operations and future cash flow. The Group does not use derivative instruments to actively hedge foreign exchange risk exposure. In 2006, the Group exchanged previously issued bonds denominated in EUROs with newly issued bonds denominated in HRK, thus reducing the Group's foreign exchange risk (Note 27).

(b) Credit risk

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

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

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

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

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

3.2 Fair value estimation

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

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

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

(a) Impairment testing of goodwill

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

If the estimated gross margin at 31 December 2006 was 10% lower than management’s estimates, this would not have an effect on the recognition of goodwill impairment.

If the discount rate applied to the discounted cash flows was 10% higher than management’s estimates, this would not have an effect on the recognition of goodwill impairment.

(b) Long-term employee benefits

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

(c) Legal claims and disputes

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

NOTE 5 – SEGMENT INFORMATION

Primary reporting format – business segments

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

1. Manufacture and sale 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 2006 are as follows:

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

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**

NOTE 5 – SEGMENT INFORMATION (continued)

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

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

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

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

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

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

NOTE 5 – SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments

Sales

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

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

Total assets

	2006	2005
	(in thousands of HRK)	
Croatia	3,152,405	2,821,858
South-eastern Europe	212,409	244,413
Central Europe	307,258	322,082
Eastern Europe	902	2,224
Western Europe, overseas and the Far East	27,531	22,250
Total	**3,700,505**	**3,412,827**

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

Capital expenditure

	2006	2005
	(in thousands of HRK)	
Croatia	179,674	124,030
South-eastern Europe	1,444	7,566
Central Europe	256	4,286
Eastern Europe	549	-
Western Europe, overseas and the Far East	393	44
Total	**182,316**	**135,926**

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

NOTE 6 – OTHER GAINS/(LOSSES) – NET

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

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

(in thousands of HRK)

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

NOTE 7 – OTHER REVENUES

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

NOTE 8 – OTHER EXPENSES

	2006	2005
	(in thousands of HRK)	
Interest from suppliers	1,597	1,882
Other interest expense	134	-
	1,731	**1,882**

NOTE 9 – EXPENSES BY NATURE

	2006	2005
	(in thousands of HRK)	
Raw materials and consumables used, cost of goods sold	1,648,215	1,583,568
Change in inventories of work in progress and finished products	(3,092)	14,605
Staff costs (Note 10)	848,122	792,580
Depreciation and amortisation (Note 16 and 17)	201,252	223,007
Advertising and promotion costs	280,057	257,370
Services	166,182	126,147
Rental costs	57,072	54,317
Transportation	40,837	44,556
Telecommunication	24,875	24,508
Entertainment	29,128	28,975
Taxes and contributions irrespective of results	28,329	26,447
Provisions for trade receivables	16,779	25,321
Collected trade receivables previously provided for	(12,971)	(7,206)
Other	104,788	132,292
Legal claims	(48,057)	36,572
	3,381,516	**3,363,059**

NOTE 10 – STAFF COSTS

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

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

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

NOTE 11 – FINANCIAL EXPENSE

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

NOTE 12 – INCOME TAX

	2006	2005
	(in thousands of HRK)	
Current income tax	28,706	16,941
Deferred tax (Note 28)	(12,918)	(9,726)
	15,788	**7,215**

NOTE 12 – INCOME TAX (continued)

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

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

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

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

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

NOTE 13 – NET FOREIGN EXCHANGE GAINS/(LOSSES)

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

	2006	2005
	(in thousands of HRK)	
Other (losses)/gains – net (Note 6)	(210)	(7,250)
Financial expense (Note 11)	6,509	23,890
	6,299	**16,640**

NOTE 14 – EARNINGS PER SHARE

Basic earnings per share

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

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

Diluted earnings per share

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

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

NOTE 15 – DIVIDENDS PER SHARE

As at 20 July 2006, the Company’s General Assembly reached a decision on the distribution of profit for the financial year 2005 by approving payment of dividends on ordinary shares in the gross amount of HRK 5,00 per share, totalling HRK 27,041 thousand. During 2006, dividends have not been fully paid. Unpaid dividends are included in other liabilities (Note 26).

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land and buildings**	**Equipment**	**Assets under construction**	**Total**
At 1 January 2005				
Cost	1,875,059	1,561,721	50,096	3,486,876
Accumulated depreciation	(722,536)	(1,023,966)	-	(1,746,502)
Net book value	**1,152,523**	**537,755**	**50,096**	**1,740,374**
Year ended 31 December 2005				
Opening net book amount	1,152,523	537,755	50,096	1,740,374
Effect of changes in foreign exchange rates	494	(644)	(206)	(356)
Additions	6,096	6,164	116,880	129,140
Transfer	52,903	80,142	(133,045)	-
Disposals and write-off	(5,705)	-	-	(5,705)
Impairment	(6,245)	(617)	(549)	(7,411)
Transfer to non-current assets held-for-sale (Note 18)	(11,472)	(4,490)	-	(15,962)
Depreciation	(61,279)	(123,402)	-	(184,681)
Closing net book amount	**1,127,315**	**494,908**	**33,176**	**1,655,399**
At 31 December 2005				
Cost	1,907,499	1,582,132	33,176	3,522,807
Accumulated depreciation	(780,184)	(1,087,224)	-	(1,867,408)
Net book value	**1,127,315**	**494,908**	**33,176**	**1,655,399**
Year ended 31 December 2006				
Opening net book amount	1,127,315	494,908	33,176	1,655,399
Effect of changes in foreign exchange rates	1,732	312	26	2,070
Additions	545	6,179	151,810	158,534
Transfer	12,643	47,002	(59,645)	-
Disposals and write-off	(4,962)	(4,707)	-	(9,669)
Transfer to non-current assets held-for-sale (Note 18)	(2,605)	-	-	(2,605)
Depreciation	(60,939)	(109,336)	-	(170,275)
Closing net book amount	**1,073,729**	**434,358**	**125,367**	**1,633,454**
At 31 December 2006				
Cost	1,865,936	1,621,918	125,367	3,613,221
Accumulated depreciation	(792,207)	(1,187,560)		(1,979,767)
Net book value	**1,073,729**	**434,358**	**125,367**	**1,633,454**

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

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

NOTE 17 – INTANGIBLE ASSETS

(in thousands of HRK)	Goodwill	Software	Distribution right	Brand	Other	Total
At 1 January 2005						
Cost	52,460	145,084	67,694	-	650	265,888
Accumulated amortisation	(25,655)	(90,705)	(27,078)	-	-	(143,438)
Net book value	**26,805**	**54,379**	**40,616**	**-**	**650**	**122,450**
Year ended 31 December 2005						
Opening net book amount	26,805	54,379	40,616	-	650	122,450
Effect of changes in foreign exchange rates	291	46	-	-	-	337
Additions	-	6,803	-	-	-	6,803
Impairment	-	(68)	-	-	-	(68)
Transfer to non-current assets held-for-sale (Note 18)	-	(22)	-	-	-	(22)
Disposals	-	-	-	-	(17)	(17)
Amortisation	-	(24,707)	(13,539)	-	-	(38,246)
Closing net book amount	**27,096**	**36,431**	**27,077**	**-**	**633**	**91,237**
At 31 December 2005						
Cost	27,096	151,619	67,694	-	633	247,042
Accumulated amortisation	-	(115,188)	(40,617)	-	-	(155,805)
Net book value	**27,096**	**36,431**	**27,077**	**-**	**633**	**91,237**
Year ended 31 December 2006						
Opening net book amount	27,096	36,431	27,077	-	633	91,237
Effect of changes in foreign exchange rates	1,261	65	-	-	-	1,326
Additions /i/	-	11,287	-	15,500	98	26,885
Disposals	-	(170)	-	-	-	(170)
Impairment /ii/	-	-	(1,076)	-	-	(1,076)
Amortisation	-	(17,439)	(13,538)	-	-	(30,977)
Closing net book amount	**28,357**	**30,174**	**12,463**	**15,500**	**731**	**87,225**
At 31 December 2006						
Cost	28,357	158,347	67,694	15,500	731	270,629
Accumulated amortisation	-	(128,173)	(55,231)	-	-	(183,404)
Net book value	**28,357**	**30,174**	**12,463**	**15,500**	**731**	**87,225**

/i/ In 2006, the Group purchased the brand ‘Eva’ for the manufacture of tinned fish.

/ii/ In 2006, based on the projections approved by management, the value of distribution rights of Nestle products was impaired.

NOTE 17 – INTANGIBLE ASSETS (continued)

Amortisation in the amount of HRK 203 thousand (2005: HRK 182 thousand) is recorded within cost of goods sold; amortisation in the amount of HRK 14,568 thousand (2005: HRK 19,298 thousand) is recorded within selling and distribution costs; amortisation in the amount of HRK 18,767 thousand (2005: HRK 20,012 thousand) is recorded within general and administrative expenses.

Impairment testing of goodwill

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

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

	2006	2005
	(in thousands of HRK)	
Lagris	26,139	24,878
Ital Ice	2,218	2,218
	28,357	27,096

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial projections approved by management.

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

NOTE 18 – NON-CURRENT ASSETS HELD FOR SALE

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

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

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

NOTE 19 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006	2005
	(in thousands of HRK)	
Investments in:		
RTL d.o.o. /i/	-	21,037
ZD Olšava	1,394	1,327
	1,394	**22,364**

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

NOTE 20 – INVENTORIES

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

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

NOTE 21 – TRADE AND OTHER RECEIVABLES

	2006	2005
	(in thousands of HRK)	
Non-current receivables /i/:		
Loans given	2,867	3,020
Other non-current receivables and deposits	8,376	10,175
	11,243	**13,195**
Current receivables:		
Trade receivables	1,014,533	946,494
Less: Provisions for impairment /ii/	(136,514)	(163,077)
Net trade receivables	878,019	783,417
Bills of exchange received	34,230	50,500
Advances to suppliers	6,948	7,520
Bank deposits /iii/	250,000	-
Other receivables /iv/	70,270	67,033
Short-term loans given	2,038	365
	1,241,505	**908,835**
	1,252,748	**922,030**

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

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

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

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

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

NOTE 21 – TRADE AND OTHER RECEIVABLES (continued)

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

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

NOTE 22 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006	2005
	(in thousands of HRK)	
Investments in:		
Investment funds	2,933	-
Other	113	113
	3,046	**113**

Movements during the year are as follows:

	2006	2005
	(in thousands of HRK)	
Opening net book value	113	3,965
Additions /i/	9,105	100
Disposals /ii/	(6,172)	(3,952)
Closing net book value	**3,046**	**113**

/i/ In 2006, shares were purchased in the investment funds ST US$ Bond and PBZ Custody in the total amount of HRK 9,105 thousand. In 2005, an investment was made in the company EKO OZRA d.o.o. in the amount of HRK 100 thousand (share in capital 9.9%).

/ii/ In 2006, the share in the investment fund PBZ Custody was sold for an amount HRK 6,287 thousand. The difference between the selling price and the book value in the amount of HRK 115 thousand is recorded within Other gains/(losses) – net (Note 6). In 2005, shares in the following companies were sold: Gospodarsko kreditna banka Zagreb, Croatia osiguranje Zagreb, Riviera Holding Poreč and Istarska kreditna banka Umag.

NOTE 23 – CASH AND CASH EQUIVALENTS

	2006	2005
	(in thousands of HRK)	
Cash with banks and in hand	126,110	123,740
Cheques received	8	134
Deposits	-	2,360
	126,118	**126,234**

NOTE 24 – SHAREHOLDERS' EQUITY

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
At 1 January 2005	5,327,180	1,626,001	22,218	(21,159)	1,627,060
Shares issued /i/					
Purchase of treasury shares	(65,721)	-	-	(18,858)	(18,858)
Sale of treasury shares					
Employee share options:					
- options exercised	76,388	-	(4,572)	20,444	15,872
- fair value of options	-	-	11,722	-	11,722
At 31 December 2005	**5,337,847**	**1,626,001**	**29,368**	**(19,573)**	**1,635,796**
At 1 January 2006	5,337,847	1,626,001	29,368	(19,573)	1,635,796
Purchase of treasury shares	(25,000)	-		(9,721)	(9,721)
Sale of treasury shares	25,133	-	3,661	5,988	9,649
Employee share options /i/:					
- options exercised	62,334	-	(2,385)	16,595	14,210
- fair value of options	-	-	16,271	-	16,271
Call option on Company shares /ii/	-	-	(238,876)	-	(238,876)
At 31 December 2006	**5,400,314**	**1,626,001**	**(191,961)**	**(6,711)**	**1,427,329**

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

NOTE 24 – SHAREHOLDERS' EQUITY (continued)

/i/ Employee share options

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

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

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

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

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

		Number of shares	
Expiry date	**Average exercise price**	**2006**	**2005**
2006	-	-	8,000
2007	-	-	26,000
2008	163.29	28,000	50,334
2009	186.59	55,374	58,374
2010	296.69	13,000	16,000
		96,374	**158,708**

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

NOTE 24 – SHAREHOLDERS' EQUITY (continued)

/ii/ Call option on Company shares

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

Further, the Put option holder can force the Company to purchase all acquired shares in the period from 20 April 2007 to 20 May 2007.

NOTE 25 – RESERVES

(in thousands of HRK)	**Legal reserves**	**Other reserves**	**Translation reserves**	**Reserves for treasury shares**	**Total**
At 1 January 2005	36,178	47,031	3,494	22,479	109,182
Transfer to reserves	7,407	4,379	-	2,168	13,954
Foreign exchange differences	-	-	2,378	-	2,378
At 31 December 2005	**43,585**	**51,410**	**5,872**	**24,647**	**125,514**
At 1 January 2006	43,585	51,410	5,872	24,647	125,514
Transfer	-	19,921	-	(19,921)	-
Dividend approved /i/	-	(19,921)	-	-	(19,921)
Transfer to reserves /ii/	702	39,380	-	-	40,082
Foreign exchange differences	-	-	2,828	-	2,828
At 31 December 2006	**44,287**	**90,790**	**8,700**	**4,726**	**148,503**

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

/i/ According to the decision of the Company's General Assembly in July 2006, distribution of dividend was approved in the gross amount of HRK 5 per share. Unallocated profit was used for dividend distribution.

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

NOTE 26 – TRADE AND OTHER PAYABLES

	2006	2005
	(in thousands of HRK)	
Trade payables	533,374	456,625
Other payables /i/	386,972	134,084
	920,346	**590,709**

/i/ Other payables are as follows:

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

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

NOTE 27 – BORROWINGS

	2006	2005
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	125,051	247,542
Banks in foreign countries	25,400	60,028
Bonds issued	372,158	199,142
Finance lease	2,726	8,646
	525,335	**515,358**
Current borrowings		
Banks in Croatia	345,744	169,728
Banks in foreign countries	104,644	139,802
Bonds issued	1,182	-
Finance lease	4,883	7,406
Other	407	704
	456,860	**317,640**
Total borrowings	**982,195**	**832,998**

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

NOTE 27 – BORROWINGS (continued)

The gross finance lease liability is as follows:

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

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

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

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

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

The maturity of non-current borrowings is as follows:

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

NOTE 27 – BORROWINGS (continued)

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

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

Bonds issued

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

Issued HRK bonds less acquisition cost amounting to HRK 3,217 thousand were used for the following:
- redemption of existing bonds in the amount of EUR 26,839 thousand (countervalue of HRK 194,982 thousand),
- payment of interest on redeemed bonds in the amount of HRK 2,297 thousand,
- repayment of a short-term loan to Privredna banka Zagreb in the amount of HRK 15,014 thousand,
- settlement of the purchase of old bonds in the amount of HRK 1,950 thousand,
- cash increase on the Company's giro account in the remaining amount of HRK 157,540 thousand.

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

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

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

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

NOTE 27 – BORROWINGS (continued)

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.35% (2005: 4.25%).

The carrying amounts of short-term borrowings approximate their fair value.

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

	2006	2005
	(in thousands of HRK)	
HRK	637,700	177,839
EUR	254,911	552,248
Other	89,494	102,911
	982,195	**832,998**

The Group has the following undrawn borrowing facilities:

	2006	2005
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	130,663	139,591
	130,663	**139,591**

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

NOTE 28 – DEFERRED TAX ASSETS

	2006	2005
	(in thousands of HRK)	
Deferred tax assets	24,137	11,098
Deferred tax liabilities	-	-
	24,137	**11,098**

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

NOTE 28 – DEFERRED TAX ASSETS (continued)

Movements on the deferred income tax account are as follows:

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

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

NOTE 29 – PROVISIONS

	Legal proceedings	Employee benefits	Termination benefits	Total
Analysis of total provisions as at 31 December 2005:				
Non-current	2,540	11,594	-	14,134
Current	49,046	2,101	2,680	53,827
At 1 January 2006	51,586	13,695	2,680	67,961
Increase	2,564	10,960	24,378	37,902
Foreign exchange differences	-	-	-	-
Used during year	(1,768)	(2,074)	(2,680)	(6,522)
Unused amount – decrease	(48,057)	-	-	(48,057)
At 31 December 2006	**4,325**	**22,581**	**24,378**	**51,284**
Analysis of total provisions as at 31 December 2006:				
Non-current	4,325	17,682	-	22,007
Current	-	4,899	24,378	29,277

Legal proceedings

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

NOTE 29 – PROVISIONS (continued)

Employee benefits

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

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

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

Termination benefits

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

NOTE 30 – COMMITMENTS

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

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

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

NOTE 31 – CONTINGENCIES

	2006	**2005**
	(in thousands of HRK)	
Legal proceedings	6,837	6,652
Guarantees	21,646	26,788
	28,483	**33,440**

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

NOTE 32 – CASH GENERATED FROM OPERATIONS

(in thousands of HRK)	Note	2006	2005
Net profit		**60,361**	**62,626**
Income tax	12	15,788	7,215
Depreciation and amortisation	16, 17	201,252	223,007
(Gain)/loss on sale of tangible and intangible fixed assets	6	(3,900)	(4,593)
Available-for-sale assets	18	(9,812)	
Provisions for impairment of current assets	20, 21	14,341	37,067
Disposal of non-current tangible assets		7,583	6,247
Provisions for non-current assets	16, 17	(906)	1,888
Share option fair value adjustment	24	15,388	5,478
Provisions	29	10,306	55,976
Gain on sale of financial assets at fair value, available-for-sale financial assets and investment in Group company	6	(13,693)	(2,036)
Interest income	7	(8,338)	(5,580)
Dividend income	7	-	(355)
Interest expense	11	45,907	39,539
Other interest expense	8	134	-
Effect of movements in foreign exchange rate		(2,558)	(22,181)
Other items not affecting cash		(5,655)	(5,940)
Movements in working capital:			
Movements in inventories		3,310	(11,914)
Movements in trade receivables		(117,573)	(45,709)
Movements in other current assets		7,951	(4,646)
Movements in trade payables		79,033	4,856
Movements in other liabilities		(5,239)	22,600
Cash generated from operations		**293,680**	**363,545**

NOTE 33 – RELATED PARTY TRANSACTIONS

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